

ほっ



Creating Happiness and Harmony in Our Communities





New corporate slogan for a leap forward in the new Reiwa era. LAWSON strives becoming a “Hot Station (Best Relief Hub) in Our Communities”

We respond to social issues by honoring our three promises under the New Lawson Declaration while striving to become “every customer’s No. 1 recommended brand.”

Our three promises: “Superior taste,” “Human kindness,” and “Environmental (Machi*) friendliness.” We promptly identify social problems that our customers care about and society’s ever-changing diverse values, and respond to them in a swift manner through innovations and enhanced product line-up and services. By doing so, we strive to become a “Hot Station (Best Relief Hub) in Our Communities” which everyone can happily visit and find “Whew!” Surprises.

The new Lawson will continue to support and grow with its customers.

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

President and CEO, Representative Director,
Chairman of the Board



New era, new life, new convenience store—this novelty truly excites us, and we want to share this excitement with all of you. Lawson is committed to becoming a “Hot Station (Best Relief Hub) in Our Communities” through the three “Whew!” Surprises. New era, New Lawson.



[Note: ほっ = Whew!]

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.

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I will leverage Mitsubishi Corporation's strengths to provide full support for Lawson's sustainable growth.

Director Kazunori Nishio

Dialogue with our communities conducted through three years of business reformation has provided the basis for Lawson's unique character.

Outside Director Emi Osono

I can hardly wait to see where Lawson will lead the industry in the "Convenience Store 3.0" era.

Outside Director Miki Iwamura

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Lawson Communication Media

Lawson Website

Presents information and data not covered by Lawson publications.

Integrated Report



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



SDGs Handbook



A guide to realizing our Corporate Philosophy, "Creating Happiness and Harmony in Our Communities," by determining our top priorities and Key Performance Indicator (KPI) objectives and incorporating them into efforts to attain the Sustainable Development Goals (SDGs)

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

* Current as of February 2019

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



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



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.



MSCI Japan ESG Select Leaders Index

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

"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."

*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.

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 2018 (March 1, 2018 ~ February 28, 2019), with some reporting on activities before and after this period. See the Lawson website for further details:

<http://lawson.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.

Financial Highlights

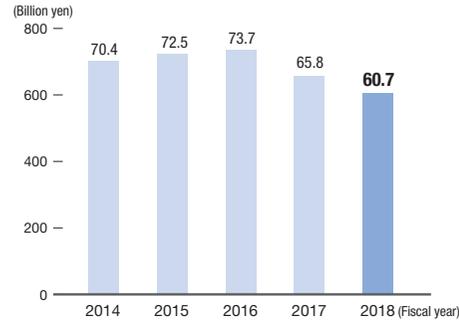
Consolidated net sales by all stores

Approx. **2.4** trillion yen



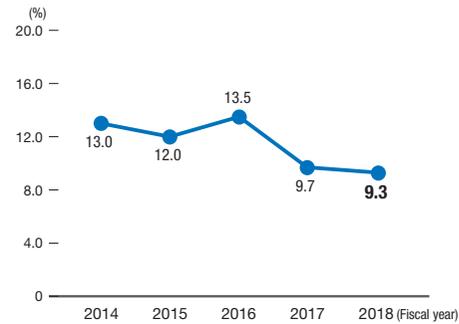
Consolidated operating income

60.7 billion yen



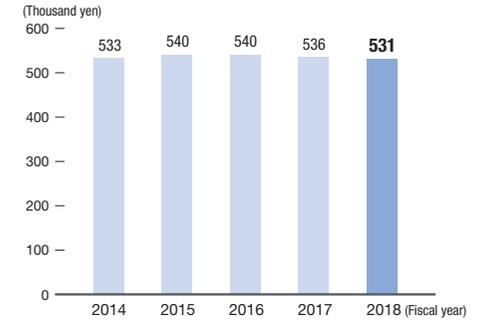
ROE (return on equity)

9.3%



Average daily store sales in Japan

531 thousand yen

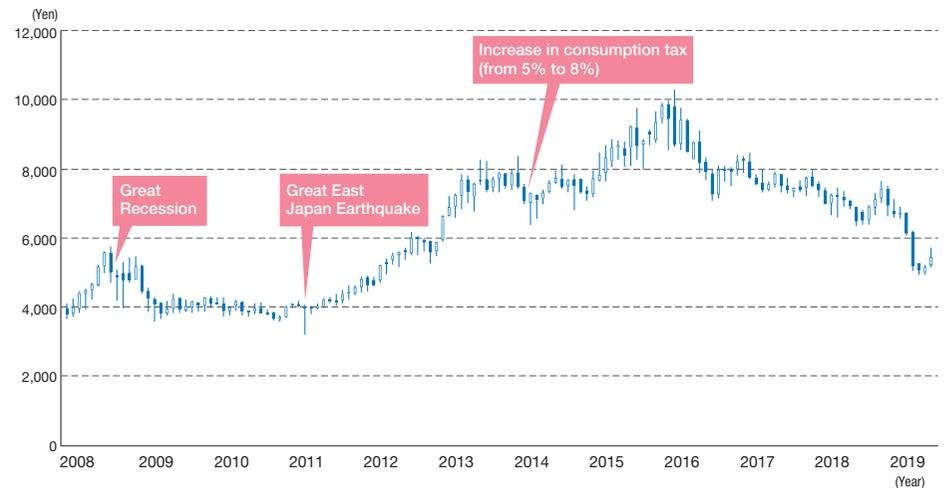


Changes in the number of stores

17,015 stores

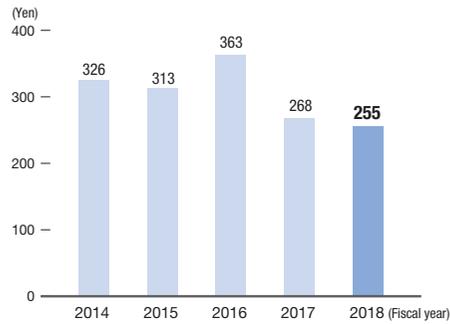


Changes in share prices (monthly)



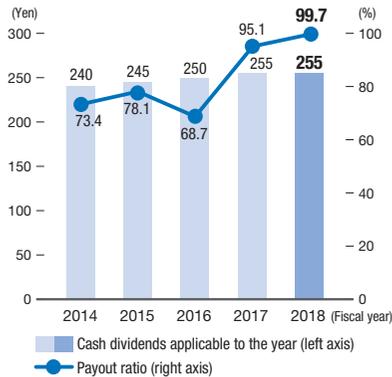
Net income per share

255 yen



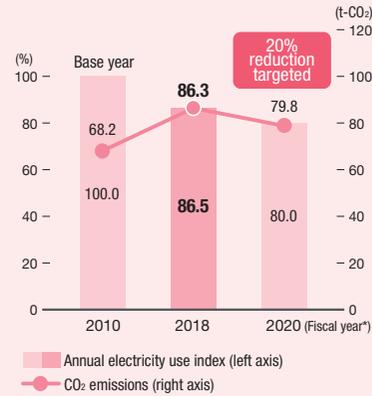
Payout ratio

99.7 %



Non-financial Highlights

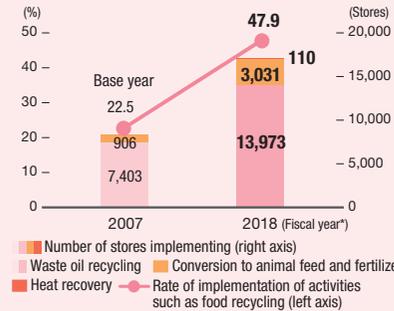
Electricity use (index) and CO₂ emissions per store



* Calculated from April 1 to March 31 of the following year to coincide with the administrative fiscal year

Rate of food recycling & number of participating stores

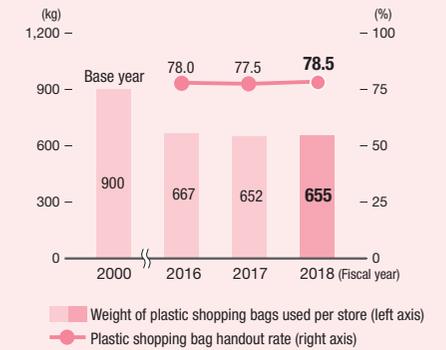
47.9 %



* Calculated from April 1 to March 31 of the following year to coincide with the administrative fiscal year

Plastic Shopping Bags Used Per Store*

655 kg



* Excluding figures of LAWSON 100

Number of working mothers & their proportion among female employees

24.2 %



* Calculated from April 1 to March 31 of the following year to coincide with the administrative fiscal year

Percentage of male employees taking paternity leave

91.0 %



Ratio of independent directors among directors

3 / 8



Providing new value for the diverse people of Japan and regionwide, and contributing to relaxing lives for everyone in the community



Sadanobu Takemasu

President and CEO,
Representative Director,
Chairman of the Board

A priority on supporting our franchise stores and strengthening store capabilities under the 1,000-Day Action Plan

The convenience store's operating environment is changing rapidly today. Fueled by a declining birthrate and aging population, a labor shortage stemming from contraction of the working-age population has emerged as a major problem. As the numbers of working mothers and single person households grow, stores located near people's homes and workplaces that stock everything they need in the morning and evening remain indispensable to the community.

Anticipating this situation at an early date, we devoted ourselves from fiscal 2016 through fiscal 2018 to providing better support for our franchise owners, improving our product offering, strengthening our store capabilities, and enhancing our new store competitiveness with the aim of "Creating Happiness and Harmony in Our Communities" under our Group-wide 1,000-Day Action Plan. Conducted over four years beginning in fiscal 2015, these efforts included introducing a semi-automatic ordering system and reviewing the franchise contract package for franchise

owners. Our objective was to develop a business that brings happiness to everyone concerned, from our franchise owners and crew members to Lawson itself, by establishing a next-generation convenience store model.

Our primary goals have been to provide better support for our franchise owners and to strengthen our store capabilities.

The various countermeasures we have introduced to offset the labor shortage and rising labor costs have included investment in the introduction of digital technologies. We have also devoted efforts to creating stores whose crew members can enjoy more rewarding work, and environments in which housewives, seniors and foreigners can work more easily.

Tablet terminals, POS cash registers with automatic change dispensers supporting foreign languages that free cashiers from conducting mental calculations, and smartphone cash register systems currently under development are among other efforts to reduce the burden on workers.

We also expanded the network of stores equipped with Machikado Chubo in-store kitchens. Besides delighting customers with the delicious taste of home cooking, these offer the additional advantage of enabling staff with no customer service experience to perform

food preparation as entry-level work.

Other efforts in this area have included establishing the temporary staffing agency Lawson Staff, Inc. to organize systems for dispatching needed personnel at times of emergency or on ceremonial occasions. Franchise store support measures such as these are making steady progress in terms of labor saving.

At the same time, it is important to enhance our daily life support functions to strengthen the store capabilities. We have improved our product lineup to provide firm support for customers' lives throughout the day, including evening in addition to morning and lunchtime, and made serious investments to equip the stores with open food display cases and taller shelves. Our product lineup has grown from 3,000 to 3,500 items,

and the level of daily life support for customers has increased as well.

We reassessed the timing of our three daily deliveries beginning in June of last year, moreover, to enhance evening sales by making it easier for people with busy work and childrearing schedules to shop at their nearby LAWSON later at night. I consider the optimization of our evening delivery services over the course of a year or so with no confusion to be a significant achievement. The project involved making preparations with the understanding of all our partners, including our suppliers, manufacturing plants, and distribution centers. We are currently receiving ample positive feedback from customers, who make such comments as, "My local store is now well-stocked in the evening, too."

Seeking mutual consideration and mutual prosperity with the franchise stores, our most valued partner

The changes introduced under the Group-wide 1,000-Day Action Plan conducted through fiscal 2018 attracted considerable attention, but this was by no means our goal. We are constantly facing serious issues such as the labor shortage and problems particular to 24-hour operation, with which we and our franchise stores nationwide must continuously contend.

In our franchise business, we seek mutual consideration and mutual prosperity that enable our franchise

stores and Headquarters to work together toward sustainable growth. If the franchise stores, our closest and most valued partner, should encounter difficulties, we will naturally join forces to overcome them. If problems should develop at Headquarters, on the contrary, the franchise stores will act to help us solve them. This is why we always consider the franchise stores to be our most valued partner.

Today more than ever, we will collaborate closely with our franchise store owners in discussing issues and problems facing the stores, determining joint courses of action, and ensuring that the stores and Headquarters work together to implement them in the belief that repeated use of this approach will make it even more meaningful.

Supporting everyday life, alleviating the labor shortage



We at Lawson have always cherished an attitude of consistently building relationships of equality with our franchise stores, sharing on-site problems, and solving them together. In the future, We hope to further increase the speed of this problem-solving process.

Thus, the first priority of our efforts to remain responsive to the needs of our customers and the changes in our communities and society must be to provide both material and moral support for our franchise stores, which face so many daunting issues today.

New Lawson Identify Statement targeting growth in the Reiwa era

In the current fiscal year, we introduced a new Lawson Identify Statement, “Hot Station (Best Relief Hub) in Our Communities” as our new Corporate Slogan.

We have been promoting Lawson’s community “health support stations” for eight years now, but I believe that our customers, franchise store staff and Headquarters employees have all developed health awareness on their own by now.

The reputation of our health-conscious product lineup, including the Natural Lawson brand and our product offering that differs in various

ways from those of other chains, is now firmly established, and programs such as Healthcare LAWSON and LAWSON hospital stores have gained wide recognition. We also conduct thorough health management of our employees and franchise store staff, and maintain an employee health check-up rate of 100%. We no longer view health as a pressing issue, but rather as something to be improved further.

Conceived in the Showa era, Japan’s convenience store business grew to immense size in the Heisei era that followed. With the nation’s entry this year into the new Reiwa era, we reassessed our target image for the Lawson of tomorrow and made three promises to our stakeholders.

These three promises, “Superior taste,” “Human kindness” and “Environmental (Machi) friendliness,” express our desire to become a Lawson that earns praise as a “truly good store” from any point of view.

The term “Hot Station (Best Relief Hub) in Our Communities” is perfectly suited to describing a store that realizes this vision. In an era ongoing challenges, such as conducting business 24 hours a day and installing restrooms, Lawson has emerged as a “Hot Station (Best Relief Hub) in Our Communities” Today, with approximately 14,500 stores nationwide, the Company is maintaining its essential

pursuit of community happiness while evolving with the new era in accordance with its three promises. Our hopes and promises are the basis for our new corporate slogan, “Hot Station (Best Relief Hub) in Our Communities.”

In this connection, please note that the three dots over the “ほっ” (Whew!) in our logo represent the three promises.

Implementing our three promises to realize the SDGs

Let me begin by clarifying the meanings of our three promises. First, “Superior

taste” is applicable but not limited to our food items. We want the products we offer and the wide-ranging services available at our stores to impart good taste to every aspect of customers’ daily lives. This is the source of our promise of “Superior taste.”

Secondly, “Human kindness” is always our first consideration when it comes to our health-conscious product lineup, franchise store working environments and support franchise Store functions. We realize that Lawson has no reason to exist if it is not friendly to the communities in which it

The Three Lawson Promises



For more information, [Go to page 16](#)

operates and, in the end, to the global environment. This is the reasoning behind our third promise, “Environmental (Machi) friendliness.”

Fiscal 2019 has seen the establishment of the new SDGs* Committee. The SDGs comprise 17 goals for sustainable global development, but we believe that simply building Lawson’s business based on our three promises will naturally lead to realization of the SDGs as well.

We also introduced food waste reduction program during the year as part of efforts to reduce food waste and obtain sufficient food for children. The program gives points to customers who purchase boxed meals and rice balls during evening and nighttime hours as their sell-by deadline approaches, while also donating a portion of the income from sales to children’s support groups. Implementation of the program has just begun, but it is certain to produce ongoing results.



For more information, [Go to page 32](#)

We are working to reduce the amount of plastic used by the stores, meanwhile, as part of active efforts to combat the waste plastic issue. We have changed our iced coffee containers to paper cups one after another and refashioned the lids of our MACHI café fresh-brewed coffee containers into shapes that permit trouble-free drinking, even without a straw. We also continue to ask customers at the cash register whether they need plastic shopping bags, chopsticks or spoons. These individual actions may be small, but total resource savings by our 14,500 stores nationwide will doubtless register significant results.

We are committed to conducting our daily activities in the awareness that acting according to the three promises will lead to realization of our corporate philosophy and the SDGs.

* SDGs (UN Sustainable Development Goals): Global sustainability goals adopted by the United Nations General Assembly in 2015 for realization in the years to 2030.



Wide-ranging efforts to realize the value accompanying employment of diversified human resources

The promise of “Human kindness” applies equally to the determination of work requirements and diversification of Headquarters employees. Lawson has been implementing operational reforms under the Group-wide 1,000-Day Action Plan since its introduction four years ago. It has identified jobs that require long working hours and irregular work styles, discontinued outdated or otherwise inappropriate policies, digitalized routine tasks whenever possible, and introduced reforms to improve work efficiency. This approach to work-style reform has gradually taken root and spread outward from our various regional branches.

In the future, we will accelerate our pursuit of work satisfaction. When employees working a standard shift of 7 hours 45 minutes find the work meaningful, the time they spend becomes meaningful for the Company as well. Even if the time worked is just 3 or 5 hours, we will continue to pay close attention to whether workers find meaning and satisfaction in various styles of working. Recognizing the significance of Lawson’s aims and the role of each

individual in achieving them can provide motivation for working. We intend to take up these and other challenges together with our employees.

We have played a leadership role in corporate efforts to diversify human capital. Since 2005, the ratio of women to men among new employees has been close to 50%, and 15 to 20% of new employees today are foreign nationals.

The most important factor in this to me is the birth of new value that occurs when different value cultures collide. This new value leads to innovation, as I believe the Lawson culture demonstrates.

The same is true of our franchise stores. Steps to deal with the labor shortage include making it easier for international students to work, producing



multilingual manuals for POS cash registers and using photos and other visuals to make the manuals easily understandable. We intend to accelerate efforts of this kind to develop workplaces in which people of all kinds can work with ease.

Both Headquarters and the franchise stores can create new value by recognizing the value provided by other nationalities and genders. This is the kind of environment we are working to create.

Developing wide range of stores to meet communities' needs

The rights and wrongs of implementing a dominant convenience store strategy have been widely discussed in recent years. Rather than sticking to certain set policies, Lawson has opened stores in communities wherever the need arises, covering every prefecture nationwide ahead of other chains.

This year we plan to open 700 stores and close 700 stores, but this does not imply stagnation. We are targeting growth through assessment of individual communities' needs and the prospects for stable operation of franchise stores.

I consider it only natural that the

system in which virtually every LAWSON convenience store operates during the same hours and offers the same product lineup, which supported rapid growth in the Heisei era, should change along with society. Today, mutual recognition is spreading more and more quickly of the extremely wide diversity of values existing in society at large and among individual customers. The manner in which we respond is of crucial importance.

On another front, we are experimenting with unmanned nighttime store operation that makes the most of digital technologies. We believe this will become requisite in urban areas. We are also increasing the number of LAWSON stores equipped with dispensing pharmacies and nursing care consultation windows in response to feedback from customers such as mothers who tell us they would appreciate having better access to medicine at a nearby LAWSON store when their nursery school-age children develop symptoms such as fevers.

Our stores also serve as regional centers where residents of every generation gather. With the recent proliferation of nuclear families in regional areas and with people everywhere becoming increasingly busy, the community-based LAWSON store has immense potential to create previously unknown value in response

to their diversifying needs. We therefore anticipate continuing dynamic growth going forward.

I also foresee a future in which the convenience store becomes an increasingly regional institution. There is, of course, considerable value in making the same products and services available at any store in the country. People in communities with their first LAWSON store often express their pleasure in the new ability to “purchase products that were previously sold only in Tokyo” and thank us for enabling them to “buy products such as tiramisu cakes and GODIVA chocolates dessert close to home.” This is the value of product lineup leveling.

At the same time, however, if the same products and services were offered under the LAWSON signboard in Hokkaido and Okinawa, the respective stores might not really be providing the value their customers are looking for. In Okinawa, for example, we stock a



SAKUBATA
Crispy pistachio butter
cookie sandwich



Doramocchi (Doarayaki,
with sweet bean paste &
whipped cream)

variety of local private brand products through a tie-up with SAN-A CO., LTD., a major regional supermarket chain. Not only do local customers appreciate this, but visitors from other prefectures and outside Japan also appreciate the new value Lawson Okinawa offers through this program. LAWSON stores in Kagoshima prefecture are currently rising to this same type of challenge.

Selling large numbers of basic products nationwide and adding products and services for the sake of regionalism and diversification in this way requires us to determine how to balance the two and add new value. Society's values will change even more in the Reiwa era. We expect to see increasing demand for a varied mix of LAWSON stores operating under the same signboard, and are preparing to meet this challenge. I believe our ability to achieve sustainable growth into the future will depend on our own efforts and those of our franchise stores.

When traveling around Japan and talking to people, I find there are still many communities that are ripe for a LAWSON store. If we consider only metropolitan areas such as Tokyo, convenience stores may seem to have reached the saturation point, but there are still many people in regional areas who have trouble finding places to shop or who cannot purchase the same

products as in Tokyo. The numbers of elderly people and working mothers and their children in Tokyo who find shopping difficult are increasing as well, creating a need for a new type of neighborhood store in urban areas.

I consider determining ways of responding to society's needs and creating new value to be more important than simply increasing the number of LAWSON stores.

Promoting strategic development while leveraging the power of Mitsubishi Corporation

The support it receives from Mitsubishi Corporation is among Lawson's greatest strengths. We will make the most of this power as a source of both ideas and execution capabilities with respect to the value we offer customers. We make optimal use of Mitsubishi Corporation's strengths, for example, in such areas as our overseas store development, raw materials procurement and collaboration with overseas brands such as GODIVA. Mitsubishi Corporation's support has been essential, moreover, to such business reforms as our logistics reorganization and the establishment of Lawson Bank.

Lawson is itself positioned at the

interface with customers, of course, grasping their needs and considering ways to meet them. Our most significant responsibility is to assess the variations in orientation that differentiate the customers of individual franchise stores, and to determine strategies for responding to those variations. The underpinning for these activities is provided by our strong, stable logistics and manufacturing bases as well as our overseas network.

Going forward, we will leverage these formidable partnerships to even greater effect in such new fields as financial services and overseas expansion, in addition to our product development and raw materials procurement, as we continue to push

forward with our speedy business development. Drawing on the resources of the Mitsubishi Corporate Group, Lawson will maintain its unique character as a listed company at the interface with customers and seek growth by focusing on its stores.

We invite you to follow Lawson's rapid progress as the future unfolds.



We will invest to support and build stronger relationships with our franchise stores in order to increase dividends in the short term by recovering profitability.

Satoshi Nakaniwa

Member of the Board
Senior Vice President, CFO

FY2018 (to Feb. 2019) results and FY2019 (to Feb. 2020) forecast

(Unit: Billion yen)

(Fiscal year)	2017	2018	YoY	2019	YoY
				(Forecast)	
Gross operating revenues	657.3	700.6	+6.6%	727.0	+3.8%
Operating income	65.8	60.7	-7.7%	60.8	—
Recurring income	65.1	57.7	-11.4%	54.5	-5.5%
Net income	26.8	25.5	-4.6%	18.0	-29.6%

Review of fiscal 2018

Fiscal 2018 marked the conclusion of our 3-year Group-wide 1,000-Day Action Plan. We made the most of this final year of the Plan by conducting a major overhaul of our supply chain to reinforce the stores' evening and nighttime operations. We also completed installation of the new POS cash registers with automatic change dispensers in all our stores in Japan as a labor shortage countermeasure.

A look back over fiscal 2018 shows that we strengthened our evening and nighttime operations through such measures as expanding our lineup of appropriate products such as rice balls and boxed meals and adjusting the supply chain to meet new demand from homemakers and seniors. These efforts resulted in increased sales. At the same time, however, severe competition from such businesses as other convenience stores, restaurants and drug stores prevented us from improving sales to our core convenience store customers. Sales by existing LAWSON stores in Japan declined by 0.5 percentage point from the year before as a result.

Lawson opened 1,067 stores and closed 400 in its domestic convenience store business in fiscal 2018 for an increase of 667 stores to 14,659 stores nationwide. We continued to expand our Chinese operations, moreover, increasing the number of overseas stores by 614 to

2,210 stores. This expansion of the store networks in Japan and overseas resulted in consolidated store sales of 2,424.5 billion yen (up 6.2% from the previous year) and gross operating revenues of 700.6 billion yen (up 6.6%). Both figures were improved from the previous year.

Reduced profitability due to investment for growth

Consolidated operating income for the year registered an anticipated decline with respect to our earlier plan, however, as a result of initiatives implemented to assure sustainable growth, including investment of some 4 billion yen in next-generation systems and expenses of approximately 2 billion yen incurred for the establishment of the new Lawson Bank business. In the area of next-generation systems investment, we enhanced our operating efficiency by completing the planned introduction of new POS cash registers. As concerns Lawson Bank, meanwhile, we acquired a banking business license in August 2018 and initiated banking services for customers in October. Advertising and promotional expenses associated with the Bank's opening and costs related to the introduction of new software contributed to the aforementioned downturn in profitability.

Among other consolidated Group subsidiaries, our Seijo Ishii and

entertainment businesses continued to enjoy steady growth, and our overseas operations registered significantly improved earnings. Due to these and other factors, consolidated operating income declined by 5.0 billion yen from the previous year to approximately 60.7 billion yen (down 7.7%). As concerns consolidated net income, meanwhile, although impairment losses by the stores increased, the positive impact of appropriation of an IT system impairment loss in the previous fiscal year contributed a relatively limited year-on-year decrease of 1.2 billion yen to 25.5 billion yen.

Fiscal 2019 forecast and Group-wide growth

The Company's business environment remains austere, with a tight labor market, rising labor costs and intensifying competition across industries. In the domestic convenience store business, efforts to support our franchise stores under the Group-wide 1,000-Day Action Plan implemented in 2016 will be extended through 2019.

Our business plan for fiscal 2019 is designed to respond to the rapidly changing social environment by anticipating expenses and supporting the franchise stores through such means as optimizing the efficiency of store operations and investing in labor-saving

systems to secure operating income of 60.8 billion yen, largely unchanged from the year before.

We plan to limit the number of new store openings to 700 with the aim of improving our store quality further, moreover, while disposing of underperforming stores and replacing them with more profitable stores to enhance our overall franchise store profitability. We intend to close 700 stores as well, thus avoiding any net increase in the number of stores.

Consolidated operating income is expected to remain unchanged from fiscal 2018. Factors determining the Company's performance will begin with an anticipated upturn in sales by existing LAWSON stores of 0.5% and an improved gross profit margin of 0.2%. We also expect the disposal of underperforming stores to contribute to improved profitability. At the same time, however, expenditures in support of the franchise stores, including system investment to update their computers, can be expected to rise. We project downturns in consolidated recurring profit of 3.2 billion yen to 54.5 billion yen and in consolidated net income of 7.5 billion yen to 18 billion yen, moreover, due to higher losses stemming from store closures.

In businesses other than our domestic convenience store operations, our new financial services arm

Lawson Bank will continue to develop infrastructure to support its bill payment business centered on ATM services, which is progressing steadily in concert with the cashless society. Our overseas businesses will seek to expand the scale of their operations in the medium to long term, led by our Shanghai subsidiary in China. We will promote Group-wide growth, meanwhile, beginning with Seijo Ishii, whose specialty products have generated steady growth, and our businesses in the entertainment field.

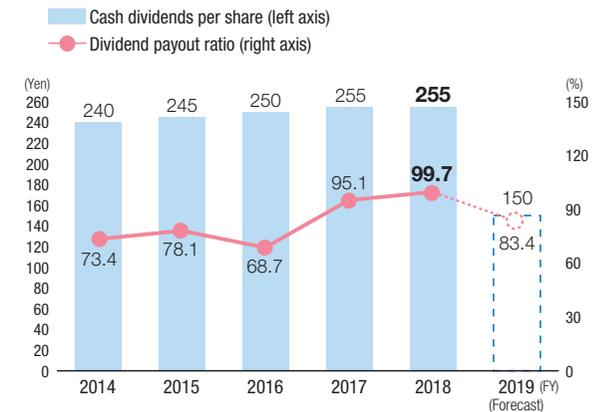
Maintaining financial soundness and returns to shareholders

Finally, Lawson's annual shareholders' dividend for fiscal 2018 will remain unchanged at 255 yen per share. We have, however, adopted a new dividend policy for fiscal 2019. Having identified the return of profits to shareholders as an important management issue, the Company has paid stable dividends in recent years. Going forward, however, we will implement a policy of returning profits appropriately in response to our business results in the interest of maintaining financial health. We plan to clarify the distribution of profits to shareholders by introducing a "consolidated dividend payout ratio" as a cornerstone of our dividend policy. Without averting our focus from shareholders, we will continue investing to achieve sustainable growth

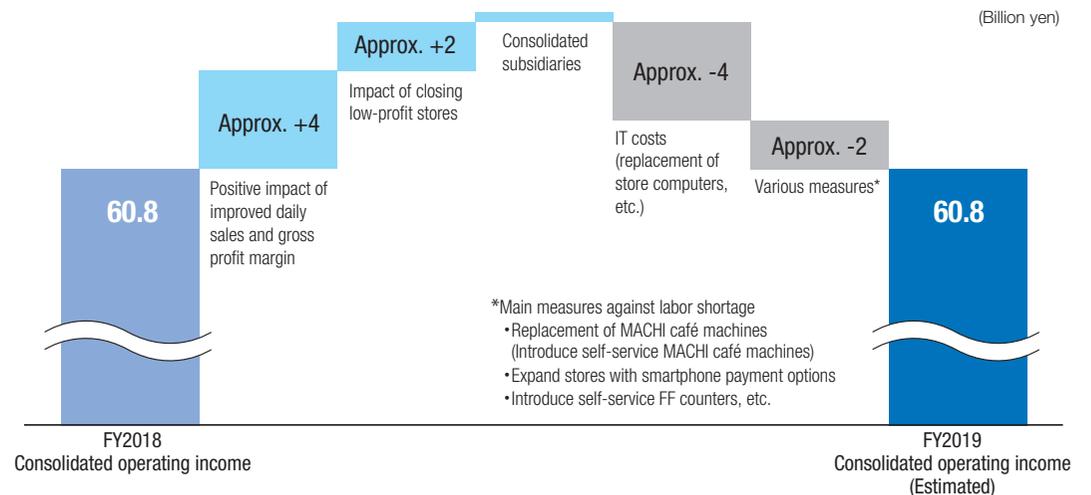
by supporting our franchise stores and securing their profitability, while realizing the highest dividend possible within the range of a consolidated dividend payout ratio targeting 50% and a minimum annual dividend of 150 yen per share.

In fiscal 2019, we will concentrate on supporting our franchise stores and further strengthening relationships with our franchise owners, thus raising Lawson's corporate value through mutual consideration and mutual prosperity with our owner-operated franchise stores in a concerted effort to recover profitability from fiscal 2020 forward, and to realize an early increase in dividends.

Transitions in cash dividends per share and dividend payout ratio



Fiscal 2019 Consolidated operating income



From being the handyman in the community to being a role of social infrastructure, Lawson is aiming to become a “Hot Station (Best Relief Hub) in Our Communities”

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

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

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

To ensure its position as an essential part of the community that provides support for residents, Lawson is determined to continue pursuing and advancing the “Hot Station (Best Relief Hub) in Our Communities” from the customer's perspective.

LAWSON

1975

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



1977

Started 24 hour/day operations

1983

Started copying and printing services

1986

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



からあげくん

1989

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



1991

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



1996

Launched “Lawson Ticket” service

1996

Opened the first overseas store in Shanghai, China

1998

Introduced “Loppi” multimedia terminals to all stores



2001

Established a joint ATM management company “Lawson ATM Networks, Inc.”

2001

Opened first “NATURAL LAWSON” store



2002

Launched “Onigiriya” - the new rice ball brand

2003

Established “post boxes” in LAWSON stores nationwide



2005

Opened the first “LAWSON STORE 100” store



Social infrastructure

1975/6

Handyman in the community

Started environmental activities

1992

Set up store donation activity



1995

The Great Hanshin Earthquake Donation fund

1994

Joined “Arakawa River clean Aid”



1997

Announced the Declaration of Commitment to Clean rest room

Individual Store Campaign



1998

ISO14001 certification

Started social contribution activities

Disaster preparedness

1999

Stopped including chopsticks, spoon, or fork in boxed meals

2000

Mt. Fuji forest improvement project



2001

Introduced store uniforms made out of at least 50% recycled PET



2003

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

Launched a full-scale food recycling

2006

- Agreement with Ministry of Environment
- Started recycling waste oil in all stores

2005

Publicize corporate privacy policy

2009
Launched "L-Chiki (fried chicken)"

2010
Launched the "Ponta" common point program service



2010
Established the LAWSON Farm



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

2014
Seijo Ishii



Acquired supermarket chain SEIJO ISHII CO., LTD.

2014
UNITED CINEMAS



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

2018
Lawson Bank



Launched the operation of Lawson Bank, Inc.

2018
Launched the LAWSON FRESH PICK service



2019/2

Commenced full-scale efforts to reduce CO₂ emissions

2010
Opened first eco-friendly model store

2008
Set own action targets for reducing CO₂ emissions

2007
Started "Bring Your Own Bag campaign"



Promoting the growth of consumer health consciousness

2012

- Installed solar power system on the roofs of approx. 2,000 stores
- Launched bran bread that contains grain husks
- Started mobile sales of food products and daily necessities

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

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

2014
Selected as a Nadeshiko Brand (five consecutive years 2014–2018) / Opened an on-site childcare facility Happy Lawson Nursery

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

2016
Obtained the Resilience Certification

New Lawson Declaration

Lawson strives to be a "Hot Station (Best Relief Hub) in Our Communities" for everyone by offering the three "Whew!" Surprises.

Three Promises



Three "Whew!" Surprises for the Three Promises



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 strive to honor its three promises and make contributions to society as an indispensable part of the community by repeating its corporate value creation cycle.

Social challenges Lawson is tackling

Declining labor force (Employed people aged 15 to 64)

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

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

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

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

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

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

Compared to 1991 **Approx. 1.4 times**

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

Rise in medical expenses

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

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

Worsening food and plastic waste problems

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

Source: Announcements by the Ministry of the Environment: Estimated Food Waste in Japan in FY2016 (April 2019) and Plastics Smart Campaign (January 2019)

Rise in average global temperatures

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

Inputs



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



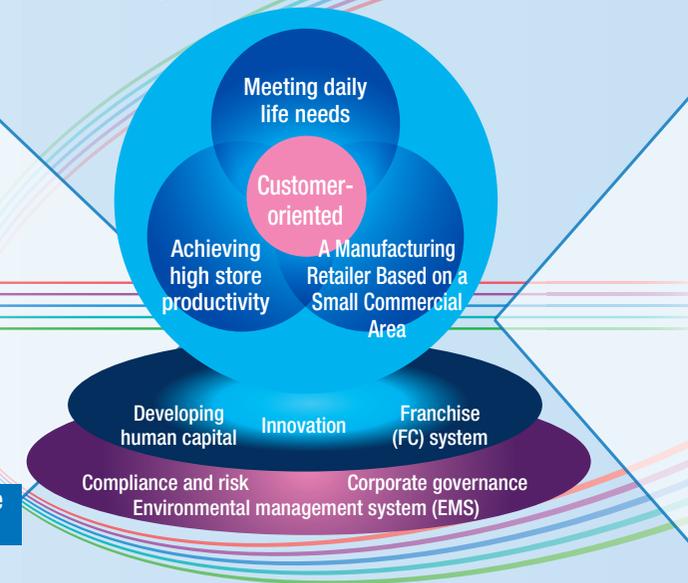
Social capital (resources and social norms)

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

Capital allocation based on return on investment (ROI)

Corporate strategy

Next-Generation LAWSON Convenience Store model



Outcomes

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

Superior taste

Lawson aims for deliciousness in side dishes and boxed meals, frozen foods, and sweets. We also offer services designed to increase your everyday joy, thus helping make life more “delicious.”

Human kindness

Beyond conventional products, Lawson sells pharmaceuticals and private brand products in response to the growing health-consciousness and food safety concerns of society. Additionally, we are committed to providing a supportive environment for every member of the Lawson family.

Environmental (Machi) friendliness

As part of our goal of protecting not only the local environment where Lawson stores are located but also global, Lawson promotes various cooperative initiatives with customers.

“Creating Happiness and Harmony in Our Communities”



SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



The Sustainable Development Goals (SDGs) were adopted at the United Nations Sustainable Development Summit in September 2015. The summit set 17 goals, such as No Poverty, Good Health and Well-being, Quality Education, and Climate Action, and 169 targets to achieve the SDGs on a global scale by 2030. Through the pledge to “Leave No One Behind,” each nation is working toward solving the issues. At Lawson, we are proactively promoting SDGs initiatives as part of our aim to achieve our corporate philosophy of “Creating Happiness and Harmony in Our Communities.”

Engaging with the SDGs

Identify Lawson's Material Issues, and Promote Sustainable Initiatives to Realize Its Future Vision

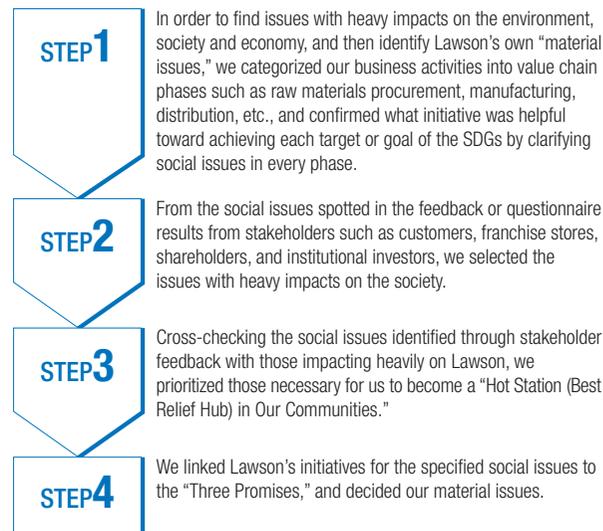
Based on our corporate philosophy "Creating Happiness and Harmony in Our Communities," we promote customer-oriented business activities aiming to become the "Hot Station (Best Relief Hub) in Our Communities." Believing that striving to realize the "Three Promises" eventually promotes the "Sustainable Development Goals (SDGs)," we aggressively address our challenges.

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

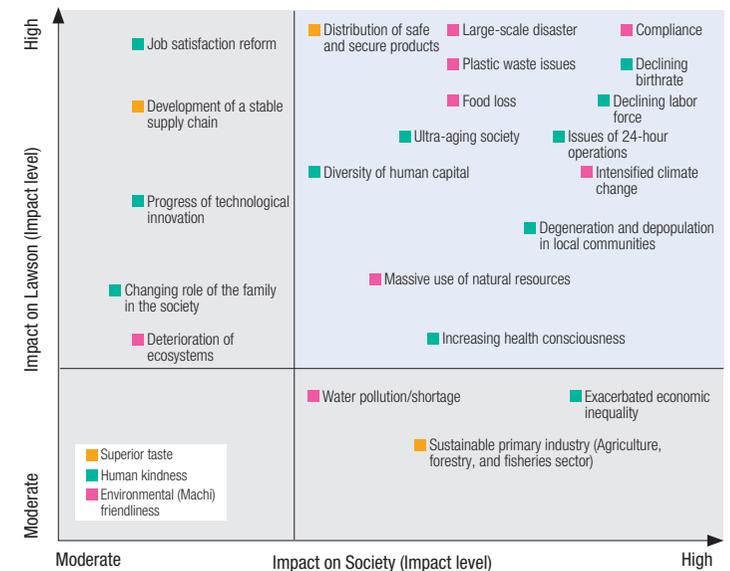
In March 2019, we established the "SDGs Committee" aiming to realize a sustainable society through Lawson's business activities, and have conducted initiatives leading to solutions for social issues one by one through a step by step approach. While each division spontaneously works to realize the "Three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

Identifying Material Issues

Steps to Identifying "Material Issues"



Matrix - Impacts of Identified Social Issues Plotted on Graph-



Message

Placing the SDGs Committee at the core, we work together on a company-wide basis to realize a sustainable society alongside the continued growth of the Group



Since its founding, Lawson has spotted from the social issues the needs of customers living in communities, and strived to provide them with affluent lives. This attitude never changed even after we entered the new era of "Reiwa." However, the society and the customers' spending behaviors as well as are increasingly changing rapidly. Also, the influence of convenience stores on society has increased since they have been recognized as one of the indispensable social infrastructures. As a result, the number of social issues we are required to address is dramatically increasing. We keenly feel that from the perspective of stakeholders such as customers and franchise stores, Lawson is required to step ahead of anyone else toward the future while promoting its business activities as a member of the society.

The goal of Lawson's corporate philosophy, "Creating Happiness and Harmony in Our Communities," is to create a community where all people can lead happy lives, which leads to

the SDGs keyword: "Leave No One Behind." We believe that it will be helpful for the promotion of the SDGs if all engaged at Lawson sincerely address each of the challenges faced in realizing the "Three Promises" through their own work in pursuit of our new corporate slogan that we declared this fiscal year: "Hot Station (Best Relief Hub) in Our Communities."

For the purpose of always facing new social issues and responding to them in an agile and appropriate manner as Lawson, we set up the SDGs Committee this fiscal year.

Placing the SDGs Committee at the core, we work together to realize a sustainable society and continued growth through our business activities on a company-wide basis going forward.

SDGs Committee Organization



Shuichi Imagawa
Executive Managing Officer
Compliance & Risk Management, Human Resources, SDGs Committee Chair

Lawson's Material Issues

- Based on our business policy the "Three Promises," we classified our value chain-related initiatives into six categories taking into account social issues and conditions.
- We decided our material issues from customers' standpoints emphasizing our initiatives as an organization responsible for safe and secure social infrastructures, which is the most important role for a retailer.

Business Policy	Applicable SDGs	Material Issues (Materiality)	Major Initiatives and Services
<p>Superior taste</p> <p>Surprise "Whew!" discoveries</p>		<p>Providing Safety/Security-Oriented Overwhelmingly High Value-Added Products and Services Friendly to Society and the Environment</p>	<ul style="list-style-type: none"> ● Providing high value-added private brand (rice, frozen foods, and fast foods) ● Deployment of Machikado Chubo ● Planning and developing locally-produced products for local consumption, and spontaneously utilizing domestic ingredients ● Developing and selling products under consideration of the society and the environment (MACHI café, Natural Lawson Brand, etc.) ● Deployment of LAWSON Farms (Nakashima-method/GAP Certification) ● Developing and operating stable supply chain including manufacturing and distribution ● Conducting fair trade with suppliers (Establishing purchasing policy)
<p>Human kindness</p> <p>Surprise "Whew!" happiness</p>		<p>Supporting Health Promotion for All People Through Products and Stores</p>	<ul style="list-style-type: none"> ● Developing low-sodium/additive products ● Changeover to easily understandable nutrition facts ● No use of preservatives and artificial colors ● Selling products and medicines considerate of health ● Expansion of NATURAL LAWSON and HealthCare LAWSON ● Executing health promotion agreements with local governments ● Supporting and subsidizing health initiatives for store owners and crews ● Promoting health and productivity management (Promoting employees' challenge for health)
<p>Human kindness</p> <p>Surprise "Whew!" happiness</p>		<p>Providing Comfortable Work Environment Leading to Job Satisfaction</p>	<ul style="list-style-type: none"> ● Promoting the adoption of store equipment for a comfortable work environment (Labor-saving by innovations) ● Expanding the corporate award system (Training store crews and increasing retention rate) ● Providing staffing service for stores and training for foreign national crews (Lawson Staff) ● Promoting MO system for multiple-store management ● Enhancing communication with franchise stores (Establishing franchise store advisory committee and "Owner Hotline") ● Promoting job satisfaction reform (Improving work/life balance) ● Operating Happy Lawson Daycare Center (Tokyo) ● Improving maternity, childbearing, and nursing leave system and encouraging the use of the system
<p>Environmental (Machi) friendliness</p> <p>Surprise "Whew!" kindness</p>		<p>Supporting Women, Senior People as well as Children's Growth</p>	<ul style="list-style-type: none"> ● Maintaining Single Parent Family Support Scholarship Fund System ● Promoting fund-raising programs to assist children to learn (School afforestation projects, Dream Classroom, etc.) ● Promoting support for experience-based learning facility "Student City" (Kyoto/Sendai) ● Accepting elementary and junior high school students participating in workplace experience programs and conducting on-site workshops ● Deployment of "Care-focused LAWSON for Senior Citizens" program (Nursing Support) ● Promoting Safety Station (SS) activities (Community watch service for women, children, and senior people)
<p>Environmental (Machi) friendliness</p> <p>Surprise "Whew!" kindness</p>		<p>Coexisting Synergistically with Communities by Serving as Part of Social Infrastructure</p>	<ul style="list-style-type: none"> ● Mobile sales, delivery services, and LAWSON FRESH PICK (Loppick) ● ATM services of Lawson Bank ● Government certificate issuance services ● Executing comprehensive regional agreements with the local governments ● Drawing up the Business Continuity Plan (BCP) ● Supporting disaster-stricken areas in collaboration with national and local governments (Acquisition of the "Resilience Certification")
<p>Environmental (Machi) friendliness</p> <p>Surprise "Whew!" kindness</p>		<p>Sustainable Environment Preservation Activities Toward Carbon-Free Society</p>	<ul style="list-style-type: none"> ● Promoting energy efficient stores (CO₂ reduction) (Introducing and operating energy efficient equipment) ● Utilizing and spreading renewable energy (solar power, etc.) ● Efficiency enhancement of distribution and promotion of changeover to environment-friendly trucks (CO₂ reduction) ● Promoting food waste reduction (food recycling, etc.) ● Reducing plastic used for plastic shopping bags and containers and packaging



Lawson's Vision 2050

Take on more difficult challenges! Lawson Blue Challenge 2050!

Save our blue planet!

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

Goals for 2030 (KPI)

Setting KPIs for social environment taking into consideration social issues and conditions

● Reducing food waste

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

● Reducing plastic

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

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

Plastic shopping bags
Reduce by **100%**

● Reducing CO₂ emissions

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

● Reducing food waste

Reduce by **100%**

● Reducing plastic (for containers and packaging)

Lawson's original products
Eco-friendly materials

100% used

● Reducing CO₂ emissions

CO₂ emissions per store

Reduce by **100%**

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

The Lawson Group is bringing smiles to faces throughout the community

Convenience stores have taken root in the lives of the people, supporting them in every aspect of their daily lives. Because we want every customer's shopping experience to be filled with joy and new discoveries, we make sure they can find nearly everything they need at LAWSON, from foods to daily necessities, and even banking and entertainment services, no matter how early in the morning or late at night. In our desire to become a community lifestyle platform that makes every customer feel at home, we are honoring our "Three Promises" by creating the Next-Generation LAWSON Convenience Store for the new Reiwa era.

Superior taste

The bread section is like a bakery offering delicious breads day and night!



Carefully selected Japanese rice makes LAWSON's rice balls unimaginably delicious!



LAWSON's clear product labeling helps us control our daily intake of food additives, sugar and salt!



They are constantly introducing the most wonderful new sweets and desserts!



The stores are so clean and friendly, we can hardly pass by one without dropping in!



The Three Promises

Human kindness

Environmental (Machi) friendliness

LAWSON ATMs
13,459 machines

LAWSON stores (in Japan)
14,659 stores

Machikado Chubu in-store kitchens
5,495 stores

SEJO ISHII
146 stores
* Stores operated directly by SEJO ISHII, CO., LTD.

We're delighted to know that LAWSON stores' food waste reduction program supports childcare, too!

I think I'll stop at LAWSON on the way home to pick up some beer or wine, and maybe some snacks to go with it.

I just found out that MACHI café has switched to iced coffee cups made of paper!

I love the convenience of ordering meal sets and fresh foods by smartphone in the morning, and picking them up at LAWSON as early as the same day!

Oh-oh! I must have caught a cold. Luckily, my neighborhood LAWSON stocks medicines, too.

LAWSON's Loppi multimedia terminals issue tickets for everything from events to live concert—and even theme park—right on the spot!

I enjoy adding items such as frozen foods and various daily necessities to my shopping basket along with fresh vegetables.

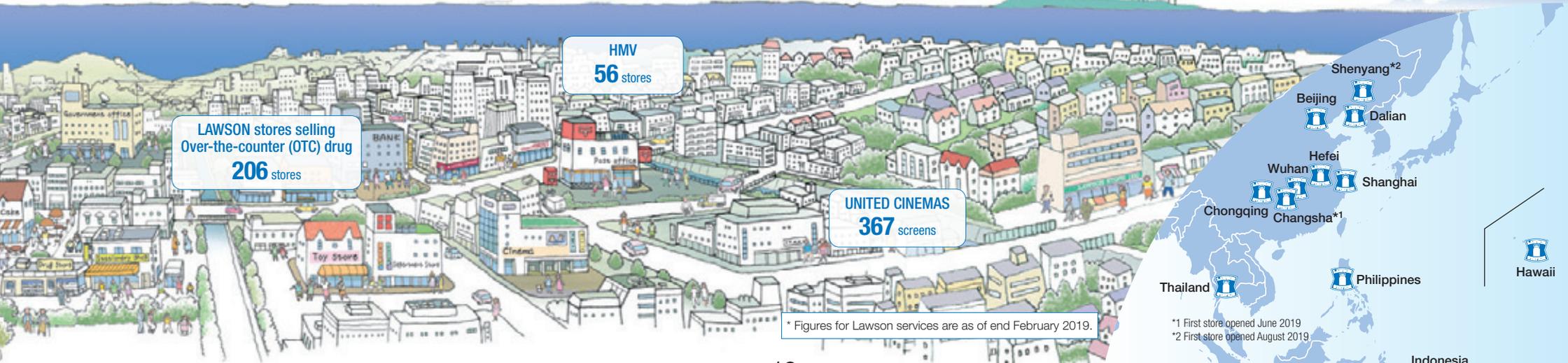


Lawson's The Three Essential Practices Q (Quality) x S (Service) x C (Cleanliness)

Lawson has adopted the three essential practices as the basis for its store operation policies to enhance the stores' popularity among customers. These pledges go beyond the conventional meanings of quality, service and cleanliness. They refer to 1) a product lineup that meets the needs of shoppers and brings them pleasure; 2) warm, attentive customer service that makes everyone feel at ease; and 3) cleaning activities that keep not only the stores' interiors but also their surrounding communities clean and comfortable. Headquarters has implemented a number of initiatives to promote realization of our 3 Pledges. These include guidance by store management supervisors (SVs) and a mystery shopper program under which investigators visit stores incognito and evaluate them from the customer's perspective.

Creating Happiness and Harmony in Our Overseas Communities

Lawson's careful attention to its communities extends beyond Japan's borders as well. We are implementing Area FC ("regional franchise") development in various regions of China by opening new stores one after another. In fact, our operations in Shanghai and Dalian both achieved profitability in fiscal 2018. This has brought new convenience to the lives of many community residents in China. We are also continuing to expand our store networks in other Asia-Pacific countries, including Indonesia, Thailand and the Philippines. There were 2,210 LAWSON stores serving customers overseas as of end February 2019, and we are targeting an increase in this number to about 5,000 sometime after 2021.



* Figures for Lawson services are as of end February 2019.

*1 First store opened June 2019
*2 First store opened August 2019

Superior
taste

Current **CHALLENGE**

Making daily meals tastier and abundantly enjoyable



CHALLENGE 1

To contribute to more delicious living

Enriching our lineup with better-tasting original products

At Lawson, we concentrate our efforts on planning and developing original products to ensure our customers' ability to obtain delicious foods every day from a nearby LAWSON store. Our product development employs analyses of purchasing data gathered from Ponta Point Cards as well as feedback obtained through social media. Our insight into customers' lives enables us to provide them with incomparable good tastes from morning to night.

In our pursuit of delicious taste, we select only the finest-quality ingredients for our original products. Our sandwiches are made with specially developed sandwich breads and filled with tasty ingredients, and our noodle dishes are prepared with carefully selected noodles, soup stocks, raw materials and preparation methods to assure unexcelled excellence. The

Lawson bakery has crafted a new Machi-no Pan ("community bread") series with painstaking care for textures and ingredients. Sales of our Kara-age Kun (fried chicken nuggets) introduced 33 years ago have surpassed 3.1 billion servings, and our new unprecedentedly smooth, rich BASCHEE Basque-style cheesecake has scored another enormous hit, selling over 13 million slices in just two months. Kinshari onigiri rice balls featuring a blend of Niigata Koshihikari rice with other domestic rice varieties wrapped in tasty nori seaweed has also achieved immediate popularity. Some 5,500 LAWSON stores nationwide are now preparing meals on site in Machikado Chubo in-store kitchens. Dishes such as freshly cooked white rice and thick-sliced pork cutlets deep-fried right in the store offer delicious tastes possible only with home cooking.

Our widely varied lineup of original LAWSON products now accounts for about 40% of total sales by the stores.

●The LAWSON SCM-CRM Model



The LAWSON SCM-CRM Model facilitates development of delicious, highly appealing products and product offerings from the customer's perspective. It uses Ponta Point Card members' personal attributes (gender, age, region of residence, etc.) to analyze their purchasing behavior, visualize expected opportunity loss (missed sales) and conduct order planning. This analysis also contributes to food waste reduction. CRM activities provide the driving force for increasing sales and profitability by helping us to understand our communities, stores and customers better.



Charcoal-grilled pork rice bowl



Double-cream square buns



Pearl barley & walnut milky cream buns



Machikado Chubo in-store kitchen delicacies



BASCHEE
— Basque-style cheesecake —



Kara-age Kun
Regular



Akuma-no ("devilishly
delicious") onigiri rice balls



4-variety frozen fruit bar pack



FROZEN PARTY
strawberry dessert



A grilled salmon Kinshari
onigiri rice ball



Store development in pursuit of superior taste

Demand for delicious, affordable frozen meals that can be cooked easily in a microwave oven is increasing among working women and seniors who live alone. These products are environmentally friendly, moreover, since they generate minimal food waste.

The taste of Sanuki udon, a popular frozen noodle product in the LAWSON Select private brand series, was improved in spring 2019 with a switch to the use of domestic wheat in its manufacture. Rice dishes are another perennial favorite frozen food. Enhancement of our incomparably delicious frozen food



Fried rice



Shrimp pilaf



Sanuki regional specialty udon noodles

lineup will continue into the future.

In addition to frozen foods, LAWSON stores respond to demand for prepared meals to meet individual needs with such delicacies from the fast-food counter as croquettes and minced beef cutlets, now established as staple side dishes for the dinner table, as well as a popular line of Cup Sozai snacks to accompany evening drinks.

We are also introducing self-service display cases that enable customers to select their own ready-to-eat dishes.



Message

The Machi-no-pan bakery series developed by women to appeal to wide-ranging customers

Launched on March 5, 2019, Machi-no-pan is a new series of delectable bakery items offering choices to suit the tastes of every hungry customer. Developed by a team reporting directly to the President and designated



Cheese! Cheese Boule



French toast made with 2 slices of French bread

as a “Free-thinking Bakery Creation Task Force,” the products reflect the goal of breaking with the conventional image of “packaged convenience store bread.”

The team comprises four women from various Lawson departments. Their innovations cover a broad range, from breads with crispy, chewy textures to breads packed with delicious fillings, and even breads that go nicely with wine, all developed to generate the excitement of visiting a popular bakery in town.

I suggest ideas based on my experience in a regional merchandising department.

I look for delicious breads that bring sudden smiles to people's faces!

I draw on my supervisory experience and reflect feedback from the stores!

I envision a bakery section that always provides customer satisfaction.



Tohoku Merchandising Dept.

Natural Lawson Merchandising Dept.

Products Planning Dept.

Daily Foods Dept.

Yoshiko Ishibashi

Aika Kobayashi

Kasumi Fukui

Ayako Murata

The Free-thinking Bakery Creation Task Force

CHALLENGE 2

To satisfy a diverse range of personal preferences



NATURAL LAWSON

Contributing to more beautiful, healthy and relaxed lifestyles

The NATURAL LAWSON chain, which has expanded to 143 stores nationwide (as of July 2019), serves a customer base comprising people who insist on daily life products oriented toward “health and beauty,” “seasonality” and “safety and reliability.” The pleasant store interiors assure a relaxed shopping experience. Customers rely on NATURAL LAWSON for carefully selected delicious, healthful foods and environmentally friendly detergents and cosmetics. They find that its commitment to excellence provides them with exceptional value.



Onigiri rice balls with sticky barley, Edamame and salted kelp



Sweet bean paste gipfeli



LAWSON STORE100

Providing good value centered on 100-yen food products

With its 790 stores nationwide (as of July 2019), LAWSON STORE100 offers three types of value to meet the needs of single people, homemakers and others: a wide selection of products similar to those available in supermarkets; the accessibility of a convenience store; and an easily understandable single price. This “100-yen grocery store” offers optimal value for money with products distinguished by suitable volumes and small portions. Popular favorites include fresh, good-quality fruits and vegetables sourced from cooperating producers in regions throughout Japan.



Fried chicken



Shredded cabbage



Pure-brewed soy sauce



SEIJO ISHII

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

Seijo Ishii offers a full assortment of appealing products handpicked with unstinting selectivity from throughout Japan and around the world. The 151 stores in the chain* (as of July 2019), most congregated in the Tokyo Metropolitan Area, have developed a variety of formats, from street-side stores to shops in station buildings, department stores, shopping centers and office buildings. The “grocerant,” which fuses dining with shopping, is a popular new variant. Customers who insist on superior quality rely on Seijo Ishii for a wide range of imported foods, select fresh foods and deli items as well as for processed meat products prepared by skilled chefs in a central kitchen.

Seijo Ishii uses no preservatives, synthetic colorants, or synthetic sweeteners in its original products. Its product development seeks to minimize the use of additives to enable customers to enjoy the natural flavors of the ingredients.

*The 151 stores operated directly by SEIJO ISHII, CO., LTD. only



Entrance to a Seijo Ishii “grocerant”



Premium cheesecake



Juicy domestic pork dumplings (small)



Le Bar à Vin 52, a Seijo Ishii production
With a menu of tasty items made with Seijo Ishii ingredients, Le Bar à Vin 52 wine bars serve fine foods and wines carefully selected by the parent store’s expert buyers.



Faithful ally of busy people who require help with grocery shopping

LAWSON FRESH PICK

The LAWSON FRESH PICK (Loppick) service enables customers to place orders by smartphone app before 8:00 a.m. and pick them up at a LAWSON of their choice as early as 2:00 p.m. the same day.* The available selection includes products that are not normally sold by LAWSON stores, among them meal kits, fresh foods, high-end ingredients from Seijo Ishii and other specialty stores and various sweets and desserts. Already serving customers at approximately 1,800 stores in Tokyo, Kanagawa and Chiba prefectures, Loppick will be rolled out nationwide in the future.

*The arrival time of ordered products varies with the selected store.



Order by smartphone in the morning.



Purchase at LAWSON the same evening.

Original Lawson meal kits



Ready to eat in as little as 10 minutes!
Now, anyone can prepare delectable meals. Kitchento meal kits come with written preparation instructions and the proper proportions of all the necessary pre-cut ingredients, so they can be cooked right out of the package.

A Kitchento menu item



Chop suey with seafood



CHALLENGE 3

To spread happiness through wide-ranging entertainment and financial services

Proposals for a “delicious life”

Since the 1990s, Lawson has sought to enliven and enrich its customers’ lives by promoting entertainment-related services. Lawson Entertainment, Inc., which operates Lawson Ticket and HMV & BOOKS, is strengthening its collaboration with Group members United Cinemas Co., Ltd. and Lawson Travel Inc. with the aim of becoming the only comprehensive entertainment company that meets customers’ all-round entertainment needs.



Lawson also makes people’s lives more convenient and enjoyable with financial services provided by Lawson Bank, Inc. and various administrative services conducted in partnership with local governments.



UNITED CINEMAS
Enhancing the movie-viewing experience

United Cinemas, Japan’s third-largest cinema complex provider, operates 42 theaters with 378 screens nationwide (as of July 2019). In June 2019, it opened a theater in Okinawa Prefecture equipped with a state-of-the-art IMAX Laser*1 screening system as well as the new 4DX*2 and SCREENX*3 experiential and multi-projection technologies. Besides providing unparalleled entertainment through enriched movie experiences, the company is leveraging the synergies of the Lawson Group to develop a wide array of event-hosting operations.

- *1 A screening system that adds 4K laser projection and advanced 12-channel sound to the IMAX movie experience
- *2 A technology that transmits movements, sights and smells reflecting on-screen content to provide a cinematic experience that transforms “watching” to “experiencing”
- *3 A panoramic multi-projection movie screening system that uses the theater’s side walls as well as its screen



Lawson Entertainment
Providing new experiences through real-world retail store shopping

HMV, now one of Japan’s largest music and video software store brands, entered the Japanese market in 1990 and joined the Lawson Group in 2010. The company operates 56 stores nationwide (as of July 2019), most under the HMV brand encompassing HMV & BOOKS book-centered multi-media stores and specialized record stores as well as an online retail component.

Lawson Entertainment’s other conventional retail businesses include merchandize sales at event venues in conjunction with Lawson Ticket. It also provides a flat-rate music-streaming service HMV music, invests in anime and movie production, and develops and produces entertainment-themed merchandise.



LAWSON TICKET
Issuing tickets any time of day at LAWSON stores

This innovative ticketing service provider occupies a major share of Japan’s play guide industry, selling tickets for concerts, sporting events, theaters, cinemas and leisure facilities through its Loppi multimedia terminals in LAWSON stores nationwide and its I-tike.com website. The company is pursuing efforts to expand its scope of business further, by partnering with China’s Alibaba Group to make visiting Japan easier for overseas tourists, for instance, hosting large-scale original events, and providing fan club membership agency services.



A multilingual screen



Convenient, value-added financial services

Your most accessible bank, with ATMs right in the store
Lawson Bank

In October 2018, Lawson introduced various new financial services with the opening of Lawson Bank. Customers can conduct bank transactions anytime using ATMs installed in LAWSON stores throughout Japan, or by PC or smartphone 24 hours a day, 365 days a year. The bank is currently issuing a variety of coupons for ATM users as part of a promotional campaign. The closest, most easily accessible bank in the neighborhood, Lawson Bank is making life increasingly convenient for every community resident.

In another new development, customers earn added Ponta points when they use the Lawson Ponta Plus credit card introduced in January 2019 to make purchases at LAWSON stores.



The LAWSON Ponta Plus credit card system





Current CHALLENGE

A “Hot Station (Best Relief Hub) in Our Communities” where smiles



CHALLENGE 1

Challenging better health through delicious products

Communicating human kindness through products and services

Lawson’s product development focuses on products that contribute to its customers’ health.

Our good-tasting, healthful prepared meals focus on factors described by three keywords: “low-salt,” “low-carb” and “reduced additives.” They include hearty pork cutlet rice bowls, lightly seasoned with dashi broth, and our Motto! Yasai (“more vegetables”) series of meals replete with vegetables. Our bran bread series, which has won widespread popularity extending far beyond customers concerned about carbohydrate intake, was renewed for the eighth time in November 2018 with a more luxuriant texture. The sugar content of LAWSON’s recommended products is specified in the nutritional indications on the package.

Seijo Ishii’s “desica” brand frozen Chinese meals are free from chemical seasonings, moreover, with a full flavor provided only by their ingredients.

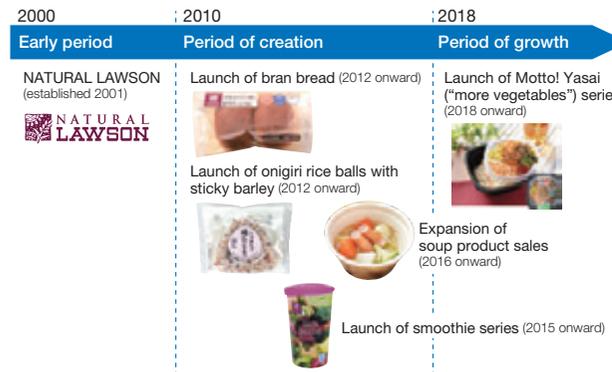
CHALLENGE 2

To participate closely in the life of every customer

Supporting healthy community living

Seeking to become a leading regional health store, LAWSON continues its efforts to support the lives of people in its communities based on two central themes: “meal solutions” that improve their physical health through daily eating habits and “self-medication solutions” that help those with health concerns maintain their health by providing consultation services. Among other “self-medication solutions,” 214 stores, have in-store pharmacies, sell OTC drugs, and 48 out of which also serves as dispensing pharmacies. These are especially appreciated by customers who want to buy medicines on their way home from work or during nighttime hours. A network of 21 care-focused LAWSON stores operate nursing care consultation windows and sell daily necessities and food products for senior nursing care patients. In addition to these, 313 LAWSON hospital stores located inside hospitals (as of May 2019) offer a reinforced lineup of medical hygiene, nursing-care and rehabilitation supplies in addition to standard convenience store products and services.

● Evolution with health needs



● Lawson’s Three Essentials for Health

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

Lawson’s Three Essentials for Health

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

brighten the faces of visitors and crews alike



Care-focused LAWSON for Senior Citizens with in-store nursing care centers

Care-focused LAWSON stores for senior citizens with nursing care consultation windows employ consultants such as care managers to provide nursing care consultation services, while also supporting seniors and their families with an assortment of products. The stores' Community Salons, where people of different generations interact freely, hold health check meetings, dementia support workshops, and health and nursing care-related events such as the Orange Café.



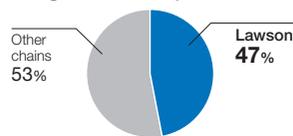
A nursing care consultation window in a Care-focused LAWSON for senior citizens

LAWSON hospital (in-hospital) convenience store

LAWSON hospital stores led all the competition in initiating operations inside hospitals, and remain the market leader in hospital-based convenience stores by number today. We draw on our experience and expertise to customize each store to meet the specific needs of the hospital in question. Our services include selling doctor-recommended products and providing mobile catering services in hospitals in addition to offering Lawson's regular products and

services. Our aim is to cooperate with hospitals in satisfying patients' needs in accordance with our Corporate philosophy, "Creating Happiness and Harmony in Our Communities" (in this case, customers under long-term hospital care).

● Ratios of convenience store chains operating in-store hospitals



*Data based on survey results compiled by Lawson (as of August 2019)



Display shelves stocked with key hygiene products

Coffee beans sourced in consideration of farm workers' working environments

In its commitment to sound corporate activities, Lawson gives careful consideration not only to the communities in which its stores are located, but also to the environment and occupational health and safety of its ingredients' production regions as well as to their economies and societies. The coffee beans used to brew coffee MACHI café coffee are grown on farms with Rainforest Alliance Certification,* which is awarded to farms that meet rigorous standards for environmental preservation and improvement of farm workers' living conditions. Arabica coffee beans from designated farms and production regions in five overseas countries are high-quality coffee beans with a distinctive smooth, fruity taste. The cups of coffee customers buy at their LAWSON store contribute to creating stable lives for the people of coffee-producing regions.



*Not applicable to single-origin or decaffeinated series.



A focus on stabilizing worker's lives as well



The warm omotenashi ("hospitality") of skilled store crews

LAWSON is working to improve its store crews' job satisfaction by shortening shifts and implementing work skill training. Our original Fantasisa qualification program is designed to instill special skills in four categories: MACHI café, fast food (FF), Machikado Chubo in-store kitchen and customer service. Crews distinguished by special aprons or badges provide leadership with superior performance based on their special expertise in store operation.

Certification	Name tag	Badges	A MACHI café Fantasisa apron
		 MACHI café  Fast food	
Certification logos vary with the category	Examples of category badges	Machikado Chubo in-store kitchen 	Customer service 

GAP certification of LAWSON Farms



As part of efforts to assure stable, long-term supplies of safe, reliable domestic agricultural products, the Lawson Group operates LAWSON Farms in cooperation with local farmers in 21 locations throughout Japan (as of May 2019). We are working to standardize our farm management system by pursuing acquisition of Japan Good Agricultural Practices (JGAP) certification awarded to farms operated with concern for food safety and environmental preservation. As of fiscal 2019, a total of 21 LAWSON Farms had acquired the certification, with seven of them certified to the ASIA GAP international standard as well.

LAWSON Farms employ the Nakashima method*2 of cultivating ideal soil to produce most of their healthful vegetables, salads, deli items, and fresh-cut vegetable products. This advanced agricultural methodology facilitates LAWSON stores' ability to offer reliably safe agricultural products, while also providing job opportunities and supporting sustainable development in regional communities.



*1 The registration number inscribed below the JGAP certified farm mark is the number for LAWSON Farm Chiba.
*2 A soil analysis is conducted prior to planting to prepare healthy soil with well-balanced mineral content, and each crop is supplied with appropriate nutrition depending on its growth rate. Farming with this Nakashima method produces vegetables that are delicious, nutritious and safe.

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

Every store that carries OTC drug employs crew members with national registered sales clerk licenses. Customers who visit convenience stores to shop for medicines often want immediate relief from cold or headache symptoms. Registered sales clerks check the customer's physical condition and symptoms first, and then recommend the most appropriate products. LAWSON has the added advantage of enabling customers to purchase non-medicinal health products in addition to medicines.



Consultation services concerning OTC drug and various other products

CHALLENGE 3

To help franchise stores conduct business with a smile



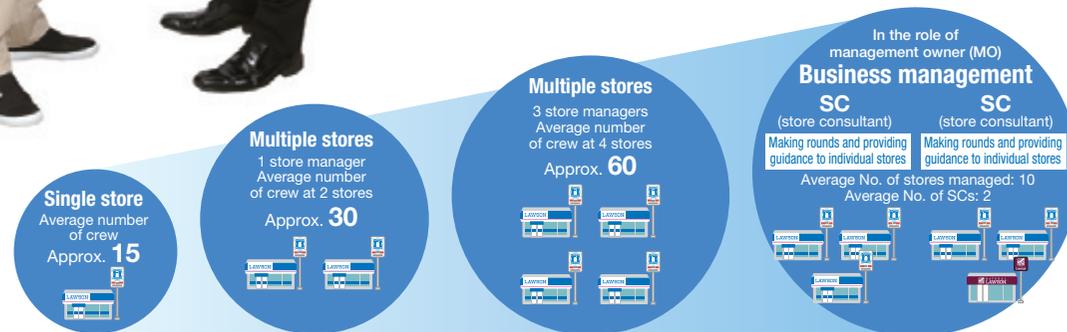
Reinforcing support for franchise stores

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

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

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

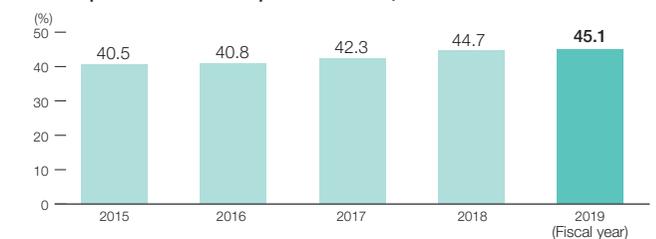
Lawson has established the original Management Owner (MO) system to support franchise owners who open additional stores based on a reinforced partnership with Headquarters. The MO system is making a substantial contribution to the progress of the LAWSON chain as a whole, not only by enhancing the brand image of the Lawson chain through development of



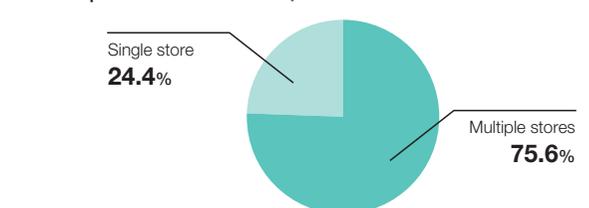
model stores and sales floors, but also by providing a platform for MOs to advise other owners on store management as well as to exchange opinions or propose improved work procedures to Headquarters management personnel as representatives of the franchise stores in their region. As of February 2019, there were approximately 190 MOs operating stores in various regions of Japan.

Our aim for the future is to make people feel happy to have LAWSON in their community, while providing further support for our franchise stores.

Multiple store ownership ratio *As of May 2019



Multiple store ratio *As of May 2019



Communication to build strong partnerships with franchise stores

Lawson has established a number of systems aimed at strengthening its partnerships with franchise stores by enabling members of the Board of Directors, including the President, to communicate directly with franchise stores. We place special value on feedback from our franchise stores, which operate in direct contact with customers, and seek to achieve mutual consideration and mutual prosperity with them through close communication.

Lawson Seminars

Lawson Seminars are convened for every franchise store each spring and fall in seven venues throughout Japan. The President and other members of management share the Company's policies and directions with the franchise owners by providing them with detailed explanations of future business strategies, and informing them of product development planning in conformance with the policies.



Seminars for franchise stores are held nationwide.

Area meetings

Area meetings are regional workshops conducted monthly at Lawson branches from Hokkaido to Okinawa. Franchise stores from the same areas gather to share details of sales activities planned for the following month as well as of their past successes, or to exchange opinions with the aim of helping individual stores improve their management capabilities.



An area meeting

Direct line to the President

This original Lawson system enables franchise owners, store managers and store crew members to express their opinions, proposals or requests for improvement directly to the President. The President checks and replies to all the messages delivered over this line.



Lawson Owner Welfare Association board meetings

Meetings of Headquarters executive officers and representatives selected from among franchise (FC) owners in each area convene twice a year. Organized to provide FC owners with opportunities to exchange opinions with Headquarters, the meetings are attended by the President and other members of Lawson's directors, who join in discussions covering a range of issues. A mentoring program was introduced in August 2019 to allow FC owners to learn from the experienced FC owners.



A Lawson Owner Welfare Association board meeting at Headquarters

Lawson Owner Welfare Association Women's Club opinion exchange meetings

The Lawson Owner Welfare Association Women's Club was established by female FC owners in 2015.

Its members meet twice a year to directly exchange opinions and ideas with management concerning issues such as store development and work styles.

Lawson Franchise Store Advisory Committee

Established in April 2019, the Lawson Franchise Store Advisory Committee is a new initiative for promoting improvement and innovation in Lawson's interactions with FC owners by enabling them to express opinions concerning Headquarters' management and strategies from the FC perspective.

MO General Meetings

MOs and Headquarters management join each other at the annual MO General Meetings for free exchanges of opinions. These meetings give regional franchise store representatives an opportunity to participate in Lawson's general management.

MO Executive Board Meetings

These biannual meetings provide venues for an executive committee of representatives selected by regional MOs to exchange opinions with Headquarters management. The MOs elected to the Board operate 10 or more stores on average.

Franchise store questionnaires

Questionnaire surveys concerning store management-related issues such as satisfaction levels, business challenges, health conditions, and opinions on Lawson headquarters are conducted annually among franchise owners.

In response to the questionnaire results, we make effort to develop a better relationship with franchise stores.

Lawson Owner Hotline

In July 2019, Lawson established a system of both internal and external telephone consultation contacts to enhance communication with franchise owners. The external contact, comprising a hotline installed in a law firm, permits franchise owners to discuss issues they find difficult to raise in direct consultations with in-house personnel.

Franchise store benefit system

Lawson Owner Welfare Association

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

- Allowances for use of sports facilities
- Allowances for full medical examinations and health checkups
- Allowance for influenza vaccines
- Nursery and day-care center allowances for store crew members
- Hosting of health promotion / family events and seminars for women
- Travel and accommodation services
- Allowance for correspondence courses
- Congratulatory and condolence payment system
- Voluntary group insurance system for franchise stores (selection of various insurance packages)
- Discounts and preferential treatment at gourmet, leisure, entertainment, child-rearing, nursing care and other life enrichment and support facilities
- Car rental discounts



Left: Participants in a health promotion seminar
Right: A Lawson Owner Welfare Association pamphlet



LAWSON STAFF personnel placement business

Lawson joined Fusion'z Co., Ltd., one of its MOs, in establishing the Lawson Staff, Inc. service in March 2014 with the aim of creating a working environment in which store crew members of different ages, genders and nationalities can work happily with peace of mind for extended periods. Experienced professional trainers conduct training programs to prepare recruits to work at LAWSON franchise stores in 17 domestic and 5 overseas locations. LAWSON STAFF confirms that the conditions are acceptable to both parties before dispatching human resources to the franchise stores.



CHALLENGE 4

To employ digital innovations to address the labor shortage issue

Achieving dramatically improved efficiency in daily operations through measures to increase productivity

Today's rapidly declining birthrate and aging population, labor shortage and rising personnel costs are presenting major challenges for the convenience store industry. Lawson is actively supporting franchise stores by implementing measures to achieve labor savings in daily operations and create comfortable work environments for seniors and foreign staff. These include reducing both the workload on store crew conducting time-consuming checkout work and customer wait times at the checkout counter by introducing automated checkout systems such as POS cash registers with automatic change dispensers and smartphone cash registers. Other innovations enable product ordering and on-site cooking to be performed more efficiently with less effort.

2015

Semi-automatic ordering & planned ordering systems

Lawson introduced an AI-based semi-automatic ordering system in 2015. The system analyzes data on such various factors as the weather and sales situations at other stores to predict consumer demand for boxed meals, sandwiches and other items and recommend appropriate product offering and order quantities based on the observed purchasing behavior of its over 91.29 million Ponta Card members (as of end June 2019). This system, combined with our planned ordering system for beverages and processed foods, **saves about 2.0 working hours/day per crew member.**



2017

Optimizing the operation of Machikado Chubu in-store kitchens



In 2017, we reorganized the operations of our Machikado Chubu in-store kitchens, which prepare fresh-cooked boxed meals and bakery items at LAWSON stores, to optimize the operational efficiency of their work procedures. We are developing a lineup that can be prepared easily by unifying the product packaging and product quantities. This has led to **a reduction of about 1.5 working hours/day per crew member.** We are also moving quickly to facilitate the work of food preparation further by introducing automatic dishwashers into stores with Machikado Chubu in-store kitchens installed.



2017

Introduction of digital tablets

Tablets introduced into all the LAWSON stores in 2017 have facilitated smooth work procedures by displaying work schedules in terms of "when, what and how," and by accompanying some tasks with photos to assist less experienced crew members. The devices have **improved productivity further** by recommending OTC fast-food product selections and quantities based on sales data for individual stores.



2018

Introduction of LAWSON smartphone cash register

LAWSON smartphone cash register, a mobile payment system using customers' smartphones, was introduced at a number of stores in 2018. Customers pay for purchases simply by downloading the app and scanning barcodes printed on product packages with their smartphones. The process is completed in **approximately a quarter of the time required for payment by the conventional method.**

Combined use of manned cash registers and the LAWSON smartphone cash register system during peak shopping periods in the morning and at lunchtime can significantly reduce waiting time at the checkout counter. The system is in operation in 116 stores in Japan (as of August 2019), with sequential expansion of its deployment under way.



2018

Introduction of POS cash registers with automatic change dispensers

POS cash registers with automatic change dispensers have been installed in all LAWSON stores since 2018. Easy for both foreigners and seniors to use, the registers are reducing the burden on crew members at checkout counters by eliminating the need to count cash received and paid out manually. The working hours required for checkout and cash register inspection have been **reduced by 1.5 hours/crew member.** Since cash cannot be paid into or removed from the registers, moreover, losses due to robbery are also decreasing.





Message

We value warm people-to-people interactions above all else. That's why we deploy advanced technologies.

The increasing severity of the labor shortage has made deployment of digital technologies to improve work efficiency and productivity critical issues for convenience store chains. Lawson has responded by introducing such technologies as semi-automatic ordering systems and POS cash registers with automatic change dispensers. We established the LAWSON Open Innovation Center in May 2017 to help us keep pace with the accelerating pace of change.

The Center is equipped with a laboratory that simulates an actual store as a venue for conducting experiments in collaboration with various companies and government agencies in Japan and overseas. Repeating a cyclical process of pre-introduction analysis, laboratory verification and in-store trials enables us to introduce new technologies into our stores quickly and smoothly. In October 2018 we exhibited some of our technologies at CEATEC JAPAN, one of Asia's largest IT technology and electronics shows, where we displayed a walkthrough payment system using electronic tags and a real-time inventory management system.

Our aim is to install systems that "put people first." Convenience stores have evolved beyond shopping venues into facilities offering a variety of services. Their role in people's lives can be expected to become even more significant going forward. Our proactive introduction of advanced technologies into our stores is equipping us to determine our customers' needs more accurately, and freeing up time to welcome them even more cordially. The labor savings and work efficiency realized through advanced technologies promise to make tomorrow's convenience stores even more enjoyable and exciting places that offer warmer human interactions than ever. This is the convenience store of the future we envision.



Kunitsugu Makino
General Manager, Open Innovation Center

Advanced labor-saving measures deploying digital technologies

Lawson is advancing its labor savings further by upgrading its store fixtures and cooking facilities as well as by introducing digital technologies to enable smoother everyday store operation and to free store crew members to concentrate on the warmhearted services that only human beings can provide.

We had installed new computers in all the stores by the end of June 2019. We are currently using Owner Portal to provide powerful support for multiple-store owners by enabling them to check all their stores' management information from any location and Multiple-store Remote Login to facilitate remote order acceptance and placement. A self-checkout system compatible with such electronic payment methods as credit card and electronic money payments and the use of points, currently in the testing phase, is scheduled for introduction into all the stores by this autumn. We are also developing stores equipped for use with LAWSON smartphone cash register one after another. New stores to open in the future will adopt a new self-service fixture that enables customers to take out OTC fast foods by themselves. This service is expected to realize a reduction in daily working hours of approximately one hour/crew member.

Other projects leveraging digital technologies include experimental fully automated store operation during 5 late night hours. Customers gain access to the stores by unlocking them with a downloaded smartphone app and make payments at fully customer-operated cash registers or using LAWSON smartphone cash register. We are also actively leveraging results obtained through a number of development projects still in the testing phase. These include a door-unlocking system using biometric identification (including facial recognition), customer service robots to support store crew, an automated shelf-stocking system, electronic product management using radio frequency identification (RFID) tags, a fresh-cooked Kara-age Kun robot automated on-site cookers and next-generation fryers.

Digital signage



Yet another advanced system currently in the works will provide a new purchasing experience by making store shelves compatible with IoT and using digital signage to recommend products selected for the individual customer. We are expanding our use of initiatives of this kind, moreover, to verify the efficacy of using brick-and-mortar stores as media to generate new profits.

A self-service fixture



A customer-operated cash register



A fully automated store



An electronic RFID tag



RFID (radio frequency identification) is a wireless technology that identifies products by reading information recorded on electronic tags. The price and other product information are inscribed on the tags in the form of data to be read by electromagnetic wave radiation. This system is expected to reduce store crews' workload significantly, not only by simplifying checkout procedures but also by lightening their inspection and stocktaking duties. In an initiative led by the Ministry of Economy, Trade and Industry (METI), Lawson and other major convenience store chains have formulated the Declaration of a Plan to Introduce 100 Billion Electronic Tags for Products in Convenience Stores, which commits the stores to attaching electronic RFID tags to all the products on their shelves (an estimated 100 billion electronic tags/year) by 2025.

CHALLENGE 5

To realize a Lawson where anyone can work for an extended period cheerfully, energetically and joyfully



Promotion of diversity and realization of a work/life balance

Creating work environments in which diversified personnel work enthusiastically

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

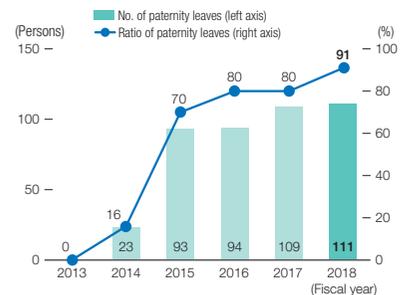
We continue to pursue active efforts to recruit women and foreign nationals as regular employees, while broadening the scope of our international employment activities to include such initiatives as local hiring in South Korea and elsewhere.

In our desire to retain our female employees over the long term, we have introduced such programs as career development training, childcare leave training, and elective leadership training to support young women in their career and life planning. We are continuing to pursue these initiatives with the aim of increasing the proportion of female employees among those in management positions to 30% by fiscal 2020.

We encourage male employees to take paternity leaves in the hope that active participation by men in child-rearing and housework will result in work-style reforms leading to efficient, highly productive work styles regardless of gender. The ratio of new fathers taking paternity leave exceeded 90% in fiscal 2018, demonstrating that taking paternity leaves is becoming an established practice in our corporate culture.

In 2018, we reinforced our efforts to become a company whose employees can continue to experience job satisfaction over extended periods of employment by introducing a flexible full-time employee system (workplace limitation system) to help them balance their work lives with such private concerns as child-rearing, nursing care or cancer treatment.

● Ratio of male employees taking paternity leave



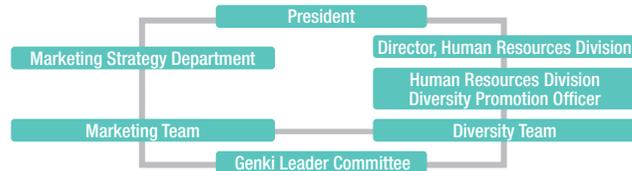
● Proportion of working mothers among female employees



● Proportion of female employees in management positions



● Diversity Promotion System



Operating under the President's direction, the Human Resources Division takes responsibility for system design, operations and appointments, while the Marketing Division seeks to create new value from ideas generated by female employees.



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



A Seminar on Women and Health organized in support of both active work styles and mental and physical health

Implementing a nurturing personnel management system

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

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

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

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

motivation and improving the business performance of the LAWSON store chain as a whole.

Industrial safety and hygiene promotion

■ Efforts to assure safe, worker-friendly workplaces

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

Health initiatives for employees and franchise owners

■ Conducting health management that begins with employees' concern for their own health

A company that supports customers' efforts to lead healthy lives, Lawson also prioritizes the health of its employees, franchise owners and store crew members. Led by the President in his role as Chief Health Officer (CHO) and the Chairperson of the Health Station Promotion Committee, we reinforce and promote health management and pursue health-related initiatives for our employees and customers. We established the Lawson Group Health and Wellness Promotion Center in September 2018 to strengthen various measures to these ends in cooperation with our labor union and the Lawson Health Insurance Association.

Promoting the health of its franchise owners is another important concern for Lawson. The various health preservation programs provided through the Lawson Owner Welfare Association (see page 27) include a subsidy plan for medical examinations and operation of a health support desk.

● Health management systems



Message

We contribute to enhancing health promotion throughout the Lawson Group by improving employees' health promotion and health literacy.

Established in September 2018, the Lawson Group Health and Wellness Promotion Center is an organization reporting directly to the President on issues concerning further enhancement of Lawson Group employee health.

The Center maintains a particularly strong focus on developing a framework for continuing health maintenance through “health collaboration” with the Lawson Health Insurance Association. As part of these efforts, we sought to reduce the risks posed by lifestyle-related diseases in fiscal 2018 by recommending reexamination of employees whose medical exam results were below standard as well as by strengthening support for programs providing specific health guidance.

The Health Challenge!, a six-month program initiated in 2016 for the purpose of stimulating health awareness among employees (who use a downloaded app to monitor the number of steps they take each day and the content of their meals), is expanding annually in terms of both availability and the number of (voluntary) participants. The program gives employees an opportunity to pay greater attention to their health, both as individuals and members of an organization, and generates positive workplace communication.

We seek to contribute to promoting health promotion throughout the Lawson Group, not only to accommodate our legal responsibilities as a company, but also to enhance the physical and mental health of everyone concerned with Lawson.

This begins with efforts to improve employee health promotion and health literacy, and then disseminating information on successful approaches to high-risk populations among the Group companies and franchise stores.



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



Miho Yomoda
Deputy General Manager
Lawson Group Health and Wellness
Promotion Center

Lawson takes up challenges originating at the stores as part of efforts to achieve its Key Performance Indicator (KPI) targets in accordance with its 2030 SDG objectives.



CHALLENGE 1

To reduce food waste

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

Recycling of unsold food

Lawson sends unsold food to recycling plants to be turned into pig and chicken feed and fertilizer. We also recycle the oil used to deep-fry foods in the stores as feed additives (livestock feed ingredients), biodiesel fuel and additive-free soaps. These and other initiatives led to a food recycling rate of 47.9% in FY2018, exceeding the statutory target of 44.5%.

Food waste reduction program

Lawson tested the food waste reduction program in Okinawa and Ehime Prefectures from June to the end of August 2019 as part of efforts to minimize the volume of edible food discarded by its stores. Customers participating in the program earn five points for every 100 yen they spend after 4:00 p.m. on boxed meals and rice balls, which have extremely short shelf lives, and 5% of total sales of these items is donated to children's support groups.

Use of vegetables with imperfections for side-dish products

Some 10 to 15% of the vegetables grown on LAWSON Farms throughout Japan fail to meet retail store standards for shape or size, despite their equivalence in terms of flavor and nutritional value to unblemished products. We use these vegetables with imperfections in the side dishes, salads, and pickles sold in our stores as part of efforts to achieve sustainable agriculture by supporting the producers and reducing crop waste.

Products using vegetables with imperfections*



Crisp corn salad



Mixed seaweed salad



Dog snacks made with shredded tender chicken, carrots and gizzards

* Products listed as examples here may have been discontinued.



CHALLENGE 2

To reduce plastic use

Goal for 2030 (KPI)

Plastic containers and packaging
Reduction of **30%** from 2017
(Adoption of original product packaging using **50%** eco-friendly materials)

Switch to paper cups for MACHI café iced coffee

In 2019 we began replacing the plastic cups used for MACHI café's iced coffee with paper cups like those used for hot drink cups. Although still made of plastic, the lids have openings for drinking that eliminate the need for straws. This will reduce the amount of plastic used per cup by approximately 80%, which will add up to a reduction of approximately 540 ton when the cups are adopted by all the stores.



Redesign of original cold drink containers

The original containers used for cold drinks such as NATURAL LAWSON's Green Smoothies and yogurt drinks were redesigned in 2019. The outer lids were removed from all the containers, a change we expect to reduce our plastic use by some 320 tons per year.



Switch to chilled noodle containers made of recycled PET material

The material used for such chilled noodle dishes as chilled ramen noodles with various toppings has been changed from PET material to a material containing recycled PET obtained from recycled PET bottles.





CHALLENGE 3

To reduce plastic shopping bag use

Goal for 2030 (KPI) 100% reduction in use of plastic shopping bags

Partial use of plant-based resin in plastic shopping bags

The material used to make NATURAL LAWSON's plastic shopping bags is derived in part from polyethylene made from sugarcane.



Raising awareness of reduced plastic shopping bag use



Our efforts to reduce our stores' use of plastic shopping bags include asking customers whether they need a bag at checkout, in-store announcements and posters. The weight of plastic shopping bags used per store in FY2018 was down by 27.2% from 2000.

Promoting widespread use of easily portable eco bags

Intent on reducing the use of plastic shopping bags, we created a Convenience Store Eco Bag of the perfect size for carrying such frequently purchased items as boxed meals and bottled drinks. We introduced free distribution of the bags at a number of LAWSON stores in March 2007



to encourage as many customers as possible to carry their own shopping bags. We followed this by conducting sales of the bags via our Loppi in-store multimedia terminals and by releasing the bag specifications to encourage other companies to join our effort. A total of 4.44 million* bags had been distributed as of end February 2019.

* The number includes eco bags other than the Convenience Store Eco Bag.

CHALLENGE 4

To reduce CO₂ emissions

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

Efforts to achieve energy-saving targets

We have implemented various energy-saving initiatives, including the introduction of CO₂ refrigeration systems, solar photovoltaics and LED lighting. We are pursuing such further efforts as revising our building specifications to accelerate CO₂ emissions reductions in the building life cycle.



Approximately 3,400 stores have introduced CO₂ refrigeration systems (as of end February 2019).

Development of energy-saving model stores

Lawson has built energy-saving model stores equipped with leading-edge technologies in regions throughout Japan for use in experimentation with and verification of the stores' energy-saving and energy efficiency results in preparation for introducing equipment and systems that prove highly effective into new stores. One of these stores, the Tatebayashi Kidocho Lawson store opened in January 2018 is the first convenience store to include cross-laminated timber (CLT) sourced from Japanese cedar trees among the leading-edge technologies employed in its structure and interior.



The Tatebayashi Kidocho Lawson store

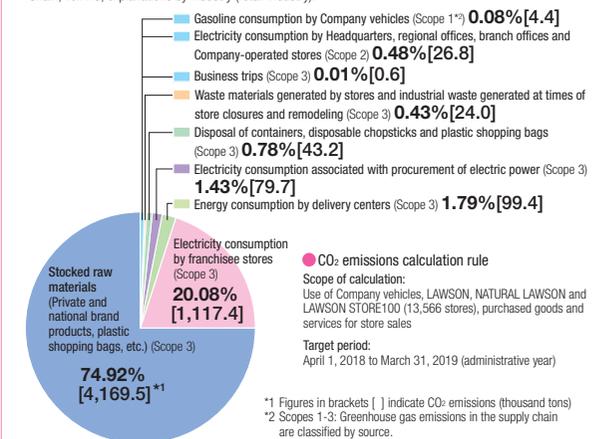
Implementing the Ten Energy-saving Rules at the stores

Lawson has formulated a set of "Ten Energy-saving Rules" to reduce its stores' electricity consumption by improving the efficiency of their refrigeration and air-conditioning systems. The rules, which every store is encouraged to observe, include recommendations on such factors as air conditioner temperatures and filter cleaning frequency and beverage storage temperatures.



Supply chain CO₂ emissions in fiscal 2018

Total CO₂ emissions **Approx. 5,565.0 thousand tons**
 Method of calculating greenhouse gas emissions in the supply chain
 Calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions throughout the Supply Chain, Ver.1.0, explanations by industry (retail industry).



Management team underpinning sustainable growth



Sadanobu Takemasu

President and CEO, Representative Director, Chairman of the Board
 Years on Board: 5 Company's shares held: 3,200

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

The management team led by the President represents human capital appointed for its varied experience and expertise to ensure the diversity required to facilitate appropriate decision-making and supervision. Several independent officers who have no potential conflicts of interest with the general shareholders are also appointed to ensure management transparency and fairness. To add further assurance, there are three independent directors, a number comprising over one-third of the total of eight directors; and five of the twelve officers, including the corporate auditors, are women.

Under the Executive Officer System, meanwhile, the roles of the members responsible for execution of business and those responsible for corporate management are separated and clarified. Lawson limits the size of the Board to enable speedy business decision-making.



Emi Osono

Member of the Board (outside)
 Years on Board: 7 Company's shares held: 800

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



Katsuyuki Imada

Member of the Board, Senior Executive Vice President, Director of Corporate Strategy
 Years on Board: 2 Company's shares held: 1,800

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



Satoshi Nakaniwa

Member of the Board, Executive Managing Officer, Chief Financial Officer
 Years on Board: 2 Company's shares held: 100

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



Yutaka Kyoya

Member of the Board
 Years on Board: 6 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



Keiko Hayashi

Member of the Board (outside)
 Years on Board: 3 Company's shares held: 900

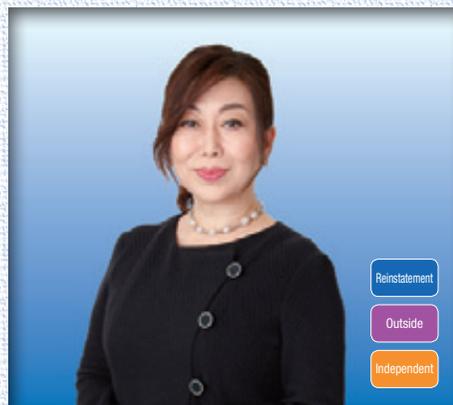
Founder of DoCLASSE, Keiko Hayashi has experience and expertise in corporate management and an in-depth knowledge of marketing.



Kazunori Nishio

Member of the Board
 Years on Board: 3 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.



Miki Iwamura

Member of the Board (outside)
 Years on Board: 1 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.



Toshio Takahashi

Standing Corporate Auditor (Outside)
 Years as auditor: 3 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: 2 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 executive officer and human resources management, Masakatsu Gonai has expertise in risk management and human resources development.



Eiko Tsujiyama

Corporate Auditor (outside)
 Years as auditor: 8 Company's shares held: 900

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.



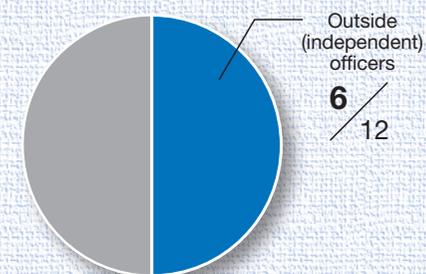
Yuko Gomi

Corporate Auditor (outside)
 Years as auditor: 0 Company's shares held: 0

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

Reinforced independence through an increased ratio of outside officers

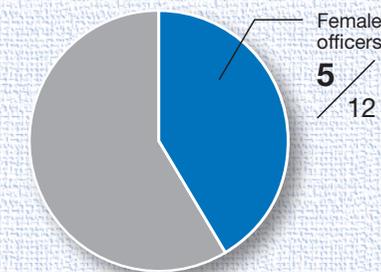
Increasing the ratio of outside officers with diverse backgrounds who bring a high level of expertise to their office has produced a system capable of verifying the appropriateness of business execution and supervising the observance of laws from an independent, objective viewpoint.



● 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



Keep an eye on Lawson as we seek genuine happiness for people in our communities.

Lawson has taken a new step forward in its reassessment of the ways in which convenience stores can create happiness in the community by formulating a new slogan, “Hot Station (Best Relief Hub) in Our Communities.” We interviewed three directors concerning Lawson’s Three Promises, use of digital tools, directions for future growth and priority issues for resolution.

I will leverage Mitsubishi Corporation’s strengths to provide full support for Lawson’s sustainable growth.

Kazunori Nishio Director
Senior Vice President, Division COO, Retail Division, Consumer Industry Group, Mitsubishi Corporation

I believe that Lawson, which currently operates approximately 14,500 stores throughout Japan, has enormous growth potential operating in cooperation with Mitsubishi Corporation.

As the population continues to contract, competition is increasing in severity, both within and between industries. This trend underscores the importance of continuing to provide products and services that meet consumers’ needs. Lawson’s new products are better than ever, with several scoring big hits this term. In our service field, meanwhile, the establishment of Lawson Bank has provided a basis for offering various financial services. Our new LAWSON FRESH PICK and SMARI* services, which use our existing delivery networks to provide new Lawson value, are continuing to improve. The adoption of laborsaving digital technologies has proven effective in dealing with the labor shortage, and new initiatives in this area are in the works.

Our main objective is to work with our franchise owners to achieve sustainable growth throughout the convenience store business. Providing our franchise owners and store crews with

more fulfilling, more stable lives is helping to improve Lawson’s reputation as well.

Mitsubishi Corporation views the Lawson Group as an essential consumer interface that provides all its businesses with valuable knowledge. Close cooperation with Lawson, which responds adeptly to rapidly changing consumer trends, has created unprecedented business opportunities for Mitsubishi Corporation, which overlooks the industrial structure as a whole from high upstream in the product value chain. The ability to use AI and other technologies to analyze purchasing data gathered from 10 million customers a day has enabled Mitsubishi Corporation to conceive new measures and businesses. In my heartfelt belief in Lawson’s future as a “Hot Station (Best Relief Hub) in Our Communities” set apart from other convenience stores, I will continue my unstinting support for Lawson as an employee of Mitsubishi

Corporation, and spare no effort in my capacity as one of Lawson’s Directors.

*A service using Lawson’s distribution network to return rental items and products purchased through EC



Dialogue with our communities conducted through three years of operational reforms has provided the basis for Lawson's unique character.

Emi Osono Professor, The School of International Corporate Strategy at the
Outside Director Graduate School of Business Administration, Hitotsubashi University

I believe competition in the convenience store industry has shifted its focus from quantity to quality. With shopping and service activities migrating online, convenience stores are being required to reconsider the unique value brick-and-mortar stores can offer, while raising the efficiency of their value chain as a whole.

Lawson has responded to this challenge by conveying Three Promises: The Superior taste, with a larger meaning extending beyond food and beverages to encompass every aspect of consumer lifestyles; Human kindness; and Environmental (Machi) friendliness. These promises express the Company's strong commitment to its communities. Since the roles convenience stores are expected to play vary with the community, input from the franchise owners who know their community best is of particular importance. Lawson moved long ago to create opportunities for dialogue between franchise owners and Headquarters. This has engendered a variety of initiatives crafted to support individual stores' efforts to fit into their community. I believe this is the source of Lawson's unique appeal.

I will enjoy seeing Lawson express its character in the banking business. It will undoubtedly offer financial services that respond accurately to individual customers' needs through linkage with

LAWSON stores' tangible products and services.

The recently introduced food waste reduction program is also an excellent idea. There is so much more we can do to reduce food waste. We must determine our priorities and bring them swiftly to reality. Lawson's stance toward realizing the SDGs, including its introduction of paper cups to reduce the volume of plastics it uses, will continue to attract attention in the future.

I have the highest admiration for the operational reforms Lawson has implemented over the past few years. Together, they have constructed to build up "core strength" to support future growth. The next step will be to produce results. I will look forward to seeing the new value offered by this "Hot Station (Best Relief Hub) in Our Communities" through new experiences that make people happy.



I can hardly wait to see where Lawson will lead the industry in the "Convenience Store 3.0" era.

Miki Iwamura Vice President, APAC Marketing, CMO Japan,
Outside Director Google Japan G. K.

The convenience store is entering a new era. If we call the model imported from the United States "Convenience Store 1.0," the model that took root in Japan was "Convenience Store 2.0." Now that the customer base has expanded from young men to include women, children and seniors and the offering has evolved to encompass services other than shopping, a new "Convenience Store 3.0" format is in demand.

Lawson's Three Promises have truly significant meaning for this new era. Lawson is leading the way in providing safe, reliable daily food and preserving the environment of its communities and our Earth.

One reason I rate Lawson so highly is its positive application of digital technologies to enhance its efficiency and services. Lawson's corporate vision and management policies reflect a strong awareness that technology is for the people. A second reason is the brand power Lawson has acquired by developing original products such as desserts and onigiri rice balls. NATURAL LAWSON and SEIJO ISHII are also firmly established store brands.

Lawson is also rapidly advancing its ESG activities. Environmental initiatives such as its measures to reduce plastic use and food loss, along with its strong support for franchise

owners, demonstrate a clear awareness of its social responsibilities and of the importance of friendly relations with the community and its residents.

Now in my second year as an Outside Director, I remain surprised by the open atmosphere on the Board of Directors. I participate actively in discussions of various aspects of management, branding, digital application and overseas expansion from the perspective of marketing, which is my area of expertise. I also make proposals concerning product development from the female consumers' standpoint.

Lawson is determined to do the right thing for customers, franchise owners, the global environment and future generations. I want to see Lawson respond to this business environment of precipitous change with continued positive efforts to realize the "Convenience Store 3.0" era.



Corporate Governance

Characteristics and system of Corporate Governance

Characteristics of Corporate Governance

We pursue continuous improvement in the value we offer stakeholders that contributes to enhanced corporate value. These concerns make it all the more important for us to comply with laws, regulations and social norms, while also striving to reinforce our corporate governance by improving the soundness and transparency of management through compassionate behavior based on both 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 responsibilities. By introducing the Executive Officer System, meanwhile, we have divided management and supervision from business execution to enable quick decision-making and business execution. It should be noted with respect to the auditors that we elect candidates for the position of corporate auditor based on their possession of the extensive financial, accounting, risk management and/or legal expertise and experience required to fulfill auditors' duties.

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

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

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

Corporate Governance Code

[Five general principles]

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

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

For details of the Corporate Governance Code:
https://www.lawson.co.jp/company/corporate/system/governance/pdf/governance_201905.pdf

(In Japanese only)

Details of major corporate governance measures implemented since 2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Board of the Directors membership (number)	18	20	8	9			7				9*	8										
Outside directors (number)	2	3	5	3			3		4	5	3											
Of which independent officers (number)										1	2							3				
Female directors (number)			1				2		3													
Ensuring transparency of directors' compensation			2002 – 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.				2014 – Nomination and Compensation Advisory Committee established.			
Ratio of shares held by Mitsubishi Corporation (major movements)		2001 Mitsubishi Corporation becomes largest shareholder.														April 2015 33.4%		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.

Special circumstances with the potential to seriously impact corporate governance

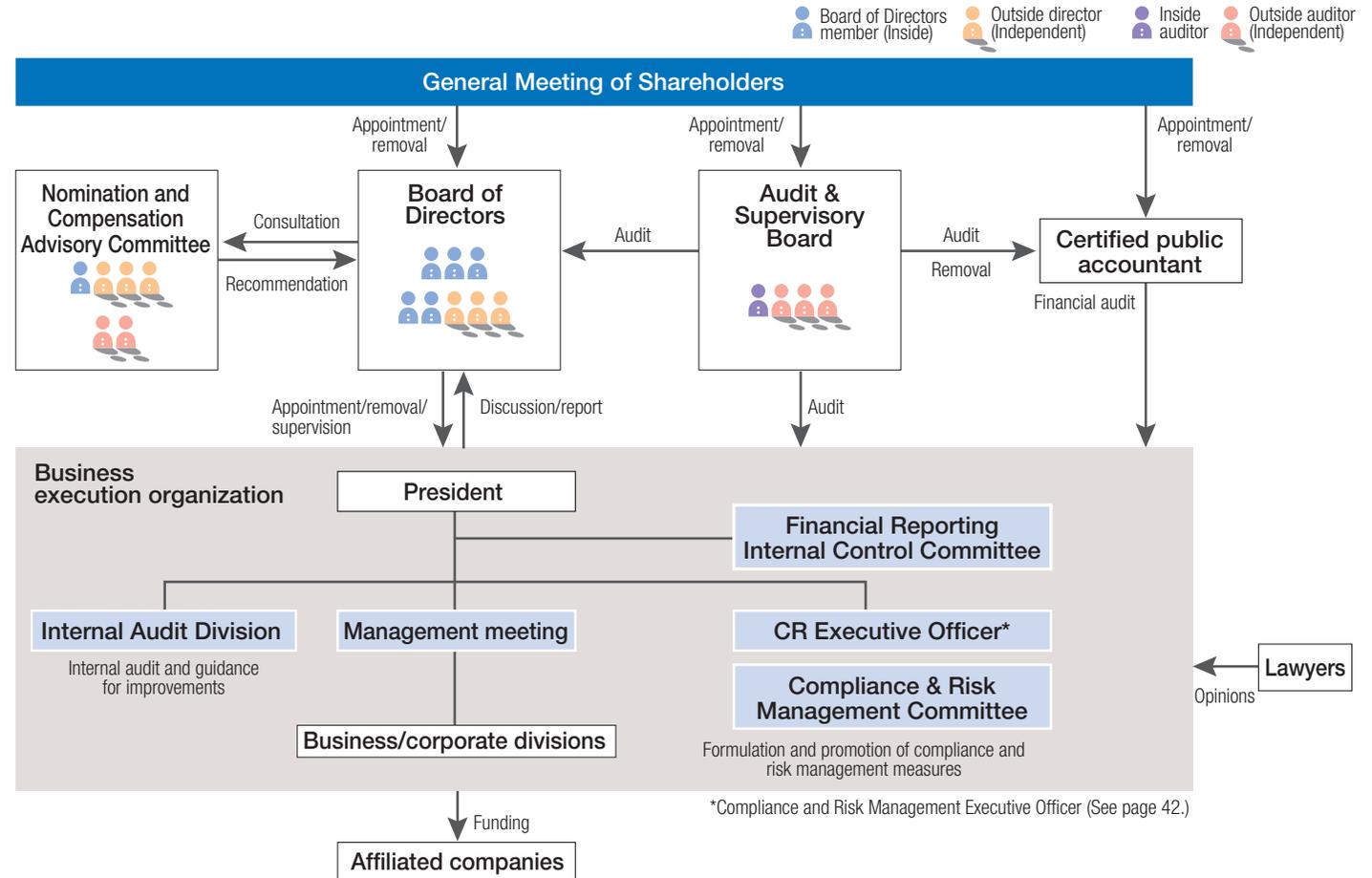
Mitsubishi Corporation assumed ownership of 50.1% of Lawson's voting rights through a tender offer conducted during the period from December 2016 to February 2017, and Lawson became a consolidated subsidiary of the Company as of February 15, 2017. Mitsubishi Corporation cooperates with Lawson in human 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.

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

Characteristics and system of Corporate Governance

Basic policy for determining directors' compensation

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

A + B = Directors' compensation

A Base compensation

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

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

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

B Share-price linked compensation

Stock options offered through allocation of shares

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

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

Details of directors' compensation

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

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

Details of auditors' compensation

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

Disclosure method for directors' compensation

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

●Details of officers' compensation (fiscal 2018)

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	220	166	53	9
(of which outside directors)	(34)	(30)	(4)	(4)
Auditors	74	74	—	4
(of which outside auditors)	(49)	(49)	—	(3)
Total	294	240	53	13

(Note) There were 8 directors and 4 auditors as of end February 2019.

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 Audit & Supervisory Board.

<Appointment criteria for officers>

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

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

<Judgment criteria regarding independence>

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

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

- Major shareholders of Lawson (in cases in which the major shareholder in question is a corporation, the corporation's business executors).
- Close relatives of the business executors of the Lawson Group.
- Close relatives of non-business executing members of the Board or accounting advisors of the Lawson Group (in the case of outside corporate auditors).
- Outside directors and outside auditors whose tenure at the time of reappointment exceeds 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 Audit & Supervisory Board meetings held and attendance rates

	Board of Directors	Audit & Supervisory Board
Number of meetings held	14 times	16 times
Attendance rate	Outside directors	90.5%
	Outside auditors	100%

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)

Assessment of the Board of Directors' Effectiveness

In order to further enforce the effectiveness and functions of the Board of Directors, the Company conducted a "self-assessment on the effectiveness of the Board of Directors," mainly consisting of a document survey to be completed by outside directors and corporate auditors. The document survey was submitted by all seven members (five non-business executing members of the Board and two part-time outside corporate auditors), after which the results of the collected data and analyses were discussed at the meeting of the Board of Directors. It was observed that the current Board of Directors of the Company is enforcing

effectiveness through its role in the resolution of important management matters and the appropriate monitoring of business execution. At the same time, in order to further reinforce effectiveness, constructive opinions were also exchanged at the meeting of the Board of Directors regarding the provision of information to outside directors and the improvement of matters to be reported in the monitoring role of the Board of Directors. Moving forward, we will endeavor to make improvements to further enhance the effectiveness of the Board of Directors, as well as ensure that the opinions discussed are considered.

Internal control

Basic policy regarding the internal control system

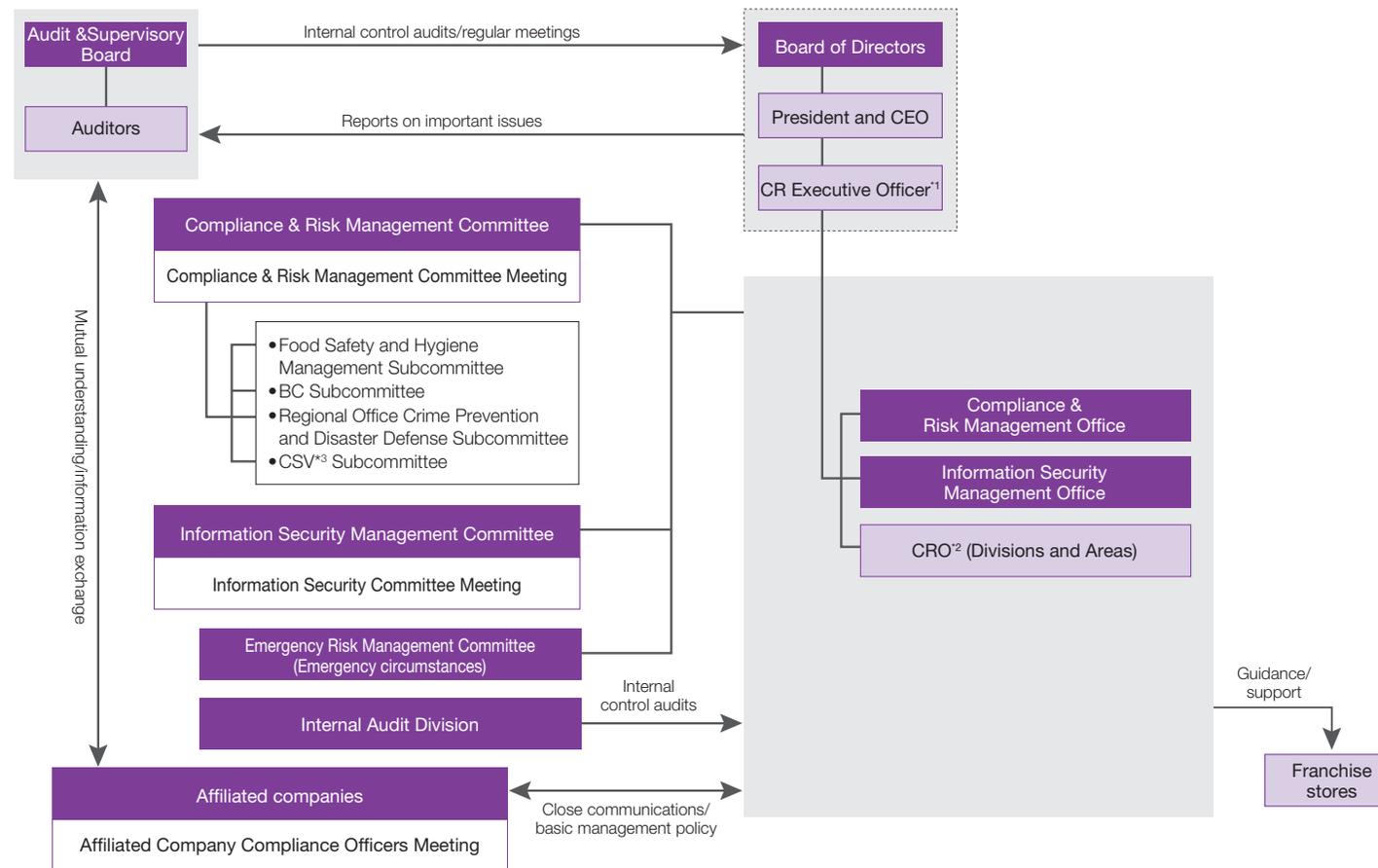
With the convenience store business at its core, the Lawson Group's business operations range from high-end supermarket and entertainment-related businesses to financial, e-commerce, and consulting services, together with LAWSON stores in every prefecture in Japan, as well as several stores overseas.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

The main revisions of the aforementioned Basic Policy implemented in fiscal 2019 are described below:

Reinforcement of the system to ensure the appropriate operations of affiliated companies

A management system of affiliated companies has been established, clearly defining that the measures to appropriately operate the said system be reinforced.

Lawson's internal control system (as of June 1, 2019)



*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

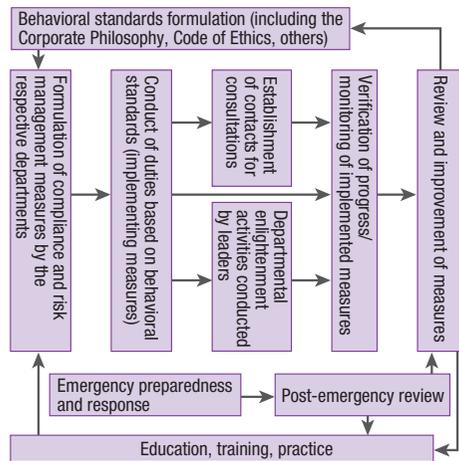
*2 CROs (Compliance and Risk management Officers): Persons responsible for compliance in the various divisions who support the CR Executive Officer and assume overall responsibility for the development and execution of a frameworks for identifying misconduct and problems concerning legal compliance and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



Lawson Group C&R Handbook

compiled these in the "Lawson Group C&R Handbook" and distributed it to all 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. We are currently reviewing the program contents in light of our changing risk environment.

Establishing and raising awareness of the Consultation/Whistleblower Hotline

In addition to Human Resources Department personnel who specialize in consulting concerning sexual harassment and abuse of power and legal personnel who provide consultations on legal

matters, Lawson has established consultation contacts to receive internal notifications and provide consultations concerning compliance and risk management issues. Besides establishing the Lawson Group Outside Consultation/Whistleblower Hotline involving law firms and other external organizations, it has created a framework for providing business partners' employees 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.

Enhanced cooperation among Group companies

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



Group officer training

Responses to emergencies

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

Meetings of the Compliance 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.

Mechanism for enhancing BC capabilities

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

Formulation of the Disaster Relief Manual and BCP Guidelines

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

Additionally, in the event of a major incident impacting the headquarters operations, to ensure the continuance of important business activities as the franchise headquarters, we have formulated the “BCP Guidelines” based on the Business Continuity Plan, defining the organization’s standard of conduct. The BCP Guidelines describes the basic plans of the business plan and the course of action in the occurrence of the Tokyo Inland Earthquake and the appearance of a new strain of the influenza virus.

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 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

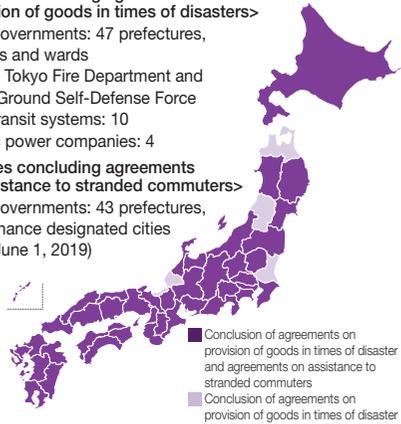
In its capacity as a community lifeline, Lawson is making progress toward concluding agreements with local governments concerning cooperation in the provision of goods and assistance to stranded commuters in times of disaster.

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

Local governments: 47 prefectures, 20 cities and wards
 Others: Tokyo Fire Department and Japan Ground Self-Defense Force
 Mass transit systems: 10
 Electric power companies: 4

<Entities concluding agreements on assistance to stranded commuters>

Local governments: 43 prefectures, 10 ordinance designated cities
 (As of June 1, 2019)



*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.

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

Crime prevention at stores

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

Actions taken as crime prevention measures

1. Promotion of security camera installation

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



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

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

4. Conducting crime prevention drills

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

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



Training in anti-crime color paintball throwing

Corporate Governance

Eleven-Year Financial Summary

	(Millions of yen)			
(Fiscal year)	2018	2017	2016	2015
For the year:				
Gross operating revenues				
Franchise commissions from franchise stores	¥ 302,136	¥ 289,232	¥ 275,312	¥ 261,681
Net sales	288,579	264,734	254,169	227,606
Other	109,931	103,357	101,806	94,166
Total operating revenues	700,647	657,324	631,288	583,453
Operating profit	60,781	65,820	73,772	72,542
Net income attributable to owners of parent	25,562	26,828	36,400	31,381
Net cash provided by operating activities	128,594	113,938	99,864	112,205
Net cash used in investing activities	(81,017)	(91,209)	(76,227)	(68,657)
Net cash used in financing activities	277,937	(61,238)	(25,638)	(50,201)
Capital expenditures	140,071	140,495	119,784	106,747
Depreciation and amortization ²	66,844	58,601	56,199	49,293
At year-end:				
Total assets	¥ 1,342,490	¥ 900,256	¥ 866,577	¥ 803,212
Net assets	281,982	281,446	285,995	272,997
Shareholders' equity ratio	20.6%	30.6%	31.7%	32.9%
Cash and cash equivalents	354,236	30,120	67,692	69,793
Total number of stores in Japan	14,659	13,992	13,111	12,395
Number of employees (full-time)	10,395	10,028	9,403	8,377
Per share data:				
Net profit (yen/ U.S. dollars ¹)	¥ 255	¥ 268	¥ 363	¥ 314
Cash dividends (yen/ U.S. dollars ¹)	255	255	250	245
Payout ratio	99.7%	95.1%	68.7%	78.1%
Financial data:				
Return on equity (ROE)	9.3%	9.7%	13.5%	12.0%
Return on assets (ROA)	2.3%	3.0%	4.4%	4.0%
Net sales by all stores (Domestic convenience store business):				
Net sales by store format ^{3,4}				
Franchise stores	¥ 2,233,738	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395
Company-operated stores	51,569	91,075	84,736	79,872
Net sales by product category ^{3,4}				
Processed foods	1,202,619	1,138,966	1,073,044	1,033,449
Fast foods	544,530	509,415	481,267	463,432
Daily delivered foods	329,545	314,481	294,141	276,886
Non-food products	208,612	197,821	194,833	186,500
Net sales by all stores	¥ 2,285,308	¥ 2,160,684	¥ 2,043,287	¥ 1,960,267
Ratio of operating profit to net sales by all stores	2.5%	2.9%	3.4%	3.5%

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 28, 2019 (\$1 = ¥110.87).

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

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

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

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

(Millions of yen)										(Thousands of U.S. dollars 1)					
2014		2013		2012		2011		2010		2009		2008		2018	
¥	247,681	¥	242,079	¥	230,003	¥	215,574	¥	197,673	¥	185,656	¥	186,928	\$	2,725,138
	174,044		168,159		192,942		208,063		192,330		233,694		119,944		2,602,868
	76,188		75,010		64,500		55,320		51,275		47,842		42,604		991,539
	497,913		485,248		487,445		478,957		441,278		467,192		349,476		6,319,545
	70,482		68,127		66,246		61,769		55,541		50,276		49,186		548,227
	32,687		37,966		33,183		24,885		25,387		12,562		23,807		230,775
	110,568		81,503		85,189		86,357		72,210		40,696		51,717		1,159,872
	(100,434)		(47,924)		(54,196)		(52,912)		(30,522)		(42,596)		(15,647)		(730,748)
	(3,289)		(39,650)		(31,980)		(27,545)		(28,799)		(27,239)		(14,911)		2,506,873
	141,251		84,032		77,361		74,572		50,326		71,399		42,907		1,263,380
	41,826		47,889		43,886		37,846		33,084		27,468		20,879		602,904
¥	764,614	¥	620,993	¥	579,810	¥	531,454	¥	476,037	¥	448,132	¥	436,096	\$	12,108,685
	263,798		250,498		230,182		214,663		208,467		198,136		201,167		2,543,357
	33.5%		39.5%		39.1%		39.7%		42.7%		42.8%		44.8%		
	76,755		68,760		72,766		73,670		67,712		54,843		83,982		3,195,057
	12,276		11,606		11,130		10,457		9,994		9,761		9,527		
	7,606		6,336		6,404		6,475		5,703		5,236		5,186		
¥	327	¥	380	¥	332	¥	249	¥	255	¥	127	¥	240	\$	2.30
	240		220		200		180		170		160		160		2.30
	73.4%		57.9%		60.2%		72.2%		66.8%		126.3%		66.6%		
	13.0%		16.1%		15.2%		12.0%		12.8%		6.5%		12.5%		
	4.7%		6.3%		6.0%		4.9%		5.5%		2.8%		5.7%		
¥	1,827,779	¥	1,810,418	¥	1,747,915	¥	1,651,433	¥	1,499,576	¥	1,433,678	¥	1,434,166	\$	20,147,361
	105,019		126,873		156,339		173,820		183,205		232,459		124,614		465,130
	1,034,355		1,060,455		1,063,120		1,022,378		897,415		902,306		844,324		10,847,109
	429,212		408,672		372,706		345,226		321,851		324,197		332,894		4,911,427
	277,210		275,437		271,920		263,101		264,166		239,088		186,109		2,972,355
	192,020		192,726		196,506		194,546		199,348		200,544		195,453		1,881,591
¥	1,932,798	¥	1,937,292	¥	1,904,254	¥	1,825,253	¥	1,682,782	¥	1,666,136	¥	1,558,781	\$	20,612,501
	3.6%		3.5%		3.5%		3.4%		3.3%		3.0%		3.2%		

Corporate Data

As of February 28, 2019/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	¥2,424.5 billion (consolidated)
President and CEO, Representative Director, Chairman of the Board	Sadanobu Takemasu	Number of stores	17,015 (worldwide)
Established	April 15, 1975	Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing, Wuhan, Hefei), Indonesia, Hawaii, Thailand, Philippines
Capital	¥58,506.644 million		
Number of employees	10,395 (consolidated)		

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

2: Among the total number of stores, the number of domestic stores comprises 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 Seijo Ishii stores operated by SEIJO ISHII, CO., LTD.

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

Share Information

As of February 28, 2019/Non-consolidated

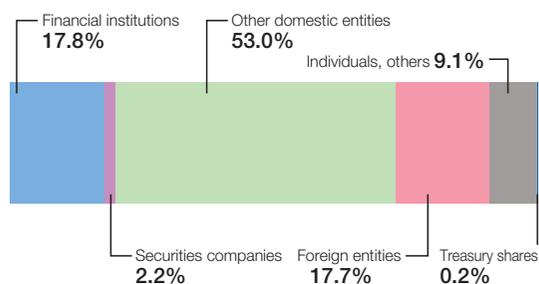
Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	33,658
Stock exchange listings	Tokyo Stock Exchange (1st Section) Mitsubishi UFJ Trust and Banking Corporation
Stock transfer agent	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Major shareholders (Top 10)

	Shareholder name	Number of shares held (Thousands)	Percentages of total shares held
1	Mitsubishi Corporation	50,150	50.1
2	The Master Trust Bank of Japan, Ltd. (Trust account)	4,200	4.2
3	Japan Trustee Services Bank, Ltd. (Trust account)	3,392	3.4
4	NTT DOCOMO, INC.	2,092	2.1
5	STATE STREET BANK WEST CLIENT — TREATY 505234	1,739	1.7
6	JP MORGAN CHASE BANK 380655	1,287	1.3
7	Japan Trustee Services Bank, Ltd. (Trust account 5)	977	1.0
8	Japan Securities Finance Co., Ltd.	952	1.0
9	Japan Trustee Services Bank, Ltd. (Trust account 9)	917	0.9
10	Japan Trustee Services Bank, Ltd. (Trust account 7)	906	0.9

*The above percentages of total shares held were calculated after excluding 241,897 treasury stocks.

Distribution of shareholders by type



Main Lawson Group Companies

As of February 28, 2019/Consolidated

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

*1 It is included in consolidation criteria from fiscal year 2018.

*2 Name changed from Lawson HMV Entertainment, Inc. as of June 2018.

*3 Name changed from Lawson Bank Preparatory Company, Inc. as of July 2018.

Executive Officers

As of March 1, 2019

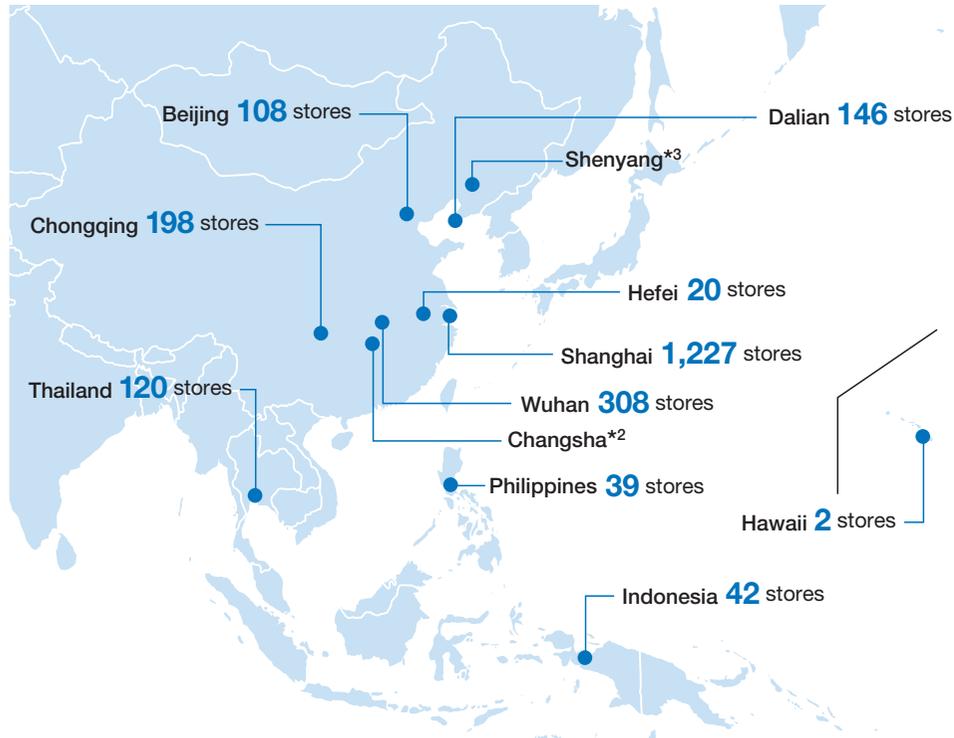
Senior Executive Managing Officer	Jun Miyazaki	Senior Vice President	Zhang Joshua
Executive Managing Officer	Shuichi Imagawa	Senior Vice President	Toshihiko Chihiro
Executive Managing Officer	Yuichi Wada	Senior Vice President	Satoshi Kumagai
Executive Vice President	Motonobu Miyake	Senior Vice President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

Store Network Development As of February 28, 2019

Total number of stores (domestic and overseas total)*1
17,015 stores

Number of domestic stores
14,805 stores

Number of overseas stores
2,210 stores



*1 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.

*2 5 stores opened in Changsha since June 2019.

*3 3 stores opened in Shenyang since August 2019.

Main Businesses and Services As of February 28, 2019

<p>A neighborhood store "Creating Happiness and Harmony in Our Communities" through its manufacturing retailer based on a small commercial area model</p> <p>LAWSON</p> <p>Operating companies Lawson, Inc. Lawson Okinawa, Inc. Lawson Minamikyushu, Inc. Lawson Kochi, Inc. Lawson Sanin, Inc. Lawson urbanworks, 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>NATURAL LAWSON</p> <p>Operating company Lawson, 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 (excluding tax)</p> <p>LAWSON STORE 100</p> <p>Operating company Lawson Store 100, Inc.</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>SUPERMARKET 成城石井</p> <p>Operating company SEIJO ISHII CO., LTD.</p>
<p>22 farms nationwide producing fresh fruit and vegetables for Lawson Group stores</p> <p>Lawson Farm</p> <p>Operating companies Individual LAWSON farms</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>O-チケ</p> <p>Operating company Lawson 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>HMV & BOOKS</p> <p>Operating company Lawson Entertainment, Inc.*1</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>UNITED CINEMAS</p> <p>Operating company United Cinemas Co., Ltd.</p>
<p>A bank employing ATMs installed in LAWSON stores, airports, railway stations and other locations to provide ATM services, such as cash deposits/withdrawals using cash cards issued by financial institutions throughout Japan. It also provides such Lawson Bank financial services as ordinary savings accounts, fixed deposit accounts and credit card issuance.</p> <p>LAWSON STATION</p> <p>Operating company Lawson Bank, Inc.*2</p>	<p>A service that enables customers to pick up products ordered using a dedicated app at a LAWSON store they designate anytime they wish the same evening. The broad lineup includes meal kits and fresh foods as well as products not normally available in LAWSON stores.</p> <p>LAWSON FRESH PICK</p> <p>Operating company Lawson, Inc.</p>

*1 Name changed from Lawson HMV Entertainment, Inc. as of June 2018.

*2 Name changed from Lawson Bank Preparatory Company, Inc. as of July 2018.

LAWSON

2019 MD&A

Management's Discussion and Analysis

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Eleven-Year Financial Summary

	(Millions of yen)								
(Fiscal Year)	2018	2017	2016	2015	2014	2013	2012	2011	2010
For the year:									
Gross operating revenues									
Franchise commissions from franchise stores	¥ 302,136	¥ 289,232	¥ 275,312	¥ 261,681	¥ 247,681	¥ 242,079	¥ 230,003	¥ 215,574	¥ 197,673
Net sales	288,579	264,734	254,169	227,606	174,044	168,159	192,942	208,063	192,330
Other	109,931	103,357	101,806	94,166	76,188	75,010	64,500	55,320	51,275
Total operating revenues	700,647	657,324	631,288	583,453	497,913	485,248	487,445	478,957	441,278
Operating income	60,781	65,820	73,772	72,542	70,482	68,127	66,246	61,769	55,541
Net income attributable to owners of parent	25,562	26,828	36,400	31,381	32,687	37,966	33,183	24,885	25,387
Net cash provided by operating activities	128,594	113,938	99,864	112,205	110,568	81,503	85,189	86,357	72,210
Net cash used in investing activities (loss)	(81,017)	(91,209)	(76,227)	(68,657)	(100,434)	(47,924)	(54,196)	(52,912)	(30,522)
Net cash used in financing activities	277,937	(61,238)	(25,638)	(50,201)	(3,289)	(39,650)	(31,980)	(27,545)	(28,799)
Capital expenditures	140,071	140,495	119,784	106,747	141,251	84,032	77,361	74,572	50,326
Depreciation and amortization ²	66,844	58,601	56,199	49,293	41,826	47,889	43,886	37,846	33,084
At year-end:									
Total assets	¥ 1,342,490	¥ 900,256	¥ 866,577	¥ 803,212	¥ 764,614	¥ 620,993	¥ 579,810	¥ 531,454	¥ 476,037
Net assets	281,982	281,446	285,995	272,997	263,798	250,498	230,182	214,663	208,467
Shareholders' equity ratio	20.6%	30.6%	31.7%	32.9%	33.5%	39.5%	39.1%	39.7%	42.7%
Cash and cash equivalents	354,236	30,120	67,692	69,793	76,755	68,760	72,766	73,670	67,712
Total number of stores in Japan	14,659	13,992	13,111	12,395	12,276	11,606	11,130	10,457	9,994
Number of employees (full-time)	10,395	10,028	9,403	8,377	7,606	6,336	6,404	6,475	5,703
Per share data:									
Net income (yen/ U.S. dollars ¹)	¥ 255	¥ 268	¥ 363	¥ 314	¥ 327	¥ 380	¥ 332	¥ 249	¥ 255
Cash dividends (yen/ U.S. dollars ¹)	255	255	250	245	240	220	200	180	170
Payout ratio	99.7%	95.1%	68.7%	78.1%	73.4%	57.9%	60.2%	72.2%	66.8%
Financial data:									
Return on equity (ROE)	9.3%	9.7%	13.5%	12.0%	13.0%	16.1%	15.2%	12.0%	12.8%
Return on assets (ROA)	2.3%	3.0%	4.4%	4.0%	4.7%	6.3%	6.0%	4.9%	5.5%
Net sales of all stores (Domestic convenience store business):									
Net sales by store format ^{3 4}									
Franchise stores	¥ 2,233,738	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395	¥ 1,827,779	¥ 1,810,418	¥ 1,747,915	¥ 1,651,433	¥ 1,499,576
Company-operated stores	51,569	91,075	84,736	79,872	105,019	126,873	156,339	173,820	183,205
Net sales by product category ^{3 4}									
Processed foods	1,202,619	1,138,966	1,073,044	1,033,449	1,034,355	1,060,455	1,063,120	1,022,378	897,415
Fast foods	544,530	509,415	481,267	463,432	429,212	408,672	372,706	345,226	321,851
Daily delivered foods	329,545	314,481	294,141	276,886	277,210	275,437	271,920	263,101	264,166
Non-food products	208,612	197,821	194,833	186,500	192,020	192,726	196,506	194,546	199,348
Net sales of all stores	¥ 2,285,308	¥ 2,160,684	¥ 2,043,287	¥ 1,960,267	¥ 1,932,798	¥ 1,937,292	¥ 1,904,254	¥ 1,825,253	¥ 1,682,782
Ratio of operating income to net sales of all stores	2.5%	2.9%	3.4%	3.5%	3.6%	3.5%	3.5%	3.4%	3.3%

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 28, 2019 (\$1 = ¥110.87).

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

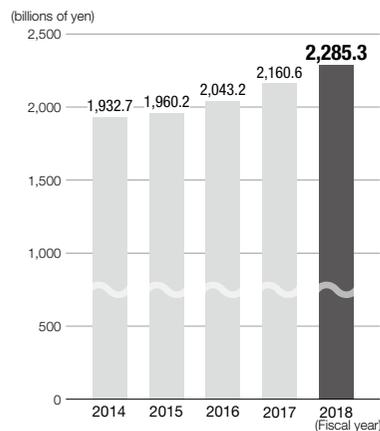
3. These figures include sales reported by franchise stores and are unaudited.

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

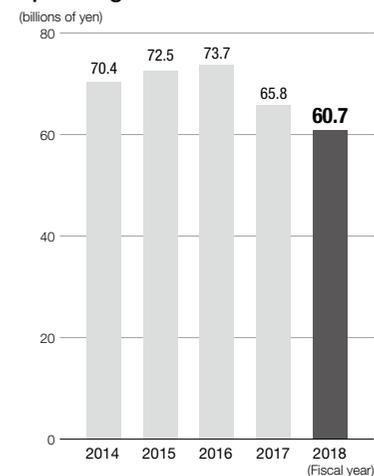
*Japanese yen figures are rounded down to the nearest million yen.
US dollar figures are rounded to the nearest thousand dollars.

(Millions of yen)		(Thousands of U.S. dollars ¹)
2009	2008	2018
¥ 185,656	¥ 186,928	\$ 2,725,138
233,694	119,944	2,602,868
47,842	42,604	991,539
467,192	349,476	6,319,545
50,276	49,186	548,227
12,562	23,807	230,775
40,696	51,717	1,159,872
(42,596)	(15,647)	(730,748)
(27,239)	(14,911)	2,506,873
71,399	42,907	1,263,380
27,468	20,879	602,904
¥ 448,132	¥ 436,096	\$ 12,108,685
198,136	201,167	2,543,357
42.8%	44.8%	
54,843	83,982	3,195,057
9,761	9,527	
5,236	5,186	
¥ 127	¥ 240	\$ 2.30
160	160	2.30
126.3%	66.6%	
6.5%	12.5%	
2.8%	5.7%	
¥ 1,433,678	¥ 1,434,166	\$ 20,147,361
232,459	124,614	465,130
902,306	844,324	10,847,109
324,197	332,894	4,911,427
239,088	186,109	2,972,355
200,544	195,453	1,881,591
¥ 1,666,136	¥ 1,558,781	\$ 20,612,501
3.0%	3.2%	

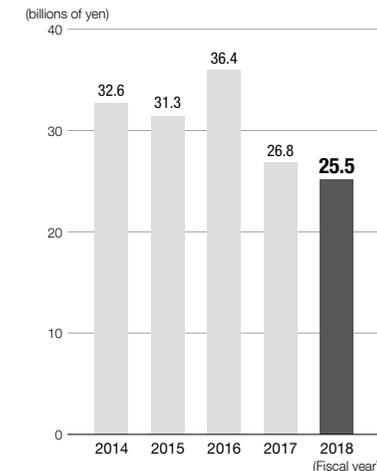
Net sales of all stores (Domestic convenience store business)



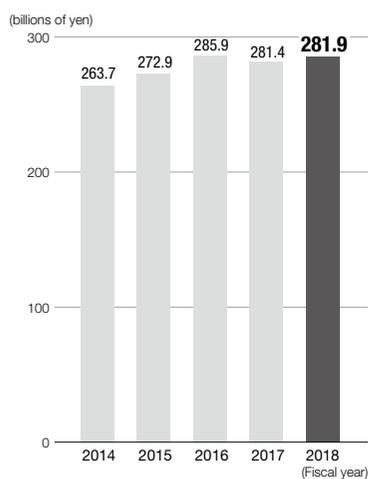
Operating income



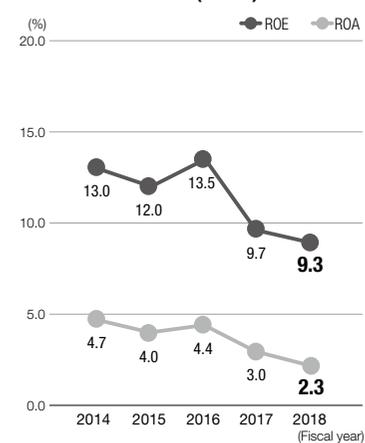
Net income



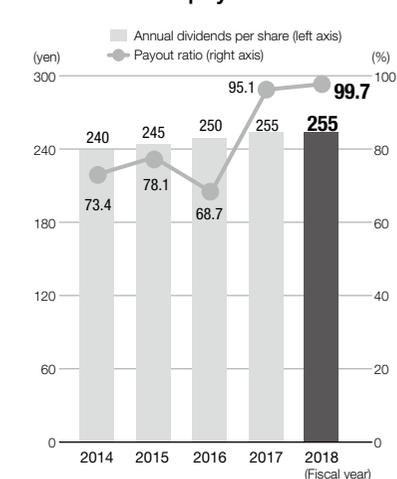
Total assets



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 the fiscal year under review (from March 1, 2018 to February 28, 2019) thanks to the improvement in the employment and income environments. The business environment of retail industry remains challenging due to reasons such as fiercer competition across boundaries of business categories and influence of labor shortages in stores and logistics.

Under these circumstances, responding to changes in dietary life due to diversified life styles such as the progress in decreasing birthrate and aging of the population and increase of a single-person household and female workers, country's convenience store industry expanded the range of products that respond to customer needs in the calendar year 2018 (January to December). Industry-wide sales amounted to 11,978.0 billion yen, up 2.0% from the previous year. Net sales of existing stores increased by 0.6% compared to the previous year in spite of negative impacts by unseasonable weather caused by heavy rain mainly in West Japan in July and the reaction to the tobacco tax increase in October. The total number of stores as of the end of December 2018 stood at 56,574, about the same level with the previous year.

■ Retail industry market size and convenience store share¹

(Billions of yen)

(Calendar year)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total retail industry annual sales	144,965	142,514	139,877	140,666	141,219	138,897	137,585	135,157	136,479	132,961	136,019
Convenience store sector annual sales	11,978	11,745	11,445	10,995	10,423	9,872	9,477	8,775	8,114	7,981	7,943
Convenience store share	8.3%	8.2%	8.1%	7.8%	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%

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

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

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 3 chains in the convenience store industry¹

(Billions of yen)

(Fiscal year)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Lawson	2,424	2,283	2,157	2,049	1,961	1,945	1,907	1,826	1,683	1,666	1,559
Seven-Eleven Japan	4,899	4,678	4,515	4,291	4,008	3,781	3,508	3,281	2,948	2,785	2,763
FamilyMart	2,983	3,016	3,009	2,006	1,860	1,722	1,585	1,535	1,440	1,274	1,246
Circle K Sunkus				975	944	951	947	980	923	902	940
Total of the top 3 chains	10,306	9,977	9,682	9,321	8,773	8,399	7,947	7,622	6,994	6,627	6,508
Total market share of the top 3 chains	86.0%	84.9%	84.6%	84.8%	84.2%	85.1%	83.9%	86.9%	86.2%	83.0%	81.9%

Source: Data published by each company

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

2. On September 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)

(Calendar year)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Number of convenience stores	56,574	56,374	55,636	54,505	52,725	50,234	47,801	43,373	42,347	41,724	40,745

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

■ Non-consolidated operating results

(Millions of yen)

(Fiscal year)	2018	As a percentage of all stores	2017	2016	2015	2014
Net sales of all stores	2,236,125	100.0%	2,110,454	100.0%	2,027,504	100.0%
Gross operating revenues	385,678	17.2%	372,891	17.6%	356,186	17.5%
Gross operating profit	348,491	15.6%	335,792	15.9%	325,716	16.0%
Selling, general and administrative expenses	302,779	13.5%	284,771	13.5%	268,296	13.2%
Advertising and promotional expenses	13,363	0.6%	12,546	0.6%	13,808	0.6%
Personnel expenses	45,903	2.0%	44,722	2.1%	41,527	2.0%
Facility expenses	172,574	7.7%	160,243	7.6%	150,182	7.4%
Other SG&A expenses	70,939	3.1%	67,260	3.2%	62,779	3.1%
Operating income	45,711	2.0%	51,021	2.4%	57,419	2.8%
Ordinary income	51,443	2.3%	50,508	2.4%	56,459	2.7%
Net income	31,002	1.4%	19,417	0.9%	19,088	0.9%

Management Policies for Fiscal 2018

For the year ended February 28, 2019, we have advanced and accelerated our “1000-Day Action Plan,” which is in its final fiscal year, and focused our business activities while building Next-Generation LAWSON Convenience Store model. Changes in community needs resulting from factors such as an aging population and the prevalence of the nuclear family are serving as a tailwind for the convenience store industry. On the other hand, there is always a need to cope with such changes promptly due to fiercer competition across boundaries of business categories, among other factors. Given such a business environment, we implemented a variety of measures in order to continue “to be an essential part of our communities” that can satisfy customers’ everyday needs. Such measures included evolving our business model as manufacturing retailer based on small commercial areas, raising our store productivity by making maximum use of digital technology, and taking on a new challenge of launching a banking business.

Specifically, we offered everyday familiar dishes including boxed meals, rice balls, deep fried food, delicatessen items, salads and soups at LAWSON stores. In our effort to reinforce our store capacity by expanding our merchandise assortment offered especially in evenings and at night we restructured our system across the entire supply chain from June 2018 by changing the order placement deadline and truck delivery times. Also, as one of countermeasures against labor shortages, with the aim of simplifying cash register operations and achieving higher cash-handling efficiency at stores, we completed the introduction of new POS (point-of-sale) cash registers equipped with an automatic change dispenser function at all our stores nationwide.

Overview of Merchandise and Services

On the merchandise side, we renewed rice balls, convenience store staples, by improving ingredients and production methods including adopting a new variety of rice and a new kind of laver, which was well-received by customers. In addition, our “Akuma-no-onigiri” (=too delicious to stop eating) also became a huge hit, pushing up sales. Our “Korega” boxed meal series made with rigorously selected ingredients and production methods also enjoyed ongoing popularity. Furthermore, microwavable hot noodle series renewed with new soup and noodles were also sold well.

In the over-the-counter fast food category, we strengthened our assortment of delicatessen items offered in evenings and at night by expanding our lineup of packed dishes composed mainly of items that can go straight to the dinner table. Also, sales of our long seller product “Karaage-kun” chicken nuggets whose cumulative unit sales exceeded 3 billion since its launch in April 1986 continued to be robust.

In the dessert category, we continued offering the “Uchi Café SWEETS X GODIVA” series produced in collaboration with Godiva with well-selected ingredients and a special production method, which remained popular especially among female customers.

On our sales promotion side, while strengthening our merchandise assortment offered in evenings and at night, we rolled out a special evening sales campaign “Yugata Tokuchi” which offered a 20-yen discount when two applicable counter food items were purchased on weekday evenings. In addition, effective measures to attract customers were launched, including a speed lottery capitalizing on our strength in the entertainment field.

Overview of Store Operations

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) providing a quality product offering that meets community needs; and (3) keeping our stores and communities clean. We also actively promoted improvement of franchise support system and store operations.

In November 2018, we started a service in which customers can earn and redeem Ponta points when they use Apple Pay at any LAWSON store nationwide. Ponta has become Japan’s first multi-partner loyalty card service to allow points to be saved and redeemed simply by using Apple Pay via iPhone or Apple Watch. This service eliminates the need for customers to present their Ponta card or launch their app as well as the need for store staff to scan the barcodes on the Ponta cards presented, leading to improved customer convenience and store operation productivity. Furthermore, we launched a pilot project on “Lawson Smartphone Cash Register,” our mobile self-service payment service option based on a dedicated app, which allows customers to purchase items wherever they are within LAWSON stores.

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 1,067 and 400 stores respectively, with the total number of stores in the country reaching 14,659 as of the end of February 2019.*

Of the stores above, in partnerships with other convenience store chain operators, under business integration or other contracts with them, we converted “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 67 stores into “LAWSON THREE F” stores and 195 “Save On” stores into LAWSON stores during the fiscal year under review and we have completed all brand conversion.

In an effort to establish convenience store models catered to an aging population and rising health consciousness, through partnerships with prescription drug pharmacy and drug store chains we continue to expand healthcare-focused LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than ordinary LAWSON stores. The number of LAWSON stores offering over-the-counter pharmaceuticals, including such healthcare-focused stores, reached 206 as of the end of February 2019 (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 20 as of the end of February 2019. Furthermore, we have also been expanding our chain of “in-hospital LAWSON stores,” which features strengthened focus on medical, sanitary, nursing and rehabilitation supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 307 as of the end of February 2019. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

As for LAWSON STORE100, we will continue to meet wide-ranging customer needs by offering a product assortment 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)	2018	2017	2016	2015	2014
Total number of stores	14,659	13,992	13,111	12,395	12,276
Openings	1,067	1,250	1,143	1,007	1,010
Closings	400	369	427	888	422
Net increase	667	881	716	119	588

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

■ Number of convenience stores in Japan

	(Fiscal year)		Net increase in the term	2016		2015	
	Stores	Share		Stores	Share	Stores	Share
Lawson, Inc.							
Company-operated stores							
LAWSON	303	2.1%	19	284	2.0%	248	1.9%
NATURAL LAWSON	24	0.2%	-4	28	0.2%	30	0.2%
Franchise stores							
Type B	1,839	12.5%	223	1,616	11.5%	1,306	10.0%
Type G	1,466	10.0%	-116	1,582	11.3%	1,680	12.8%
Type C	9,244	63.1%	529	8,715	62.3%	8,115	61.9%
NATURAL LAWSON	115	0.8%	—	115	0.8%	111	0.8%
LAWSON STORE100 ¹	806	5.5%	1	805	5.8%	798	6.1%
Subtotal	13,797	94.1%	652	13,145	93.9%	12,288	93.7%
Lawson Sanin, Inc.²							
Company-operated stores	5	0.0%	—	5	0.0%	5	0.0%
Franchise stores	287	2.0%	2	285	2.0%	282	2.2%
Subtotal	292	2.0%	2	290	2.1%	287	2.2%
Lawson Kochi, Inc.³							
Company-operated stores	6	0.0%	3	3	0.0%	5	0.0%
Franchise stores	134	0.9%	-2	136	1.0%	130	1.0%
Subtotal	140	1.0%	1	139	1.0%	135	1.0%
Lawson Minami-Kyushu, Inc.							
Company-operated stores	3	0.0%	1	2	0.0%	1	0.0%
Franchise stores	194	1.3%	2	192	1.4%	190	1.4%
Subtotal	197	1.3%	3	194	1.4%	191	1.5%
Lawson Okinawa, Inc.							
Company-operated stores	4	0.0%	1	3	0.0%	3	0.0%
Franchise stores	229	1.6%	8	221		207	1.6%
Subtotal	233	1.6%	9	224		210	1.6%
Total number of convenience stores in Japan	14,659	100.0%	667	13,992	100.0%	13,111	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

As Lawson’s “last-one-mile solution,” we started offering the “LAWSON FRESH PICK” service (“Loppick”) in March 2018. Loppick enables customers to reserve products on a dedicated smartphone app by 8 a.m. and receive them in the evening on the same day at their designated LAWSON store. By leveraging our existing store and logistics network, the service offers customers the freedom of not having to wait at home for delivery and allows them to pick up their purchased items when they want in the evening. Loppick has become available at around 1,600 stores as of the end of February 2019. Furthermore, in December 2018, we launched “Fresh Karaage-kun Cooking Machine,” a pilot experiment, which employs digital technology to deep-fry chicken nuggets in one fifth of the usually required time in order to offer freshly fried products to customers. We will look into customers’ needs for freshly fried products and consider introducing this equipment at LAWSON stores in the future.

Overview of Businesses in Figures

Net Sales

Net sales of all LAWSON stores (consolidated) for the year ended February 28, 2019 amounted to 2,424,500 million yen (up 6.2% from the previous fiscal year). This year-on-year sales growth was achieved as the number of LAWSON stores in Japan increased to 14,659 (including the stores of all Group companies and those of the Seijo Ishii business), an increase of 667 stores compared to the previous fiscal year, among other factors.

Sales of existing stores for fiscal 2018 (non-consolidated basis) decreased by 0.5% from the previous fiscal year and did not reach the plan. As a result of reinforced promotions on purchases in evenings and at night, we could harness new demands from homemakers and senior citizens. Also, we could increase the sales of expanded assortment of merchandise items such as rice balls and boxed meals in evenings and at night as a result of restructuring supply chain. We could not recover the number of customers due to fiercer competition with other chain stores, restaurants and drugstores, among other factors. On the other hand, average spending per customer increased from the previous fiscal year by 1.8% compared to the previous fiscal year as a result of our efforts to expand the assortment of merchandise in evenings and at night such as rice balls and boxed meals, renewal of microwavable hot noodle series with new soup and noodles and dessert menus such as “Premium Roll Cake,” our staple product.

Regarding consolidated results by product category, the main categories of which both net

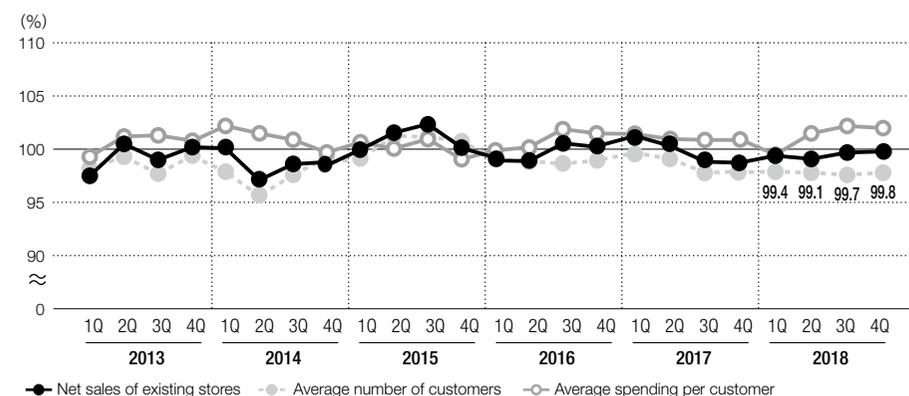
sales of all stores and existing stores exceeded the previous year results are as follows.

In the fast food category, among rice dishes, rice balls of “Onigiriya” were popular throughout the year and a huge hit of “Akuma-no-onigiri” contributed to the sales, among other items. As for sales of prepared noodle dishes, microwavable hot noodles such as renewed “Konshinno Ippai” series with new soup and noodles were selling well and increased sales.

In the daily delivered food category, sales of frozen foods and daily delivered foods which we continue strengthening by expanding the assortment of items remained strong. Sales of ice cream grew from the previous fiscal year due to popular “Uchi Café SWEETS” series, among other factors.

In the processed food category, sales of cigarette products grew from the previous fiscal year partially because of price increase after tax increase in October 2018.

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



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

(Fiscal year)	2018	2017	2016	2015	2014
Net sales of existing stores (YoY)	99.5%	99.9%	99.8%	101.4%	99.0%
Average number of customers	97.7%	98.7%	99.0%	100.9%	98.0%
Average spending per customer	101.8%	101.3%	100.8%	100.4%	101.0%

* The total of LAWSON and NATURAL LAWSON.

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

(Billions of yen)

(Fiscal year)	2018	2017	2016	2015	2014
Fast foods (share)	520.4 24.7%	484.9 24.5%	464.8 24.5%	450.5 24.7%	412.2 23.5%
Daily delivered foods (share)	283.9 13.5%	268.0 13.5%	251.4 13.3%	235.6 12.9%	227.4 12.9%
Processed foods (share)	1,107.3 52.6%	1,043.0 52.7%	995.3 52.6%	960.8 52.8%	941.5 53.6%
(Cigarettes) (share)	532.9 25.3%	498.6 25.2%	471.9 24.9%	460.0 25.3%	462.8 26.3%
Non-food products (share)	194.2 9.2%	182.9 9.3%	182.1 9.6%	174.0 9.6%	175.9 10.0%
Net sales of all stores (share)	2,105.9 100.0%	1,979.0 100.0%	1,893.7 100.0%	1,821.1 100.0%	1,757.2 100.0%

* The total of LAWSON and NATURAL LAWSON.

■ 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*

The gross profit margin stood at 31.2%, down 0.1% from the previous fiscal year and down 0.2% compared to the plan. This was mainly attributable to decreased gross profit margin of processed foods and the fact that sales of cigarette products with a lower gross profit margin exceeded the plan which deteriorated product mix.

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

(Fiscal year)	2018	2017	2016	2015	2014
Fast foods	38.2%	38.3%	38.4%	38.4%	38.9%
Daily delivered foods	34.0%	33.9%	34.0%	34.0%	34.1%
Processed foods	23.9%	24.0%	24.1%	24.0%	24.1%
Non-food products	50.3%	50.1%	49.1%	49.7%	48.9%
Gross profit margin	31.2%	31.3%	31.4%	31.3%	31.3%

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

(Fiscal year)	2018	2017	2016	2015	2014
Bill settlements (millions of yen)	2,412,349	2,263,937	2,132,450	2,088,693	2,073,049
Number of transactions (millions)	215.2	208.6	202.0	198.3	198.9
Commission revenues (millions of yen)	11,466	11,154	10,788	10,671	10,779

* The total of LAWSON and NATURAL LAWSON.

■ 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	Y1.5 million (Contract fee, training expenses, and store opening preparation commission, each Y500,000) (excluding tax)	
	Investment	Y1.5 million (Including payment for some merchandise purchased on behalf of the store)	
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	
Signs and business fixtures	Provided by headquarters	
Payment by a franchise store at time of contract ¹	Franchise fee	Y1.0 million (Training expenses, and store opening preparation commission, each Y500,000) (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"> • Y3.0 million or less: 45% • Greater than Y3.0 million up to Y4.5 million: 70% • Greater than Y4.5 million: 60% 	[Charge] ^{4,5} Multiply by one of the following charge rates according to gross profit Y3.0 million or less: 41% Y4.5 million or less: 36% Y6.0 million or less: 31% Greater than Y6.0 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	Y18.6 million	Y19.8 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 Y500,000, 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 Y250,000.

4. Gross profit on a monthly basis

5. Add 3% uniformly for non-24-hour stores

■ 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	Borne by a franchise store
	Business fixtures	Provided by headquarters	
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: • 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.

Other Businesses

Regarding the Seijo Ishii business, high-end supermarkets “Seijo Ishii” offering quality foods, we took on new challenges such as opening stores where freshly prepared hot meals and desserts are served to order by food carts. The number of company-operated stores reached 146 as of the end of February 2019 including the new type of stores. Sales were solid and its well-selected products have remained popular among customers.

With regard to entertainment-related business, the ticketing business of Lawson Entertainment, Inc. which forms the core of the business, continued to secure the top-class transaction value in the ticketing industry. The number of HMV stores which sell music CDs, DVDs and books totaled 56 as of the end of February 2019. This figure included the “HMV Record Shop” specializing in analog records. In November 2018, United Cinemas Co., Ltd., an operator of cinema complexes, introduced a cutting-edge attraction theater system known as “4DX[®],” which offers an immersive viewing experience in Fukuoka Prefecture. In addition, United Cinemas also opened Kyushu’s first cinema theater employing ScreenX, which provides a three-dimensional movie projection system (front + walls on right and left). United Cinemas operates cinema a total of 41 sites and 367 screens at the cinema nationwide (including screens operated on commission) as of the end of February 2019.

With regard to Financial services business, Lawson Bank, Inc. acquired its banking license on August 10, 2018 and started providing banking services to customers on October 15. Aiming at building awareness of the bank, we have been running TV and online commercials, implementing promotional campaigns in which ATM (automatic teller machine) users receive discount coupons for “Karaage-kun,” “MACHI Café” and “Uchi Café SWEETS,” and started offering ordinary savings account and fixed deposit account services. In addition, we issued the “LAWSON Ponta Plus” credit card, which allows cardholders to earn Ponta points when using their credit cards at LAWSON stores and other outlets. In our ATM business, the foundation of our banking business, we expanded our network of financial institution partners, while working to install ATMs at locations other than LAWSON stores, including New Chitose Airport and Tokyo Metro stations. As of the end of February 2019, the number of ATMs installed nationwide reached 13,459 (up 726 from previous fiscal year), with each ATM used 48.9 times a day on average. The total number of our financial institution partners increased to 111 nationwide (up 21 from previous fiscal year), including online banks. ^{*1*2}

With respect to Overseas business, the Group’s operating companies opened LAWSON stores in the People’s Republic of China, Thailand, Indonesia, The Philippines, and State of Hawaii of the United States of America. In the People’s Republic of China, after being the first Japanese convenience store operator to advance into Shanghai, we made inroads into Chongqing, Dalian, Beijing, Wuhan and Nanjing. The number of LAWSON stores in the entire country reached 2,007 as of the end of February 2019.

*1 JA Bank and JF Marine Bank are classified as separate financial institutions by business category.

*2 Lawson Bank Preparatory Company, Inc. changed its name to Lawson Bank, Inc., effective July 2, 2018.

Items of the Consolidated Statement of Income

Gross Operating Revenues

For the year ended February 28, 2019, gross operating revenues consisting of net sales, franchise commissions from franchise stores, and Other stood at 700.6 billion yen, an increase of 43.3 billion yen from previous fiscal year. Of these items, Other operating revenue was 109.9 billion yen, an increase of 6.5 billion yen from previous fiscal year. This was attributable to the fact that franchise commissions from franchise stores increased due to the increased number of convenience stores in Japan.

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

Consolidated selling, general, and administrative expenses stood at 441.8 billion yen, an increase of 31.6 billion yen compared to the year-ago period. This increase was mainly attributable to the increase of selling, general, and administrative expenses on a non-consolidated basis due to the increased number of stores and recording of opening expenses of Lawson Bank for subsidiaries and associates, among other factors. On the other hand, non-consolidated selling, general, and administrative expenses amounted to 302.7 billion yen, an increase of 18.0 billion yen, compared to the year-ago period.

Non-consolidated Rent amounted to 113.1 billion yen, an increase of 6.1 billion yen due to the increased number of stores.

Non-consolidated advertising and promotional expenses increased by 0.8 billion yen from the previous fiscal year to 13.3 billion yen, due mainly to promotional activities for reinforced promotions on purchases in evenings and at night.

Non-consolidated sales commission consists mostly of the costs associated with food waste and electricity expenses. These costs and expenses are paid by headquarters based on franchise contracts. Non-consolidated sales commission was 22.3 billion yen, an increase of 2.6 billion yen compared to the year-ago period. This was mainly attributable to the fact that the number of stores increased, the Company supported franchise stores for food waste expenses through reinforced promotions on purchases in evenings and at night and electricity expenses increased.

Non-consolidated information technology (IT) costs stood at 8.7 billion yen, an increase of 1.5 billion yen compared to the year-ago period mainly due to recording development cost of next-generation systems, and 2.4 billion yen short of the plan, which was attributable to the fact that the costs expected for development of next-generation systems decreased and review of modification costs further reduced the costs required for existing systems.

With regard to items whose differences between non-consolidated and consolidated

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

(Millions of Yen)

(Fiscal Year)	2018	2017	2016	2015	2014
Personnel expenses	84,279	79,135	73,893	68,994	60,847
Percentage composition	19.1%	19.3%	19.2%	19.4%	20.3%
Advertising and promotional expenses	28,254	26,001	30,594	29,461	16,718
Percentage composition	6.4%	6.3%	7.9%	8.3%	5.6%
Rent	132,739	124,387	115,926	108,795	96,877
Percentage composition	30.0%	30.3%	30.2%	30.6%	32.3%
Equipment lease	2,826	2,796	2,149	2,763	3,579
Percentage composition	0.6%	0.7%	0.5%	0.8%	1.2%
Depreciation and amortization	66,735	58,499	55,516	49,157	41,788
Percentage composition	15.1%	14.3%	14.5%	13.8%	14.0%
Depreciation of property and store equipment	53,276	47,595	44,652	40,270	32,959
Percentage composition	12.0%	11.6%	11.6%	11.3%	11.0%
Amortization of intangible assets	13,459	10,903	10,864	8,886	8,830
Percentage composition	3.0%	2.7%	2.8%	2.5%	3.0%
Other	126,992	119,311	105,182	95,791	79,506
Percentage composition	28.7%	29.1%	27.4%	27.0%	26.6%
Total	441,825	410,129	383,260	354,961	299,315
Percentage composition	100.0%	100.0%	100.0%	100.0%	100.0%

selling, general, and administrative expenses were large, personnel expenses increased from previous fiscal year mainly due to an increase from newly joined consolidated subsidiary from the fiscal year under review. Advertising and promotional expenses increased mainly due to an increase of sales promotional expenses for Entertainment business and Financial services business. Sales commission increased mainly due to an increase of bank ATMs installed in stores in accordance with the increase of the number of stores.

Operating Income

Operating income for fiscal 2018 stood at 60.8 billion yen, down 5.0 billion yen compared to the year ago period and up 0.7 billion yen compared to the plan. In this fiscal year under review, we plan to reduce operating income by approximately 6.0 billion yen (-5.0 billion yen for development of next-generation systems to improve store operation efficiency to achieve sustainable growth, -2.0 billion yen Lawson Bank related cost of new business, +1.0 billion

yen for convenience store business Other). The results are, Lawson Bank related cost and convenience store business Other were almost as planned, while approximately 1.0 billion yen cost could be reduced for development of next-generation systems, which enabled us to achieve the plan.

Although income decreased for consolidated subsidiaries mainly due to recording of opening expenses of Lawson Bank for the Financial services business, significant improvement of overseas business, steadily increasing Seijo Ishii business and Entertainment business contributed to income to offset decreased income.

Ordinary income

Ordinary income for the year under review stood at 57.7 billion yen, a decrease of 7.4 billion yen compared to the year-ago period while up 0.7 billion yen compared to the plan, which was attributable to increased non-operating expenses due to increased interest paid for new business of banking business and recording of disaster related expenses.

Net income attributable to owners of the parent for the year under review

Although there was a positive impact due to reaction of IT systems impairment in the previous fiscal year, because impairment loss related to stores increased more than expected, net income attributable to owners of the parent for the year under review stood at 25.5 billion yen, a decrease of 1.2 billion yen compared to the year-ago period and 2.4 billion yen short of the plan.

Items of the Consolidated Balance Sheet

●Consolidated Balance Sheet

Current Assets

Current assets increased by 392.1 billion yen from the end of the previous fiscal year to 623.9 billion yen, mainly reflecting an increase of 324.1 billion yen in cash and deposits.

Non-current assets

Non-current assets increased by 50.0 billion yen from the end of the previous fiscal year to 718.4 billion yen, mainly reflecting an increase of 32.3 billion yen in property and store equipment and an increase of 11.2 billion yen in investments and other assets such as lease deposits. As a result, total assets increased by 442.2 billion yen from the end of the previous fiscal year to 1,342.4 billion yen.

Current Liabilities

Current liabilities increased by 219.3 billion yen to 598.5 billion yen, mainly reflecting an increase of 90.2 billion yen in short-term loans payable and an increase of 49.4 billion yen in current portion of long-term loans payable.

Long-term Liabilities

Non-current liabilities increased by 222.3 billion yen from the end of the previous fiscal year to 461.9 billion yen, mainly reflecting an increase of 204.5 billion yen in long-term loans payable. As a result, total liabilities increased by 441.6 billion yen from the end of the previous fiscal year to 1,060.5 billion yen

Long-term and short-term loans included 330 billion yen loans of Financial service business.

Net Assets

Net assets increased by 0.5 billion yen from the end of the previous fiscal year to 281.9 billion yen, mainly reflecting an increase of 1.2 billion yen in valuation difference on available-for-sale securities and a decrease of 0.6 billion yen in foreign currency translation adjustment. As a result, shareholders' equity ratio was 20.6% (30.6% as of the end of the previous fiscal year).

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, 2019, accounts receivable-due from franchise stores stood at 47.1 billion yen, an increase of 500 million 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, 2019, accounts receivable-other amounted to 124.0 billion yen, an increase of 39.3 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, 2019 stood at 44.0 billion yen, a decrease of 3.4 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, 2019 totaled 107.0 billion yen, an increase of 6.3 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, 2019 totaled 1.6 billion yen, a decrease of 900 million yen compared to the end of the previous fiscal year.

Deposits Received

Deposits received consist mainly of utilities payment services deposits and concerts ticket price deposits. The total of handling amount of utilities payment services continued to increase and stood at 2,412.3 billion yen, an increase of 6.6% supported by the increase of the number of cases handled and companies covered by the services. As of February 28, 2019, deposits received amounted to 131.8 billion yen, an increase of 22.1 billion yen compared to the end of the previous fiscal year.

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

Total consolidated capital expenditures for the year ended February 28, 2019 stood at 140.0 billion yen, a decrease of 400 million yen compared to a year-ago period.

Investments in new stores amounted to 42.0 billion yen, a decrease of 13.7 billion yen compared to a year-ago period reflecting reverse effect of payment for conversion from THREE F which was recorded in the previous fiscal year. Investments in existing stores totaled 11.4 billion yen, an increase of 4.0 billion yen compared to a year-ago period. Main driver of this increase was promotion of hardware improvement measures for existing stores such as switching to LED lighting with higher energy saving effect to improve the profitability of franchise stores. Lease transactions stood at 5.9 billion yen, an increase of 10.1 billion yen compared to a year-ago period mainly due to introduction of POS cash registers equipped with an automatic change dispenser function.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures		(Millions of Yen)				
(Fiscal Year)	2018	2017	2016	2015	2014	
New store investments	42,082	55,863	47,594	40,460	49,014	
Existing store investments	11,425	7,403	7,233	6,727	5,840	
IT-related investments	18,195	18,615	19,261	15,882	8,218	
Other investments	7,295	5,401	1,464	1,466	2,752	
Sub-total investments	78,998	87,283	75,554	64,535	65,823	
Investments and advances	2,019	4,358	1,594	4,122	42,610	
Leases*	59,053	48,854	42,634	38,089	32,818	
Total	140,071	140,495	119,784	106,747	141,251	

* 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 32,096 million yen in fiscal year 2017 and 40,682 million yen in fiscal year 2018.

■ Breakdown of depreciation and amortization		(Millions of Yen)				
(Fiscal Year)	2018	2017	2016	2015	2014	
Depreciation of property and store equipment	53,384	47,697	44,792	40,396	32,977	
Amortization of intangible assets	13,459	10,903	11,406	8,897	8,849	
Total depreciation and amortization	66,844	58,601	56,199	49,293	41,826	

Consolidated Cash Flows

Net cash provided by operating activities for the year ended February 28, 2019 stood at a cash inflow of 128.5 billion yen, a cash increase of 14.6 billion yen compared to a year-ago period, due mainly to changes in accounts payable-other, accounts receivable and deposits received.

Net cash used in investing activities for the year ended February 28, 2019 amounted to a cash outflow of 81.0 billion yen, a cash decrease of 10.1 billion yen compared to a year-ago period, which was due, among others, to decrease in payments for transfer of business and an increase of proceeds from sales of investment securities.

Net cash used in financing activities for the year ended February 28, 2019 amounted to a cash inflow of 277.9 billion yen, a cash increase of 339.1 billion yen compared to a year-ago period, which was due, among other reasons, to an increase in proceeds from long-term loans payable and net increase in short-term loans payable.

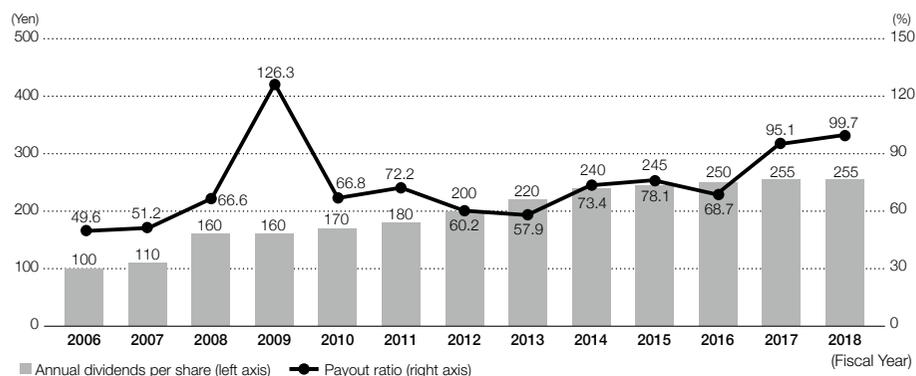
As a result, cash and cash equivalents as of February 28, 2019, stood at 354.2 billion yen, an increase of 324.1 billion yen compared to February 28, 2018.

Capital Policy

There is no change to the annual dividend for the year ended February 28, 2019, from 255 yen per share announced at the beginning of the fiscal year. We changed dividend policy for the year ending February 29, 2020.

To return profits to shareholders is deemed by the Company to be a key management goal and we continued stable dividend payments every fiscal year. However, as a policy to provide appropriate distribution of profit in accordance with our performance while maintaining financial health, we introduced “consolidated dividend payout ratio” to clearly demonstrate our intention for profit sharing with shareholders. Although our shareholders-oriented management will not change, we will establish a basic policy; while continuing our efforts to support franchise stores and investment to improve profit of franchise stores, we will provide our shareholders with as much dividends as possible within the range of dividend payout ratio and we decided to “pay dividends at a consolidated dividend payout ratio target of 50%, with a minimum of 150 yen per share as the lower limit.” As a result, we plan to pay 150 yen per-share dividend for fiscal year ending February 29, 2020.

■ Annual dividends per share & payout ratio



Overview of Major Consolidated Subsidiaries and Equity Method Affiliates

Consolidated financial results for the year ended February 28, 2019 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, financial service business, and overseas business. The following paragraphs outline the business activities and financial results of Lawson, Inc.’s major consolidated subsidiaries and affiliates.

Lawson Store100, Inc. (consolidated subsidiary)

Established on November 14, 2013, Lawson Store100, Inc. succeeded to the operational functions of Ninety-nine Plus, Inc., including its store operation and product development, on February 1, 2014 through an absorption-type company split. The former succeeded to the latter’s store-related assets including franchise agreements for the LAWSON STORE 100 (including Lawson Mart). Effective March 2016, the corporate name was changed from Lawson Mart, Inc. to Lawson Store100, Inc.

LAWSON STORE 100 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, 2019, Lawson Store100, Inc. had a total of 806 stores at the period-end date. Operating loss stood at 300 million yen. This was mainly attributable to the fact that net sales of existing stores decreased to 98.7% compared to the previous fiscal year due to the continuing fierce competitive environment.

■ Lawson Store100, Inc.

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

*Consolidated starting from February 2013

SCI, Inc. (consolidated subsidiary)

SCI, Inc. (“SCI”) was established by Lawson, Inc. in July 2012 as a supply chain management function subsidiary aimed at enabling Lawson, Inc. to involve itself in supply chain business activities as an influential player and to help streamline the manufacturing and logistics operations. The Company aims to build a manufacturing retailer business model that coherently covers the entire supply chain

from the upstream to the downstream, 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, 2019, operating income amounted to 2.4 billion yen which was about the same level with the previous fiscal year.

■ SCI, Inc. (Millions of Yen)						
(Fiscal Year)	2019.2	2018.2	2017.2	2016.2	2015.2	2014.2
Gross operating revenue	309,482	284,300	256,143	191,299	87,638	74,460
Operating income	2,489	2,385	1,860	2,365	1,128	509
Ordinary income	2,494	2,392	2,065	2,369	1,128	510
Net income	1,624	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. (Lawson Sanin) in Yonago City, Tottori Prefecture based on joint investment with Poplar Co., Ltd., (Poplar) 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 292 stores (including existing LAWSON stores in Tottori and Shimane Prefectures). In June 2019, Company made Lawson Sanin into a wholly-owned subsidiary. “LAWSON POPLAR” brand stores are function-reinforcing stores selling “POP Ben” boxed meals that are prepared on site, under LAWSON FC packages. For the year ended February 28, 2019, operating income stood at 400 million yen, down 30.7% from the previous fiscal year.

■ Lawson Sanin, Inc. (Millions of Yen)			
(Fiscal Year)	2019.2	2018.2	2017.2
Gross operating revenues	7,527	7,876	2,460
Operating income (loss)	403	582	(56)
Net income (loss)	148	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, 2019, Lawson Okinawa, Inc. had a total of 233 stores at the period-end date, and operating income stood at 1.8 billion yen, an increase of 10.0% 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)	2019.2	2018.2	2017.2	2016.2	2015.2	2014.2
Gross operating revenues	7,700	7,090	6,509	5,605	4,674	4,199
Operating income	1,824	1,658	1,637	1,407	1,183	1,051
Net income	1,107	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, 2019, Lawson Store100, Inc. had a total of 197 stores at the period-end date, and operating income stood at 100 million yen, a decrease of 3.7% 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)	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	4,412	4,317	4,007	3,756	3,595
Operating income (loss)	156	162	94	(183)	(422)
Net income (loss)	95	111	(93)	(591)	(472)

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

Lawson Kochi, Inc. (equity-method affiliate)

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

For the year ended February 28, 2019, the number of LAWSON stores in the prefecture stood at 140 at the period-end date, and the operating income of Lawson Kochi, Inc. amounted to 300 million yen, a decrease of 22.2% 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)	2019.2	2018.2	2017.2	2016.2
Gross operating revenues	4,388	4,321	4,482	4,208
Operating income	387	498	463	430
Net income	300	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.

With regard to performance of the year ended February 28, 2019, due mainly to stable sales of delicatessen items prepared in the central kitchen, sales of existing stores were favourable as 101.5% compared to the previous fiscal year. In addition, opening new stores is smooth as planned, among other factors, operating income stood at 8.1 billion yen, an increase of 7.3% compared to the previous fiscal year.

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

*Consolidated starting from February 2013

Lawson 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 (EC) businesses of the Lawson Group, going forward. In June 2018, the corporate name was changed to Lawson Entertainment, Inc.

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

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

For the year ended February 28, 2019, operating income increased by 26.1% compared to the previous fiscal year due mainly to acquisition of large-scale contents.

* 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 Entertainment, Inc.

■ Lawson Entertainment, Inc. (Millions of Yen)						
(Fiscal Year)	2019.2	2018.2	2017.2	2016.2	2015.2	2014.2
Gross operating revenues	54,541	53,261	50,423	50,205	46,018	45,314
Operating income	2,335	1,851	2,119	2,469	3,094	2,819
Net income	2,470	1,524	1,466	1,644	2,918	2,450

Lawson Bank, Inc. (consolidated subsidiary)

Lawson ATM Networks, Inc. was established in 2001 with investments from Mitsubishi Corporation, partner banks and Lawson, Inc., as a provider of ATM services for LAWSON stores. The company installed ATMs at certain LAWSON stores that year to launch an ATM service. Subsequently, in June 2018, Lawson Bank Preparatory Company, Inc. succeeded to the ATM business of Lawson ATM Networks, Inc. which installs jointly operated ATMs in LAWSON stores through an absorption-type company split. In July 2018, the corporate name changed to Lawson Bank, Inc. and it started providing services to customers on October 15, 2018.

In the jointly operated ATM business, in addition to increasing partner financial institutions, ATMs are installed to the sites other than LAWSON stores. As of end February 2019, the number of ATMs in operation at LAWSON stores nationwide totaled 13,459 and the number of partner financial institutions nationwide totaled 111 including online banks.

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 present Lawson Entertainment, Inc. Adding the industry's top-class 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.

For the year ended February 28, 2019, operating income was 2.6 billion yen, up 6.4% from the previous fiscal year, due mainly to an increase of the number of sites and hit films.

■ United Cinemas Co., Ltd. (Millions of Yen)					
(Fiscal Year)	2019.2	2018.2	2017.2	2016.2	2014.12
Gross operating revenues	23,653	22,243	22,637	24,960	5,773
Operating income	2,675	2,512	2,457	2,338	156
Net income (loss)	2,687	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 Bailian Group Co., Ltd. ("Bailian 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.

Subsequently, in February 2017, Shanghai Hualian Lawson, Inc. changed its corporate name to Shanghai Lawson, Inc. Our equity interest in the company is 100%.

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.

For the year ended February 28, 2019, operating income turned positive from the previous fiscal year as opening a significant number of new stores improved profit. The total number of LAWSON stores in operation stood at 1,227 as of February 28, 2019.

* 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)	2018.12	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	24,359	19,905	13,561	8,531	1,360	1,290
Operating income (loss)	28	(567)	(555)	(755)	(646)	(404)
Net income (loss)	(241)	(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 31 million people (2018 JETRO survey), Chongqing is one of the world's biggest cities, and is a direct-controlled municipality of China. The city has continued to enjoy double-digit economic growth for 10 consecutive years until 2016 (2015 JETRO survey). Up to 2017, this double-digit economic growth rate exceeded 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 and the first local LAWSON store was opened. The LAWSON store network has continued to grow steadily since, bringing the total store count to 198 as of February 28, 2019.

■ Chongqing Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2018.12	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	3,461	3,225	3,586	4,400	3,474	1,843
Operating income (loss)	(282)	(306)	(452)	(778)	(904)	(840)
Net income (loss)	(378)	(413)	(623)	(973)	(1,047)	(833)

■ Dalian Lawson, Inc. (consolidated subsidiary)

With a population of some six million (2018 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 146 as of February 28, 2019.

■ Dalian Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2018.12	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	2,463	2,371	2,043	1,502	995	516
Operating income (loss)	0	4	(183)	(312)	(313)	(227)
Net income (loss)	(31)	(28)	(190)	(344)	(338)	(211)

■ Beijing Lawson, Inc. (consolidated subsidiary)

In China, Beijing is a big city with a population of about 21.7 million (2018 JETRO survey). We established Beijing Lawson, Inc. in May 2013. The company opened 35 stores in this fiscal year under review, bringing the total number of stores to 108 as of the end of February 2019.

■ Beijing Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2018.12	2017.12	2016.12
Gross operating revenues	4,480	3,106	2,168
Operating income (loss)	(463)	(635)	(643)
Net income (loss)	(591)	(687)	(634)

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

■ Saha Lawson Co., Ltd. (consolidated subsidiary)

In Thailand, we established Saha Lawson Co., Ltd. in November 2012 as a joint venture principally with the SAHA Group, Thailand's leading consumer goods distributor. In March 2013, this joint venture launched Lawson convenience stores under the "LAWSON 108" brand in Bangkok. The number of stores stood at 120 as of February 28, 2019.

■ Saha Lawson Co., Ltd. (Millions of Yen)

(Fiscal Year)	2018.12	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	9,851	8,271	7,171	6,962	7,800	5,959
Operating income (loss)	(299)	(653)	(305)	(251)	(655)	(338)
Net income (loss)	(280)	(767)	(396)	(308)	(831)	(525)

* Consolidated starting from January 2013

Future Outlook

The business environment remains challenging due to labor shortages, rising labor costs and intensifying competition across boundaries of business categories, among other factors. Under these circumstances, for the year ending February 2020, following the three year's solidifying period for the business foundation through implementing "1000-Day Action Plan," in our domestic convenience store business, we will deploy sales promotion campaigns such as "further reinforced promotions on purchases in evening and night time" and "bolstering our customer living assistance service" through providing products corresponding to customer needs. We will also aim to maximize the value of nationwide real store network, a place of communication with our customers, while strengthening "franchise stores support" through our continued effort to improve store operation efficiency by making the best use of digital technologies.

In order to serve increasingly diverse customer needs, we will strengthen Lawson original products and frozen foods by assuming life scenes by time zones and customer segments to pursue "overwhelmingly delicious" foods. In addition, through promotion of menu deployment focusing on health as well as deliciousness and development of eco-friendly products, we will concentrate on creating stores to satisfy our customers.

Measures to cope with labor shortages

To cope with labor shortages, we will further strengthen franchise store support measures by promoting labor saving and automation for store operations and utilizing POS cash registers introduced to all stores in the previous fiscal year, we will deploy "self-checkout registers" which allow customers to purchase products by scanning barcodes. In addition, by promoting services such as "Lawson Smartphone Cash Register," our mobile self-service payment service option based on a dedicated app, we will reduce store workload related to register operations, and at the same time, we will improve customer convenience by, for example, easing the congestion.

Business expansion by the entire group

For businesses other than domestic convenience store business, in the fiscal year ending February 2020, we will promote steady business development of Lawson Bank by increasing partnership with local financial institutions focusing on ATM business, and at the same time, we will promote development of payment infrastructure business corresponding to cashless society. With regard to overseas business, we will further expand our business in a new stage followed by our success as Shanghai subsidiary company, the core of our China business operation, achieved surplus in the fiscal year under review and the number of stores exceeded

2,000 in China. We aim to expand business by entire group together with both Seijo Ishii business and entertainment-related business.

Business Performance Outlook for Fiscal Year Ending February 29, 2020

We make allowance for an increase of expense for franchise store support as labor shortages have become severer beyond our expectation; as a result, consolidated operating income is projected to be 60.8 billion yen, almost same as the fiscal year under review. With regard to new store openings in particular, we will narrow down the number of new store openings to 700 to further improve quality, on the other hand, in order to facilitate closings of low profitability stores and replacement with higher profitability stores, we plan to close 700 stores. As a result, net increase of the number of stores is projected to be zero.

Breakdown of increase/decrease of operating income is as follows: by increasing sales of existing stores to 100.5% year on year and improving gross profit margin by 0.2% year on year, profit will be increased by approximately 4.0 billion yen. Additional increase of approximately 2.0 billion yen will be generated by closing low profitability stores. On the other hand, approximately 4.0 billion yen profit decrease is expected for IT investment to help labor shortages as well as renewal of store computers, and additional approximately 2.0 billion yen profit decrease is also expected for measures against labor shortages and increase of environmentally conscious investment. In addition, by recording loss related to closing stores, consolidated Ordinary income is projected to decrease by 3.2 billion yen to 54.5 billion yen and consolidated net income is expected to decrease by 7.5 billion yen to 18.0 billion yen. We aim to achieve this profit plan in the fiscal year ending February 29, 2020 and create a solid basis upon which to build future growth.

Consolidated Balance Sheet

Lawson, Inc. and its Consolidated Subsidiaries
February 28, 2019

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
CURRENT ASSETS:			
Cash and cash equivalents	¥354,236	¥30,121	\$3,195,057
Time deposits	4	4	36
Accounts receivable:			
Due from franchised stores (Note 3)	47,180	46,599	425,543
Other	124,067	84,705	1,119,031
Allowance for doubtful accounts	(124)	(29)	(1,118)
Lease receivables (Note 4)	19,121	16,426	172,463
Inventories	20,862	18,914	188,166
Deferred tax assets (Note 15)	4,395	3,411	39,641
Other	54,258	31,709	489,385
Total current assets	623,999	231,860	5,628,204
PROPERTY AND STORE EQUIPMENT:			
Land (Notes 6 and 7)	9,053	9,582	81,654
Buildings (Note 6)	387,981	369,567	3,499,423
Furniture, fixtures, and equipment (Note 6)	74,729	74,401	674,024
Lease assets (Note 6)	252,577	213,561	2,278,137
Other (Note 6)	817	791	7,369
Total	725,157	667,902	6,540,607
Accumulated depreciation	(342,857)	(317,966)	(3,092,424)
Net property and store equipment	382,300	349,936	3,448,183
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	13,549	13,376	122,206
Investments in associated companies	18,297	15,172	165,031
Long-term loans receivable	44,024	47,425	397,078
Goodwill (Note 6)	46,836	47,947	422,441
Software (Note 6)	49,792	41,602	449,103

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Trademark right	9,468	10,075	85,397
Lease deposits	107,034	100,686	965,401
Deferred tax assets (Note 15)	26,760	24,406	241,364
Other (Note 6)	21,266	18,866	191,809
Allowance for doubtful accounts	(835)	(1,095)	(7,531)
Total investments and other assets	336,191	318,460	3,032,299
TOTAL	¥1,342,490	¥900,256	\$12,108,686

* See notes to consolidated financial statements.

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

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 8 and 19)	¥123,409	¥118,175	\$1,113,096
Due to franchised stores (Note 9)	1,611	2,594	14,531
Other	101,693	60,441	917,227
Short-term loans (Note 10)	126,600	36,340	1,141,878
Current portion of long-term debt (Note 10)	88,750	33,639	800,487
Income taxes payable	6,684	6,880	60,287
Deposits received	131,805	109,629	1,188,825
Other (Note 12)	17,971	11,525	162,091
Total current liabilities	598,523	379,223	5,398,422
LONG-TERM LIABILITIES:			
Net defined benefit liability (Note 11)	15,126	13,781	136,430
Allowance for retirement benefits to executive officers and audit and supervisory board members	301	271	2,715
Long-term debt (Note 10)	391,441	169,087	3,530,630
Asset retirement obligations (Note 12)	31,102	29,063	280,527
Deferred tax liabilities (Note 15)	711	2,617	6,413
Other	23,304	24,768	210,192
Total long-term liabilities	461,985	239,587	4,166,907
EQUITY (Note 13):			
Common stock—authorized, 409,300,000 shares in 2019 and 2018; issued, 100,300,000 shares in 2019 and 2018	58,507	58,507	527,708
Capital surplus	46,984	46,690	423,776
Stock acquisition rights	216	195	1,948
Retained earnings	166,188	166,125	1,498,945

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Treasury stock—at cost, 241,897 shares in 2019 and 244,849 shares in 2018	(1,029)	(1,041)	(9,282)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	3,349	2,084	30,207
Land revaluation difference (Note 7)	(567)	(576)	(5,114)
Foreign currency translation adjustments	3,931	4,596	35,456
Defined retirement benefit plans	(848)	(727)	(7,649)
Total	276,731	275,853	2,495,995
Noncontrolling interests	5,251	5,593	47,362
Total equity	281,982	281,446	2,543,357
TOTAL	¥1,342,490	¥900,256	\$12,108,686

* See notes to consolidated financial statements.

Consolidated Statement of Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥302,136	¥289,233	\$2,725,138
Net sales	288,580	264,735	2,602,868
Other	109,932	103,357	991,539
Total operating revenues	700,648	657,325	6,319,545
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 19)	198,040	181,374	1,786,236
Selling, general, and administrative expenses	441,826	410,130	3,985,082
Total costs and operating expenses	639,866	591,504	5,771,318
Operating income	60,782	65,821	548,227
OTHER INCOME (EXPENSES):			
Interest expense—net	(1,735)	(1,187)	(15,649)
Compensation income	382	897	3,445
Loss on cancellation of leases	(1,655)	(1,304)	(14,927)
Equity in earnings of unconsolidated subsidiaries and associated companies	321	694	2,895
Gain on sales of investment securities	738		6,656
Gain on sales of shares of subsidiaries and associates		303	
Loss on sales of non-current assets	(225)	(368)	(2,029)
Loss on disposal of property and store equipment	(4,142)	(3,115)	(37,359)
Impairment of long-lived assets (Note 6)	(13,892)	(17,534)	(125,300)
Loss on disaster	(817)		(7,369)
Other—net	120	(616)	1,083
Other expenses—net	(20,905)	(22,230)	(188,554)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
INCOME BEFORE INCOME TAXES	39,877	43,590	359,673
INCOME TAXES (Note 15):			
Current	18,329	14,190	165,320
Deferred	(4,015)	2,539	(36,214)
Total income taxes	14,314	16,729	129,106
NET INCOME	25,563	26,861	230,567
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(23)	32	(208)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥25,586	¥26,829	\$230,775

	Yen		U.S. Dollars
	2019	2018	2019
PER SHARE OF COMMON STOCK (Notes 2.t and 21):			
Net income—basic	¥255.71	¥268.16	\$2.31
Net income—diluted	255.59	268.02	2.31
Cash dividends applicable to the year	255	255	2.30

* See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥25,563	¥26,861	\$230,567
OTHER COMPREHENSIVE INCOME:			
Unrealized gain on available-for-sale securities	1,265	1,810	11,410
Land revaluation difference			
Foreign currency translation adjustments	(674)	36	(6,079)
Remeasurements of defined benefit plans	19	201	171
Total other comprehensive income	610	2,047	5,502
COMPREHENSIVE INCOME	¥26,173	¥28,908	\$236,069
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥26,204	¥28,825	\$236,349
Noncontrolling interests	(31)	83	(280)

* See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2019

	Thousands of Shares/Millions of Yen													
	Common Stock				Retained Earnings	Treasury Stock		Accumulated other comprehensive income				Total	Noncontrolling Interests	Total Equity
	Shares	Amount	Capital Surplus	Stock Acquisition Rights		Shares	Amount	Net Unrealized Gain(Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurements of defined benefit plans			
BALANCE, MARCH 1, 2017	100,300	¥58,507	¥49,084	¥315	¥165,162	(286)	¥(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						1	(3)					(3)		(3)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			60			41	173					233		233
Disposal of treasury stock			0				0					0		0
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	(244)	(1,041)	2,084	(576)	4,596	(727)	275,853	5,593	281,446
Net income attributable to owners of the parent					25,586							25,586		25,586
Change in the parent's ownership interest due to transactions with noncontrolling interests														
Year-end cash dividends, ¥127.5 per share					(12,757)							(12,757)		(12,757)
Interim cash dividends, ¥127.5 per share					(12,757)							(12,757)		(12,757)
Change of scope of consolidation					(0)							(0)		(0)
Capital increase of consolidated subsidiaries			(4)									(4)		(4)
Increase by corporate division			70									70		70
Tax effect adjustment on change in equity of prior period			224									224		224
Reversal of land revaluation difference					(9)							(9)		(9)
Purchase of treasury stock							(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			4			3	13					17		17
Disposal of treasury stock			0				0					0		0
Others—net				21				1,265	9	(665)	(121)	509	(342)	167
BALANCE, FEBRUARY 28, 2019	100,300	¥58,507	¥46,984	¥216	¥166,188	(241)	¥(1,029)	¥3,349	¥(567)	¥3,931	¥(848)	¥276,731	¥5,251	¥281,982

	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, 2018	\$527,708	\$421,124	\$1,759	\$1,498,376	\$ (9,389)	\$18,797	\$ (5,195)	\$41,454	\$ (6,557)	\$2,488,077	\$50,446	\$2,538,523
Net income attributable to owners of the parent				230,775						230,775		230,775
Change in the parent's ownership interest due to transactions with noncontrolling interests												
Year-end cash dividends, \$1.15 per share				(115,063)						(115,063)		(115,063)
Interim cash dividends, \$1.15 per share				(115,063)						(115,063)		(115,063)
Change of scope of consolidation				(0)						(0)		(0)
Capital increase of consolidated subsidiaries		(36)								(36)		(36)
Increase by corporate division		631								631		631
Tax effect adjustment on change in equity of prior period		2,021								2,021		2,021
Reversal of land revaluation difference				(80)						(80)		(80)
Purchase of treasury stock					(9)					(9)		(9)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		36			116					152		152
Disposal of treasury stock		0			0					0		0
Others—net			189			11,410	81	(5,998)	(1,092)	4,590	(3,084)	1,506
BALANCE, FEBRUARY 28, 2019	\$527,708	\$423,776	\$1,948	\$1,498,945	\$ (9,282)	\$30,207	\$ (5,114)	\$35,456	\$ (7,649)	\$2,495,995	\$47,362	\$2,543,357

* See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥39,877	¥43,591	\$359,673
Adjustments for:			
Income taxes paid	(18,706)	(18,287)	(168,720)
Depreciation and amortization	66,844	58,602	602,904
Impairment of long-lived assets	13,892	17,534	125,300
Loss on disposal of property and store equipment	4,142	3,115	37,359
Changes in assets and liabilities:			
Increase in accounts receivable	(41,112)	(10,675)	(370,813)
Increase in accounts payable	53,697	10,829	484,324
Increase in deposits received	22,179	6,469	200,045
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	906	721	8,172
Net increase in call loans for banking business	(20,000)		(180,391)
Other—net	6,876	2,040	62,019
Total adjustments	88,718	70,348	800,199
Net cash provided by operating activities	128,595	113,939	1,159,872
INVESTING ACTIVITIES:			
Purchases of property and store equipment	(43,284)	(41,537)	(390,403)
Purchases of software and other intangible assets	(18,060)	(18,534)	(162,893)
Increase in long-term loans receivable	(7,389)	(8,580)	(66,646)
Proceeds from collection of long-term loans receivable	5,111	5,133	46,099
Payments for guarantee deposits	(24,239)	(24,580)	(218,625)
Proceeds from collection of guarantee deposits	18,428	22,115	166,213

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Long-term prepaid expenses	(5,752)	(9,230)	(51,881)
Purchase of investment securities	(5,757)	(1,127)	(51,926)
Proceeds from sales of investment securities	7,157	665	64,553
Acquisition of associated companies	(3,597)	(3,920)	(32,443)
Payments for transfer of business	(2,731)	(11,010)	(24,632)
Other—net	(905)	(605)	(8,164)
Net cash used in investing activities	(81,018)	(91,210)	(730,748)
FINANCING ACTIVITIES:			
Net increase in short-term loans payable	90,260	5,160	814,107
Repayments of long-term debt	(46,727)	(33,330)	(421,458)
Cash dividends paid	(25,514)	(25,259)	(230,126)
Proceeds from long-term loan-payable	260,000		2,345,089
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation		(7,799)	
Other—net	(82)	(11)	(739)
Net cash provided by (used in) financing activities	277,937	(61,239)	2,506,873
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,409)	174	(12,708)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	324,105	(38,336)	2,923,289
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,121	67,692	271,679
CASH AND CASH EQUIVALENTS IN SUBSIDIARIES RESULTING FROM CHANGES IN SCOPE OF CONSOLIDATION	10	765	89
CASH AND CASH EQUIVALENTS, END OF YEAR	¥354,236	¥30,121	\$3,195,057

* See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2019

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 2018 financial statements to conform to the classifications used in 2019.

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 ¥110.87 to \$1, the approximate rate of exchange at February 28, 2019. 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, 2019, which represents 50.12% of the total voting rights of the Company. Accordingly, Mitsubishi is the parent company.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Consolidation**— The consolidated financial statements include the accounts of the Company and its 21 (21 in 2018) 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 2018) associated companies are accounted for by the equity method. Investments in 22 (23 in 2018) unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

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

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

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

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

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

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

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

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

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

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

f. Franchise Agreements and Basis for Recognizing Franchise Commissions—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Certain consolidated subsidiaries apply the simplified method to estimate the

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

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

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

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

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

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

The Company and certain consolidated subsidiaries applied for approval for the consolidated taxation system during the current fiscal year, and they expect to adopt the consolidated taxation system beginning from the following fiscal year. Therefore, the corresponding accounting for the current fiscal year assumes such adoption of the consolidated taxation system in accordance with "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ PITF No. 5; December 28, 2015) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No. 7; March 14, 2016).

- 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 100,057 thousand shares for 2019 and 100,044 thousand shares for 2018.

Diluted net income per share for the years ended February 28, 2019 and 2018 was computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

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

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

(1) Changes in accounting policies

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

The Company's foreign consolidated subsidiaries have applied International Financial Reporting Standard 15 (IFRS 15), "Revenue from Contracts with Customers", from the fiscal year ended February 28, 2019.

The impact of the application of IFRS 15 on the Company's consolidated financial statements is immaterial.

(2) Changes in presentation

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

(3) Changes in accounting estimates

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

(4) Corrections of prior-period errors

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

v. 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, 2019. In order to conform to the presentation for the year ended February 28, 2019, the Company has reclassified the related amounts in the consolidated statement of cash flows for the year ended February 28, 2018, as stated below.

w. New Accounting Pronouncements

Tax Effect Accounting

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," and ASBJ

Guidance No. 26, "Implementation Guidance on Recoverability of Deferred Tax Assets." Accounting treatments are required as follows: (1) changes in handling future taxable amounts in individual financial statements and (2) clarification of handling on recoverability of deferred tax assets in companies that are categorized as type 1.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after March 1, 2019, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Revenue Recognition

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

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when or as the entity satisfies a performance obligation

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after March 1, 2022, and is in the process of measuring

the effects of applying the accounting standard and guidance in future applicable periods.

Leases

IFRS16, "Leases", requires lessees to recognize most leases on the balance sheet, thereby resulting in the recognition of lease assets and liabilities. The consolidated foreign subsidiaries expect to apply IFRS 16 for annual periods beginning on or after March 1, 2019.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after March 1, 2019, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

x. Changes in Presentation of Financial Statements

(Consolidated Statement of Cash Flows)

In the "Cash flows from investing activities" section, "Purchase of investment securities" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Purchase of investment securities" is now separately presented. To reflect this change in method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the "Cash flows from investing activities" section, (1,126) million yen that was presented as "Other" in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as "Purchase of investment securities."

In the "Cash flows from investing activities" section, "Proceeds from sales of investment securities" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Proceeds from sales of investment securities" is now separately presented. To reflect this change in method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the “Cash flows from investing activities” section, 665 million yen that was presented as “Other” in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as “Proceeds from sales of investment securities.”

In the “Cash flows from investing activities” section, “Increase in long-term loans receivable” and “Collection of long-term loans receivable” were included in “Increase in long-term loans receivable - net” in the previous fiscal year. In order to enhance the clarity of the consolidated financial statements from the current fiscal year, “Increase in long-term loans receivable” and “Collection of long-term loans receivable” are now separately presented.

As a result, in the “Cash flow from investing activities” section, (3,447) million yen that was presented as “Increase in long-term loans receivable – net” in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as (8,580) million yen of “Increase in long-term loans receivable” and 5,133 million yen of “Proceeds from collection of long-term loans receivable.”

In the “Cash flows from investing activities” section, “Payments for guarantee deposits” and “Proceeds from collection of guarantee deposits” were included in “Other” in the previous fiscal year. In order to enhance the clarity of the consolidated financial statements from the current fiscal year, “Payments for guarantee deposits” and “Proceeds from collection of guarantee deposits” are now separately presented.

As a result, in the “Cash flows from investing activities” section, (2,464) million yen that was presented as “Other” in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as (24,579) million yen of “Payments for guarantee deposits” and 22,115 million yen of “Proceeds from collection of guarantee deposits.”

3 | ACCOUNTS RECEIVABLE—DUE FROM FRANCHISED STORES

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

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

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

4 LEASES

As lessee:

Finance lease transactions that do not transfer ownership.

(1) Components of leased assets

The Companies lease certain store facilities and other assets.

(2) Accounting method for depreciation of leased assets

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

As lessor:

Lease receivables as of February 28, 2019 and 2018, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Lease fee receivable	¥19,608	¥16,646	\$176,856
Interest income equivalents	(488)	(220)	(5,016)
Lease receivables	¥19,120	¥16,426	\$171,840

Maturities of lease receivables for finance leases deemed to transfer leased property to the lessee at February 28, 2019 are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2020	¥2,673	\$24,109
2021	2,459	22,179
2022	2,181	19,672
2023	1,979	17,850
2024	1,662	14,991
2025 and thereafter	8,653	78,046
Total	¥19,608	\$176,856

5 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Non-current			
—Marketable and other equity securities	¥13,342	¥13,183	\$120,339
Non-current—Corporate bonds	207	193	1,867
Total	¥13,549	¥13,376	\$122,206

The costs and aggregate fair values of marketable and investment securities as of February 28, 2019 and 2018, were as follows:

February 28, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale				
—Equity securities	¥6,796	¥4,383	¥17	¥11,162

February 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, 2019	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale				
—Equity securities	\$61,297	\$39,532	\$153	\$100,676

The proceeds, realized gains, and realized losses on the available-for-sale securities which were sold during the years ended February 28, 2019 and 2018, were as follows:

February 28, 2019	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥7,156	¥738	

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

February 28, 2019	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	\$64,544	\$6,656	

6 LONG LIVED ASSETS

The Companies mainly identify individual stores as the smallest cash generating units. The Companies recognize an impairment loss in cases where the value of long-lived assets has declined, primarily as a result of continuous operating losses. The carrying amounts of those assets are written down to the recoverable amounts and an impairment loss is recorded in other expenses in the consolidated statement of income.

The Companies recognized an impairment loss in the following asset categories for the years ended February 28, 2019 and 2018:

Category	Related Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2019	2018	2019
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	¥1,591	¥1,306	\$14,350
		Osaka	1,505	1,390	13,575
		Others	10,241	8,721	92,369
Other	Land Software Goodwill		51	70	460
			503	6,035	4,537
			1	12	9
Total			¥13,892	¥17,534	\$125,300

The above noted assets which incurred impairment losses for the years ended February 28, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Buildings	¥7,981	¥5,968	\$71,985
Furniture, fixtures, and equipment	587	811	5,294
Lease assets	4,693	4,485	42,329
Land	51	183	460
Software	503	6,035	4,537
Goodwill	1	12	9
Other	76	40	686
Total	¥13,892	¥17,534	\$125,300

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or the expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rates used were mainly 3.6% and 4.4% for the years ended February 28, 2019 and 2018.

7 | LAND REVALUATION

Under the "Law of Land Revaluation," promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company opted for a one-time revaluation of its own-use land to a value based on real estate appraisal information as of February 28, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2019, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥151 million (\$1,362 thousand).

8 | ACCOUNTS PAYABLE—TRADE

The balances of "Accounts payable—trade" represent the amounts payable to vendors for merchandise purchased by the Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for the Company-operated stores and franchised stores and makes collective payments to vendors (see Note 3).

"Accounts payable—trade" as of February 28, 2019 and 2018, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Accounts payable —trade for franchised stores	¥104,274	¥101,116	\$940,507
Accounts payable —trade for the Company-operated stores	19,135	17,059	172,589
Total	¥123,409	¥118,175	\$1,113,096

9 | ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to franchised stores is recorded as "Accounts receivable—Due from franchised stores" as described in Note 3.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable—Due from franchised stores." In the accompanying consolidated balance sheets, such excess balances are presented as "Accounts payable—Due to franchised stores."

10 | SHORT-TERM LOANS AND LONG TERM DEBT

Short-term loans at February 28, 2019 and 2018, consisted of notes to banks.

The annual interest rates applicable to the short-term loans were 0.12% and 0.06 % at February 28, 2019 and February 28, 2018, respectively.

Long-term debt at February 28, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks and financial company, due serially to 2023 with a weighted-average interest rate of 0.21% (2019)	¥310,000	¥56,045	\$2,796,067
Obligations under finance leases	170,192	146,681	1,535,059
Less current portion	(88,750)	(33,639)	(800,487)
Long-term debt, less current portion	¥391,441	¥169,087	\$3,530,639

The aggregate annual maturities of long-term debt, excluding finance leases, at February 28, 2019, were as follows:

Year Ending February 28 or 29	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
2020		50,000	450,978
2021			
2022		180,000	1,623,523
2023			
2024 and thereafter		80,000	721,566
Total		¥310,000	\$2,796,067

The aggregate annual maturities of finance lease obligations at February 28, 2019, were as follows:

Year Ending February 28 or 29	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
2020		¥38,750	\$349,509
2021		34,909	314,864
2022		29,923	269,893
2023		26,356	237,720
2024 and thereafter		40,254	363,073
Total		¥170,192	\$1,535,059

The Company and certain consolidated subsidiaries have entered into loan commitment agreements to efficiently finance working capital.

The balances of unused loans at February 28, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total loan commitments	¥220,000	¥91,000	\$1,984,306
Outstanding balance of used loans	79,800		719,762
Net amount	¥140,200	¥91,000	\$1,264,544

11 EMPLOYEES' RETIREMENT BENEFITS

For employees' retirement benefits, the Company and certain consolidated subsidiaries adopt a funded or unfunded defined benefit-type lump-sum retirement allowance plan and a defined contribution-type pension plan.

The lump-sum retirement allowance plan (generally unfunded, with some plans being funded in accordance with an employee pension trust) pays a lump sum as a retirement benefit based on salary and length of service of the employee.

The lump-sum retirement allowance plan employed by some consolidated subsidiaries calculates liabilities related to retirement benefits and retirement benefit expenses by the simplified method.

Year Ended February 28, 2019

(1) Changes in defined benefit obligations for the year ended February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥19,091	\$172,193
Current service cost	1,820	16,416
Interest cost	64	577
Actuarial losses	357	3,220
Benefits paid	(1,015)	(9,155)
Others	(1)	(9)
Balance at end of year	¥20,316	\$183,242

(2) Changes in plan assets for the year ended February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,587	\$50,392
Actuarial gains	(5)	(45)
Balance at end of year	¥5,582	\$50,347

(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	¥18,493	\$166,799
Plan assets	(5,582)	(50,347)
	12,910	116,452
Unfunded defined benefit obligation	1,823	16,433
Net liability arising from defined benefit obligations	¥14,733	\$132,885

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥14,733	\$132,885
Net liability arising from defined benefit obligations	¥14,733	\$132,885

(4) Components of net periodic benefit costs for the year ended February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,820	\$16,416
Interest cost	64	577
Recognized actuarial losses	185	1,669
Amortization of prior service cost	1	9
Others	(31)	(280)
Net periodic benefit costs	¥2,039	\$18,391

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥1	\$9
Actuarial losses	(178)	(1,605)
Total	¥(177)	\$(1,596)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost		
Unrecognized actuarial losses	¥1,190	\$10,731
Total	¥1,190	\$10,731

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended February 28, 2019, were set forth as follows:

Discount rate	0.5% (mainly)
Expected rate of return on plan assets	0%

(9) Contributions to the defined contribution pension plan for the year ended February 28, 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥526	\$4,744

Year Ended February 28, 2018

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

	Millions of Yen
Balance at beginning of year	¥18,417
Current service cost	1,757
Interest cost	64
Actuarial losses	(85)
Benefits paid	(1,066)
Others	4
Balance at end of year	¥19,091

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

	Millions of Yen
Balance at beginning of year	¥5,587
Actuarial gains	0
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	¥17,434
Plan assets	(5,587)
	11,847
Unfunded defined benefit obligations	1,657
Net liability arising from defined benefit obligations	¥13,504

	Millions of Yen
Liability for retirement benefits	¥13,504
Net liability arising from defined benefit obligation	¥13,504

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

	Millions of Yen
Service cost	¥1,757
Interest cost	64
Recognized actuarial losses	198
Amortization of prior service cost	10
Others	(25)
Net periodic benefit costs	¥2,004

(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
Prior service cost	¥10
Actuarial losses	284
Total	¥293

(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
Unrecognized prior service cost	¥1
Unrecognized actuarial losses	1,012
Total	¥1,013

(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
Net periodic benefit cost	¥489

12 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥29,109	¥27,023	\$262,551
Additional provisions associated with the acquisition of property, plant, and equipment	2,385	2,493	21,511
Reconciliation associated with passage of time	396	392	3,572
Reduction associated with settlement of asset retirement obligations	(772)	(799)	(6,963)
Total	31,118	29,109	280,671
Less current portion	(16)	(46)	(144)
Asset retirement obligations, less current portion	¥31,102	¥29,063	\$280,527

13 | EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides for common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings to be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides for companies to purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14 STOCK OPTIONS

The Company has stock option plans as an incentive for directors, executive officers, and selected employees.

The stock options outstanding as of February 28, 2019, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 (\$0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 (\$0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 (\$0.01)	From September 6, 2007 to August 20, 2027
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 (\$0.01)	From January 17, 2009 to December 15, 2028
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 (\$0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 (\$0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 (\$0.01)	From February 18, 2012 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 (\$0.01)	From April 12, 2013 to March 26, 2033
13th Stock Option	7 directors	25,400 shares	2014.4.10	¥1 (\$0.01)	From April 10, 2014 to March 23, 2034
14th Stock Option	8 directors	12,400 shares	2015.4.10	¥1 (\$0.01)	From April 10, 2015 to March 24, 2035
16th Stock Option	8 directors	15,100 shares	2016.5.2	¥1 (\$0.01)	From May 2, 2016 to April 12, 2036
17th Stock Option	8 directors	20,100 shares	2017.5.1	¥1 (\$0.01)	From May 1, 2017 to April 11, 2037
18th Stock Option	12 executive officers	5,100 shares	2017.7.21	¥1 (\$0.01)	From July 21, 2017 to July 4, 2037
19th Stock Option	7 director 9 executive officers	14,700 shares	2018.6.8	¥1 (\$0.01)	From June 8, 2018 to May 21, 2038

Stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	12th Stock Option	13th Stock Option	14th Stock Option	15th Stock Option
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	1,100
Vested											
Exercised								6,500	5,300	7,200	1,100
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	
Year Ended February 28, 2019											
<u>Non-vested</u>											
February 28, 2018—Outstanding											
Granted											
Canceled											
Vested											
February 28, 2019—Outstanding											
<u>Vested</u>											
February 28, 2018—Outstanding	500	2,700	3,100	4,500	1,000	1,000	5,300	500	1,000	4,200	
Vested											
Exercised										500	
Canceled		2,300	2,700	3,900	500	500	500				
February 28, 2019—Outstanding	500	400	400	600	500	500	4,800	500	1,000	3,700	
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										¥7,190	
										(\$64.85)	
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146	¥6,251	
		(\$28.66)	(\$25.72)	(\$31.36)	(\$23.92)	(\$24.57)	(\$30.12)	(\$49.75)	(\$46.42)	(\$56.38)	

Stock option activity is as follows:

	16th Stock Option	17th Stock Option	18th Stock Option	19th Stock Option
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	14,100			
Vested		20,100	5,100	
Exercised	8,800	11,400	400	
Canceled				
February 28, 2018—Outstanding	5,500	8,700	4,700	
Year Ended February 28, 2019				
<u>Non-vested</u>				
February 28, 2018—Outstanding				
Granted				14,700
Canceled				
Vested				14,700
February 28, 2019—Outstanding				
<u>Vested</u>				
February 28, 2018—Outstanding	5,300	8,700	4,700	
Vested				14,700
Exercised	500	500	1,300	300
Canceled				
February 28, 2019—Outstanding	4,800	8,200	3,400	14,400
Exercise price	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	¥7,190	¥7,190	¥6,713	¥6,670
	(\$64.85)	(\$64.85)	(\$60.55)	(\$60.16)
Fair value price at grant date	¥6,254	¥5,343	¥5,363	¥4,833
	(\$56.41)	(\$48.19)	(\$48.37)	(\$43.59)

The assumptions used to measure the fair value of the 19th stock options were as follows:

	19th Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	22.90%
Estimated remaining outstanding period	10 years
Estimated dividend	¥255.0 per share
Risk-free interest rate	0.06%

15 | INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal statutory tax rate of approximately 30.9% for the years ended February 28, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Accrued enterprise taxes	¥1,114	¥787	\$10,048
Accrued employees' bonuses	1,343	1,187	12,113
Excess of depreciation	9,724	10,771	87,706
Excess of amortization of software	529	374	4,771
Employees' retirement benefits	6,400	5,967	57,725
Allowance for doubtful accounts	283	348	2,553
Impairment losses	10,466	6,017	94,399
Tax loss carryforwards	7,984	9,172	72,012
Other	6,221	6,407	56,112
Less valuation allowance	(10,759)	(12,784)	(97,042)
Total	33,305	28,246	300,397
Deferred tax liabilities:			
Trademark rights	2,861	3,046	25,805
Net deferred tax assets	¥30,444	¥25,200	\$274,592

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, 2019 and 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30.9 %	30.9 %
Change in valuation allowance	(2.5)	2.8
Non-deductible permanent differences such as entertainment expenses	0.5	0.5
Non-taxable permanent differences such as dividend income	(2.3)	(0.4)
Per-capita inhabitant tax	1.0	0.8
Difference in tax rates of foreign consolidated subsidiaries	1.5	1.3
Reduction of ending deferred tax balance due to change in statutory tax rate	0.4	0.6
Amortization of goodwill	3.0	2.9
Other-net	3.4	(1.0)
Actual effective tax rate	35.9 %	38.4 %

In the section above, "Non-taxable permanent differences such as dividend income" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Non-taxable permanent differences such as dividend income" is now separately presented. To reflect this change in method of presentation, the section for the previous fiscal year has been reclassified.

As a result, in the note, (1.4) percent that was presented as "Other-net" in the note for the previous fiscal year is now presented as (0.4) percent of "Non-taxable permanent differences such as dividend income" and (1.0) percent of "Other-net."

At February 28, 2019, certain domestic subsidiaries has tax loss carryforwards aggregating approximately ¥30,898 million (\$3,424,661 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
2019	¥5,452	\$604,463
2020	10,230	1,134,200
2021	2,625	291,034
2022	4,412	489,158
2023	4,540	503,350
2024	1,361	150,894
2025	661	73,285
2026	1,284	142,357
2027	333	36,920
Total	¥30,898	\$3,425,661

16 | SUPPLEMENTAL CASH FLOW INFORMATION

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2019, amounted to ¥58,842 million (\$530,730 thousand).

(2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 28, 2019, amounted to ¥2,385 million (\$21,512 thousand).

17 | OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 28, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain on available-for-sale securities			
Gains arising during the year	¥2,474	¥2,568	\$22,314
Reclassification adjustments to profit or loss	(676)	31	(6,097)
Amount before income tax effect	1,798	2,599	16,217
Income tax effect	(533)	(789)	(4,807)
Total	1,265	1,810	\$11,410
Foreign currency translation adjustments			
Adjustments arising during the year	(674)	36	(6,079)
Total	(¥674)	¥36	(\$6,079)
Remeasurements of defined benefit plans			
Gains (losses) arising during the year	(¥177)	¥86	(\$1,596)
Reclassification adjustments to profit or loss	202	207	1,821
Amount before income tax effect	25	293	225
Income tax effect	(6)	(92)	(54)
Total	¥19	¥201	\$171
Total other comprehensive income	¥610	¥2,047	\$5,502

18 | SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No.17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information", and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments

The Company's financial information is provided separately by reportable segment and is subject to regular review by the Board of Directors with regard to the allocation of managerial resources and performance evaluation.

The Group operates primary businesses Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business and Financial Services Business while incorporating other related businesses.

Therefore, the Group has made the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business and Financial Services Business units its main reportable segments, based on consideration of financial characteristics and the nature of the services provided.

Regarding the Domestic Convenience Store Business, Lawson, Inc. operates a franchise system as well as undertaking company-owned stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Sanin, Inc. undertakes company-owned LAWSON stores in the Sanin area.

Lawson Urbanworks, Inc. undertakes company-owned LAWSON stores mainly in Tokyo and Chiba prefectures. Lawson Store100, Inc. undertakes company-owned LAWSON STORE100 stores. SCI, Inc., a functional subsidiary which comprehensively manages the process from procurement to sale, aims to improve the efficiency of the entire process.

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

Regarding the Entertainment-related Business, Lawson Entertainment, Inc. conducts the management and sales of concert tickets at LAWSON stores and others, music and video software products at HMV stores and others. In addition, United Cinemas Co., Ltd. operates multiplex movie theatres.

Regarding the Financial Services Business, Lawson Bank, Inc. carries out a banking business.

Due to its increased importance, the Financial Services Business, which was included in "Other", has been classified as a separate reporting segment from the current fiscal year. Segment information for the previous fiscal year stated in "(c) Information about sales, profit (loss), assets, and other items is as follows" reflects this change in segment classification.

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

The segment accounting policies are the same as those described in "Accounting Policies for the Preparation of Consolidated Financial Statements." Segment profit is based on operating income. Intersegment sales or transfers are based on market values.

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

	Millions of Yen							
	2019							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment -Related Business	Financial Services Business					
Sales:								
Sales to external customers	¥462,633	¥86,672	¥76,662	¥30,356	¥44,325	¥700,648		¥700,648
Intersegment sales or transfers	6,060		1,409	217	1,079	8,765	¥(8,765)	
Total	¥468,693	¥86,672	¥78,071	¥30,573	¥45,404	¥709,413	¥(8,765)	¥700,648
Segment profit (loss)	¥48,263	¥7,414	¥4,500	¥2,224	¥(1,619)	¥60,782		¥60,782
Segment assets	893,711	66,421	70,354	386,267	25,237	1,441,990	¥(99,500)	1,342,490
Other:								
Depreciation	52,266	1,844	2,245	4,594	1,480	62,429		62,429
Amortization of goodwill	2,417	1,437	502		59	4,415		4,415
Investments in associated companies	5,009					5,009		5,009
Increase in property, plant, and equipment and intangible assets	47,106	688	1,332	8,494	3,724	61,344		61,344

	Millions of Yen							
	2018							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business					
Sales:								
Sales to external customers	¥437,216	¥81,957	¥73,967	¥27,187	¥36,998	¥657,325		¥657,325
Intersegment sales or transfers	5,468		1,414	155	1,104	8,140	¥(8,140)	
Total	¥442,684	¥81,957	¥75,381	¥27,341	¥38,102	¥665,465	¥(8,140)	¥657,325
Segment profit (loss)	¥53,648	¥6,854	¥3,854	¥4,276	¥(2,811)	¥65,821		¥65,821
Segment assets	834,644	60,458	63,846	50,433	20,089	1,029,470	¥(129,214)	900,256
Other:								
Depreciation	46,162	1,799	2,300	3,170	1,333	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	5,946	2,666	60,071		60,071

Thousands of U.S. Dollars

	2019							Reconcil- iations	Consol- idated
	Reportable Segments					Other	Total		
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Financial Services Business					
Sales:									
Sales to external customers	\$4,172,752	\$781,744	\$691,458	\$273,798	\$399,793	\$6,319,545		\$6,319,545	
Intersegment sales or transfers	54,658		12,709	1,957	9,732	79,056	\$(79,056)		
Total	\$4,227,410	\$781,744	\$704,167	\$275,755	\$409,525	\$6,398,601	\$(79,056)	\$6,319,545	
Segment profit (loss)	\$435,312	\$66,871	\$40,588	\$20,060	\$(14,603)	\$548,228		\$548,227	
Segment assets	8,060,891	599,089	634,563	3,483,963	227,627	13,006,133	\$(897,447)	12,108,686	
Other:									
Depreciation	471,417	16,632	20,249	41,436	13,349	563,083		563,083	
Amortization of goodwill	21,800	12,961	4,528		532	39,821		39,821	
Investments in associated companies	45,179					45,179		45,179	
Increase in property, plant, and equipment and intangible assets	424,876	6,205	12,014	76,612	30,590	553,297		553,297	

Notes: 1. The business segments within the "Other" category that do not fall under the main reportable segments, include Overseas Business operated by Shanghai Lawson, Inc. and others.

2. Adjustments to segment assets are due to the elimination of intra-segment transactions.

3. Segment profit (loss) corresponds to consolidated operating income.

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

	Millions of Yen							
	2019							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business					
Loss on impairment of long-lived assets	¥13,274		¥50		¥567	¥13,892		¥13,892

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

	Thousands of U.S. Dollars							
	2019							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business					
Loss on impairment of long-lived assets	\$119,726		\$451		\$5,123	\$125,300		\$125,300

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

	Millions of Yen							
	2019							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business					
Goodwill at February 28, 2019	¥16,096	¥22,396	¥7,687		¥655	¥46,837		¥46,836

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

	Thousands of U.S. Dollars							
	2019							
	Reportable Segments					Other	Total	Reconcil- iations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Financial Services Business					
Goodwill at February 28, 2019	\$145,197	\$202,002	\$69,333		\$5,909	\$422,441		\$422,441

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

19 RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 28, 2019 and 2018, were as follows:

(1) Transactions between the Company and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Mitsubishi Corporation			
Acceptance of debt guarantees	¥9,800		\$88,392
Payment of guarantee fees	0		0
Mitsubishi Shokuhin Co., Ltd.			
Accounts payable—trade	¥59,898	¥57,253	\$540,254
Purchases	754,005	707,802	6,800,803
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable	¥9,800		\$88,392
Accrued interest	1		9

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

(2) Transactions between subsidiaries and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Mitsubishi Corporation			
Acceptance of debt guarantees	¥200,000		\$1,803,914
Payment of guarantee fees	8		72
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable	¥70,000		\$631,370
Accrued interest	29		262
Long-term loans payable	¥130,000		\$1,172,544
Accrued interest	79		713
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable—Other	¥29,243	¥14,466	\$263,759
Sales of processed food, etc.	184,481	143,626	1,663,940

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

20 | FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Company primarily uses short-term deposits, etc., to manage its funds and raises funds as necessary through borrowings from financial institutions and leasing, according to the financing plan.

(2) Nature, Extent of Risk, and Risk Management System for Financial Instruments

Trade receivables, such as accounts receivable due from franchised stores, accounts receivable-other, and lease receivables are exposed to credit risk from business counterparties.

Long-term loans receivable (mainly construction assistance fund receivables and 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 due to franchised stores, accounts payable-other, and deposits received as a result of bill settlement services have payment due dates within one month, while most deposits received held as a result of ticket sales transactions have payment due dates within six months.

Short-term loans payable are mainly for the purpose of procuring working capital, and are due within 1 year.

Long-term loans from banks and financial company payable are mainly for the

purpose of funding a banking business and M&A, and are due within five years.

The primary purpose of lease obligations related to finance lease transactions is securing the funds required for capital investments, and the maximum redemption period is 15 years after the consolidated balance sheet date.

With regard to the liquidity risk associated with fundraising (risk that payments cannot be executed on the payment due dates), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures including maintaining adequate liquidity on hand.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Since multiple factors are considered in the estimation of fair value, the results of the estimation might differ if other valuation techniques were used.

February 28, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	¥47,180	¥47,180	
Lease receivables	19,120	18,322	¥ (798)
Accounts receivable	120,852	120,852	
Long-term loans receivable	43,965	43,903	(62)
Investment securities	11,162	11,162	
Lease deposits	106,668	106,867	199
Total	¥348,948	¥348,287	(661)
Accounts payable	¥225,405	¥225,405	
Short-term loans	126,600	126,600	
Deposits received	131,805	131,805	
Long-term debt (including current portion of long-term debt)	480,192	474,421	¥(5,771)
Total	¥964,002	¥958,231	¥(5,772)

February 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	
Deposits received	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, 2019	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	\$425,543	\$425,543	
Lease receivables	172,404	165,257	\$(7,197)
Accounts receivable	1,090,033	1,090,033	
Long-term loans receivable	396,546	395,986	(560)
Investment securities	100,676	100,676	
Lease deposits	962,100	963,895	1,795
Total	\$3,147,352	\$3,141,390	\$(5,963)
Accounts payable	\$2,033,056	\$2,033,056	
Short-term loans	1,141,878	1,141,878	
Deposits received	1,188,824	1,188,824	
Long-term debt (including current portion of long-term debt)	4,331,126	4,279,074	\$(52,052)
Total	\$8,694,884	\$8,642,832	\$(52,052)

Due from franchised stores and accounts receivables

The carrying values of Due from franchised stores and accounts receivable (including allowance for doubtful accounts) approximate fair value because of their short maturities.

Lease receivables

The fair values of lease receivables are determined by discounting future cash flows, which reflect collectability, using the yield rate of government bonds for the remaining period.

Long-term loans receivable

The fair values of long-term loans receivable (including allowance for doubtful accounts) are determined by discounting the cash flows related to the obligations at the Companies' assumed corporate discount rate.

Investment securities

The fair values of investment securities are measured at the quoted market price on the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments.

Lease deposits

The fair values of lease deposits (including allowance for doubtful accounts) are determined by discounting future cash flows, which reflect the collectability, using the yield rate of government bonds for the remaining period.

Accounts payable and deposits received

The carrying values of accounts payable and deposits received approximate fair value because of their short maturities.

Short-term loans

These instruments are stated at their carrying values. Because they are determined using floating interest rates that reflect market rates in a short-time and have short maturities, their carrying values are approximately the same as their fair values.

Long-term debt (including current portion of long-term debt)

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate discount rate.

(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥359	¥330	\$3,238
Investments in unconsolidated subsidiaries and affiliated companies	18,298	15,172	165,040
Others	1,441	1,350	12,997

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

	Millions of Yen			
	2019			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Due from franchised stores	¥47,180			
Lease receivables	2,553	¥7,940	¥8,628	
Accounts receivable	120,970			
Long-term loans receivable	744	15,986	17,035	¥10,259
Lease deposits	8,519	24,747	25,961	47,808
Total	¥179,966	¥48,672	¥51,623	¥58,067

	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	82,634			
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

	Thousands of U.S. Dollars			
	2019			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Due from franchised stores	\$425,543			
Lease receivables	23,027	\$71,615	\$77,821	
Accounts receivable	1,091,097			
Long-term loans receivable	6,711	144,187	153,648	\$92,532
Lease deposits	76,838	223,198	223,157	431,208
Total	\$1,623,216	\$439,000	\$454,626	\$523,740

21 | NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2019 and 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted- Average Shares	EPS	
Year Ended February 28, 2019				
Basic EPS				
—Net income available to common shareholders	¥25,586	100,057	¥255.71	\$2.31
Effect of dilutive securities—Stock options		47		
Diluted EPS—Net income for computation	¥25,586	100,104	¥255.59	\$2.31

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

22 | SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 21, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥127.5 (\$1.15) per share	¥12,757	\$115,063



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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, 2019, 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, 2019, 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 21, 2019

Member of
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