

Internal Control

Basic policy regarding the internal control system

The business of Lawson Group encompasses a wide-range of operations, from the core business of convenience stores to high-end supermarkets and entertainment-related business, to financial, e-commerce, and consulting services. We operate a large number of LAWSON stores, covering every prefecture in Japan and several markets overseas, each of which offers a wide variety of products and services. As such, we are not only required to observe various laws and regulations but must also assess the diverse range of possible risks and implement the appropriate countermeasures. In light of these characteristics, Lawson has established the “Basic Policy for Maintaining the Internal Control System” to support its efforts to achieve healthy, sustainable growth. We are promoting maintenance of our internal control system based on this policy, while responding to changes in our management environment, conducting periodical reviews of the policy itself, and endeavoring to maintain and enhance an effective, practical internal control system.

The main revisions of the aforementioned Basic Policy implemented in fiscal 2022 are described below:

■ Responding to risks of violations of human rights

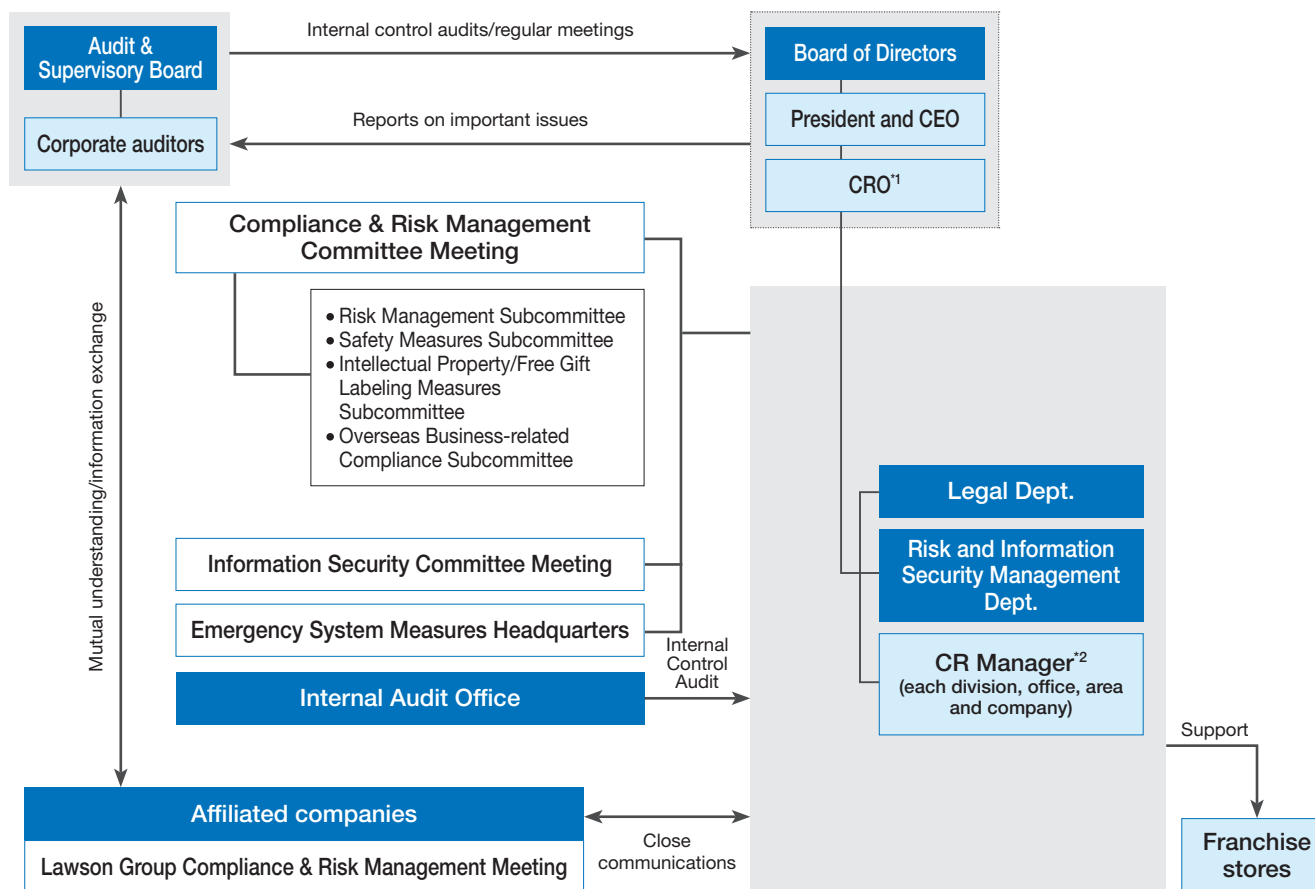
Based on social conditions regarding human rights, and in recognition of the fact that the risk of human rights violations is something to be taken seriously, Lawson has stated that the Consultation/Whistleblower Hotline shall cover matters relating to human rights, and has been promoting initiatives such as due diligence measures regarding human rights.

■ Responding to the revised Whistleblower Protection Act

In response to the revised Whistleblower Protection Act (enacted June 1, 2022) that obligated the provision of whistleblower systems and those engaged in whistleblowing, we have specified the operation of a

Consultation/Whistleblower Hotline that can be used safely by ensuring the privacy of matters that can identify the whistleblower.

Summary of Lawson’s internal control system (as of June 1, 2022)



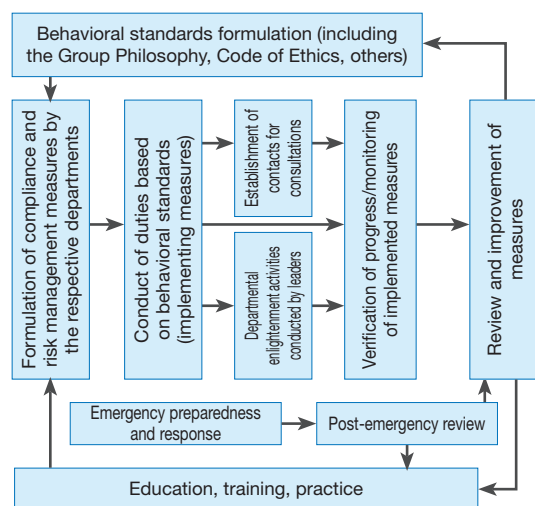
¹ CROs (Chief Compliance and Risk Officer): The executive with overall responsibility for the legal compliance and risk management system and framework in the Lawson Group

² CR (Compliance and Risk Management): Persons responsible for the development and implementation of a framework for identifying misconduct and problems concerning legal compliance and preventing risks from arising in the group where they belong, to support the CRO

Compliance and Risk Management System

Lawson has established a compliance and risk management framework so that all employees can take action based on the Corporate Conduct Charter and the Lawson Code of Ethics.

Management organization



■ Formulation of behavioral standards

In addition to the Lawson Code of Ethics that is the foundation of our work, we have enacted Lawson Group Human Rights Policy and Lawson Group Purchasing Policy, which have been organized into Lawson Group C&R Handbook issued to all employees in order to raise awareness.

■ Full implementation of education and training

Lawson conducts compliance and risk management training for all its employees each year for the purpose

of improving their ethical awareness and risk response capabilities. It has developed a training system to support structured, systematic learning, moreover, that begins with training of newly recruited employees and extends to training of newly appointed management personnel and specialized occupational training as well as compliance training for management members provided by outside instructors.

■ Establishing and raising awareness of the Consultation/Whistleblower Hotline

In addition to Human Resources Department personnel who specialize in consulting concerning sexual harassment and abuse of power and legal personnel who provide consultations on legal matters, Lawson has established consultation contacts to receive internal notifications and provide consultations concerning compliance and risk management issues, including human rights violations, illicit trade/corruption and labor issues. Besides establishing the Lawson Group Outside Consultation/Whistleblower Hotline involving law firms and other external organizations, Lawson is endeavoring to quickly ascertain and make corrections to problems by preparing a point of contact for consultations from business partners' employees, store crew members and franchise owners.

■ Reinforced operational management and monitoring

Lawson has established the Legal Department to supervise compliance and the Risk and Information Security Management Department to supervise risk management under the CRO's direction. These departments cooperatively serve as cross-departmental secretariats for the Compliance & Risk Management Committee Meeting and manage the progress of measures implemented in these areas by individual departments

throughout the Group to promote an effective compliance risk management system. Besides awareness surveys involving all the employees, monitoring activities include ongoing questionnaires among business partners concerning such matters as delivery of merchandise to stores and store construction as part of efforts to review and improve the compliance systems.

■ Enhanced cooperation among Group companies

Company issues are shared at meetings attended by Compliance and Risk Management officers from each Group company to back up the countermeasures taken. In addition to a variety of training, employee awareness surveys and business partner questionnaires are also conducted together in an effort to reinforce Group-wide Compliance and Risk Management Systems.

■ Improvement of the information security framework

Having enacted the Lawson Group Privacy Policy, management systems have been put in place under the direction of the CRO for the protection of personal information. To ensure that the details of the Privacy Policy are enforced, the Company publishes potential mistakes and complaints that may arise at the stores, accompanied by practical responses to them, in various manuals produced for the stores in an effort to raise awareness. In addition to compiling matters that require observation in the Lawson Office Security Rules, headquarters employees are tested periodically to ensure that these measures are being reliably implemented.

For details of the Compliance and Risk Management System, please visit the following web page.

Please visit the following web page for details.
<https://www.lawson.jp/en/csr/governance/compliance/>
<https://www.lawson.jp/en/csr/governance/risk/>

Business risks

Main risk factors	Risk details	Response measures to risk, etc.
Risk related to changes in economic conditions	• Interest rate fluctuation Frequency: Medium Impact: Low	• Suppress the impact of interest rate fluctuations by monitoring market trends, diversifying fund procurement sources and lending periods, and using procurement at fixed interest rates.
	• Fluctuation in exchange rates Frequency: Medium Impact: Low	• Mitigate the impact of exchange rate fluctuations by diversifying the contract volume and timing for products and raw materials, etc., procured overseas.
	• Raw materials procurement Frequency: Medium Impact: Medium	• Secure substitute materials and multiple procurement channels from different production areas for the same materials.
Risks related to business activities	• Changes in business activity due to factors such as consumer trends, changing competition situation, and requests to stay at home Frequency: Medium Impact: High	• Respond to changes by pursuing ideal store formats, including stronger merchandising and product lineups. • Promote infection prevention in stores and remote working for the Company's employees.
	• Food safety and hygiene management and labelling Frequency: High Impact: Medium	• Work with suppliers to ensure rigorous application of quality management, hygiene management, and expiry date management, as well as appropriate labeling, from the production process through to delivery and sales.
	• M&As and business alliances Frequency: Medium Impact: Medium	• Conduct adequate study such as third-party surveys, etc., when acquiring shares or entering business alliances, etc., and formulate accurate business plans and clear standards for withdrawal when making a decision.
	• Inability to recover receivables Frequency: Medium Impact: Medium	• Conduct credit investigation of new business partners as necessary and implement thorough receivables management.
	• Impairment of property, plant and equipment Frequency: Medium Impact: Medium	• Establish and test accurate investment profitability hypotheses when acquiring property, plant and equipment.
Risks related to laws and regulations, etc.	• Handling of personal information Frequency: Medium Impact: High	• Conduct information security measures and thoroughly promote information security measures and Lawson Group Privacy Policy inside the Group.
	• Changes in various laws and regulations related to store development, store operation, hygiene management, trading, and environmental protection, etc., and changes in government guidelines in areas where stores are opened Frequency: Medium Impact: Medium	• Constantly gather and analyze information about legal and regulatory revisions, etc., and respond beforehand.
Risks related to the franchise store business	• Cancellation of a large number of franchise agreements due to deterioration of trust with franchise store owners • Impact of misconduct at a franchise store on the brand image of the entire chain and the Group's performance and financial position Frequency: Medium Impact: Medium	• Provide sufficient information and appropriate support through daily communication with franchise stores to prevent misconduct incidents, etc., and build partnerships with franchise stores by conducting various initiatives for continued stable store operations.
Risks related to the banking business	• Administrative measures such as stoppage of operations due to improper implementation of laws and regulations applicable to Lawson Bank, Inc. or guidance from the supervisory agency. Restriction of products and services development due to new establishment, changes, or removal of laws and regulations, and guidance from the supervisory agency Frequency: Medium Impact: High	• Compliance with laws and regulations through compliance training, etc., at Lawson Bank, Inc.
	• Delay in responding to environmental changes such as rapid expansion in cashless settlements and sharp decrease in cash circulation Frequency: Medium Impact: High	• Respond to environmental changes by sharing information through regular communication between Lawson Bank, Inc. and the Company, and examination of synergy creation.
Risks related to disasters, climate change, and trouble, etc.	• Physical damage to facilities such as stores or vendors' plants, or disruption of product deliveries, due to the occurrence of natural disasters such as earthquakes, tsunamis, floods, storm surges, typhoons, and blizzards Frequency: Low Impact: High	• Formulate business continuity plans (BCPs) and established business continuity management (BCM) structure. • Ensure effectiveness of the Disaster Relief Manual and the BCP Manual by conducting disaster drills three times a year, and partially transfer risk by taking out insurance.
	• Temporary store closures or major changes in corporate activities, social activities, and consumer behavior due to the spread of infectious disease or related state or emergency declaration Frequency: Low Impact: High	• Lawson Group Sweeping Transformation Executive Committee will lead our challenge to respond to the new normal by anticipating new needs.
	• Climate change Frequency: Low Impact: Medium	• Analysis of risks and opportunities, ascertainment of impacts on business strategy, and examination of climate change mitigation and adaptation measures.
	• Information technology (IT) system trouble Frequency: Medium Impact: Medium	• Implement multifaceted countermeasures for cyber security, including technical, process/personnel, and physical aspects, as well as training in preparation for problems that may arise.
	• Quality issues with products or services, incidents or accidents occurring at stores, etc., brand value decrease due to misconduct, etc., by Group executives or franchise stores, and sales downturn, etc. Frequency: High Impact: Medium	• Prevent issues from arising through compliance/risk management training.

* Low frequency refers to a probability of the maximum conceivable risk event occurring once in 10 or more years. High impact indicates a maximum conceivable damage impact of 10 billion yen or more.

* The above data is based on our determination as of May 25, 2022. It does not necessarily cover all of the risks related to the Group's business, and it also contains some uncertainty. Actual results may be different.

Response to TCFD

In determining the Group’s material issues (materialities), we consider climate change, which is becoming more severe year by year, to be an extremely important issue. As the core company of Lawson Group, Lawson endorsed the Task Force on Climate-related Financial Disclosures (TCFD) in April 2020. We are following the TCFD recommendations to promote disclosure of information on governance, strategy, risk management, and metrics and targets.

Governance

Lawson created the SDGs Committee in March 2019, aiming to help realize a sustainable society through its business activities. The committee meets four times a year and is under the direct supervision of the president and CEO, representative director. Its members are made up of all division managers up to the rank of director. The committee has declared its intention to engage in “sustainable environment preservation activities toward a carbon-free society,” in order to realize “Environmental (Machi) friendliness.” The committee formulates implementation plans, manages progress toward achieving its targets (KPIs), and reports on a regular basis to the Board of Directors regarding the status of initiatives on climate change and other issues.

A working group has been established under the SDGs Committee, tasked with promoting the disclosure of information related to climate change. Personnel in charge of departments and accounting, who undertake business strategies, and personnel in charge of IR, are among those who promote disclosure of information related to governance, strategy, risk management, and metrics and targets, as recommended by the TCFD. The working group analyzes risks and opportunities related

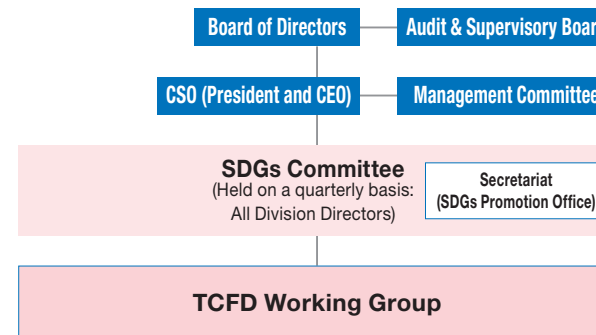
to climate, grasps their impact on business strategy and revises the strategy, and examines various countermeasures for mitigating and adapting to climate change. The working group will also lead efforts to strengthen disclosure of the results of these examinations.

From March 1, 2021, the Company established the position of Chief Sustainability Officer (CSO), with the president, CEO, and representative director appointed to the position, as we further strengthen our efforts to reduce greenhouse gas (GHG) emissions and address other environmental issues in our business activities.

(1) Identification of risks and opportunities

Risks and opportunities associated with climate change include those associated with the transition to a low carbon economy, such as regulations on GHG emissions, and those associated with the physical changes caused by climate change, such as weather disasters of increased intensity.

Organizational structure



Roles of the working group

- Analysis of risks and opportunities related to climate change
- Ascertainment of impacts on business strategy
- Examination of climate change mitigation and adaptation measures
- Disclosure of information regarding climate change-related initiatives

Decrease in transport cost due to increased efficiency in logistics			Timing of emergence or realization
Transition risk	Introduction and increase of carbon pricing	Increase in store operation costs due to introduction of carbon prices	Medium term
	Strengthening of GHG emissions regulations	Increase in costs of raw material procurement and manufacturing due to introduction of carbon prices	Medium term
	Increase in electricity prices	Increase in energy cost due to increase in electricity prices	Medium term
	Strengthening of fluorocarbon regulations	Increase in costs of raw material procurement and manufacturing due to increase in electricity prices	Medium term
	Strengthening of plastic regulations	Increase in investment cost for non-fluorocarbon equipment, etc., in stores	Short term
	Changes in consumer lifestyles and preferences	Increase in procurement cost for substitute raw materials compliant with plastic restrictions	Medium term
Physical risks	Increased severity of weather disasters	Degradation of brand image due to delayed response to environmental awareness	Medium term
	Average temperature increase	Damage due to flooding in stores, decrease in sales due to suspension of operations	Short term
Opportunities	Average temperature increase	Increase in electricity usage at stores, distribution centers, etc.	Long term
	Introduction and increase of carbon pricing	Decrease in raw material procurement costs due to increased efficiency in suppliers' business processes and facilities	Medium term
	Technological development in renewable energy	Decrease in transport cost due to increased efficiency in logistics	Medium term
	Changes in consumer lifestyles and preferences	Decrease in energy cost due to installation of reduced-cost solar cells	Long term
	Average temperature increase	Increase in sales due to development of environmentally conscious products and services	Medium term
		Increase in sales due to development of products and services tailored to changes in customer preferences due to higher temperatures	Short term

Lawson recognizes that these risks and opportunities will emerge at different times. In the table below, they are organized into short term (less than 3 years), medium term (3–10 years), and long-term (10 years and above) perspectives.

(2) Scenario analysis

We are conducting scenario analysis for the entire Group regarding the impacts on business of risks and opportunities. To begin, we have started scenario analysis on the following analysis targets.

Target businesses	Domestic convenience store business
Scope of analysis	Lawson and franchise stores
Reporting period	2030, 2050
Analysis target	Impact on stores of the increase in store operation costs due to carbon price introduction, increase in energy cost due to increased electricity prices, and increased intensity of weather disasters
Referenced scenarios	IEA WEO 2019, SDS STEPS (2°C), CPS (4°C) IPCC Fifth Assessment Report, RCP2.6 (2°C), RCP8.5 (4°C)

Carbon prices and energy cost

We conducted a scenario analysis of the case where Lawson conducts initiatives to save energy, which it is implementing as a material issue, and the case where it does not conduct the initiatives, taking into account the future carbon prices, electricity sector emissions, and projected electricity prices. We also conducted an analysis of the procurement cost of the renewable energy needed to achieve 100% reduction in CO₂ emissions per store by 2050, which Lawson has set as an initiative for promoting the SDGs. The result of this analysis indicates that if a carbon price of \$100 to \$140 per ton of CO₂ were introduced to keep the increase in tem-

perature below 2°C at both 2030 and 2050, even taking into consideration a decrease in emissions factors for the electricity sector due to decarbonization, the Company will experience a certain amount of financial impact if it does not take measures to reduce energy consumption.

On the other hand, if the company has taken steps to save energy, it will be able to reduce not only the store operation cost due to introduction of carbon prices, but also electricity charges, allowing the financial impact to be controlled within a tolerable range. Furthermore, to achieve a 100% reduction in CO₂ emissions per store by 2050, we must not only promote energy saving, but also procure renewable energy. We found that although the fluctuation in procurement prices causes a small variation in the impact amount, the financial impact can be controlled within a tolerable range.

Weather disasters

Our analysis results shows that the financial impact of increased flood damage under both the 2°C and 4°C scenarios through to 2050 is limited and within a tolerable range. On the other hand, an analysis by region showed that there are some cases where stores are located in areas with high risk of water damage. We will therefore examine further disaster prevention countermeasures going forward.

(3) Policy and initiatives going forward based on analysis results

Lawson has identified climate change-related risks and opportunities, and conducted analysis of their impact on business based on the 2°C and 4°C scenarios. This initiative has only just started, and we will continue to further enhance and examine the content of the initiative going forward.

Metrics and targets

In consideration of social issues and conditions, we have set KPIs related to social and environmental matters for 2025, the 50th anniversary of the Company’s founding, and for 2030, the target year of the SDGs, and we are working to achieve them. Furthermore, in an effort to contribute to the formation of a decarbonized society and the vision of the SDGs, we have taken on the challenge of even higher targets (reducing CO₂ emissions, reducing food waste, reducing plastic) in our environmental vision, Lawson Blue Challenge 2050! – “Save our blue planet!”

KPIs

Reduced CO ₂ emissions	
2025	Reduce CO ₂ emissions per store by 15% compared to 2013 levels
2030	50% reduction of the same
2050	100% reduction of the same
Food waste reduction	
2025	Reduce food waste by 25% v. 2018 levels
2030	50% reduction of the same
2050	100% reduction of the same
Reducing plastic	
2025	Reduce plastic for containers and packaging by 15% v. 2017 levels
2030	30% reduction of the same
	Use 50% eco-friendly materials for plastics used in original product containers and packaging
2050	Reduce plastic shopping bags by 100%
	Use 100% eco-friendly materials for plastics used in original product containers and packaging

See the following for details:
<https://www.lawson.jp/en/csr/tcfd/>

Responses to emergencies

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

Meetings of the Compliance & Risk Management Committee and the Information Security Committee as well as of the four subcommittees are convened under ordinary circumstances to assess risks and to formulate and promote measures to avoid them and prevent their occurrence.

When major risks occur, a task force is set up that strives to promptly resolve problems and minimize damage. Once the problems have been resolved, the Company analyzes the factors contributing to the occurrence and reviews and improves the relevant measures to prevent any recurrence.

We are reinforcing our emergency response capabilities, moreover, through efforts such as for-

mulating the Business Continuity Plan (BCP) and implementing disaster mitigation measures. Our aim is to institute a business continuity (BC) framework that prevents interruption of important business activities, even when emergencies involving serious damage occur.

Assuring continuity of business operations

Fundamental policies and objectives for maintaining BC

Interruption of important business activities shall be avoided, even when emergency situations involving serious damage occur, while maintaining a priority on securing people’s safety and wellbeing. Even if business operations are unavoidably interrupted, critical functions shall be resumed quickly in order to avoid undermining our customers’ satisfaction or corporate value.

■ Three main goals for maintaining BC

- Fulfilling Lawson’s mission as a “community lifeline”

We will endeavor to ensure uninterrupted provision of products and services to customers by keeping stores open whenever possible.

- Continuation of the franchise business

We will determine specific periods and methods for resuming operations and maintain the requisite level of franchise headquarters operations.

- Securing appropriate earnings

We have implemented measures in consideration of the impact emergencies could exert on earnings and of social conditions in order to secure an appropriate level of earnings necessary to the Company’s survival.

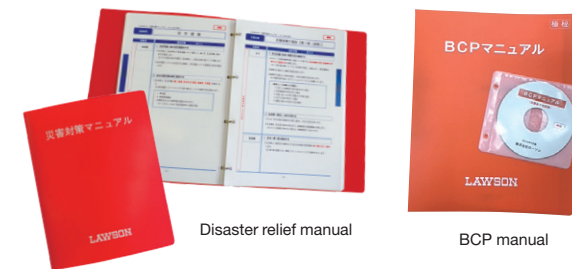
Practical procedures are compiled in the BCP, and we are pursuing efforts to establish a BC framework in line with the BCP, and to sustain and enhance it, as important issues for management.

Mechanism for enhancing BC capabilities

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

Formulation of the BCP Guidelines

In the event of a major incident impacting the headquarters operations, to ensure the continuance of important business activities as the franchise headquarters, we have formulated the “BCP manual” defining the organization’s standard of conduct. The BCP Guidelines describes business procedures in the case of a major earthquake in the Kanto area or a pandemic caused by an infectious disease, for example.



“Resilience Certification”

Lawson is certified as an enterprise that contributes to the building of national resilience against disasters.

In accordance with the “Guidelines relating to certification of groups contributing to the building of national resilience against disasters” established by the National Resilience Promotion Office, Cabinet Secretariat in February 2016, Lawson was recognized by the Association for Resilience Japan as the first convenience store to contribute to the building of national resilience against disasters.

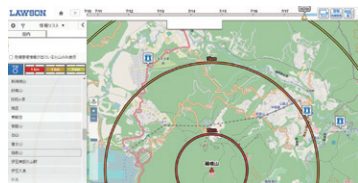


Disaster preparedness and response

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

When large-scale disasters occur, our first priority is to confirm the safety of Lawson employees and our franchise owners and crews. Lawson conducts Companywide training three times a year in which participants acquire experience in implementing a variety of measures, including responding by telephone, email and disaster message dialing and applying the safety check system. This prepares every individual to respond smoothly should emergencies arise. Manuals elucidating the requisite disaster preparedness and responses are distributed to the stores.

When disasters occur, disaster relief headquarters are set up immediately in three locations in the affected area: headquarters, regional offices and local sites. Lawson takes advantage of a Disaster Information Map System designed to enable personnel to confirm the disaster situation in real-time and implement support measures for shops, factories and delivery centers, so that stores in the disaster area can be reopened for business at an early date. Headquarters and franchise stores are preparing for evacuations by notifying employees after jointly confirming possible hazards and shelters.



Disaster Information Map System
A comprehensive Disaster Information Map System for mapping disaster information in real time. The information is monitored and collected 24 hours a day, 365 days a year.

Cooperation with local governments at times of disaster

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

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

- Local governments: 47 prefectures, 24 cities and wards
- Mass transit systems: 11
- Electric power companies: 4
- Others: Tokyo Fire Department and Japan Ground Self-Defense Force, fuel companies

<Entities concluding agreements on assistance to stranded commuters*>

- Local governments: 43 prefectures, 10 ordinance designated cities

* As of March 1, 2022

Appointment to the designated public institution based on the Disaster Countermeasures Basic Act

As of July 1, 2017, Lawson was appointed a designated public institution by the Prime Minister based on Article two, Item five of the Disaster Countermeasures Basic Act.

During times of normal operation, the Company formulates disaster prevention work plans, conducts disaster drills and stockpiles goods and materials in preparation for playing an important role in disaster prevention, emergency response and restoration. In so doing, it works closely with the relevant government and municipal offices.

Crime prevention at stores

We conduct education to ensure that store personnel act with the highest priority placed on personal safety and with

crime prevention in mind, in ways such as greeting customers in a cheerful and spirited manner. Our headquarters is cooperating with the police and the Japan Franchise Association in efforts to prevent crimes against the convenience store industry as a whole.

Actions taken as crime prevention measures

1. Promotion of security camera installation

Digital security cameras with detailed imaging are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur.

2. Creation of an environment for store crew education

Reminders to raise awareness of crime prevention are distributed for display on POS cash registers and store computers, and crime prevention DVDs are also delivered to stores for use in educating their store crew members. Various tools and manuals, such as crime prevention self-check lists, have also been prepared.

3. Enhancing guidance provision during patrols

In addition to the regular store patrols, we also provide crime prevention support for stores during late-night and crime prevention patrols to raise awareness together with franchise stores.

4. Conducting crime prevention drills

Employees are trained under police direction in methods of responding to robberies, including throwing of anti-crime color paintballs and, more recently, training for special fraud prevention.



A DVD on measures to prevent robberies and other crimes



A crime prevention self-check list