

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 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. Recognizing that the succession plan for the CEO and President is an important managerial issue, in order to raise the level of procedural objectivity, timeliness and transparency, discussions shall be held by the Nomination and Compensation Advisory Committee, which is a consultative body to

the Board of Directors composed solely of part-time officers (five out of a total of six of whom are independent officers), and the Representative Director and President shall present to this Committee the qualities and attributes required of the CEO of the Company and the method of nominating the successor, and shall gain its approval.

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:
<https://www.lawson.jp/en/csr/governance/>

Corporate Governance Code

Five general principles	
1.	Securing 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

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	2022
Members of the Board (persons)	18	20	8		9						7				9 ^{*1}			8				7	5
Outside members of the Board (persons)		2	3		5						3		4		5					3 ^{*2}			2
Of which independent officers (persons)											1	2						3				2	
Female members of the Board (persons)						1							2					3					2
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	February 2017						
																33.4%	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, five 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 five of six 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.

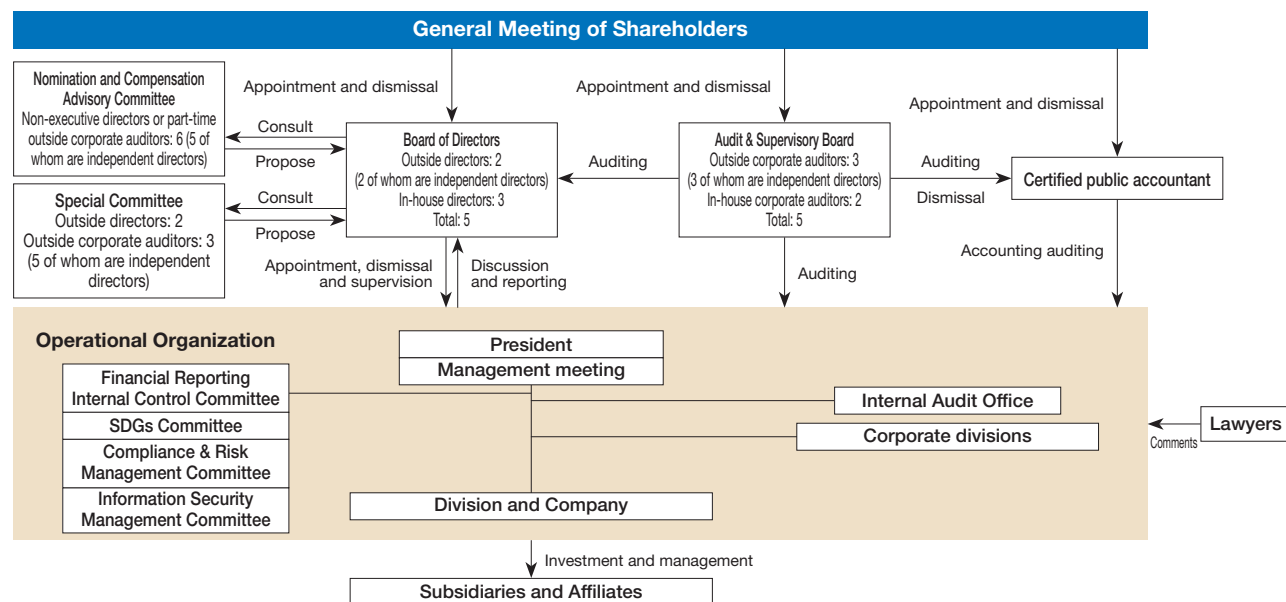
In addition, in the business alliance agreements concluded with Mitsubishi Corporation, it has agreed to conduct a business alliance that respects Lawson's independence and auton-

omy. We recognize that our independence is ensured 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 bring disadvantage to minority shareholders.

Also, a Special Committee may be established at any time to deliberate and review material transactions or actions that involve a conflict of interest between Mitsubishi Corporation and minority shareholders. The Committee, comprising five members including the head of the Committee who are independent outside directors and independent outside corporate auditors that are independent from the parent company, is a system for reviewing the necessity, rationality, validity and fairness of the material transactions or actions based on the high level of independence, and for reporting to the Board of Directors.

Corporate Governance System (As of May 26, 2022)



Operation status of the Board of Directors

The Company's Board of Directors is made up of five members of the Board, including three males and two females, two 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 15 times in fiscal 2021. 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 CEO (and met 15 times in fiscal 2021).

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 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 Lawson Group's Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."
- Persons who can contribute to sustainable growth of 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.
- 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 Lawson Group or its business executors: A group of business partners that provides products or services to Lawson Group, where the amount of the group's transactions with Lawson Group in the previous business year exceeds 2% of the consolidated sales of the group.
- A major business partner of Lawson Group or its business executors: A group of business partners to which Lawson Group provides products or services, where the amount of Lawson Group's transactions with the group in the previous business year exceeds 2% of the consolidated sales (gross operating revenues) of Lawson Group.
- Consultants, accounting experts and legal experts who have received large sums of money and other assets other than executive compensation from Lawson Group: Consultants, accounting specialists such as CPAs and legal specialists

such as attorneys who receive money and assets other than executive compensation from Lawson Group, and whose remuneration from 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 Lawson Group.
- Close relatives of non-business executing members of the Board or accounting advisors of 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 President and CEO is a key management issue; thus, acting as an advisory body to the Board of Directors in order to augment the impartiality, timeliness, and transparency of the process, discussions are carried out among members of the Nomination and Compensation Advisory Committee, comprised only from part-time officers (five members out of the total six are independent officers), which determines the qualifications and attributes required as Lawson's chief executive officer 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 change and power to create 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. High ethical standards

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 accident 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 is set to hold 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. In order to more clearly reflect the contribution of Board members to improving shareholder value, variable compensation operates in tandem with indicators such as EPS (earnings per share) and SDG targets (CO₂ emissions reduction rate, etc.). Share based stock options—share price-linked compensation—are also incorporated as part of the remuneration to strengthen the linkage with returns to shareholders.

A + B = Board members' compensation

A Base compensation

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

Fixed compensation: An amount commensurate with the position determined based on internal rules
 Variable compensation: Using performance-linked compensation that combines performance evaluation for EPS (earnings per share) for each term and an evaluation of SDGs targets (CO₂ emissions reduction rate, etc.) (in order for Board member compensation to operate in line with shareholder profits)

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)

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 2021)

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

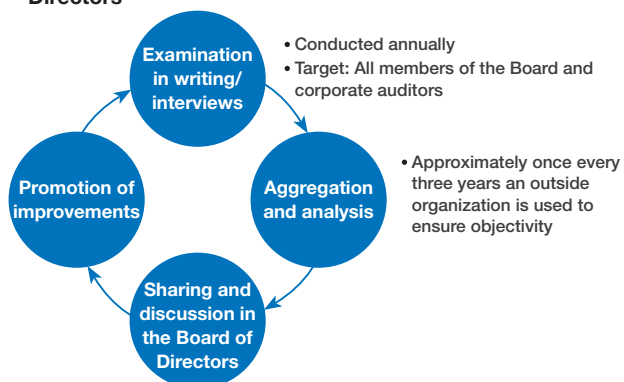
Category	Total compensation	Total by type of compensation			Number of eligible officers
		Fixed compensation	Variable compensation	Stock options	
Members of the Board	258	135	53	69	9
(of which outside members of the Board)	(35)	(30)	(—)	(5)	(3)
Corporate auditors	84	84	—	—	6
(of which outside corporate auditors)	(36)	(36)	(—)	(—)	(3)
Total	342	219	53	69	15

(Note) There were seven members of the Board and five corporate auditors as of the end of February 2022.

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 2021 were submitted by all members of the Board and corporate auditors, 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 Direc-

Self-assessment on the effectiveness of the Board of Directors




tors, as well as ensure that the opinions discussed are considered. We will use an external 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/csr/governance/>

Strengthening Group governance

Lawson and 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 subsidi-

ary'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 that 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 2022, we held two 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.