

First Half Results for FY2016

(Six months ended August 31, 2016)

Lawson, Inc.
October 13, 2016

Financial Results for First Half of FY2016

Yutaka Yoshitake
Chief Financial Officer

Earnings Summary: FY2016 1H

Consolidated OP 39.9bln yen (-5.0% YoY, +1.1% v. plan)

+0.4bln yen v. plan: Sales slightly below target, but effective HQ-focused cost controls

Consolidated net profit 22.6bln yen (+14.1% YoY, +6.1% v. plan)

+1.3bln yen v. plan: OP achieved target, unforeseen impact from tax effect accounting

Non-consolidated

OP 31.7bln yen (-2.6bln yen YoY)

Gross operating profit +10.3bln yen YoY

Existing-store sales* -0.9%

(+0.3% YoY excluding ticket and other sales)

Gross profit margin* 31.3% ($\pm 0.0\%$ YoY)

SG&A expenses +13.0bln yen YoY

(*Including over 2.0bln of the cost to reinforce product range)

Advertising & Promotion +2.5bln yen

Facility expenses (new stores, etc) +4.0bln yen

Consolidated

OP 39.9bln yen (-2.1bln yen YoY)

Recurring profit 38.3bln yen (-2.4% YoY)

Non-operating loss (net) : 1.5bln yen (-0.2bln yen YoY)

Forex loss 0.6bln yen

Natural disaster (2016 Kumamoto
earthquake) 0.7bln yen

Net profit 22.6bln yen (+2.7bln yen YoY)

Special loss (net) : 2.5bln yen (-3.0bln yen)

Impairment loss 0.5bln yen (-4.1bln yen)

Income taxes-current: -9.3bln yen (+2.3bln yen)

Tax effect of subsidiary liquidation +0.5bln yen

Major subsidiary firms

Seijo Ishii OP 3.3bln yen (+0.3bln yen YoY)

Intl. operations OP -1.7bln yen (+0.2bln yen YoY)

* * Existing-store sales & gross profit margin include Lawson and Natural Lawson combined operations

FY2016 consolidated OP target unchanged at 76.0 billion yen

**“Creating Happiness and Harmony
in Our Communities.”**

**Genichi Tamatsuka
Chairman and CEO
Representative Director**

Tender Offer by Mitsubishi Corporation

Outline of tender offer

- Current ownership (common stock) = 34.4% → Rise to 50% +100 shares
- Launch tender in January 2017, after completing anti-trust procedures
- Price of tender offer 8,650 yen per share of Lawson common stock

※Refer to news release dated September 16, 2015 for more details

Aim / management vision

Strengthen operations through stronger collaboration

- Raise Lawson's corporate value
- Drive synergy through out value chain
- Leverage corporate network and human resource

Management structure / governance

- Maintain current management structure (Genichi Tamatsuka / Sadanobu Takemasu)
- Maintain independence and autonomy as a listed company, Nomination and Compensation Committee

As Lawson remains an independent company, we will continue being attentive to the stock market and reflect shareholder and investor perspective in our corporate decisions.

The aim of 1000-Day Action Plan

Social and business environment

- Aging population
- Increase in double income, small households
- React to local needs
- Decrease in number of retail stores

Convenience store industry

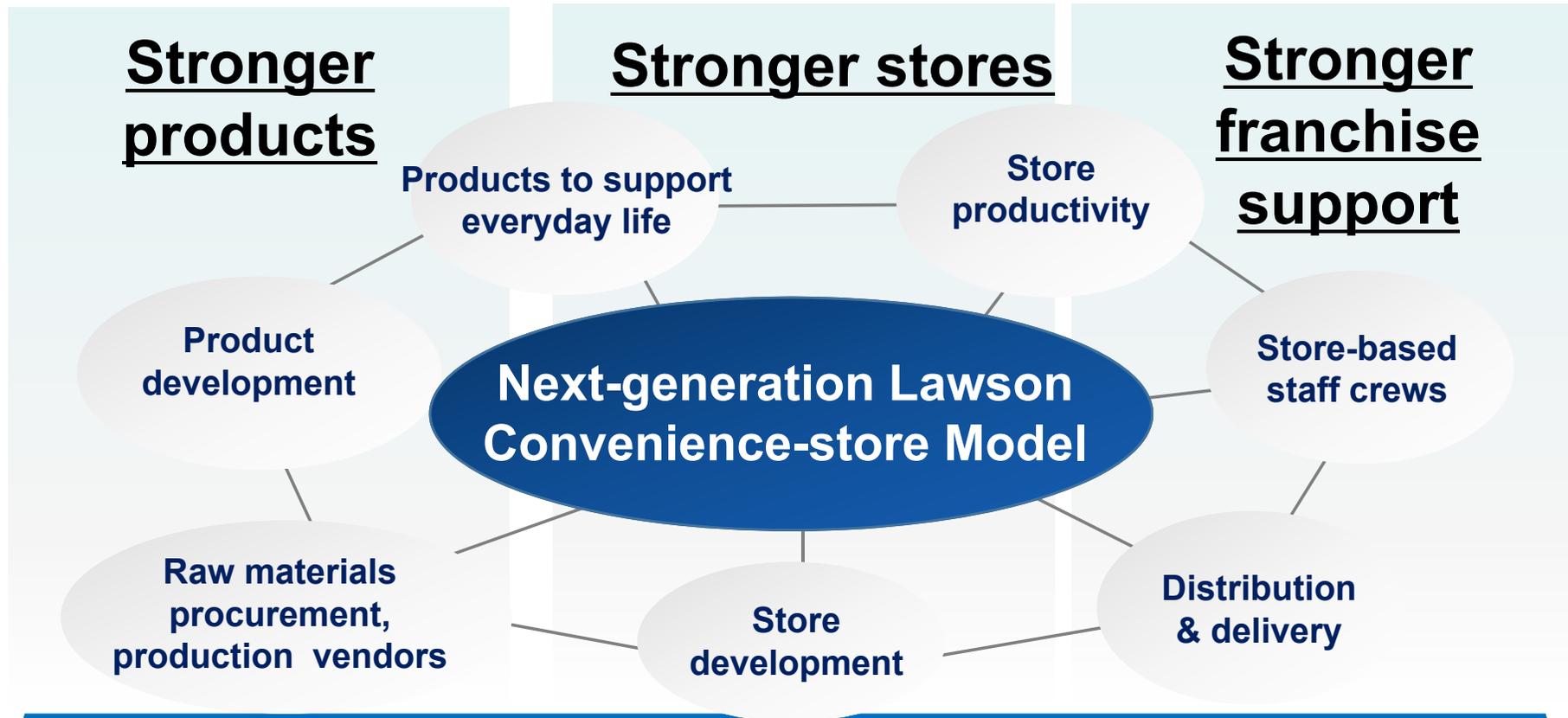
- Three large players occupy 90% market share
- Tough competition with drug stores and super markets

Change in market environment of FC stores

- Scarcity of staff
- Diversified store staff
- Increasingly complex store operation
- Encourage multiple store management

**Utilize cutting-edge IT technology
and build next-generation systems**

Become an essential part of community living



“One Lawson”
Revolutionizing our operational system

1000-Day Action Plan – FY2016 1H

		FY2016 1H	Going forward
Stronger stores	Products/support for Everyday Living	Strengthen supermarket alternative and core CVS ranges by investing in new display cases and expanding products	FF, in-store kitchen/home delivery, and healthcare
	Store development	Overhaul new store opening framework	Ensure stable new store openings and long-term franchisees
Stronger products	Product development	Review product development system and business processes	Full-fledged development of core food items, new products and services
	Raw materials procurement, manufacturing vendors	Promote SCI, reinforce mega-vendor policy	Become a true manufacturing retailer based on small commercial areas
Stronger franchise support	Store productivity	Redefine operations with view to introducing new systems	Introduce tables, point-of-sale store computers, etc.
	Store-based staff crews	Improve capacity development, instore staff hiring	Standardize staff training, reduce staff turnover
	Distribution, delivery	Launch Lawson distribution center	Sweeping review of distribution using visualization, etc.
Change corporate culture	Supervisor systems All business processes	Establish a set supervisor training system Boost efficiency of company-wide business processes	Consistent initiatives to boost overall supervisor capability

Respond to customer's daily need

Product range

**Strengthen product range
across all Lawson stores**

Product power

**Strengthen products from
an everyday user perspective**

- **Become a community store that customers visit every day for their daily needs.**
- **Expand customer base of working women and senior customers.**
- **Respond to rising customer demand in the evening and night-time.**

Reinforce support for everyday life

Display case investment

- Higher shelf gondolas
- New flatbed freezers
- More chilled food case



approx. **8,000** stores
(End August 2016)

Franchise store support

Help ensure full range of
deli and daily prepared
items



Expand product range

Stronger promotion

- TV advertising
- Lawson market specials!



**Boost
visibility**

Capital investment

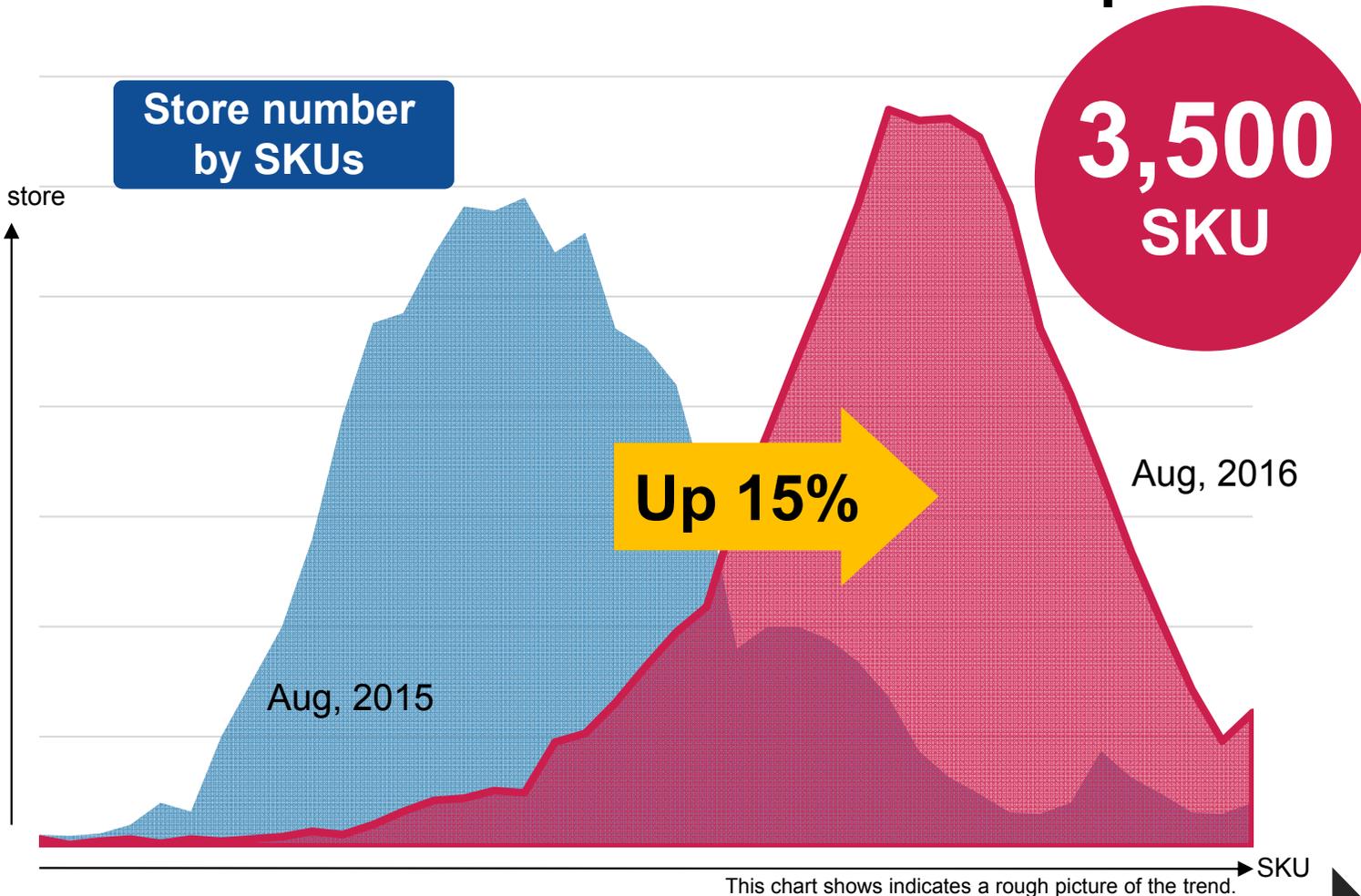
over **5 billion yen**

Franchise support + advertising

over **2 billion yen**

Achieve significant improvement of product range

With better hardware at store and improved ordering systems



Better hardware

- Shift to higher shelves
- More freezer flatbeds

Active systems

- Tailor product mix to suit individual stores with pre-planned ordering

More SKUs = less deviation of store level

Reinforce support for everyday life

Support everyday life

As a supermarket alternative

Offer product ranges that support all daily needs
Satisfy growing CVS demand in the evening and night-time

Core CVS, over-the-counter fast food

Improve ready made foods
Expand competitive over-the-counter fast food

Maximize semi-automatic and planned orders

Digital

+

Analog

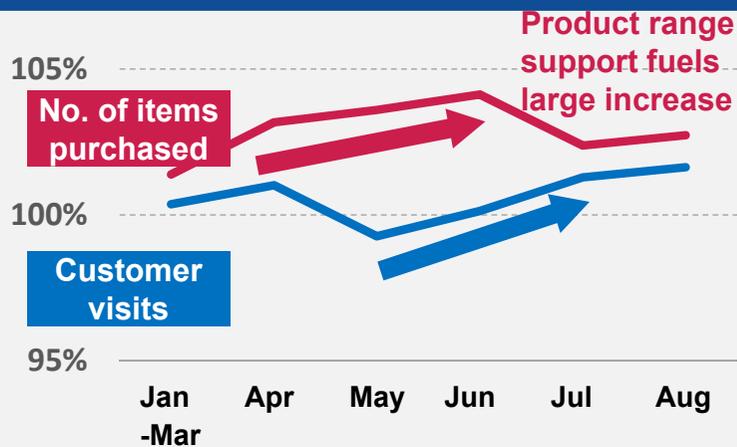
Reinforce store operations

FY2016 1H Sales

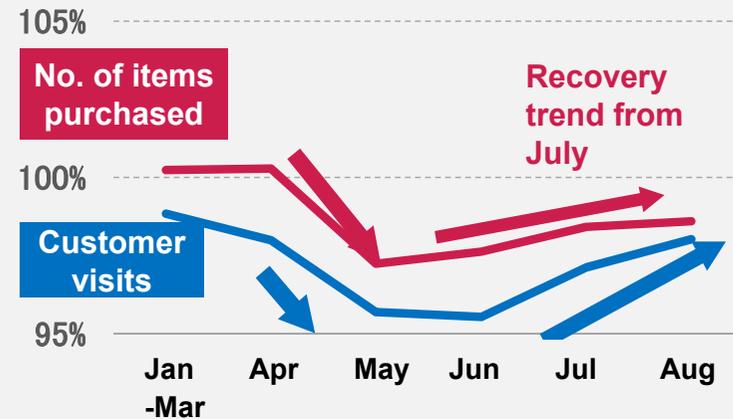
Existing-store sales (excluding ticket sales and others) up 0.3% y/y

- Support everyday living by investing in new display cases and extending product ranges
- Boost number of deli and daily-delivered items purchased in the supermarket alternative category

Supermarket alternative category



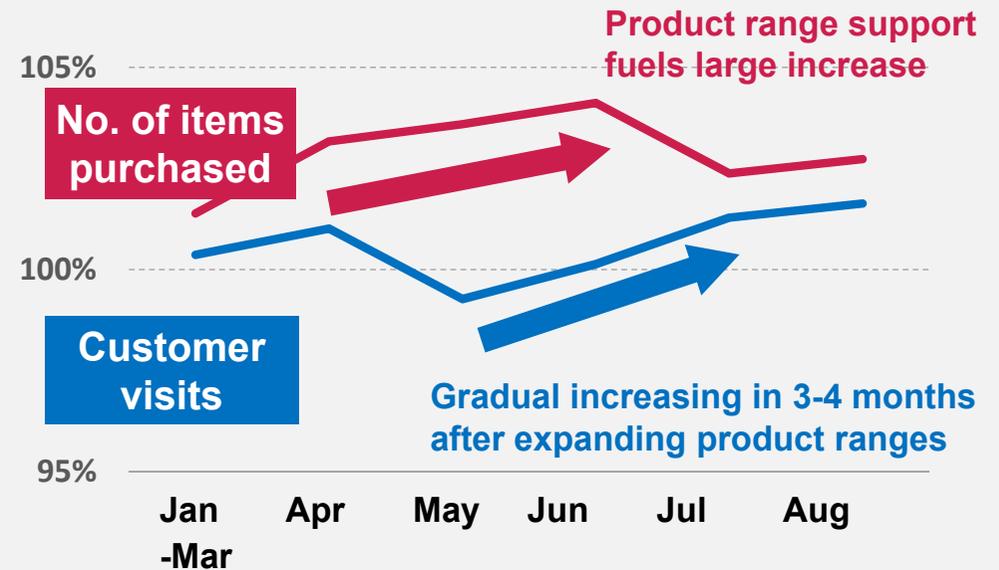
Core CVS category



FY2016 1H sales

Emerging strong y/y rising trend following investment in display cases and product expansion

- Delicatessen +14.0% (existing stores, y/y)
- Daily-delivered foods +24.0%
- Frozen foods +19.0%



FY2016 2H sales strategy

- Expand Lawson Select product range
- Satisfy evening/night-time demand with non-chilled FF (deli items)
- Strengthen Natural Lawson brand (chilled drinks, pet food)
- Expand Japanese sweets and other items to appeal to elder customers



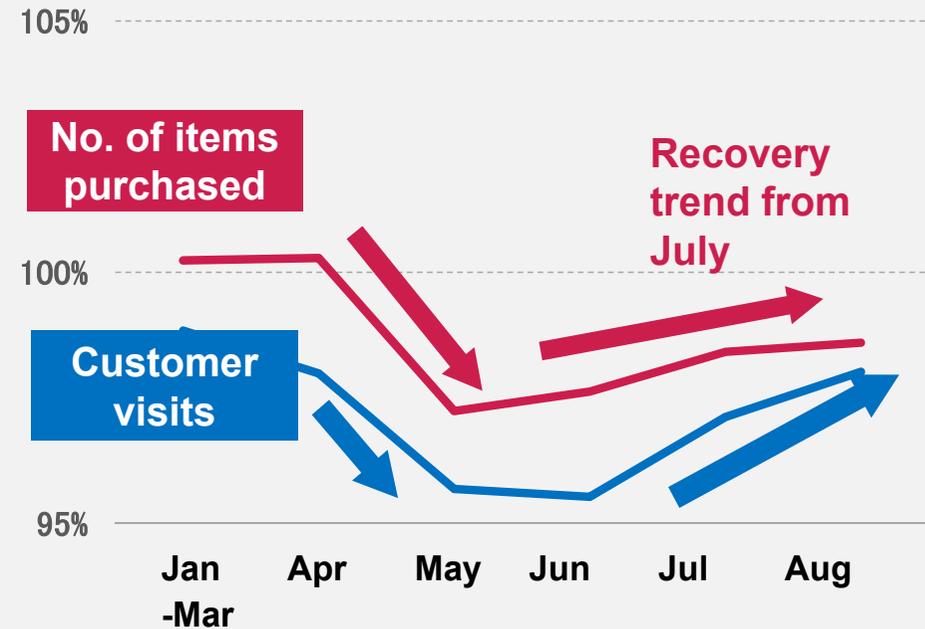
CVS Category

1H sales struggle

1H sales slump partly in comparison to buoyant 40-year anniversary year last year

Recovery from July

- Adjust semi-automatic promotion logic
- Optimize price bracket balance



2H product strategy

- Offer strong lunchbox range (medium price range)
- Offer more original light meals (soups, etc.)
- Strengthen regular dessert items



Over-the-counter Fast Food & In-store Kitchen

Over-the-counter FF

Boost sales from current 40,000 to 50,000 yen/day in FY2017



In-store Kitchen

Expand stores with kitchens from current 3,500 to 5,000 in fiscal 2017

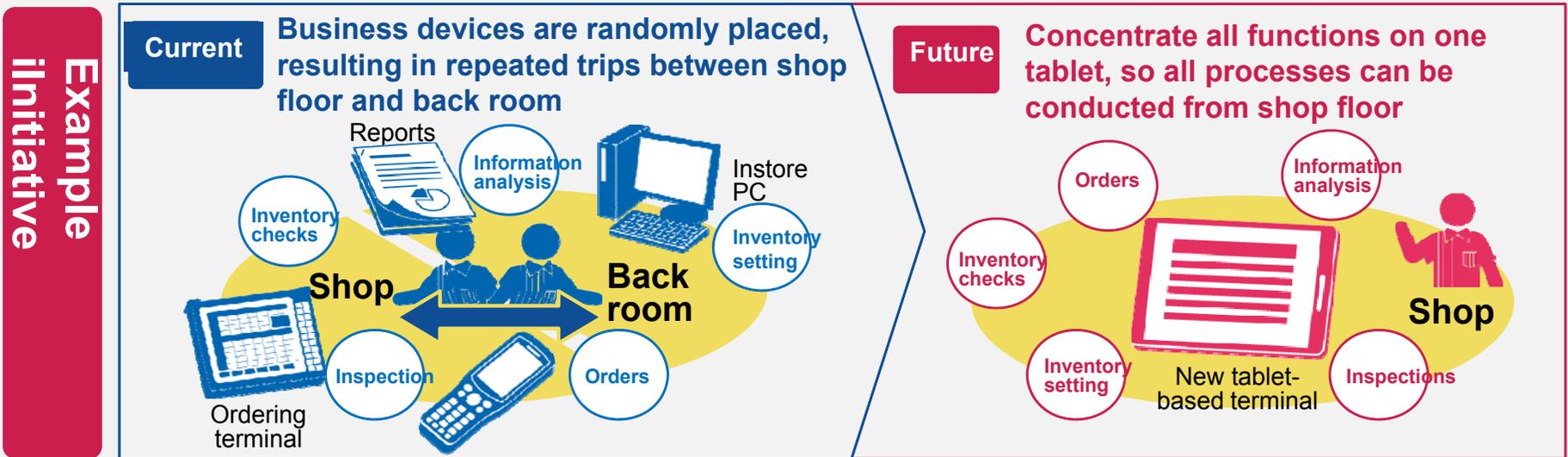


Having strengthened products in the supermarket alternative category in 1H, we intend to further strengthen Lawson's competitive over-the-counter fast food in 2H and boost the number of In-store Kitchens

Reinforced support for franchise business

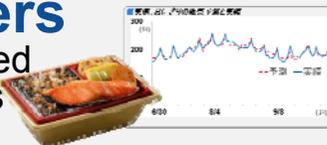
Revolutionizing store productivity

Build next-generation systems to reform store operations and address challenges posed by complex, diverse CVS business, scarcity of staff



Semi-automatic orders

Ensure steady inventory of cooked snacks, eliminated discrepancies between stores



Planned orders

Reduce product shortages, minimize opportunity losses



Ponta member purchase data

Aid product development and forming of area-specific strategies



Revolutionizing the work of supervisors

Boost overall SV capability



Next-generation Lawson convenience-store model requires more sophisticated operational functions by SVs

FY2016 Full-year Plan

FY2016 1H Result : Consolidated OP and net profit achieved targets
FY2016 Full Year Target : Consolidated OP of 76.0 bil yen

- 2H estimates remain unchanged: Existing-store sales expected to rise 1.0% y/y and gross profit margin to improve 0.3p y/y as positive impact from 1H expanded product range continues

		FY2016 plan	
		Plan	Y/Y
Parent	Existing-store sales* (y/y)	+1.0% (1H:-0.9%*actual / 2H:+1.0%*plan)	
	Gross margin* (y/y)	+0.2pp (1H:+0.0pp*actual / 2H:+0.3pp*plan)	
	SG&A (y/y)	+5% ~ +10%	
	Operating profit	59.0bln yen	+1.7bln yen/+3.1%
Cons-parent differential		17.0bln yen	+1.7bln yen/+11.2%
Consolidated operating profit		76.0bln yen	+3.5bln yen/+4.8%
Consolidated net profit		35.5bln yen	+4.1bln yen/+13.1%

*Lawson and Natural Lawson combined store total



Corporate Philosophy

“Creating Happiness and Harmony in Our Communities.”

Lawson commits to faithfully attend the stock market as an independent listed company, and reflect shareholder and investor opinion in its management decisions. Lawson commits to work closely with franchise store owners to ensure continued full customer satisfaction, and serve society as a community-based consumer lifeline.

Reference

Earnings Summary: FY2016 1H

		FY2014-1H	FY2015-1H	FY2016-1H		
		Actual	Actual	Actual	YoY	vs. Plan
(Billions of yen)						
Consolidated	Net sales for all stores	994.6	1,035.4	1,076.5	104.0%	99.7%
	Operating profit	40.0	42.0	39.9	95.0%	101.1%
	Operating profit ratio	4.0%	4.1%	3.7%	▲ 0.4%P	+0.1%P
	Recurring profit	39.6	40.7	38.3	94.1%	100.7%
	Net profit	21.8	19.8	22.6	114.1%	106.1%
	EPS (Yen)	219.15	198.11	226.07	+27.96	106.1%
	Dividend per share (Yen)	120	122.5	125	+2.5	±0
Total no. of stores in Japan		11,987	12,305	12,733	+428	+11

Note: Total chain store sales of FY2015-1H and FY2016-1H include sales from the convenience store operation in Japan, overseas operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the sales of directly operated stores are included.

Note: The number of stores of FY2015-1H and FY2016-1H is the total number of convenience stores in Japan operated by the Lawson Group plus the number of directly operated Seijo Ishii stores.

■ Operating profit down 5.0% YoY, but 0.4 billion yen or 1.1% above target

Despite a YoY contraction in existing-store sales generated by fierce competition, unseasonal weather and a large decline in ticket sales, non-consolidated operating profit outstripped forecasts following effective controlling of costs primarily at Lawson headquarters.

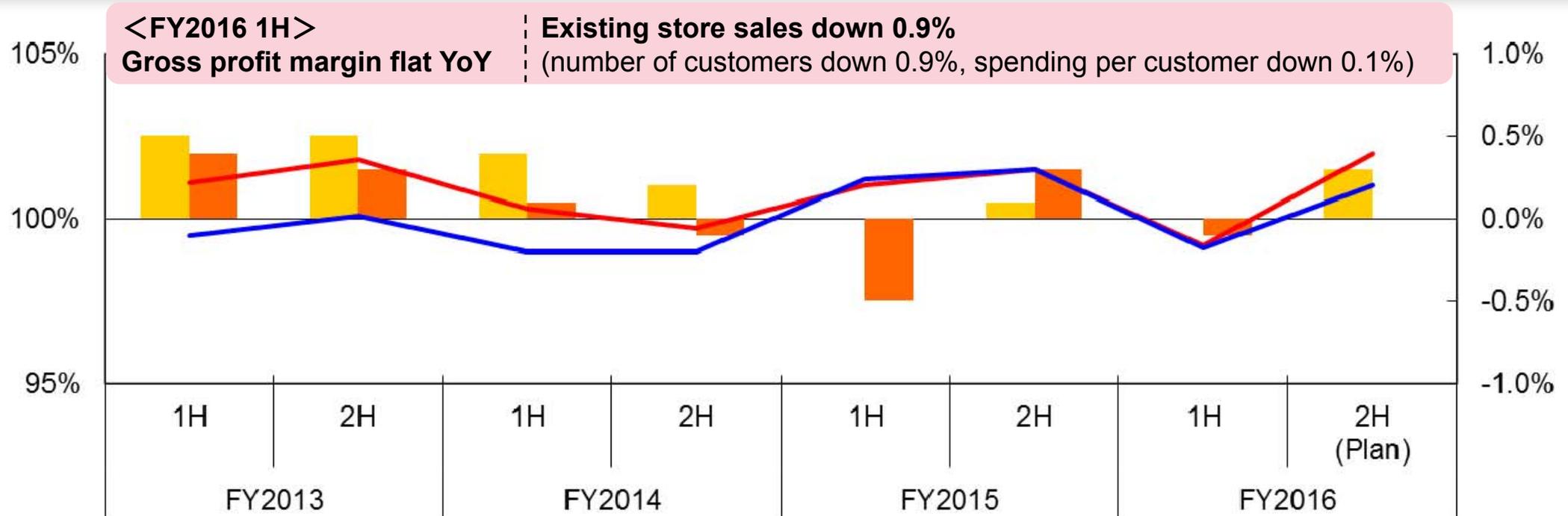
Consolidated operating profit also outstripped forecasts thanks to a strong contribution from United Cinemas and other subsidiary firms.

■ Net profit +14.1% YoY (+6.1% above target)

We had a significant fall in 1H impairment losses compared to the previous business year when we refined our impairment loss standards.

Existing Stores (Non-consolidated*)

*Lawson and Natural Lawson combined store total



■ Gross profit margin difference (YoY, Right)

■ Existing stores gross profit (YoY, Left)

■ Gross profit margin difference, excl. cigarette sales (YoY, Right)

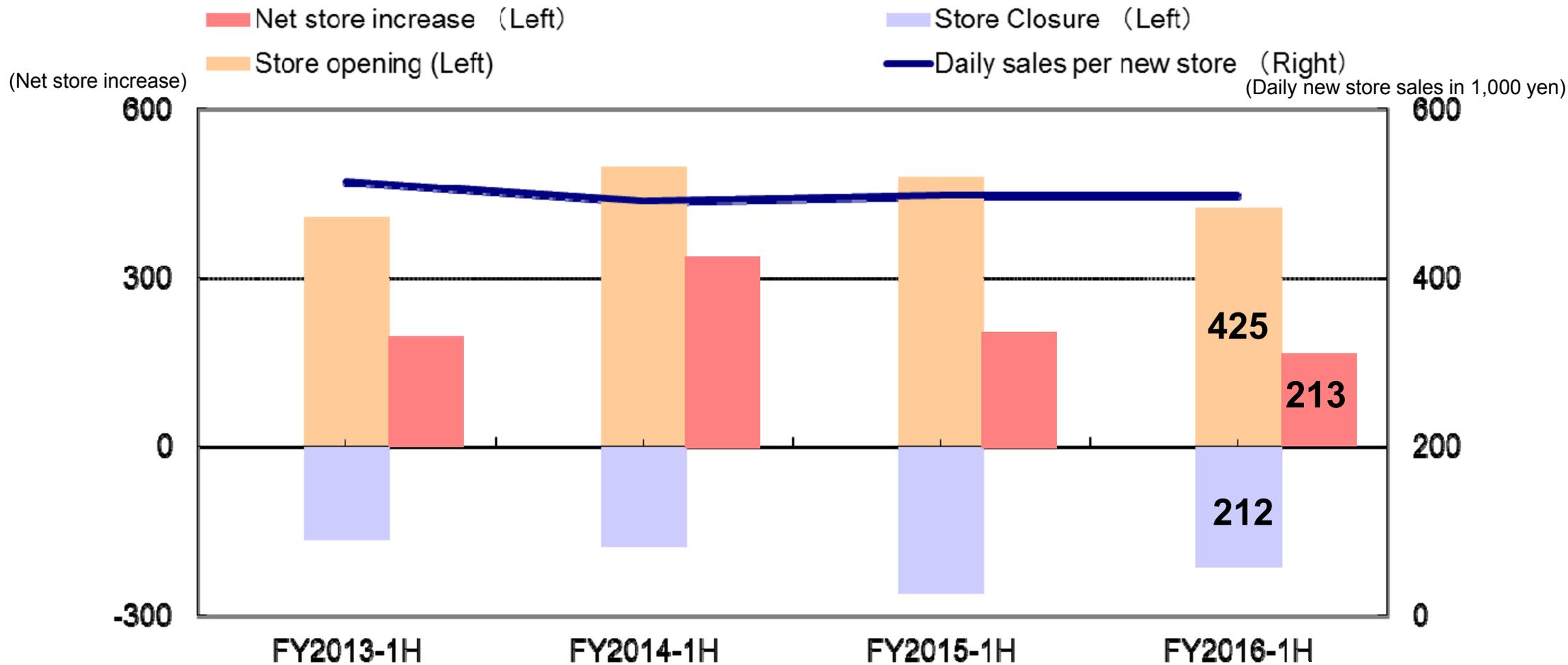
■ Existing stores sales (YoY, Left)

■ Existing-store sales down 0.9% YoY on unseasonal weather, and falling ticket sales (fewer large public events compared to the previous year). Existing-store sales excluding ticket and other sales rose 0.3% YoY.

■ Gross profit margin excluding cigarettes declined 0.1pp YoY on falling ticket sales. Gross profit margin held steady YoY at 31.3% with cigarettes contributing a shrinking proportion of total sales.

Store Openings (Non-consolidated*)

*Lawson and Natural Lawson combined store total



- 425 new store openings as planned (including 73 franchise stores from Save On and other chains)
- Closed 18 fewer stores than originally planned. Net increase in stores 18 stores higher than planned as a result.
- New-store daily sales steady YoY at 497,000 yen.

Key Components of SG&A Expenses

		FY2015-1H	FY2016-1H		FY2016
(Billions of yen)		Actual	Actual	Change vs. Plan	Forecast
Non-consolidated	Selling, general & administrative expenses	120.7	133.7	+13.0 ▲ 1.4	<i>Increase 5-10%</i>
	<Major Expenses>				
	Personnel expenses	19.3	20.7	+1.3 ▲ 0.1	<i>Increase 5-10%</i>
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	4.9	4.6	▲ 0.3 ▲ 0.3	<i>Decrease 0-5%</i>
	Advertising and promotional expenses	5.1	7.6	+2.4 ▲ 0.5	<i>Increase 10-15%</i>
	Facilities expenses	67.1	71.1	+4.0 ▲ 0.1	<i>Increase 5-10%</i>
Consolidated SG&A expenses		171.8	186.2	+14.3 ▲ 2.9	<i>Increase 5-10%</i>

Note: Figures in italic indicate the revised figures from the initial plan.

Compared to Fiscal 2015

Non-consolidated

- A&P: Stronger efforts to support everyday living resulted in higher franchise store product range support expenses.
- Others: Higher store numbers resulted in increased HQ expenses, as HQ assumed a portion of franchise-stores costs under new franchise contracts.

Consolidated

- In addition to non-consolidated factors, consolidated expenses also rose on expansion of Lawson ATM networks, and increased stores numbers at Seijo Ishii and overseas subsidiary firms.

Compared to Plan

Non-consolidated

- 1.4 billion yen lower than expected on effective cost controls primarily at HQ. HQ cost burden down on efficient use of franchise-store product range support funds. Lower electricity unit prices reduced HQ electricity payment burdened under new franchise contracts.

Consolidated

- 2.9 billion yen below plan. In addition to non-consolidated factors, the stronger yen reduced SG&A expenses at our China-based subsidiary firms in yen terms.

Earnings of Major Subsidiaries

Operating Profit of Major Subsidiaries			(Billions of yen)		
			FY2016-1H		FY2016
	FY-end	Ownership	Actual	YoY change	Forecast
Lawson Store100, Inc.	Feb.	100.0%	0.37	+0.25	<i>0.80</i>
SEIJO ISHII CO., LTD.	Dec.	100.0%	3.31	+0.35	7.60
Lawson HMV Entertainment, Inc.	Feb.	100.0%	0.97	▲ 0.72	2.10
Lawson ATM Networks, Inc.	Feb.	76.3%	3.24	▲ 0.05	<i>6.00</i>
United Cinemas Co., Ltd.	Feb.	100.0%	1.60	+0.80	<i>2.00</i>
Chongqing Lawson, Inc.	Dec.	100.0%	▲ 0.25	+0.20	▲ <i>0.40</i>
Shanghai Hualian Lawson, Inc.	Dec.	94.0%	▲ 0.64	+0.11	▲ <i>0.40</i>

Note: Figures in italic indicate the revised figures from the initial plan.

Note: Lawson Mart, Inc. has changed its name to Lawson Store100, Inc. since March 2016.

Note: United Cinema's fiscal year end to February meant that the 1H of FY2016, which spanned the March- August period including the summer holiday, is being compared to the less active January-June period of the previous year.

Lawson Store100

Favorable recovery in sales with existing-store sales rising 1.2% YoY. The subsidiary turn a profit, even after incorporating the operating loss recorded on non-consolidated accounts.

SEIJO ISHII

Operating profit expanded further in FY2016 on strong sales and new store openings. Fiscal 2016 includes 14 months of performance, owing to plans to change the subsidiary firm's fiscal year-end from December to February to align with Lawson parent.

Lawson HMV Entertainment

Operating profit down due to higher depreciation on new ticket systems.

United Cinemas

Operating profit increased sharply thanks to numerous hit movies. Also, the decision taken in FY2015 to shift United Cinema's fiscal year end to February meant that the 1H of FY2016, which spanned the March- August period including the summer holiday, is being compared to the less active January-June period of the previous year.

Lawson ATM Networks

Revenue up on higher ATM installations and steady YoY ATM transaction volume, but profit down slightly on costs relating to introduction of new-style ATM machines.

Cash Flows and Capital Expenditure (Consolidated)

● Consolidated Capital Expenditures

(Billions of yen)

	FY2014-1H	FY2015-1H	FY2016-1H	FY2016
	Actual	Actual	Actual	Plan
New stores	21.3	18.2	16.8	51.5
Existing stores	2.9	2.4	3.3	10.0
IT-related	2.4	8.7	7.6	18.0
Other	0.8	0.4	0.9	1.0
Subtotal for capital expenditure	27.5	29.7	28.8	80.5
Leases	18.2	20.9	25.1	56.0
Depreciation and amortization	19.9	23.8	26.9	59.3

● Consolidated Cash flows

(Billions of yen)

	FY2014-1H	FY2015-1H	FY2016-1H	FY2016
	Actual	Actual	Actual	Forecast
Cash flows from operating activities	92.1	92.6	91.4	Approx. 120.0
Cash flows from investing activities	▲ 38.2	▲ 33.2	▲ 28.9	Approx. ▲ 85.0
Free cash flows	53.8	59.3	62.4	Approx. 35.0
Cash flows from financing activities	▲ 8.6	▲ 24.1	▲ 27.7	Approx. ▲ 55.0
(Cash dividends paid)	▲ 10.9	▲ 11.9	▲ 12.2	Approx. ▲ 25.0
Cash and cash deposits	113.7	112.1	104.0	-

Leases increased sharply YoY following aggressive refurbishment of existing stores designed to help satisfy customers' broad everyday needs.

FY2016 Company Forecasts (Consolidated)

(Billions of yen)	FY2014	FY2015	FY2016 Forecast	
	Actual	Actual	Plan	YoY
Net sales for all stores	1,961.9	2,049.5	<i>2,180.0</i>	106.4%
Operating profit	70.4	72.5	76.0	104.8%
Operating profit ratio	3.6%	3.5%	3.5%	▲0.1%P
Recurring profit	71.7	69.6	73.0	104.9%
Net profit	32.6	31.3	35.5	113.1%
EPS (Yen)	327.08	313.81	354.95	41.14
Dividend per share (Yen)	240	245	250	+5
ROE	13.0%	12.0%	13.2%	+1.2%P
Total no. of stores in Japan	12,383	12,515	13,229	+714
(Non-consolidated*) *Lawson and Natural Lawson combined store total				
Gross profit of existing stores (YoY)	100.0%	101.3%	<i>100.6%</i>	-
Net sales of existing stores (YoY)	99.0%	101.4%	<i>100.1%</i>	-
Gross profit margin ratio	31.3%	31.3%	<i>31.5%</i>	+0.2%P
Gross profit margin difference excluding cigarette sales (YoY)	±0.0%P	▲0.5%P	±0.0%P	+0.5%P

Note: Figures in italic indicate the revised figures from the initial plan.

Note: Total chain store sales includes sales from the convenience store operation in Japan, overseas operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the sales of directly operated stores are included.

Note: The number of stores is the total number of convenience stores in Japan operated by the Lawson Group plus the number of directly operated Seijo Ishii stores.

Maintain FY2016 full-year consolidated operating profit target of 76.0 billion yen. Full year existing-store sales expected to rise just enough to compensate for the sharp 1H decline (2H forecast remains unchanged). Plan to continue pursuing strategies implemented in the 1H to help achieve full-year OP target of 76.0 billion yen.

Half Year Breakdown of FY2016 Forecast (Consolidated)

(Billions of yen)

(Consolidated)	FY2016 Forecast			
	1H Initial Plan	1H Actual	2H Plan	Full-Year Plan
Net sales for all stores	1,080.0	1,076.5	<i>1,103.4</i>	<i>2,180.0</i>
Operating profit	39.5	39.9	<i>36.0</i>	76.0
Operating profit ratio	3.7%	3.7%	<i>3.3%</i>	3.5%
Recurring profit	38.1	38.3	<i>34.6</i>	73.0
Net profit	21.3	22.6	<i>12.8</i>	35.5
(Non-consolidated*) *Lawson and Natural Lawson combined store total				
Gross profit of existing stores (YoY)	102.0%	99.2%	<i>102.0%</i>	<i>100.6%</i>
Net sales of existing stores (YoY)	101.0%	99.1%	<i>101.0%</i>	<i>100.1%</i>
Gross profit margin ratio	31.6%	31.3%	<i>31.7%</i>	<i>31.5%</i>

Note: Figures in italic indicate the revised figures from the initial plan.

Note: Note: Total chain store sales includes sales from the convenience store operation in Japan, overseas operations and sales from Seijo Ishii (consolidated items only). Regarding Seijo Ishii, only the sales of directly operated stores are included.

First Half of FY2016 Balance Sheet (Consolidated)

			(Billions of yen)	
	As of Aug. 31, 2016	Change from Feb. 29, 2016	As of Aug. 31, 2016	Change from Feb. 29, 2016
Total current assets	279.0	+54.8	Total current liabilities	373.0 +53.4
(Cash and deposits)	104.7	+34.9	(Accounts payable-trade)	133.0 +20.7
(Accounts receivable)	86.5	+18.8	(Deposits payable)	124.3 +22.4
Total noncurrent assets	594.7	+15.7	Total noncurrent liabilities	220.2 +9.6
Property, plant and equipment	320.4	+17.6	(Long-term loans payable)	56.9 ▲ 0.5
Intangible assets	86.2	+1.6	Net Assets	280.4 +7.4
(Goodwill)	44.8	▲ 1.4	(Common stock)	58.5 -
Investments and other assets	188.0	▲ 3.5	(Retained earnings)	163.8 +9.2
(Long-terms loans receivable)	41.7	+0.8		
(Guarantee deposits)	93.4	+0.9		
Total Assets	873.7	+70.5	Liabilities and net assets	873.7 +70.5

FY2016 1H Performance by Group Segment

(Billions of yen)

	Japan convenience-store business			Lawson Store100 business			Seijo Ishii business		
		Sales ratio	YoY		Sales ratio	YoY		Sales ratio	YoY
Net sales for all stores	1,006.4	100.0%	103.9%	22.2	100.0%	90.6%	33.5	100.0%	106.9%
Gross operating revenue	191.3	19.0%	107.6%	24.5	110.7%	90.5%	36.0	107.4%	107.4%
Gross operating profit	176.0	17.5%	106.6%	7.2	32.7%	86.0%	13.8	41.3%	108.0%
SG&A expenses	143.0	14.2%	111.0%	6.8	31.0%	82.7%	10.9	32.5%	106.6%
Operating profit	32.9	3.3%	91.0%	0.3	1.7%	331.6%	2.9	8.8%	113.6%

(Billions of yen)

	Entertainment business			International business			Other business		
		Sales ratio	YoY		Sales ratio	YoY		Sales ratio	YoY
Net sales for all stores				14.3	100.0%	129.7%			
Gross operating revenue	35.7		104.3%	11.4	79.9%	122.0%	13.3		102.3%
Gross operating profit	17.6		100.7%	3.9	27.3%	134.7%	13.3		102.3%
SG&A expenses	15.3		97.5%	5.6	39.5%	116.6%	10.1		105.2%
Operating profit	2.2		129.4%	▲ 1.7	▲ 12.1%	89.5%	3.1		94.0%

Note: The Japan convenience-store business combines business results from the Lawson parent and SCI, Inc.

Note: The Lawson Store100 business refers to the business results of Lawson Store100, Inc.

Note: The Seijo Ishii business refers to the business results of Seijo Ishii Co., Ltd.

Note: The Entertainment business combines the business results of Lawson HMV Entertainment, Inc. and related consolidated subsidiaries such as United Cinemas Co., Ltd., etc.

Note: The International business combines the business results of overseas consolidated subsidiaries such as Lawson (China) Holdings, Inc., Shanghai Hualian Lawson, Inc. and Chongqing Lawson, Inc.

Note: Other business combines the business results of financial-service related subsidiaries such as Lawson ATM Networks, Inc. and consulting firm BestPractice Inc.

Cautionary Statement

This presentation contains forward-looking statements and forecasts regarding the future plans, strategies and performances of Lawson and its subsidiaries and affiliates. These statements and forecasts are not historical facts. They are expectations based on assumptions and beliefs derived from information currently available to the Company and are subject to risks and uncertainties including, but not limited to, economic trends, heightened competition in the domestic convenience store sector, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from estimates. Figures in this presentation have been rounded down.