Flash Report on the Consolidated Financial Results

for the Fiscal Year Ended February 28, 2017

April 12, 2017

Listed Company Name: Lawson, Inc. Tokyo Stock Exchange (First Section)
Code No.: 2651 (URL http://www.lawson.jp/en/ir)
Company Representative: Sadanobu Takemasu, President, Representative Director
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Scheduled date for the ordinary general meeting of shareholders: May 30, 2017
Scheduled date for submission of annual securities report: May 31, 2017
Scheduled date for payment of dividend: May 31, 2017
Supplementary materials for annual financial results: Yes
Holding of presentation of annual results: Yes (for institutional investors and analysts)

(Amounts less than one million yen are truncated)

1. Consolidated operating results for 2016 fiscal year (from March 1, 2016 to February 28, 2017)

(1) Consolidated operating results (cumulative)

Note: Percentages represent increases (decreases) compared with the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
For the fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
February 28, 2017	631,288	8.2	73,772	1.7	73,014	4.9	36,400	16.0
February 29, 2016	583,452	17.2	72,541	2.9	69,622	(2.9)	31,381	(4.0)

Note: Comprehensive income: Fiscal year ended February 28, 2017 35,543 million yen 7.9%
Fiscal year ended February 29, 2016 32,928 million yen (6.5)%

	Profit per share	Diluted profit per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to gross operating revenue
For the fiscal year ended	Yen	Yen	%	%	%
February 28, 2017	363.96	363.70	13.5	8.7	11.7
February 29, 2016	313.81	313.57	12.0	8.9	12.4

Reference: Share of profit of entities accounted for using equity method:
Fiscal year ended February 28, 2017 602 million yen
Fiscal year ended February 29, 2016 292 million yen

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
February 28, 2017	866,577	285,995	31.7	2,748.39
February 29, 2016	803,212	272,997	32.9	2,643.97

Reference: Shareholders' equity: As of February 28, 2017 274,880 million yen
As of February 29, 2016 264,392 million yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
For the fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
February 28, 2017	99,864	(76,227)	(25,638)	67,692
February 29, 2016	112,205	(68,657)	(50,201)	69,793

2. Dividends

	Annual dividends per share					Total dividends for the year	Payout ratio	Ratio of dividends to shareholders' equity
	1Q	1H	3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
2015 fiscal year	–	122.50	–	122.50	245.00	24,499	78.1	9.4
2016 fiscal year	–	125.00	–	125.00	250.00	25,003	68.7	9.3
2017 fiscal year (forecast)	–	127.50	–	127.50	255.00		76.1	

3. Forecast of consolidated operating results for 2017 fiscal year (from March 1, 2017 to February 28, 2018)
Note: Percentages represent increases (decreases) compared with the previous fiscal year.

	Gross operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1H of 2017 fiscal year	334,000	9.1	37,500	(6.1)	36,000	(6.2)	21,000	(7.1)	209.96
2017 fiscal year	675,000	6.9	68,500	(7.1)	65,500	(10.3)	33,500	(8.0)	334.95

4. Notes

(1) Change in significant subsidiaries during the fiscal year (Changes in certain specified subsidiaries resulting in changes in scope of consolidation): None

Added: None   Excluded: None

(2) Changes in accounting policies, changes in accounting estimates or restatements

1. Changes in accounting policies associated with revision in accounting standards: Yes
2. Changes in accounting policies other than 1. above: None
3. Changes in accounting estimates: None
4. Retrospective restatements: None

(3) Number of shares outstanding (common stock)

1. Number of shares outstanding at the end of year (including treasury shares)
As of February 28, 2017: 100,300,000   As of February 29, 2016: 100,300,000

2. Number of treasury shares at the end of year
As of February 28, 2017: 285,191   As of February 29, 2016: 301,897

3. Average number of shares during the year
As of February 28, 2017: 100,009,948   As of February 29, 2016: 99,998,346

Note: Implementation status of audit procedures

This flash report is exempt from audit procedures under the Financial Instruments and Exchange Act. As of the time of disclosure of this report, audit procedures for the financial statements have not been completed.

Note: Descriptions on appropriate use of financial performance forecasts and other special notes

Forward-looking statements presented herein such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. The achievement of said forecasts cannot be guaranteed. Actual results may be materially different from those in the forecast as a result of various factors. For preconditions of these financial forecasts and notes concerning their use, please refer to “Analysis of Operating Results and Financial Position; Outlook for Fiscal 2017” on page 9.

Contents

1. Analysis of Operating Results and Financial Position

(1) Analysis of Consolidated Operating Results

During the fiscal year under review, or fiscal 2016 ended February 28, 2017, we have launched our "1000-Day Action Plan" and focused our business activities on building Lawson's next-generation convenience store model. The convenience store industry is now undergoing drastic transformation. This is attributable to changes in community needs resulting from an aging population and the prevalence of the nuclear family, among others, which have triggered a reorganization of the industry. Deeming the next three years as a crucial turning point for the Lawson Group (hereinafter, the "Group") under the "1000-Day Action Plan," we have made efforts to evolve our business model as a manufacturing retailer targeting small catchment areas and to raise our store productivity to an unprecedented level toward the goal of fulfilling our customers' needs in everyday life by serving as an essential part of their communities.

Furthermore, Lawson became a consolidated subsidiary of Mitsubishi Corporation (hereinafter, "Mitsubishi") as of February 15, 2017 as Mitsubishi newly acquired a majority of voting rights in Lawson following the completion of a tender offer for our common stock. Mitsubishi intends to strengthen collaboration with Lawson while continuing to maintain its share listing on the First Section of the Tokyo Stock Exchange and management autonomy. We will aim to establish a framework that enables the maintenance of appropriate corporate governance as an independent listed company and that maximizes effects of synergy with Mitsubishi Group companies.

We have also focused on promoting internal control and addressing operating risks across the entire Group based on the 2016 Basic Policy for Maintaining Internal Control Systems and we will continue promoting internal control going forward.

Operating results by business segment were as follows:

(Domestic Convenience Store Business)

In our convenience store business, in our effort to attract customers by serving as stores for everyday use, we strengthened our product lineup of our private brand, "Lawson Select," renovated existing stores, invested aggressively in advertising and sales promotions, and expanded and improved merchandise selection.

[Store Operations]

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) offering a merchandise assortment focused on basic items with high demand; and (3) keeping our stores and communities clean, and we strengthened our merchandise assortment of ready-made dishes, frozen food items, and seasonings by taking strong steps to renovate existing stores, including installing more refrigerators and freezer flatbeds as well as raising the heights of product display shelves and putting in more shelves.

[Merchandising and Service Strategies]

On the merchandise side, we expanded our merchandise assortment under our "Lawson Select" brand, focusing on products purchased for everyday life, such as Japanese ready-made dishes and salads in the daily delivered food category. We are focused on selling products that contribute to the health of customers. For example, the “Green Smoothie,” a NATURAL LAWSON brand product, has been in high demand, mainly from female and highly health-conscious customers, while the “Nikku Yasai Itame Bento” (stir-fried meat and vegetables lunch box), which includes one half of a person’s daily vegetable requirement, has also gained wide popularity. In the counter fast food section, the “Deka Yakitori” (grilled chicken), which weighs 20% more than the previous yakitori offering and is the largest in Lawson’s history, has been well received by many customers since its launch in January 2017.

There are currently 23 Lawson Farms throughout the country. The farms assume the role of supplying safe and fresh fruits and vegetables to the Group’s stores and factories that produce LAWSON’s original products. With the aim of establishing an appropriate farm management system for Lawson Farms, Lawson has been endeavoring to obtain certification for Japan Good Agricultural Practice (JGAP), a set of agricultural production process management techniques. In July 2016, Lawson and the Presidents and CEOs of Lawson Farms were awarded the “GAP Initiative Award 2016” hosted by the Asia GAP Research Institute in recognition of their unrivalled contribution to the dissemination of Good Agricultural Practice (GAP) [*1]. The Group will continue its efforts to deliver safe and secure products through such initiatives.

In addition to thus strengthening our merchandise lineup, we also enhanced our service offerings, one of which is our “Gift Cards” [*2], whose transaction value continued to remain solid.

We started accepting “Alipay”, the world’s largest mobile payment service, and “LINE Pay”, the remittance and payment service through the communication app, LINE, at all of our outlets in January 2017, a first in the industry.

On our sales promotion side, as part of our effort to increase the number of purchased items per customer, we rolled out a monthly promotional “Lawson Tokuichi!” campaign, where a 10% discount was offered on “Lawson Select” chilled/frozen foods as well as some items offered in our counter cases. Furthermore, measures to effectively attract customers were launched, including a “100-yen rice ball sale”, a “speed lottery” themed on “E-girls” and “Sandaime J Soul Brothers from EXILE TRIBE,” which demonstrated our strength in the entertainment field, and rewarding Ponta Card members with five times the points on purchases in evenings and at night.

*1 GAP: Good Agricultural Practice (A set of agricultural production process management techniques).

*2 Gift Cards: Collective term for prepaid cards that can be used for online transactions.

[Breakdown of Sales by Merchandise Category at Chain Stores in Domestic Convenience Store Business]

Product group \ Fiscal year	Previous fiscal year From March 1, 2015 to February 29, 2016		Current fiscal year From March 1, 2016 to February 28, 2017		YoY (%)
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)	
Processed foods	1,033,448	52.7	1,073,044	52.5	103.8
Fast foods	463,431	23.7	481,267	23.6	103.8
Daily delivered foods	276,886	14.1	294,141	14.4	106.2
Nonfood products	186,499	9.5	194,833	9.5	104.5
Total	1,960,266	100.0	2,043,287	100.0	104.2

[Store Development]

In opening new stores, the Group continued to prioritize developing profitable stores.

With regard to our partnership initiatives with other chain retailers, based on a mega-franchise agreement concluded with Save On Corp., we remodeled 54 Save On stores, which operated in Yamagata, Fukushima and Ibaraki Prefectures, into LAWSON stores in a phased manner during fiscal 2016. In the fourth quarter, we also concluded mega-franchise agreements in Gunma, Tochigi, Niigata, Saitama, and Chiba Prefectures. From around summer 2017 to the end of 2018, 503 Save On stores in these prefectures (as of end of December; includes 2 stores in Nagano Prefecture) are scheduled to be remodeled into LAWSON stores.

Furthermore, under our partnership with Three F Co., Ltd., 23 Three F stores were remodeled to become LAWSON stores by February 2017. Also, L・TF Co., Ltd., a joint venture established in September 2016, operates (as of the end of February) 89 LAWSON Three F stores that were formerly Three F stores.

Under our partnership with POPLAR Co., Ltd., Lawson Sanin, Inc., a joint venture between Lawson, Inc. and POPLAR Co., Ltd., commenced operation of a regional franchise business in the Tottori and Shimane region. The joint venture has consolidated all existing POPLAR-brand convenience stores in the region that had wished to shift to a joint LAWSON POPLAR brand and all stores run by Lawson’s Tottori and Shimane branch offices. As of the end of February 2017, it operates a total of 287 stores (of which 56 are LAWSON POPLAR stores).

Furthermore, by building partnerships with dispensing pharmacy and drug store chains, we offer not only OTC pharmaceuticals, cosmetics, and daily necessities, but also offer a more numerous assortment of merchandise than conventional LAWSON stores. The number of stores offering OTC pharmaceuticals has reached 157 stores (includes 41 pharmacy LAWSON stores equipped with drug-dispensing pharmacies) as of the end of February 2017. Furthermore, with the addition of Lawson Kure Hironagahama store, the first store serving as a nursing care hub center in Hiroshima Prefecture, which opened in July 2016, the number of stores offering nursing care consultation services has reached 9 as of the end of February 2017. We will continue to engage in establishing convenience store models that address and deal with social changes such as the aging population and increased health awareness.

With respect to LAWSON STORE100, we continued to increase the product composition ratio of 100-yen items (excluding tax) by scaling down product portions to respond to customer needs for value, and strengthened our popular fruit and vegetable lineup. As a result, existing-store sales for fiscal 2016 exceeded those for the previous fiscal year.

Consequently, the total number of LAWSON, NATURAL LAWSON, and LAWSON STORE100 stores opened and closed during the current fiscal year stood at 1,108 and 413 stores, respectively, with the total number of stores in Japan reaching 12,575 as of the end of February 2017. *3

In addition, the equity method affiliates Lawson Kochi, Inc., Lawson Minamikyushu, Inc. and Lawson Okinawa, Inc. operate 135 LAWSON chain stores in Kochi Prefecture, 191 LAWSON chain stores in Kagoshima Prefecture and 210 LAWSON chain stores in Okinawa Prefecture, respectively, as of the end of February 2017.

*3 The numbers of store openings and closings and total number of stores in Japan include stores operated by both Lawson, Inc. and Lawson Sanin, Inc.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 29, 2016	Change during fiscal year	Total stores as of February 28, 2017
LAWSON	10,937	699	11,636
NATURAL LAWSON	134	7	141
LAWSON STORE100	809	(11)	798
Total	11,880	695	12,575

(Note) These figures include stores operated by both Lawson, Inc. and Lawson Sanin, Inc.

Furthermore, LAWSON Three F and LAWSON POPLAR brand stores are also included.

[Number of LAWSON stores by prefecture (February 28, 2017)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	637	Ibaraki	193	Kyoto	328	Ehime	214
Aomori	234	Tokyo	1,588	Shiga	154	Tokushima	134
Akita	188	Kanagawa	872	Nara	128	Fukuoka	473
Iwate	169	Shizuoka	256	Wakayama	137	Saga	68
Miyagi	227	Yamanashi	122	Osaka	1,048	Nagasaki	106
Yamagata	105	Nagano	173	Hyogo	663	Oita	176
Fukushima	130	Aichi	629	Okayama	172	Kumamoto	145
Niigata	148	Gifu	164	Hiroshima	199	Miyazaki	104
Tochigi	157	Mie	131	Yamaguchi	122	Total (domestic)	12,575
Gunma	115	Ishikawa	104	Tottori	137		
Saitama	599	Toyama	186	Shimane	149		
Chiba	550	Fukui	110	Kagawa	131		

(Note) These figures include stores operated by both Lawson, Inc. and Lawson Sanin, Inc.

Furthermore, LAWSON Three F and LAWSON POPLAR brand stores are also included.

[Other]

With regards to our efforts in home convenience, we will strive to enhance customer convenience by additionally partnering with other companies to establish an “Open Platform” based on the networks of LAWSON stores that offer a range of services encompassing ordering, collection, and home delivery.

With respect to distribution, from March 2016, we commenced operation of our distribution center, a three-temperature-zone distribution center offering an integrated environment for chilled, frozen and ambient-temperature foods. Through independent operation of the distribution center, we aim at further streamlining the entire supply chain and improving store productivity.

At the LAWSON Panasonic-Mae store, our experimental “Next-generation Convenience Store” in Moriguchi-shi, Osaka, we started testing the industry’s first fully automated cash register, “Regi Robo®,” using radio-frequency identification (RFID.) We will promote productivity enhancements with the aim of improving our customers’ convenience and the efficiency of increasingly complicated store operations by eliminating scanning at the time of payment to speed up the payment process in the future.

As a result, Domestic Convenience Store Business posted gross operating revenue of 424,608 million yen (up 6.5% from previous fiscal year) and segment profit of 59,865 million yen (down 0.2% from previous fiscal year.)

(Seijo Ishii Business)

The number of directly operated Seijo Ishii stores, a high-end supermarket chain offering quality foods, reached 132 as of the end of February 2017. Sales remained robust, and in April 2016, the first Seijo Ishii store combining “Le Bar a Vin 52” was opened in Atre Ebisu West. With respect to merchandise, a new private brand dubbed “desica” was launched, which achieved strong sales. Collaborations between Seijo Ishii Business and our Domestic Convenience Store Business were promoted, such as expanding Seijo Ishii’s selection of wine offered at NATURAL LAWSON stores, jointly importing confectionery, and rolling out jointly developed products including nuts and cup soup. We will continue to improve the brand strength and corporate value of SEIJO ISHII CO., LTD., which marked its 90th anniversary in February 2017, while absorbing the company’s product development expertise, knowhow acquired as a manufacturing retailer, and sales methods, to strengthen our Domestic Convenience Store Business.

As a result, Seijo Ishii Business posted gross operating revenue of 85,824 million yen (up 24.4% from previous fiscal year) and segment profit of 6,911 million yen (up 37.2% from previous fiscal year). Regarding SEIJO ISHII CO., LTD, its balance sheet date was changed therefore segment profit represented a 14-month period.

(Entertainment-related Business)

With regards to Entertainment-related Business, Lawson HMV Entertainment, which forms the core of entertainment related business, continued to secure top position in the ticketing industry. Regarding HMV stores that combine selling music CDs and DVDs, the second “HMV Record Shop,” a used analog record and CD store, was opened in Shinjuku, and was well received. The number of HMV stores that sell music CDs and DVDs totaled 55 as of the end of February 2017. We will strive to offer an even wider selection of products and services to better respond to customer needs, for example, by expanding our entertainment business. In April 2016, United Cinemas Co., Ltd. opened the “Premium Dining Cinema” in Fukuoka-shi, Kyushu, as the first cinema in Japan where moviegoers can dine while enjoying a film. Furthermore, United Cinemas Co., Ltd. operates a total of 38 sites with 340 screens (includes those under management contract) at its cinemas nationwide as of the end of February 2017.

As a result, Entertainment-related Business posted gross operating revenue of 72,936 million yen (down 2.8% from previous fiscal year) and segment profit of 3,988 million yen (down 2.1% from previous fiscal year).

(Other Business)

In addition to the aforementioned businesses, the Group is also involved in the Overseas Business and the Financial Services-related Business.

With regards to Overseas Business, the Group’s operating companies opened LAWSON stores in the People’s Republic of China, Thailand, Indonesia, the Philippines, and the United States of America (Hawaii).

In China, we marked our 20th anniversary in July 2016 since we became the first Japanese convenience store to advance into Shanghai. We made inroads into Wuhan in China’s Hubei Province in May 2016. In February 2017, the total number of stores in China exceeded the 1,000 mark.

[Distribution of LAWSON Brand Stores Overseas by Region]

Country/Region	Number of stores (As of February 29, 2016)	Change during fiscal year	Number of stores (As of February 28, 2017)
China Shanghai and surrounding area	458	207	665
China Chongqing	110	26	136
China Dalian	53	29	82
China Beijing	34	14	48
China Wuhan	—	72	72
Thailand	47	38	85
Indonesia	38	(2)	36
Philippines	16	14	30
United States of America Hawaii	2	—	2
Total	758	398	1,156

Lawson ATM Networks, Inc., which operates a Financial Services-related Business, continued contributing to consolidated results owing to an increase in the number of ATMs installed. We strengthened partnerships with new financial institutions bringing the total number of our financial institution partners to 87 nationwide (up 7 from previous fiscal year), including online banks, and the number of ATMs installed nationwide to 11,912 (up 711 from previous fiscal year) as of the end of February 2017.

In November 2016, we established Lawson Bank Preparatory Company, Inc., which aims to establish a bank leveraging Lawson's previous experience in financial services, and meet necessary preconditions for obtaining approval from the relevant authorities.

As a result, Other Business posted gross operating revenue of 55,147 million yen (up 17.5% from previous fiscal year) and segment profit of 2,999 million yen (down 12.5% from previous fiscal year).

[Environmental and Social Contribution Activities]

As part of our initiative to reduce our environmental impact, we will endeavor to save energy and resources as well as promote waste reduction not only at LAWSON stores but also throughout the entire supply chain.

In particular, we promoted the introduction of a state-of-the-art energy-saving chlorofluorocarbon-free (CO_2 refrigerant) refrigerator/freezer system with the aim of reducing electricity consumption at our stores. As of the end of February 2017, the system had been installed in approximately 2,000 stores. Compared to conventional equipment used in our stores, the new system can reduce electricity consumption per store by around 12%. By putting into practical use an energy-saving package model centered on this system, the Group will aim to achieve its target of using 20% less electricity per store by fiscal 2020 compared to the fiscal 2010 level. In February, we opened a pilot store focusing on environmental friendliness that aims to become a "Smart Energy Store" in Kodaira-shi, Tokyo. This store is the first convenience store to be selected by the Japanese Ministry of Economy, Trade and Industry as a "Virtual Power Plant (VPP) Construction and Demonstration Project." Through remote control of devices and energy saving using Internet of Things (IoT), the store is a demonstration project seeking innovative new ways to achieve energy conservation.

With regard to reducing waste, we are making efforts to improve order-receiving accuracy by introducing a semi-automatic ordering system for ordering products. Moreover, we are recycling unsold food and waste cooking oil from stores, which are being reused as feed and fertilizer, and biodiesel fuel, respectively. In Tottori Prefecture, in particular, unsold food from stores in Sakai Minato-shi is processed into compost, which is used at the Lawson Farm Tottori to produce daikon radish used in our popular Oden (Japanese-style stew).

We continued to pursue business activities with the aim of realizing the Group's corporate philosophy of "Creating Happiness and Harmony in Our Communities," and also carried out fund-raising activities for disasters including the Kumamoto Earthquake, 2016 Typhoon No.10, and the catastrophic fire in Itoigawa-shi, Niigata Prefecture.

As a member of society, we will continue to make unified group-wide efforts to implement initiatives that aim to address social and environmental issues together with our franchised stores, customers and business partners.

(2) Profit and Loss

In terms of operating results for the fiscal year, gross operating revenue increased to 631,288 million yen (up 8.2% from previous fiscal year, operating income increased to 73,772 million yen (up 1.7% from previous fiscal year), and ordinary income increased to 73,014 million yen (up 4.9% from previous fiscal year). Profit attributable to owners of parent increased to 36,400 million yen (up 16.0% from previous fiscal year).

(3) Outlook for Fiscal 2017

Outlook for the next fiscal year (2017 fiscal year ending February 28, 2018)

	1H of 2017 fiscal year		2017 fiscal year	
	Forecast (Millions of yen)	YoY (%)	Forecast (Millions of yen)	YoY (%)
Gross operating revenue	334,000	109.1	675,000	106.9
Operating income	37,500	93.9	68,500	92.9
Ordinary income	36,000	93.8	65,500	89.7
Profit attributable to owners of parent	21,000	92.9	33,500	92.0

(4) Analysis of Financial Position

① Total assets, total liabilities, total net assets analysis

Current assets increased by 25,069 million yen from the end of the previous fiscal year to 249,278 million yen, mainly reflecting an increase of 9,434 million yen in accounts receivable-due from franchised stores and an increase of 10,627 million yen in accounts receivable-other. Non-current assets increased by 38,296 million yen from the end of the previous fiscal year to 617,299 million yen, mainly reflecting an increase of 21,749 million yen in property and store equipment and an increase of 10,204 million yen in intangible assets such as software. Consequently, total assets increased by 63,365 million yen from the end of the previous fiscal year to 866,577 million yen.

Current liabilities increased by 37,175 million yen from the end of the previous fiscal year to 356,783 million yen, mainly reflecting an increase of 29,190 million yen in short-term loans payable. Non-current liabilities increased by 13,190 million yen from the end of the previous fiscal year to 223,798 million yen, mainly reflecting an increase of 11,923 million yen in lease obligations. Consequently, total liabilities increased by 50,366 million yen from the end of the previous fiscal year to 580,581 million yen.

Net assets increased by 12,998 million yen from the end of the previous fiscal year to 285,995 million yen reflecting an increase of 10,553 million yen in retained earnings. Consequently, shareholders' equity ratio was 31.7%, down from 32.9% as of the end of the previous fiscal year.

② Cash flows during fiscal year 2016

Cash and cash equivalents at February 28, 2017 decreased by 2,101 million yen from the end of the previous fiscal year to 67,692 million yen.

Net cash provided by operating activities was 99,864 million yen, a decrease of 12,340 million yen from the previous fiscal year, mainly because of an increase in notes and accounts receivable-trade and a decrease in notes and accounts payable-trade.

Net cash used in investing activities was (76,227) million yen, a decrease of 7,570 million yen from the previous fiscal year, mainly because of increases in purchase of property and store equipment and purchase of intangible assets.

Net cash used in financing activities was (25,638) million yen, an increase of 24,563 million yen from the previous fiscal year, mainly because of an increase in net increase in short-term loans payable.

(Reference) Trends in cash flow indicators

	2015 fiscal year	2016 fiscal year	2017 fiscal year
Shareholders' equity ratio (%)	33.5	32.9	31.7
Shareholders' equity ratio on market value basis (%)	102.3	108.3	89.4
Interest-bearing debt/cash flow ratio (years)	1.4	1.5	2.2
Interest coverage ratio (times)	75.3	57.5	51.9

(Note) Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on market value basis: Market capitalization/Total assets

Interest-bearing debt/cash flow ratio: Interest-bearing debt/Cash flow provided by operating activities

Interest coverage ratio: Cash flow provided by operating activities/Interest expense

1. All indices are calculated using consolidated financial figures.
2. Market capitalization is calculated by multiply closing share price at the end of fiscal year with the number of shares outstanding at the end of fiscal year (excluding treasury shares)
3. The figure for net cash provided by operating activities in the consolidated statements of cash flows is used as cash flow provided by operating activities. Interest-bearing debt refers to the sum of all liabilities in the consolidated balance sheets on which interest is paid. The figure for interest paid in the consolidated statements of cash flows is used as interest expense.

2. Management Policy

(1) Basic Management Policy

Lawson has formulated its corporate philosophy as the basis for all its corporate activities.

[Corporate Philosophy]

"Creating Happiness and Harmony in Our Communities"

Furthermore, under this corporate philosophy, the Company has set a new vision in order to clarify its goals and orient all business activities toward achieving these goals.

[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."

At the same time, in order for this vision to succeed, we also have revised our Code of Conduct to clarify the actions required for each individual and to move forward with everyone united.

[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.

(2) Performance Indicators (Target)

From the perspective of medium-and-long-term management strategy, the Group regards return on equity (ROE) as the best measure of optimal utilization of shareholders' equity, and believes that sustained profit growth is essential for its improvement. The Group intends to establish a unique next-generation convenience store model together with franchise store owners so that each store can become the leader in its area by increasing daily sales. We will also aim to achieve consolidated operating income of 100 billion yen in the medium-and-long-term by enhancing store networks inside and outside Japan.

(3) Medium-and-Long-Term Management Strategies

The business environment facing convenience stores is defined by several factors, including: population decline arising from Japan's declining birthrate and aging society; progression of oligopolization; and stronger environmental awareness. Never before has the convenience store industry experienced such an environment. Against this backdrop, the Group recognizes the following as priority issues ahead. The Group believes that its core business strategies must address these priority issues.

(4) Priority Issues of the Group

① Provide customers with enhanced support in their daily lives

In an effort to become an indispensable part of customers' lives in local communities, we will strive to further expand our merchandise assortment to include a wider variety of daily necessities and ready-made dishes in addition to products and services offered by conventional convenience stores.

② Evolve into a manufacturing retailer targeting small catchment areas

By evolving into a manufacturing retailer deeply engaged in activities across the entire value chain, from procurement of raw materials and ingredients to manufacturing, logistics and sales, we will strive to achieve cost reduction and quality improvement in our products to further strengthen our product appeal.

③ Make the most of digital technology and improve store productivity through distribution reforms

In today's aging society with a low birth rate, various human resources, such as housewives, older workers, and foreign nationals, are being utilized for store operations. By reviewing complicated work processes, making maximum use of digital technology and re-examining our distribution system, we are making efforts to improve productivity and create efficient and fulfilling work environments for a diverse workforce.

④ Take on challenges in future growth areas

We will continue to take on challenges to establish new business models in future growth areas not only in our domestic convenience store business, the core business of the Group, but also in various other fields such as Seijo Ishii Business, Entertainment-related Business, Overseas Business, Financial Services-related Business. We will also work hard to make maximum use of each Group company's distinctive features to generate synergistic effects.

⑤ Promote internal control systems and address operating risks

In order to ensure business continuity, it is imperative to foster the Group's internal control in its entirety and address operating risks. In addition, we believe that taking a proactive approach to corporate governance is not only strongly desired by all the stakeholders of the Group, but also the right way to enhance corporate value. We will therefore continue to focus on promoting internal control and addressing operating risks.

Lawson became a consolidated subsidiary of Mitsubishi in February 2017, which has resulted in a parent-subsidiary listing. The Group plans to appoint several independent officers, who have no conflict of interest with general shareholders, as directors. In addition, the Nomination and Compensation Advisory Committee, consisting solely of non-executive directors and corporate auditors, has been formed on a voluntary basis. The Committee offers advice and makes proposals to the Board of Directors on directors' compensation and suitable candidates for representative directors and directors, so as to ensure transparency of management and fair judgment.

(5) Other Important Managerial Matters

① Improving New Merchandise Development Capabilities

While strengthening our ability to develop healthy, safe and reliable original merchandise, we will expand our range of products that serve as alternatives to those offered by supermarkets to better support the customers' overall daily life. Furthermore, the Group will proactively develop merchandise suited to regional preferences by focusing on such aspects as taste and price. We will also rebuild our value chain spanning from merchandise development to procurement of ingredients, production, and logistics and leverage the Ponta card data to best effect. In this process, the Group aims to raise its original added value and develop merchandise that garners a strong customer response.

② Improving Store Operation Capabilities

With the aim of creating stores tailored to local customers in each neighborhood, we will promote merchandise assortments from the customers' perspective by continuing to utilize Ponta card data. In addition, by increasing our use of the core IT system, we will strive to improve ordering precision in order to reduce sales opportunity losses and product disposal losses. We will also seek to enhance the education and training of supervisors to enable more practical supervision of member stores.

③ Reinforcing Store-Development Capabilities

With a view to creating stores that achieve high ROI, we will prioritize customer convenience and profitability for both franchise store owners and headquarters in opening new stores by following the Group's proprietary store development standard focused on ROI. Furthermore, we will strive further to expand store network by building alliances with other companies.

④ Tailoring Store Formats to Suit Local Characteristics

Conscious that market needs are becoming increasingly complex and diversified, the Group provides store formats that offer retail spaces and merchandise assortments to suit the location. As for the Group's store development strategy, regular LAWSON stores will be opened to target customers seeking new merchandise, famous brand goods, and convenient services; LAWSON STORE100 stores will be opened to target customers seeking perishables packaged in small quantities and easy-to-understand, standardized prices such as 100-yen products and fresh food. NATURAL LAWSON and Seijo Ishii stores will be opened to target customers seeking high quality products.

⑤ Enhance convenience by fostering a variety of services

For the purpose of enhancing customer convenience, we will offer a wider variety of services based on the Ponta card program, Loppi multimedia terminals, and ATM services. In addition, we will expand our e-payment services in an effort to allow customers to make payments more conveniently.

⑥ Reviewing the Franchise Package to Promote Co-existence and Co-prosperity for Franchise Store Owners and Headquarters

In our endeavor to address changes occurring in the retail industry, we will promote co-existence and co-prosperity for both franchise store owners and headquarters by increasing earnings on a stable and ongoing basis through the Group's proprietary initiatives, such as expanding the customer base and reducing opportunity loss, and by revising franchise agreements.

⑦ Accelerating Business Reform through Capital and Business Alliances

The Group continues to effectively respond to the rapidly changing social environment and the needs of customers through capital and business alliances that enable it to improve profitability for both franchise store owners and the Group by seeking maximum benefit and efficiency from the alliances.

3. Basic Approach to Selection of Accounting Standards

The Group applies Japanese generally accepted accounting principles, and it has no plan to apply International Financial Reporting Standards (IFRS) for the time being. The Group intends to respond appropriately to the application of the IFRS by considering the situation prevailing in Japan and overseas.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

As of February 29, 2016 and February 28, 2017

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Assets		
Current assets:		
Cash and deposits	69,797	68,115
Accounts receivable-due from franchised stores	30,547	39,982
Lease receivables	5,905	12,336
Merchandise	17,976	18,130
Accounts receivable-other	67,736	78,363
Deferred tax assets	4,524	3,907
Other	27,729	28,493
Allowance for doubtful accounts	(8)	(50)
Total current assets	224,209	249,278
Non-current assets:		
Property and store equipment:		
Buildings and structures, net	167,098	183,747
Tools, furniture and fixtures, net	16,307	18,581
Land	9,794	9,701
Leased assets, net	101,546	110,472
Construction in progress	7,870	1,742
Other, net	143	265
Total property and store equipment	302,761	324,510
Intangible assets:		
Software	26,377	37,567
Goodwill	46,309	46,041
Trademark right	11,381	10,691
Other	527	499
Total intangible assets	84,595	94,800
Investments and other assets:		
Investment securities	22,325	22,283
Long-term loans receivable	40,886	44,495
Guarantee deposits	92,495	95,594
Deferred tax assets	22,016	23,138
Other	14,782	13,444
Allowance for doubtful accounts	(860)	(968)
Total investments and other assets	191,645	197,988
Total non-current assets	579,002	617,299
Total assets	803,212	866,577

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Liabilities		
Current liabilities:		
Accounts payable-trade	112,225	110,834
Short-term loans payable	1,990	31,180
Current portion of long-term loans payable	575	575
Lease obligations	23,898	28,012
Accounts payable-other	57,214	59,734
Income taxes payable	8,500	9,876
Deposits received	101,908	103,156
Provision for bonuses	3,832	3,427
Other	9,462	9,985
Total current liabilities	319,607	356,783
Non-current liabilities:		
Long-term loans payable	57,562	56,703
Lease obligations	88,060	99,983
Deferred tax liabilities	―	957
Provision for retirement benefits to executive officers and audit and supervisory board members	413	332
Net defined benefit liability	12,186	13,083
Asset retirement obligations	24,664	26,958
Other	27,719	25,779
Total non-current liabilities	210,607	223,798
Total liabilities	530,215	580,581
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	47,697	49,083
Retained earnings	154,608	165,162
Treasury shares	(1,280)	(1,210)
Total shareholders' equity	259,532	271,541
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	801	274
Revaluation reserve for land	(566)	(618)
Foreign currency translation adjustment	5,531	4,610
Remeasurements of defined benefit plans	(906)	(927)
Total accumulated other comprehensive income	4,860	3,338
Subscription rights to shares	307	314
Non-controlling interests	8,296	10,800
Total net assets	272,997	285,995
Total liabilities and net assets	803,212	866,577

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

For the fiscal years ended February 29, 2016 and February 28, 2017

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Gross operating revenue	583,452	631,288
Net sales	227,606	254,169
Cost of sales	155,949	174,255
Gross profit	71,656	79,914
Operating revenue:		
Income from franchised stores	261,681	275,312
Other operating revenue	94,165	101,806
Total operating revenue	355,846	377,119
Operating gross profit	427,503	457,033
Selling, general and administrative expenses	354,961	383,260
Operating income	72,541	73,772
Non-operating income:		
Interest income	759	725
Compensation income	646	524
Share of profit of entities accounted for using equity method	292	602
Gain on valuation of derivatives	―	409
Other	1,155	1,820
Total non-operating income	2,853	4,081
Non-operating expenses:		
Interest expenses	1,903	1,919
Loss on cancellation of leases	1,953	1,274
Loss on disaster	―	772
Other	1,916	873
Total non-operating expenses	5,772	4,839
Ordinary income	69,622	73,014
Extraordinary income:		
Gain on change in equity	892	―
Total extraordinary income	892	―
Extraordinary losses:		
Loss on sales of non-current assets	228	294
Loss on retirement of non-current assets	4,342	3,554
Impairment loss	10,542	9,535
Other	―	1,174
Total extraordinary losses	15,112	14,558
Profit before income taxes	55,402	58,456
Income taxes-current	19,233	18,928
Income taxes-deferred	4,031	2,453
Total income taxes	23,265	21,381
Profit	32,136	37,074
Profit attributable to non-controlling interests	755	674
Profit attributable to owners of parent	31,381	36,400

Consolidated Statement of Comprehensive Income

For the fiscal years ended February 29, 2016 and February 28, 2017

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Profit	32,136	37,074
Other comprehensive income		
Valuation difference on available-for-sale securities	1,195	(527)
Revaluation reserve for land	―	(52)
Foreign currency translation adjustment	(15)	(928)
Remeasurements of defined benefit plans	(387)	(22)
Total other comprehensive income	792	(1,530)
Comprehensive income	32,928	35,543
Comprehensive income attributable to		
Owners of parent	32,227	34,878
Non-controlling interests	701	664

(3) Consolidated Statement of Changes in Equity

Previous fiscal year ended February 29, 2016 (From March 1, 2015 to February 29, 2016)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	58,506	47,696	147,177	(1,272)	252,107
Cumulative effects of changes in accounting policies			1,411		1,411
Restated balance	58,506	47,696	148,588	(1,272)	253,519
Changes of items during period					
Change in ownership interest of parent due to transactions with non-controlling shareholders					–
Dividends of surplus			(24,249)		(24,249)
Change of scope of consolidation			(1,111)		(1,111)
Profit attributable to owners of parent			31,381		31,381
Purchase of treasury shares				(8)	(8)
Disposal of treasury shares		0		0	1
Reversal of revaluation reserve for land					–
Exercise of subscription rights to shares (Delivery of treasury shares)					–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	0	6,020	(7)	6,013
Balance at end of current period	58,506	47,697	154,608	(1,280)	259,532

(Millions of yen)

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(393)	(566)	5,492	(518)	4,014	223	7,452	263,797
Cumulative effects of changes in accounting policies								1,411
Restated balance	(393)	(566)	5,492	(518)	4,014	223	7,452	265,209
Changes of items during period								
Change in ownership interest of parent due to transactions with non-controlling shareholders								–
Dividends of surplus								(24,249)
Change of scope of consolidation								(1,111)
Profit attributable to owners of parent								31,381
Purchase of treasury shares								(8)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								–
Exercise of subscription rights to shares (Delivery of treasury shares)								–
Net changes of items other than shareholders' equity	1,195	–	38	(387)	845	84	844	1,774
Total changes of items during period	1,195	–	38	(387)	845	84	844	7,788
Balance at end of current period	801	(566)	5,531	(906)	4,860	307	8,296	272,997

Current fiscal year ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	58,506	47,697	154,608	(1,280)	259,532
Cumulative effects of changes in accounting policies					—
Restated balance	58,506	47,697	154,608	(1,280)	259,532
Changes of items during period					
Change in ownership interest of parent due to transactions with non-controlling shareholders		1,387			1,387
Dividends of surplus			(24,751)		(24,751)
Change of scope of consolidation			(1,130)		(1,130)
Profit attributable to owners of parent			36,400		36,400
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares					—
Reversal of revaluation reserve for land			52		52
Exercise of subscription rights to shares (Delivery of treasury shares)		(0)	(17)	72	54
Net changes of items other than shareholders' equity					
Total changes of items during period	—	1,386	10,553	69	12,009
Balance at end of current period	58,506	49,083	165,162	(1,210)	271,541

(Millions of yen)

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	801	(566)	5,531	(906)	4,860	307	8,296	272,997
Cumulative effects of changes in accounting policies								—
Restated balance	801	(566)	5,531	(906)	4,860	307	8,296	272,997
Changes of items during period								
Change in ownership interest of parent due to transactions with non-controlling shareholders								1,387
Dividends of surplus								(24,751)
Change of scope of consolidation								(1,130)
Profit attributable to owners of parent								36,400
Purchase of treasury shares								(3)
Disposal of treasury shares								—
Reversal of revaluation reserve for land								52
Exercise of subscription rights to shares (Delivery of treasury shares)								54
Net changes of items other than shareholders' equity	(527)	(52)	(920)	(21)	(1,521)	7	2,503	989
Total changes of items during period	(527)	(52)	(920)	(21)	(1,521)	7	2,503	12,998
Balance at end of current period	274	(618)	4,610	(927)	3,338	314	10,800	285,995

(4) Consolidated Statement of Cash Flows

For the fiscal years ended February 29, 2016 and February 28, 2017

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Net cash provided by (used in) operating activities:		
Profit before income taxes	55,402	58,456
Depreciation and amortization	49,293	56,199
Impairment loss	10,542	9,535
Interest income	(759)	(725)
Interest expenses	1,903	1,919
Loss on retirement of non-current assets	4,342	3,554
Decrease (increase) in notes and accounts receivable-trade	6,307	(9,542)
Decrease (increase) in accounts receivable-other	(12,619)	(10,746)
Increase (decrease) in notes and accounts payable-trade	9,548	(1,421)
Increase (decrease) in accounts payable-other	12,620	2,724
Increase (decrease) in deposits received	(1,724)	1,243
Increase (decrease) in net defined benefit liability	696	747
Other	1,828	7,329
Subtotal	137,380	119,273
Interest income received	759	719
Interest expenses paid	(1,950)	(1,923)
Income taxes paid	(23,985)	(18,204)
Net cash provided by (used in) operating activities	112,205	99,864
Net cash provided by (used in) investing activities:		
Payments into time deposits	(1,301)	(842)
Proceeds from withdrawal of time deposits	1,301	1,763
Purchase of property and store equipment	(40,883)	(42,063)
Purchase of intangible assets	(15,609)	(18,892)
Purchase of shares of subsidiaries and associates	(3,361)	(1,805)
Decrease (increase) in long-term loans receivable - net	(3,631)	(3,917)
Purchase of long-term prepaid expenses	(1,801)	(3,112)
Other	(3,369)	(7,358)
Net cash provided by (used in) investing activities	(68,657)	(76,227)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	250	29,190
Repayments of lease obligations	(25,302)	(30,054)
Cash dividends paid	(24,249)	(24,751)
Other	(899)	(22)
Net cash provided by (used in) financing activities	(50,201)	(25,638)
Effect of exchange rate change on cash and cash equivalents	(451)	(435)
Net increase (decrease) in cash and cash equivalents	(7,105)	(2,436)
Cash and cash equivalents at beginning of period	76,754	69,793
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	144	335
Cash and cash equivalents at end of period	69,793	67,692

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not Applicable.

(Accounting Policies for the Preparation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 20

(Domestic)	Lawson HMV Entertainment, Inc.
	Lawson ATM Networks, Inc.
	BestPractice, Inc.
	SCI, Inc.
	Lawson Store100, Inc.
	Lawson HMV Entertainment United Cinemas Holdings, Inc.
	United Entertainment Holdings Co., Ltd.
	United Cinemas Co., Ltd.
	SEIJO ISHII CO., LTD.
	Lawson Sanin, Inc.
(Foreign)	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.
	BEIJING LUOSONG Co., Ltd.

Among the companies mentioned above, Lawson Sanin, Inc. has been newly included in scope of consolidation since its establishment during the current fiscal year.

On March 1, 2016, Lawson Mart, Inc. changed its corporate name to Lawson Store100, Inc.

On February 27, 2017, Shanghai Hualian Lawson, Inc. changed its corporate name to Shanghai Lawson, Inc.

(2) Names of nonconsolidated subsidiaries and others

(Domestic)	LAWSONWILL, Inc.
	HATS UNLIMITED CO., LTD.
	Food Marketing Japan, Inc.
	Seikaken, Inc.
	Lawson Syuhan, Inc.
	TOKYO EUROPE TRADE CO., LTD.
	SG Lawson, Inc.
	Lawson Travel, Inc.
	Lawson Digital Innovation Inc.
	Lawson Bank Preparatory Company, Inc.
(Foreign)	Lawson USA Hawaii, Inc.

(Reasons for exclusion from the scope of consolidation)

The above nonconsolidated subsidiaries have been excluded from the scope of consolidation because they are all small in scale and their total assets, net sales, profit or loss (corresponding to equity interest) and retained earnings (corresponding to equity interest) and others have no material influence on the consolidated financial statements.

2. Application of the equity method

(1) Equity-method associates: 3

(Domestic) Lawson Okinawa, Inc.
Lawson Minamikyushu, Inc.
Lawson Kochi, Inc.

(2) Nonconsolidated subsidiaries excluded from the scope of the equity-method application (LAWSONWILL, Inc., HATS UNLIMITED CO., LTD., Food Marketing Japan, Inc., Seikaken, Inc., Lawson Syuhan, Inc., TOKYO EUROPE TRADE CO., LTD., SG Lawson, Inc., Lawson Travel, Inc., Lawson Digital Innovation Inc., Lawson Bank Preparatory Company, Inc. and Lawson USA Hawaii, Inc.) and entities excluded from the scope of the equity-method application (Double Culture Partners Co., Ltd., Daichi Wo Mamoru Kai, Co., Ltd., Loyalty Marketing, Inc., MC Retail Energy Co., Ltd., Lawson Staff, Inc., AUGUSARENA CORPORATION., Lawson System Labo LLP, L・TF Co., Ltd., StageAround TOKYO Production Committee, PG Lawson Company, Inc., Lawson Farm Chiba and others) were excluded from the scope of the equity-method application because their profit or loss (corresponding to equity interest) and retained earnings (corresponding to equity interest) of these entities is not significant either individually or in aggregate to the consolidated financial statements.

3. Fiscal year end of the consolidated subsidiaries

The balance sheet date 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 information prepared as of such balance sheet date and significant transactions which occur between the balance sheet date and the consolidated balance sheet date are adjusted as required for consolidation.

From the current fiscal year, the balance sheet date of SEIJO ISHII CO., LTD. was changed from the end of December to the end February to be consistent with the consolidated balance sheet date (fiscal years beginning March 1 and ending on the final day of February of the following year), which will aims to improve the efficiency of management and business management, such as budget compilation and performance management of the Group.

Thus, its accounting period was 14 months for the current fiscal year. Furthermore, during the two-month period from January 1, 2017 to February 28, 2017, it reported gross operating revenue of 12,133 million yen, operating income of 1,114 million yen, ordinary income of 1,101 million yen, and profit before income taxes of 1,034 million yen.

The fiscal year end date for the other consolidated subsidiaries corresponds with the consolidated balance sheet date.

4. Summary of Significant Accounting Policies

(1) Valuation basis and method for significant assets

① Securities:

Marketable securities and investments in securities:

Available-for-sale securities:

Securities whose market value is readily determinable:

Recorded at market value with net unrealized gains and losses as a separate component of net assets. The cost of securities sold is determined based on the moving-average method.

Other:

Stated at cost determined by the moving-average method.

② Derivatives:

Accounted for using the market value method.

③ Inventories:

Merchandise:

Stated at cost determined mainly by the retail method (the book value in the balance sheet is written down based on the decline in profitability).

(2) Depreciation method of depreciable significant assets

① Property and store equipment (except for leased assets):

Mainly computed by the straight-line method.

The ranges of useful lives are from 10 to 34 years for buildings and structures and from 5 to 8 years for tools, furniture and fixtures.

② Intangible assets (except for leased assets):

Computed by the straight-line method.

Costs of software for internal use are amortized by the straight-line method over 5 years, which is the estimated useful life. Furthermore, for right of trademark, amortization is mainly computed using the straight-line method over 20 years.

③ Leased assets:

Leased assets related to finance leases that do not transfer ownership of leased property

The Company applies the straight-line method using the lease term as the useful life and a residual value of zero.

(3) Accounting standard for significant reserves

① Allowance for doubtful accounts:

Allowance for doubtful accounts is provided at the amount of possible losses from uncollectible receivables based on the actual rate of losses from bad debt for ordinary receivables and on estimated recoverability for specific doubtful receivables.

② Provision for bonuses:

Provision for bonuses is provided for payments of employees' bonuses based on the estimated amounts.

③ Provision for retirement benefits to executive officers and audit & supervisory board members:

Provision for retirement benefits to executive officers of the Company and audit & supervisory board members of consolidated subsidiaries is recorded under internal regulations.

(4) Accounting method for retirement benefits

① Period attributable method of estimated amount of retirement benefits

In calculating retirement benefit obligation, in order to attribute estimated amount of retirement benefits in the period up to the end of the current fiscal year, it is based on the benefit formula basis.

② Cost treatment method of actuarial difference and prior service cost

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

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

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 liability and retirement benefit expenses.

(5) Significant foreign currency transactions and foreign currency financial statements

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income. The consolidated balance sheet accounts as well as revenue and expense accounts of foreign subsidiaries and affiliated companies are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "foreign currency translation adjustments" and "non-controlling interests," a separate component of net assets.

(6) Amortization method and period of goodwill

Goodwill is amortized on a straight-line basis over the relevant years, depending on the reason for the occurrence of goodwill, with a maximum of 20 years.

(7) Cash and cash equivalents in the consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows include cash on hand, demand deposits and short-term investments due within 3 months from the acquired date, which are easily convertible into cash with little risk of value fluctuation.

(8) Other significant items related to the preparation of consolidated financial statements

Accounting for consumption tax:

Consumption tax and local consumption tax are accounted for using the tax exclusion method.

(Changes in Accounting Policies)

The Company and its domestic consolidated subsidiaries are applying "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ)) Statement No. 21, revised September 13, 2013; hereinafter, "Business Combination Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised September 13, 2013; hereinafter, "Consolidated Accounting Standard") and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised September 13, 2013; hereinafter, "Business Divestiture Accounting Standard"), etc., from the fiscal year ended February 28, 2017. Under these revised accounting standards, any differences arising from changes in a parent's ownership interests in subsidiaries when the parent retains control are recognized in capital surplus and acquisition-related costs are expensed in the fiscal year in which they were incurred. Furthermore, the Company applies a method in which any adjustments to the allocation of acquisition costs arising from the finalization of provisional accounting treatment are reflected in the consolidated financial statements for the period in which the business combination occurs. In addition, the presentation of profit, etc., was changed and "Minority interests" was changed to "Non-controlling interests." The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

In the consolidated statement of cash flows, the Company changed to a method of recording cash flows related to changes in ownership interests in subsidiaries that do not result in change in scope of consolidation under "Net cash provided by (used in) financing activities", and recording cash flows related to expenses incurred in relation to the purchases of shares of subsidiaries resulting in change in scope of consolidation and expenses incurred in relation to changes in ownership interests in subsidiaries that do not result in change in scope of consolidation under "Net cash provided by (used in) operating activities".

The Company has applied the transitional treatment prescribed in Article 58-2 (4) of the Business Combination Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard, and Article 57-4 (4) of the Business Divestiture Accounting Standard from the beginning of the fiscal year ended February 28, 2017. Meanwhile, the Company follows the transitional treatment set forth in Article 58-2 (1) of the Business Combination Accounting Standard in reviewing the allocation of acquisition-related costs resulting from the finalization of provisional accounting treatment for business combinations that take effect from the beginning of the fiscal year ended February 28, 2017.

For the consolidated statement of cash flows, the Company follows the transitional treatment set forth in Article 26-4 of the Practical Guidelines for the Preparation of Statement of Cash Flows in Consolidated Financial Statements, etc., and has not reclassified comparative information.

As a result of this change, capital surplus at the end of the current fiscal year increased by 1,387 million yen. In addition, profit before income taxes for the current fiscal year decreased by 2,583 million yen. The year-end balance of capital surplus in the consolidated statement of changes in equity for the current fiscal year increased by 1,387 million yen.

The impact on per share information is described in the relevant section.

(Accounting Standards Issued but not yet Effective)

・ "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Implementation Guidance No.26, March 28, 2016)

(1) Outline

With regard to treatments concerning the recoverability of deferred tax assets, necessary reviews of the following have been made, basically following the framework of Auditing Standards Board Report No.66 of the Japanese Institute of Certified Public Accountants, the "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets," which classifies companies into five groups and estimates the recorded amount of deferred tax assets in accordance with said classifications.

① The treatment of companies that do not fulfill any of the requirements of classifications pertaining to (Classification 1) to (Classification 5)

② Requirements of classifications pertaining to (Classification 2) and (Classification 3)

③ Treatment related to deductible temporary difference that cannot be scheduled at companies that fall under (Classification 2)

④ Treatment related to the reasonable period when estimation of deductible temporary difference and other taxable income before addition or subtraction is possible at companies that fall under (Classification 3)

⑤ For companies that fulfill the requirements of classification pertaining to (Classification 4), the treatment in cases where they fall under (Classification 2) or (Classification 3)

(2) Scheduled implementation date

Implementation is scheduled from the beginning of 2017 fiscal year.

(3) Impact of the application of said accounting standards, etc.

There is no impact on the consolidated financial statements from the application of the implementation guidance.

(Changes in Presentation)

(Consolidated Balance Sheet)

In the "Current assets" section, "Lease receivables" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Lease receivables" 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 "Current assets" section, 5,905 million yen that was included in "Other" in the Consolidated Balance Sheet for the previous fiscal year is now presented as "Lease receivables."

(Consolidated Statement of Income)

In the "Non-operating income" section, "Store equipment related income" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Store equipment related income" is now included in "Other." 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 "Non-operating income" section, 318 million yen that was presented as "Store equipment related income" in the Consolidated Statement of Income for the previous fiscal year is now included in "Other."

In the "Non-operating losses" section, "Foreign exchange losses" were presented separately in the previous fiscal year. Due to a decline in financial materiality, "Foreign exchange losses" are now included in "Other." 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 "Non-operating losses" section, 914 million yen that was presented as "Foreign exchange losses" in the Consolidated Statement of Income for the previous fiscal year is now included in "Other."

(Consolidated Statement of Cash Flows)

In the "Cash flow from operating activities" section, "Increase (decrease) in allowance for doubtful accounts" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Increase (decrease) in allowance for doubtful accounts" is now included in "Other." 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 flow from operating activities" section, (311) million yen that was presented as "Increase (decrease) in allowance for doubtful accounts" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

In the "Cash flow from investing activities" section, "Purchase of long-term prepaid expenses" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Purchase of long-term prepaid expenses" 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 flow from investing activities" section, (1,801) 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 long-term prepaid expenses."

In the "Cash flow from financing activities" section, "Net increase (decrease) in short-term loans payable" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Net increase (decrease) in short-term loans payable" 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 flow from financing activities" section, 250 million yen that was presented as "Other" in the Consolidated Statement of Cash Flows for the previous fiscal year is now presented as "Net increase (decrease) in short-term loans payable."

In the "Cash flow from financing activities" section, "Repayments of long-term loans payable" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Repayments of long-term loans payable" is now included in "Other." 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 flow from financing activities" section, (862) million yen that was presented as "Repayments of long-term loans payable" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

(Notes to Consolidated Balance Sheet)

*1. Accumulated depreciation of property and store equipment

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Accumulated depreciation	291,655	294,350

*2. Investments in associates

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Investment securities (stocks)	12,205	13,502
(Investment amount for jointly-controlled companies)	(1,017)	(1,042)
Investment securities (bonds)	272	157
Other (other equity investments)	3,394	648
(Investment amount for jointly-controlled companies)	(47)	(648)

*3. Revaluation of land used for business

Land used for business was revalued on the basis prescribed by the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998). The resulting revaluation difference has been included in net assets as "Revaluation reserve for land."

Revaluation method:

The value of land is determined based on the notified prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance.

Date of revaluation: February 28, 2002

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Difference between book value and market value of the revalued land as of balance sheet date	308	247

*4. Pledged assets and secured liabilities

Assets pledged as collateral and liabilities collateralized are as follows.

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Cash and deposits	2,399	2,601

In addition to the above, shares of consolidated subsidiaries pledged as collateral are as follows.

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Shares of consolidated subsidiaries (Amount before elimination)	16,614	16,614

Secured liabilities are as follows

(Millions of yen)

	Previous fiscal year As of February 29, 2016	Current fiscal year As of February 28, 2017
Short-term loans payable	1,000	－
Current portion of long-terms loans payable	575	575
Long-term loans payable	7,562	6,703
Total	9,137	7,278

(Notes to Consolidated Statement of Income)

*1 Major components of selling, general and administrative expenses are as follows.

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Employees' salaries and allowances	48,722	53,173
Provision for bonuses	3,362	2,956
Retirement benefit expenses	2,215	2,303
Rents	108,795	115,926
Depreciation	49,156	55,516

*2 Breakdown of loss on sales of non-current assets

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Buildings and structures	223	294
Tools, furniture and fixtures	5	0
Others	0	0
Total	228	294

*3 Breakdown of loss on retirement of non-current assets

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Buildings and structures	3,284	2,493
Tools, furniture and fixtures	294	238
Leased assets	679	798
Software	83	22
Others	0	1
Total	4,342	3,554

*4 Impairment loss

The Company and its consolidated subsidiaries (collectively, the "Group") identify each store as the smallest cash generating unit.

The carrying value of asset groups whose profitability has significantly decreased was written down to the recoverable amount, with the difference recognized as impairment loss under extraordinary losses.

Previous fiscal year (From March 1, 2015 to February 29, 2016)

(Millions of yen)

Category by use	Location	Assets	Impairment loss
Stores	Tokyo	Buildings; tools, furniture and fixtures; and others	1,904
	Osaka	"	1,621
	Others	"	6,508
Others	—	Software	507
Total	—	—	10,542

Category by non-current assets

Buildings and structures	5,976	million yen
Tools, furniture and fixtures	607	"
Land	57	"
Leased assets	3,131	"
Software	680	"
Other	88	"

The recoverable amount of the asset groups is the higher of net selling price or value in use. The net selling price of land was calculated based on the value appraised by a real estate appraiser or contract price, and the value in use was calculated by discounting estimated future cash flows mainly using a discount rate of 4.8%.

Current fiscal year (From March 1, 2016 to February 28, 2017)

(Millions of yen)

Category by use	Location	Assets	Impairment loss
Stores	Tokyo	Buildings; tools, furniture and fixtures; and others	1,702
	Osaka	"	1,442
	Others	"	6,390
Total	—	—	9,535

Category by non-current assets

Buildings and structures	5,833	million yen
Tools, furniture and fixtures	529	"
Land	353	"
Leased assets	2,786	"
Other	32	"

The recoverable amount of the asset groups is the higher of net selling price or value in use. The net selling price of land was calculated based on the value appraised by a real estate appraiser or contract price, and the value in use was calculated by discounting estimated future cash flows mainly using a discount rate of 4.3%.

(Notes to Consolidated Statement of Comprehensive Income)

* The components of other comprehensive income for the years ended February 29, 2016 and February 28, 2017 were as follows:

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Valuation difference on available-for-sale securities		
Gain or loss arising during the period	1,587	(1,059)
Reclassification adjustments to profit or loss	238	244
Amount before income tax effect	1,825	(815)
Income tax effect	(630)	287
Valuation difference on available-for-sale securities	1,195	(527)
Revaluation reserve for land		
Gain or loss arising during the period	—	(52)
Revaluation reserve for land	—	(52)
Foreign currency translation adjustment		
Gain or loss arising during the period	(15)	(905)
Reclassification adjustments to profit or loss	—	(23)
Foreign currency translation adjustment	(15)	(928)
Remeasurements of defined benefit plans		
Gain or loss arising during the period	(662)	(150)
Reclassification adjustments to profit or loss	99	148
Amount before income tax effect	(562)	(2)
Income tax effect	174	(20)
Remeasurements of defined benefit plans	(387)	(22)
Total other comprehensive income	792	(1,530)

(Notes to Consolidated Statement of Changes in Equity)

Previous fiscal year (From March 1, 2015 to February 29, 2016)

1. Number of shares of outstanding stock and treasury shares

	Number of shares at the beginning of the period (thousands of shares)	Increase during the period (thousands of shares)	Decrease during the period (thousands of shares)	Number of shares at the end of the period (thousands of shares)
Outstanding stock Common stock	100,300	—	—	100,300
Treasury shares Common stock (*)	301	0	0	301

(*) The increase in treasury shares resulted from purchases of stock of less than one share unit.
The decrease in treasury shares resulted from requests for additional purchases of stock of less than one share unit.

2. Subscription rights to shares and treasury subscription rights to shares

Classification	Terms of stock acquisition rights	Class and number of shares subject to stock acquisition rights					Balance at end of the current period (Millions of yen)
		Class	Number (shares)				
			Beginning of the period	Increase during the period	Decrease during the period	End of the period	
Issuing company (Parent company)	Stock acquisition rights (ordinary stock options)	—	—	—	—	—	307
Total		—	—	—	—	—	307

3. Dividend

1) Dividend payment

Date of resolution	Class of shares	Dividend payment (millions of yen)	Dividend per share (yen)	Record date	Effective date
The General meeting of shareholders (May 26, 2015)	Common stock	11,999	120.00	As of February 28, 2015	As of May 27, 2015
Directors' meeting (October 7, 2015)	Common stock	12,249	122.50	As of August 31, 2015	As of November 10, 2015

2) Dividends for which the record date is in the current fiscal year and the effective date is after the fiscal year-end

Date of resolution	Class of shares	Source of dividend	Dividend payment (millions of yen)	Dividend per share (yen)	Record date	Effective date
The General meeting of shareholders (May 24, 2016)	Common stock	Retained earnings	12,249	122.50	As of February 29, 2016	As of May 25, 2016

Current fiscal year (From March 1, 2016 to February 28, 2017)

1. Number of shares of outstanding stock and treasury shares

	Number of shares at the beginning of the period (thousands of shares)	Increase during the period (thousands of shares)	Decrease during the period (thousands of shares)	Number of shares at the end of the period (thousands of shares)
Outstanding stock Common stock	100,300	—	—	100,300
Treasury shares Common stock (*)	301	0	17	285

(*) The increase in treasury shares resulted from purchases of stock of less than one share unit.
The decrease in treasury shares resulted from decreases due to exercise of stock options.

2. Subscription rights to shares and treasury subscription rights to shares

Classification	Terms of stock acquisition rights	Class and number of shares subject to stock acquisition rights					Balance at end of the current period (Millions of yen)
		Class	Number (shares)				
			Beginning of the period	Increase during the period	Decrease during the period	End of the period	
Issuing company (Parent company)	Stock acquisition rights (ordinary stock options)	—	—	—	—	—	314
Total		—	—	—	—	—	314

3. Dividend

1) Dividend payment

Date of resolution	Class of shares	Dividend payment (millions of yen)	Dividend per share (yen)	Record date	Effective date
The General meeting of shareholders (May 24, 2016)	Common stock	12,249	122.50	As of February 29, 2016	As of May 25, 2016
Directors' meeting (October 12, 2016)	Common stock	12,501	125.00	As of August 31, 2016	As of November 10, 2016

2) Dividends for which the record date is in the current fiscal year and the effective date is after the fiscal year-end

Plan for resolution is as follows.

Date of resolution	Class of shares	Source of dividend	Dividend payment (millions of yen)	Dividend per share (yen)	Record date	Effective date
The General meeting of shareholders (May 30, 2017)	Common stock	Retained earnings	12,501	125.00	As of February 28, 2017	As of May 31, 2017

(Notes to Consolidated Statement of Cash Flows)

*1. Reconciliation between the year-end balance of cash and cash equivalents and cash and deposits in the consolidated balance sheet

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Cash and deposits	69,797	68,115
Time deposits for which the deposit period exceeds three months	(4)	(423)
Cash and cash equivalents	69,793	67,692

2. Description of significant non-fund transactions

1) Assets and liabilities related to finance lease transactions are as follows.

(Millions of yen)

	Previous fiscal year From March 1,2015 to February 29, 2016	Current fiscal year From March 1,2016 to February 28, 2017
Assets and liabilities related to finance lease transactions	38,158	42,636

2) Significant asset retirement obligations are as follows.

(Millions of yen)

	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Significant asset retirement obligations	4,604	2,635

(Segment Information)

1. Outline 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 and Entertainment-related Business while incorporating other related businesses.

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

Regarding Domestic Convenience Store Business, Lawson. Inc. operates a franchise system as well as undertaking the direct management of stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Sanin, Inc. undertakes the direct management of LAWSON stores in the Sanin area. Lawson Store100, Inc. undertakes the direct management of LAWSON STORE100 stores. SCI, Inc., a functional subsidiary which comprehensively manages the process from procurement to sale, aims to improve the efficiency of the entire process.

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

Regarding Entertainment-related Business, Lawson HMV 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.

2. Computation method of the amount of net sales, profit or loss, assets and liabilities, and other items by reportable segment

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

(Change in calculation method of profit and loss for reportable segments)

As stated in "Changes in Accounting Policies," any differences arising from changes in a parent's ownership interests in subsidiaries when the parent retains control are recognized in capital surplus and acquisition-related costs are expensed in the fiscal year in which they were incurred. Furthermore, any adjustments to the allocation of acquisition costs arising from the finalization of provisional accounting treatment are reflected in the consolidated financial statements for the period in which the business combination occurs. Due to these changes, the calculation method of profit or loss for reportable segments was similarly changed from the current fiscal year.

The impact of this change on segment profit for the current fiscal year was immaterial.

3. Information related to the amount of net sales, and profit or loss by reportable segment
Previous fiscal year (from March 1, 2015 to February 29, 2016)

(Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjust-ments (Note 2)	Total (Note 3)
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Gross operating revenue							
Sales to external customers	395,057	68,993	73,639	45,763	583,452	—	583,452
Intersegment sales or transfers	3,579	—	1,401	1,158	6,139	(6,139)	—
Total	398,637	68,993	75,040	46,921	589,592	(6,139)	583,452
Segment profit	59,993	5,037	4,076	3,427	72,534	7	72,541
Segment assets	738,875	65,016	64,559	53,679	922,131	(118,918)	803,212
Other							
Depreciation	40,768	1,756	1,375	2,590	46,490	—	46,490
Amortization of goodwill	596	1,437	664	103	2,802	—	2,802
Investments in affiliates	4,745	—	—	—	4,745	—	4,745
Increase in non-current assets	48,467	521	4,346	3,157	56,492	—	56,492

(Notes)
1. The business segments within the “Others” category that do not fall under the main reportable segments, include Overseas Business operated by Shanghai Lawson, Inc. and others, and Financial Services-related Business operated by Lawson ATM Networks, Inc.
2. Adjustments to segment profit and segment assets are due to the elimination of intra-segment transactions.
3. Segment profit corresponds to consolidated operating income.

Current fiscal year (from March 1, 2016 to February 28, 2017)

(Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjust-ments (Note 2)	Total (Note 3)
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Gross operating revenue							
Sales to external customers	419,690	85,824	71,545	54,227	631,288	—	631,288
Internal sales or transfers between segments	4,918	—	1,390	919	7,228	(7,228)	—
Total	424,608	85,824	72,936	55,147	638,517	(7,228)	631,288
Segment profit	59,865	6,911	3,988	2,999	73,765	7	73,772
Segment assets	800,383	58,705	62,271	56,925	978,285	(111,708)	866,577
Other							
Depreciation	44,796	2,005	2,278	3,386	52,468	—	52,468
Amortization of goodwill	911	1,676	501	99	3,189	—	3,189
Investments in affiliates	4,922	—	—	—	4,922	—	4,922
Increase in non-current assets	55,488	1,054	1,483	2,928	60,955	—	60,955

(Notes)

1. The business segments within the “Others” category that do not fall under the main reportable segments, include Overseas Business operated by Shanghai Lawson, Inc. and others, and Financial Services-related Business operated by Lawson ATM Networks, Inc.
2. Adjustments to segment profit and segment assets are due to the elimination of intra-segment transactions.
3. Segment profit corresponds to consolidated operating income.

(Related information)

Previous fiscal year (from March 1, 2015 to February 29, 2016)

1. Information by product and service

Since similar information is disclosed in segment information, this information is omitted.

2. Information by geographical area

(1) Net sales

Since sales to external customers in Japan exceed 90% of net sales on the consolidated statement of income, this information is omitted.

(2) Property and store equipment

Since property and store equipment in Japan exceed 90% of property and store equipment on the consolidated balance sheet, this information is omitted.

(3) Information by major customer

Information about major customers has been omitted since there are no external customers who constituted more than 10% of net sales on the consolidated statement of income.

Current fiscal year (from March 1, 2016 to February 28, 2017)

1. Information by product and service

Since similar information is disclosed in the segment information, this information is omitted.

2. Information by geographical area

(1) Net sales

Since sales to external customers in Japan exceed 90% of net sales on the consolidated statement of income, this information is omitted.

(2) Property and store equipment

Since property and store equipment in Japan exceed 90% of property and store equipment on the consolidated balance sheet, this information is omitted.

(3) Information by major customer

Information about major customers has been omitted since there are no external customers who constituted more than 10% of net sales on the consolidated statement of income.

(Information on impairment loss on non-current assets by reportable segment)
Previous fiscal year (from March 1, 2015 to February 29, 2016)
The Group identifies each store as the smallest cash generating unit.
Regarding asset groups whose profitability from operating activities has continuously been negative, the book value of such assets has been written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses.
The amount of impairment loss recorded for each reportable segment is as follows.

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Impairment loss	9,155	80	570	737	10,542	－	10,542

Current fiscal year (from March 1, 2016 to February 28, 2017)
The Group identifies each store as the smallest cash generating unit.
Regarding asset groups whose profitability from operating activities has continuously been negative, the book value of such assets has been written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses.
The amount recorded for each reportable segment is as follows.

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Impairment loss	9,034	62	208	229	9,535	－	9,535

(Information on amortization of goodwill and amortized balance by reportable segment)
Previous fiscal year (From March 1, 2015 to February 29, 2016)

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Balance at end of fiscal year	8,589	26,946	9,192	1,581	46,309	－	46,309

Note: Regarding amortization of goodwill, this information is omitted since similar information is disclosed in segment information.

Current fiscal year (From March 1, 2016 to February 28, 2017)

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Total
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-related Business				
Balance at end of fiscal year	11,269	25,270	8,690	812	46,041	－	46,041

Note: Regarding amortization of goodwill, since similar information is disclosed in segment information, this information is omitted.

(Information on gain on negative goodwill by reportable segment)

Previous fiscal year (From March 1, 2015 to February 29, 2016)

Not applicable.

Current fiscal year (From March 1, 2016 to February 28, 2017)

Not applicable.

(Per Share Information)

Previous fiscal year From March 1, 2015 to February 29, 2016		Current fiscal year From March 1, 2016 to February 28, 2017	
Net assets per share	2,643.97 yen	Net assets per share	2,748.39 yen
Profit per share	313.81 yen	Profit per share	363.96 yen
Diluted profit per share	313.57 yen	Diluted profit per share	363.70 yen

(Note) 1. As stated in "(Changes in Accounting Policies)," the Company has applied the transitional treatment prescribed in Article 58-2 (4) of the Business Combination Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard, and Article 57-4 (4) of the Business Divestiture Accounting Standard. As a result, the net assets per share, profit per share and diluted profit per share decreased by 11.96 yen, 25.83 yen, 25.81 yen, respectively for the fiscal year.

2. The basis for the calculation of profit per share and diluted profit per share is as follows:

Item	Previous fiscal year From March 1, 2015 to February 29, 2016	Current fiscal year From March 1, 2016 to February 28, 2017
Profit per share		
Profit attributable to owners of parent (millions of yen)	31,181	36,400
Amount not attributable to common shareholders (millions of yen)	―	―
Profit attributable to common stock (millions of yen)	31,181	36,400
Average number of common stock during the fiscal year (thousands of shares)	99,998	100,009
Diluted profit per share		
Profit attributable to owners of parent adjustment (millions of yen)	―	―
Increase in number of outstanding common shares (thousands of shares)	78	71
(Subscription rights to shares) (thousands of shares)	(78)	(71)
Summary of issuable shares not included in the computation of diluted profit per share, since these securities are not dilutive.	―	―

(Significant Subsequent Events)

Not applicable.