

Corporate Governance

Characteristics of Corporate Governance

We believe that continuous improvement in the value we offer stakeholders contributes to the enhancement of Lawson's corporate value. Accordingly, we strive not only to comply with laws, regulations and social norms, but also to reinforce our corporate governance by improving the soundness and transparency of management through honest and considerate behavior based on high ethical standards based on the Group Philosophy and the Lawson Corporate Conduct Charter and the Lawson Code of Ethics. It also requires active disclosure in accordance with the "Basic Principles Concerning Information Disclosure."

Lawson selects people with different specialties and experience as candidates for membership of the Board to assure diversity on the Board of Directors and enable appropriate decision-making and supervision. In addition to the independence standards determined by the Tokyo Stock Exchange, Inc., Lawson has established its own Judgment Criteria Regarding Independence as a basis for selecting several independent officers (one third or more for members of the Board) for purposes of ensuring management transparency and fairness.

Moreover, by introducing the Executive Officer System, we have divided management and supervision from business execution to enable quick decision-making and business execution. It should be noted with respect to the corporate auditors that we elect candidates for the position of corporate auditor based on their possession of the extensive financial, accounting, risk management and/or legal expertise and experience required to fulfill auditors' duties.

The Company recognizes that the succession plan of the CEO is one of our key management issues; thus, acting as an advisory body to the Board of Directors in order to augment the impartiality, timeliness, and transparency of the process, discussions are carried out among members of the Nomination and Compensation Advisory Committee, comprised only from part-time officers (six members out of the total of seven are independent officers), to which the qualifications and attributes required as the Company's chief executive as well as the method of nominating the successor are presented by the President and CEO, Representative Director, for approval.

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

Corporate Governance Code

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

Lawson's efforts related to the Corporate Governance Code ("CG Code") are also published in various reports, including corporate governance reports, convocation notices for general meetings of shareholders, and securities reports. Please visit the following site to see the content of disclosure items related to the individual rules in the CG Code.

 For details of the Corporate Governance Code: <https://www.lawson.jp/en/about/governance/>

* We plan to post a corporate governance report compliant with the revised CG Code for June 2021 in 2021.

Details of major corporate governance measures implemented since 2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Members of the Board (number)	18	20	8		9						7				9 ^{*1}			8				7	
Outside members of the Board (number)		2	3		5					3			4		5					3 ^{*2}			
Of which independent officers (number)											1		2						3				
Female members of the Board (number)							1						2						3				
Ensuring transparency of Board members' compensation			2002 – Compensation Advisory Committee established.													2014 – Nomination and Compensation Advisory Committee established.							
						2005 – Board members' retirement benefit system abolished.																	
						2005 – Share-based stock compensation options for members of the Board introduced.																	
													2012 – Corporate auditors' retirement benefit system abolished.										
Ratio of shares held by Mitsubishi Corporation (major movements)		2001 Mitsubishi Corporation becomes largest shareholder.														April 2015 33.4%		February 2017 50.1%					

*1 The number of members of the Board is as of the close of the General Meeting of Shareholders each year, except for 2014, when there were nine members of the Board up to July 31 and eight members after August 1.

*2 The reduction in the number of outside members of the Board in 2017 was because two no longer satisfied the requirements of outside members of the Board due to the increase in the ratio of shares held by Mitsubishi Corporation.

Corporate Governance System

Equipped with an agile decision-making process, Lawson has moved quickly to construct a highly transparent and independent corporate governance system. Independent officers who are considered to have no conflict of interest with the general shareholders have been appointed to comprise at least one third of the members of the Board. Moreover, six women have been appointed to the positions of member of the Board or corporate auditor with a view to promoting diversity with the composition of the executive officers taken into consideration. They are contributing to reinforcing the corporate governance system from various perspectives. Following the voluntary establishment of the Nomination and Compensation Advisory Committee to express its opinion on the candidates for the positions of member of the Board and representative director on the Board of Directors, meanwhile, independent officers have been selected to fill six of seven positions as Committee members, thus creating a system where opinions

can be expressed with a high degree of independence. Going forward, we will continue our efforts to ensure management transparency and independence, and to improve corporate value to meet the expectations of all our stakeholders.

Special circumstances with the potential to seriously impact corporate governance

Mitsubishi Corporation, our parent company, currently holds 50.2% of Lawson's voting rights (50,150,000 shares). Lawson has a business alliance with Mitsubishi Corporation, but Lawson's internal organizations make independent decisions regarding management and business activities in general, ensuring Lawson's independence as a listed company conducting business operations. In addition, in the business alliance agreements concluded with Mitsubishi Corporation, it has agreed to conduct a business alliance that respects Lawson's independence and autonomy. We recognize that our

independence is supported by our parent company.

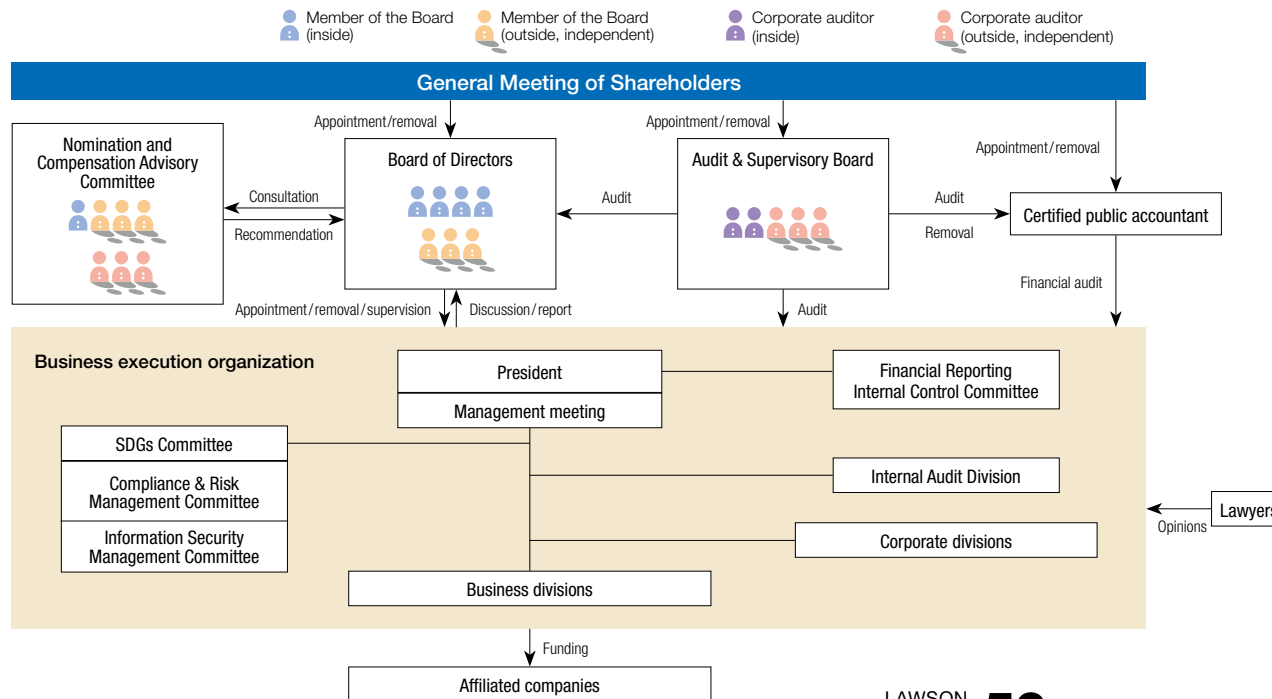
As an independent listed company, Lawson determines the terms and conditions of transactions after comparing and examining the prices offered by other companies, prevailing market prices, etc., even in the transactions with Mitsubishi Corporation, Lawson's parent company, and its group companies, just like in transactions in general, in order not to cause loss to minority shareholders.

Operation status of the Board of Directors

The Company's Board of Directors is made up of seven members of the Board, including four males and three females, three of whom are independent members of the Board. The Board of Directors not only decides important management matters such as issues stipulated by laws and regulations and the Articles of Incorporation, but also monitors the conduct of business operations by its members of the Board. The Board met 13 times in fiscal 2020. Furthermore, the Company has adopted an executive officer system and entrusts authority to executive officers to expedite business execution. Moreover, the Company holds management meetings as a supplementary decision-making body to the Board of Directors. The management meeting comprises personnel who are generally of executive managing officer level or above and members designated by the President. (and met 13 times in fiscal 2020).

Status of committees

The Company has established and operates various committees. These include the SDGs Committee, which conducts a companywide response to the SDGs; the Compliance & Risk Management Committee, which supervises the compliance and risk management system; the Information Security Committee, which supervises the information security maintenance and management system; and the Financial Reporting Internal Control Committee, which supervises the maintenance and effectiveness evaluation of internal controls over financial reporting; as well as the Lawson Group Sweeping Transformation Executive Committee, which promotes companywide strategies for achieving Challenge 2025; the Digital Transformation Promotion Committee, which examines and promotes digital transformation; and the Health Hub Promotion Committee, which plans and proposes strategies for enabling the entire Lawson Group to function as a community health hub.



Policy on nomination and standards for appointment and independence of candidates for member of the Board

Lawson has established criteria for appointing officers and for making judgments regarding independence. The voluntarily established Nomination and Compensation Advisory Committee serves as an advisory body, moreover, that expresses its opinion to the Board of Directors regarding nominations of candidates for the positions of member of the Board and representative director. It should be noted with respect to candidates for corporate auditor that they are individuals with the financial, accounting, risk management and/ or legal experience and expertise required to fulfill the duties of corporate auditors whose candidacy is approved by the Audit & Supervisory Board.

<Appointment criteria for officers>

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

<Judgment criteria regarding independence>

- A major business partner of the Lawson Group or its business executors: A group of business partners that provides products or services to the Lawson Group, where the amount of the group's transactions with the Lawson Group in the

previous business year exceeds 2% of the consolidated sales of the group.

- A major business partner of the Lawson Group or its business executors: A group of business partners to which the Lawson Group provides products or services, where the amount of the Lawson Group's transactions with the group in the previous business year exceeds 2% of the consolidated sales (gross operating revenues) of the Lawson Group.
- Consultants, accounting experts and legal experts who have received large sums of money and other assets other than executive compensation from the Lawson Group: Consultants, accounting specialists such as CPAs and legal specialists such as attorneys who receive money and assets other than executive compensation from the Lawson Group, and whose remuneration from the Lawson Group has amounted to 5 million yen or more annually for the past two years.
- Major shareholders of Lawson (in cases in which the major shareholder in question is a corporation, the corporation's business executors).
- Close relatives of the business executors of the Lawson Group.
- Close relatives of non-business executing members of the Board or accounting advisors of the Lawson Group (in the case of outside corporate auditors).
- Outside members of the board and outside corporate auditors whose tenure at the time of reappointment exceeds 8 years and 12 years, respectively, in the aggregate.

People to whom none of the above evaluation criteria for independence apply are considered for outside officer candidates. Note that even a person who fits any of the above criteria can be selected as a candidate for independent outside officer if the Board of Directors determines that said person is virtually independent. In such case, the reason is explained and disclosed at the time of the candidate's appointment as outside officer.

Succession planning for chief executive officers

Lawson recognizes that the succession plan of the CEO is one of our key management issues; thus, acting as an advisory body to the Board of Directors in order to augment the

impartiality, timeliness, and transparency of the process, discussions are carried out among members of the Nomination and Compensation Advisory Committee, comprised only from part-time officers (six members out of the total seven are independent officers), which determines the qualifications and attributes required as Lawson's chief executive as described below. Then the method of developing and nominating the successor is presented to the committee by the President and CEO, Representative Director, for approval.

1. Ability to respond to and engineer change
2. Strong leadership
3. High-level communication skills
4. Broad perspectives for viewing the Group as a whole and strong commitment to governance
5. Impeccable ethics

The attributes for the successor do not specify whether they need to be from inside or outside of the Company. When selecting successors, multiple candidates are presented to the Nomination and Compensation Advisory Committee.

Support systems for outside members of the Board and outside corporate auditors

The Board of Directors Secretariat is established to conduct administrative tasks for the Board of Directors, communicate with the outside members of the Board, and submit reports each time an incident occurs. The Corporate Auditors Office with two full-time staff members is established to support the corporate auditors in their duties, conduct administrative tasks for the Audit & Supervisory Board, and communicate with the outside corporate auditors.

Outside officers are provided with opportunities to acquire essential knowledge concerning the operations, finances, organization, etc., of the Company. Furthermore, to enable them to deepen their understanding of the Group's business, they are given the opportunity to participate in key events such as conferences to announce Company policy and to tour Group-related facilities. In order for independent outside officers to actively contribute to discussions at the Board of Directors' meetings, the Company holds meetings to exchange opinions with only independent outside officers at least once a year.

Officers' Compensation

Basic policy

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

Furthermore, following a partial revision of indicators for variable compensation in fiscal 2021, "SDG targets (CO₂ reduction rate, etc.)" has now been included as an indicator

to help realize the environmental vision, Lawson Blue Challenge 2050!.

Details of Board members' compensation

Board members' compensation paid by Lawson consists of (A) base compensation through cash payments and (B) share price linked compensation through stock option allocations. Note that no performance-based variable compensation is paid to part-time members of the Board, because they serve the representative directors and Board of Directors in a specialized supervisory and advisory capacity.

Details of corporate auditors' compensation

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

Disclosure method for officers' compensation

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

Details of officers' compensation (fiscal 2020)

Total compensation, total amounts by type of compensation and number of eligible officers per company officer category

(Millions of yen)

Category	Total compensation	Total by type of compensation		Number of eligible officers
		Base compensation	Stock options	
Members of the Board	252	180	72	9
(of which outside members of the Board)	(34)	(30)	(4)	(4)
Corporate auditors	81	81	—	6
(of which outside corporate auditors)	(39)	(39)	(—)	(4)
Total	334	261	72	15

(Note) There were seven members of the Board and five corporate auditors as of end February 2021.

A + B = Board members' compensation

A Base compensation

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

Fixed compensation: A fixed amount commensurate with the position determined based on internal rules
 Variable compensation: Performance-based remuneration linked to the Company's performance, including EPS (earnings per share), in the fiscal period concerned (To ensure linkage between Board members' compensation and shareholders' interests)

B Share-price linked compensation

Stock options offered through allocation of shares

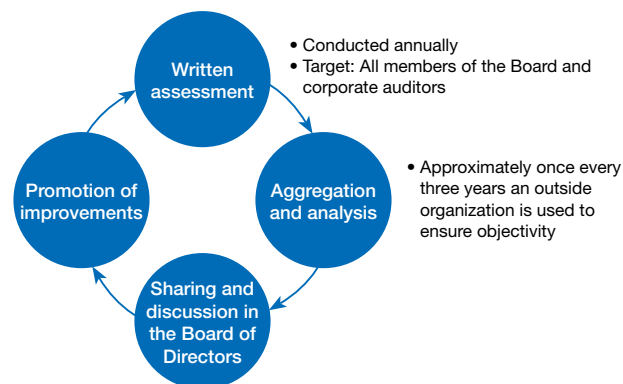
(Recognized as compensation linked to medium- and long-term improvement in corporate value)

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

Assessment of the Board of Directors' effectiveness

In order to further enforce the effectiveness and functions of the Board of Directors, the Company conducts a "self-assessment on the effectiveness of the Board of Directors," mainly consisting of a document survey to be completed by all members of the Board and corporate auditors. Responses to the survey for 2020 were submitted by all 12 members, comprising eight members of the Board and four corporate auditors (as of the date of the survey), and compiled and analyzed by an external organization. As a result, it was observed that the current Board of Directors of the Company is enforcing effectiveness through its role in the resolution of important management matters and the appropriate monitoring of business execution, and these results were shared and discussed at the meeting of the Board of Directors. Moreover, in the above survey, in order to further reinforce effectiveness, constructive opinions were discussed at the meeting of the Board of Directors. Moving forward, we will endeavor to make improvements to further enhance the effectiveness of the Board of Directors, as well as ensure that the opinions discussed are considered. We will use an external

Self-assessment on the effectiveness of the Board of Directors



organization about once in three years in order to ensure the objectivity of the results of the analysis of the self-assessment.

Status of internal control system development

The construction and maintenance of an internal control system is considered an important issue for management to ensure healthy, sustainable business growth. In accordance with the provisions of the Financial Instruments and Exchange Act, in addition to the Companies Act and Ordinance for Enforcement of the Companies Act, a Basic Policy for Maintaining the Internal Control System is determined each fiscal year.

These policies are subject to frequent revision in accordance with changes in the business environment in order to ensure the effectiveness, efficiency and appropriateness of business. Efforts to develop an effective, rational internal control system contribute to maintaining and increasing corporate value.

 Link for information about the internal control system
<https://www.lawson.jp/en/about/governance/>

Strengthening Group governance

Lawson and the Lawson Group have established the following systems to strengthen their initiatives for ensuring the correctness of business operations.

- (1) Systems for reporting to the Company on matters pertaining to the execution of duties by the subsidiary's members of the board, etc., and systems for ensuring that the performance of duties by members of the board, etc., of subsidiaries is efficient.
- (2) Rules and other systems for risk management by the subsidiary and systems for ensuring that the subsidiary's members of the board, etc., and employees execute their duties in conformity with laws, ordinances, and the articles of incorporation.
- (3) Systems reporting immediately to the parent company upon recognition of a situation could harm Lawson and its affiliated companies.

Furthermore, Lawson has designated a compliance and risk management officer at its major affiliated companies and maintains a system that can respond swiftly if an incident were to occur.

Policy on strategically held shares

Lawson sometimes holds listed shares strategically for the purposes of raising its value over the medium to long term, but we endeavor to keep such holdings to the minimum required. When acquiring such holdings, we perform a detailed investigation for each individual issue to ascertain whether the purpose of holding is appropriate, whether the benefits and risks associated with holding are commensurate with the cost of capital, etc. Furthermore, each year the Board of Directors reviews the appropriateness of holdings, and as of the end of February 2021, we held four different listed stocks. From time to time we review the reasons for these strategic shareholdings, taking into account, for example, their impact on increasing our corporate value. Furthermore, when acquiring or disposing of listed shares, we ensure compliance with insider trading rules.