LAWSON

INTEGRATED REPORT 2013

Creating Happiness and Harmony
in Our Communities

Lawson Integrated Report 2013

Starting this year, we report in one Integrated Report, combining previous Annual Report, Corporate Citizenship Report, to incorporate financial and non-financial information in one volume. This Lawson Integrated Report delivers to all our mid-to long-term stakeholders our overall current performance as well as a glimpse at the direction we are taking. We hope this report also illustrates our aspirations for business growth, which center on our convenience store business, and its continuing evolution into a part of community infrastructure and lifeline.

Corporate Philosophy

Creating Happiness and Harmony in Our Communities

Lawson's multi-stakeholders

We operate our business with seven stakeholders including local communities. Visualizing what Lawson needs to be for each stakeholder, as described in Corporate Conduct Charter, we keep working to increase corporate value to benefit everyone.

CONTENTS

For detailed information, please refer to our website http://lawson.jp/en/

We will strive to increase our corporate value while existing in harmony with society

Lawson's business goes hand-in-hand with local communities. The convenience store is the business model that best serves community needs. We aspire to realize our Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."

In order to respond to dynamically diversified needs in the local communities, continuous innovation is essential. To make this happen, we actively promote diversity in our organization, while fostering our staff to embrace different values and take appropriate actions.

Addressing and responding to the changes in our society such as the aging population and more women in the workforce, we have worked especially to offer merchandise that meet the needs of senior and female customers. As a result, we achieved sustainable profit growth, far surpassing our competitors.

Lawson's strength to grow further resides in combining our brand value and the scale economy of our franchise system, with entrepreneurial franchise owners who precisely understand the needs of their community.

Further, we leverage our multi-partner loyalty program, Ponta and its data analysis, to offer in each Lawson store "whatever you want, whenever and wherever you need it."

We have also launched online service that enables delivery directly to homes, for more convenience. We aim to continue providing more innovative products and services to our valuable customers.

Lawson will move forward, creating differentiated additional value which no other can offer. We aspire to serve as a lifeline for "our communities," existing in harmony with society.

Takeshi Niinami
Chief Executive Officer,
Representative Director

We offer solutions to issues in communites to realize harmony with society

The convenience store business model has potential to cope with various social challenges because of its accessibility within local communities. Keeping this in mind, Lawson has contributed for years, taking advantage of our decentralized business operation. We have addressed community issues in numerous projects, leveraging our personnel training to foster autonomous thinking, as well as implementing a branch system combined with local empowerment. In the aftermath of the Great East Japan Earthquake of 2011, Lawson's presence was indispensable in local communities. People's lives were thrown into disaster. Our business operations formed an important part of community infrastructure, not only serving as a lifeline, but helping communities to recover and rebuild. This also served as a significant opportunity for both our stakeholders and me to see our presence in a fresh light.

Other critical challenges in an ever-changing society demand our response. In 2013, the ratio of working women in their twenties to thirties reached a record high. On the other hand, the birth rate keeps dwindling and the population is aging at an accelerating rate. In order to mitigate atmospheric conditions, we need to reduce carbon dioxide emissions. Using less electricity helps us prepare for a potential energy crisis. We will keep sharing our corporate philosophy with our stakeholders, deepening mutual trust, and innovating business models to respond to the needs of a more sophisticated and diversified society.

Lawson's actions addressing challenges in local communities

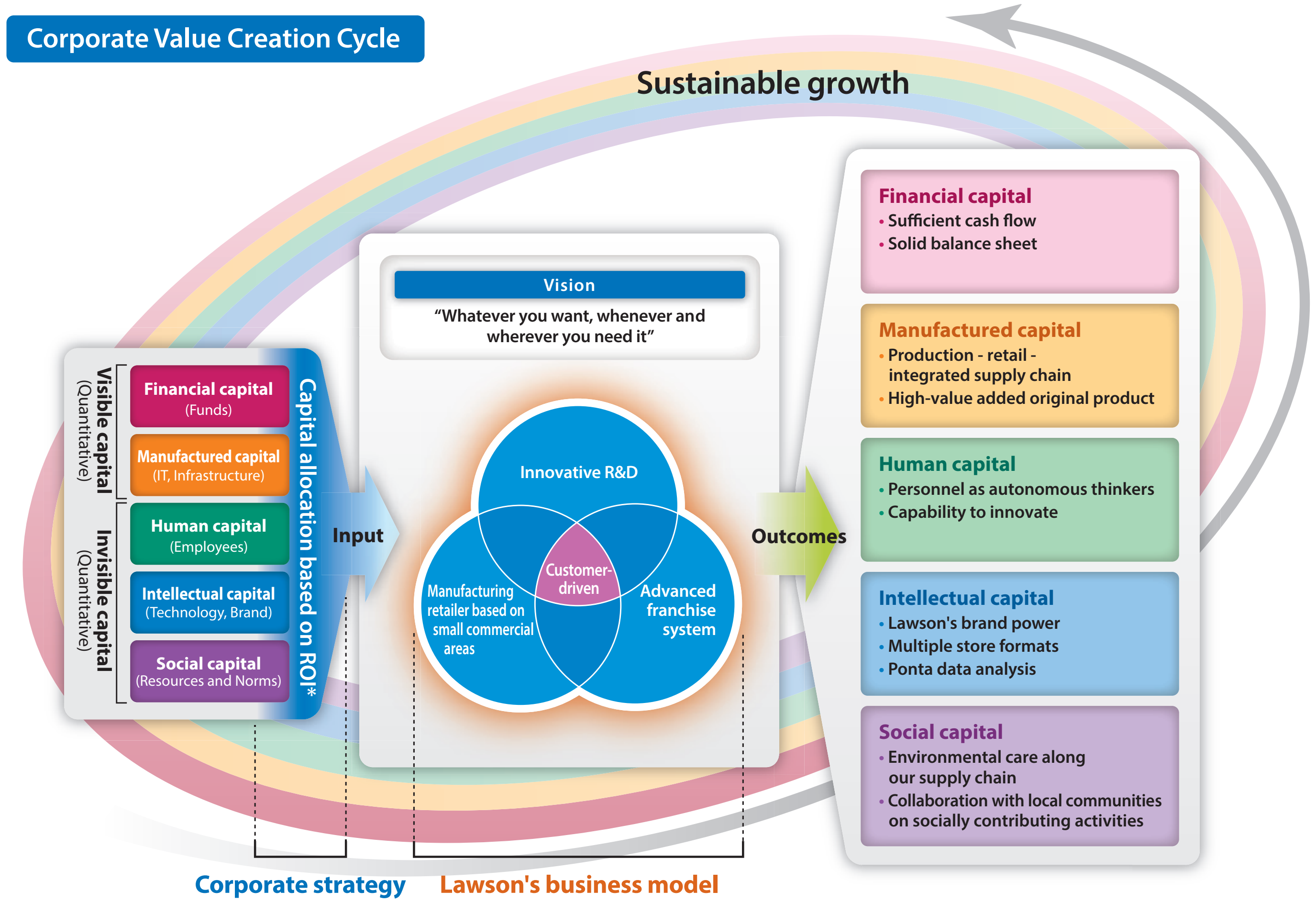
	Challenges in local communities	Lawson's actions
Issues arising from changes in society	More women in the workforce	• Strengthen product and service lines targeting female customers • Product lines to support working women: ready-made meals and ingredients for easier meal preparation • Support our employees on childcare leave
	Aging society	• Strengthen product and service lines for senior customers • Continued employment of people over sixty
	Shrinking employment opportunities for young people	• Salary upgrade for younger employees • Entrepreneur incubator for eligible store workers
	Decreasing vitality of local communities	• Develop product and service lines to revitalize local communities • Disaster procurement agreement with municipalities • Participate in community Safety Station activities
	Physically challenged and elderly have difficulty going out to shop	• Promote home delivery service • Food vans deliver orders to marginal villages
	Escalation of national medical costs and increase in lifestyle-related diseases	• Enhance health-supporting product lines • Promote the idea that "food is medicine" • Support employee health management
Global environmental change	Power shortages	• Implement solar power system • Implement energy saving devices • Promote power saving in stores and offices
	Global warming	• Implement energy saving devices • Unfolding carbon dioxide offset activity • Improve fuel efficiency of delivery vans • Support Lawson Green Fund and tree-planting activities
	Increasing waste	• Ordering system which enables waste reduction • Establish recycling system
	Long-term depletion of natural resources including oil	• Bring Your Own Bag, Chopsticks campaigns to reduce plastic shopping bag, disposable chopsticks use • Conscious choice of eco-friendly containers
	Response to large-scale disaster	• Implement Business Continuity Plan (BCP) • Disaster procurement agreement with municipalities • Implement disaster relief fund

Realizing sustainable business growth
||
Corporate Philosophy
Creating Happiness and Harmony in Our Communities

Corporate value creation through optimal capital allocation and business model that is customer-driven

Our corporate strategy and business model are what sustain growth in corporate value. We will realize optimal allocation of visible and invisible capital to deliver the highest capital efficiency. Visible capital is goods and money depicted in financial statements. Invisible capital is what is not shown, such as human capital. We also strive for on-going improvement of our business model, which enables us to add value, continuously enriching intracompany capital and social capital. Instrumental to this process are innovative R&D (research and development), manufacturing retailer based on small commercial areas, and an advanced franchise system. We call this process of shaping the business model around the corporate strategy, "Corporate Value Creation Cycle."

Corporate Value Creation Cycle



*ROI: Return On Investment

In this chart, we see accumulated value within Lawson as "capital." For comprehensive understanding of capital owned by the company, we categorized capital into five classifications as follows:

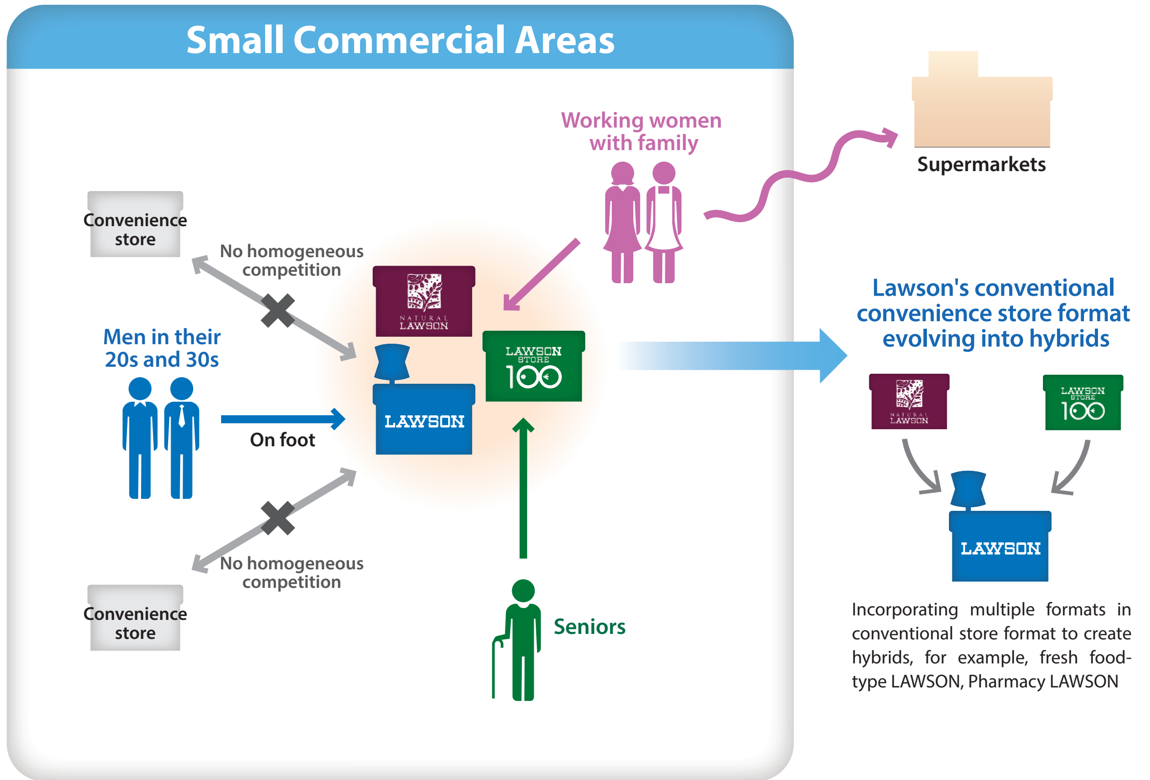
Financial capital	Funds raised from sales of stock and borrowings for business activities
Manufactured capital	Tangible assets that is available to a corporation for its business activities, or infrastructure such as land, buildings, machines and IT
Human capital	All individual skills, competency, motivation, as well as organizations' wealth of experience and knowledge
Intellectual capital	Organizational, knowledge-based intangibles assets, including the brand and reputation, intellectual property, and software
Social capital	Resources obtained from natural environment, shared norms, and trusted relationship with stakeholders

The above is Lawson's definition, referring to International Integrated Reporting Council's (IIRC) "Consultation Draft of the International <IR> Framework" and other references

The convenience store growth requires customer base expansion which can be achieved by meeting community needs

Convenience stores in Japan have targeted mainly male customers in their 20s to 30s, serving as the all-hours handy store in their neighborhood. Convenience for these customers mainly resides in optimized merchandise assortment of fresh ready-made meal products delivered just in time, accomplished by leveraging information technology. For further development of the convenience store model, quality store management, as well as merchandise assortment, have been imperative, especially to operate in small commercial areas. Lawson focuses on this with the "Three Essential Practices": Be customer-friendly, and provide a quality merchandise assortment, and keep the store clean. Convenience stores are quite unique in the retail industry in style as well as in the size of the commercial areas where they operate.

The number of convenience stores targeting young men is over 50,000, saturating that target market. To continue such exclusivity would ignore the need of increasingly diversified local communities. On the other hand, there are two major issues we have yet to address in our changing society: the aging population and more women in workforce. If we can respond to them properly, customers will more frequently visit convenience stores rather than supermarkets or drugstores. We believe we can increase convenience stores' share of total sales of the retailer and food-service industries from the current 6 percent to over 10 percent in the mid- to long-term.

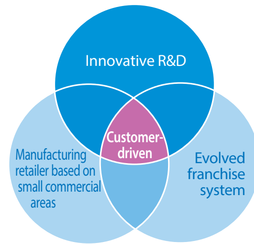


■ Related item

Three Essential Practices Page 13

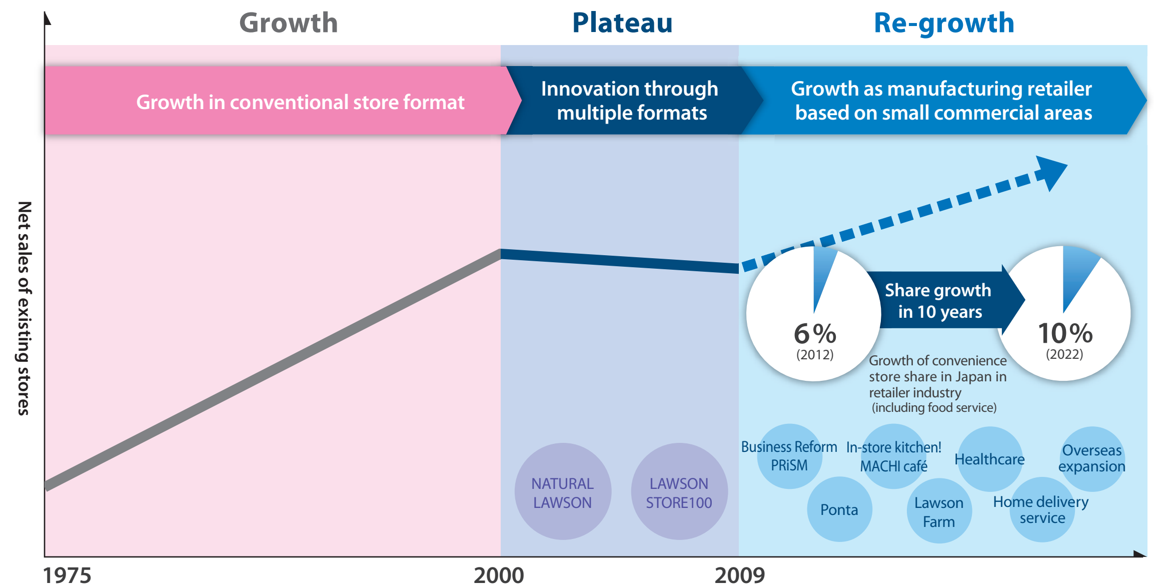
Customer base expansion responds to more women in workforce and the aging society Page 17

We will lead the convenience store industry through innovative R&D to expand customer base



Looking ahead at demographic movement and the changing society, we made a considerable prior investment in the creation our store formats to expand our customer base, getting a head start on our competitors. The health-oriented NATURAL LAWSON and the fresh food LAWSON STORE100 launched in 2001 and 2005 respectively and are among the multiple store formats we have developed. These new formats made our stores attractive to women and senior customers, with new product lines and store layouts. Applying the expertise accumulated in these new formats to conventional stores, we have conducted a comprehensive R&D, incubating projects for our future direction. For example, the new fresh food-type LAWSON evolved from LAWSON STORE100, with expanded lineups of perishable food and daily delivered food. Health-oriented lunch-boxes and other prepared food items utilize expertise accumulated in NATURAL LAWSON. We incubate expertise, bringing a broader and firmer customer base, while developing multiple store formats simultaneously. This is another of Lawson's outstanding strengths among its competitors.

Keywords for our mid-to-long term growth are health, home delivery, overseas expansion in the light of social issues and challenges. In the health-related segment, we are expanding Lawson Farm, our exclusive contract farm for steady supply of quality vegetables. To meet health-conscious customer needs for healthy food, we provide value-added agricultural product, partnering with DAICHI wo MAMORU KAI (meaning Earth Environment Preservation Society, an organic food delivery organization) and Radish Boya, as well as adopting Nakashima farming method in our contracted farms. Further, we launched Pharmacy LAWSON stores combining the NATURAL LAWSON format with a prescription-selling pharmacy since 2003. As our population ages, we expect to see this store format serve more and more customers beneficially, providing prescription medicine and healthy food at one stop. Regarding door-to-door delivery, we started a regular food delivery business, Smart Kitchen, with a set of foodstuffs for simple cooking, geared toward busy women. In rapidly developing countries as well as developed countries, we will promote our efficient supply chain and our store operation format, which begins with customers.



■ Related item

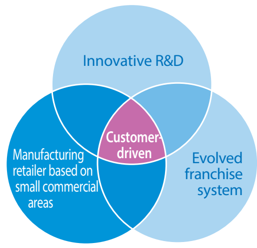
Stable supply of fresh vegetables Page 24

Our efforts for Health Page 25

Home delivery service Page 27

Overseas businesses Page 27

Lawson's SCM-CRM model is a driving engine to become a "Manufacturing Retailer"



The "small-commercial-area style manufacturing retail" has been established with the help of the Lawson SCM-CRM model, which enables merchandise assortment that meets the needs and wants of communities.

In the conventional convenience store business operation, the production process of our original products, such as lunch-boxes, rice balls and sandwiches, was outsourced to third parities in order to improve capital efficiency in multi-store operations. However, by illuminating the cost structure and identifying inefficiency and waste in outsourcing, we redirected our involvement to the supply chain to better manage the whole process - production development, raw material procurement, production, distribution and marketing. We aim at improving gross profit margin through the Business Reform PRiSM, rationalizing order placement by beginning with customers, while restructuring the whole supply chain management process.

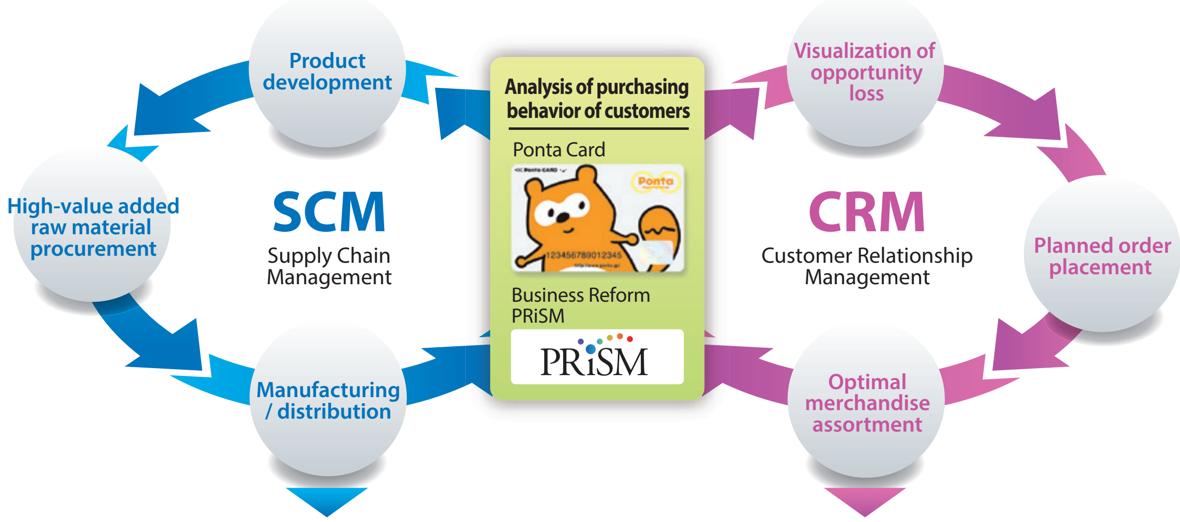
What helps our SCM restructuring is that we have a department specializing in raw material procurement. The department's accumulated expertise in procurement under favorable conditions contributes to value-added original product development.

Another of Lawson's strengths is the multi-partner loyalty point program called Ponta and its data analysis capabilities. This enables us to grasp needs of individual customers in small commercial areas. Using the program members' attribute information (gender, age, and residential area), we can statistically analyze purchasing behavior of Ponta members. This is more than 56 million members' data points, which is unrivaled by any of our competitors in terms of information quantity and quality. This is our Customer Relationship Management (CRM) system, which brings us knowledge of communities and store operations, while visualizing sales opportunity losses, serving as our engine to increase profit while helping reduce losses.

Lawson's SCM−CRM model

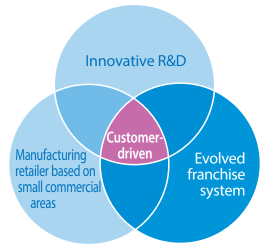
Supply Chain Management (SCM)
Comprehensive Management from procurement to marketing, for optimal efficiency of the whole process

Customer Relationship Management (CRM)
Marketing approach to provide goods and services according to specific needs of customers



■ Related item
Lawson's SCM−CRM model Page 18
Multi-partner loyalty card called "Ponta" Page 18
Supply chain process management Page 22
Business Reform PRiSM Page 18

Human capital is the source of innovation — empowerment and diversity



Human capital is essential for the Manufacturing Retailer business model based on small commercial areas and for innovation as well. Since I took the chair as CEO in 2005, I have spent considerable time and expense on personnel training, while decentralizing our organization and empowering regional branch offices. To respond to diversified customer needs in small commercial areas, we need individual spontaneous ideas and autonomous decision making in the organization. This is what we call human capital. We create Lawson University, a unique education program integrating education for franchise store staff and education for headquarters employees. This program resourcefully educates them to contribute to our human capital, taking action as autonomous thinkers within their communities. In the aftermath of the Great East Japan Earthquake of 2011, franchise owners and our employees, mainly from Tohoku Branch, took spontaneous and prompt action, and contributed greatly to reconstruction and revival of disaster-hit areas. This exemplifies our in-depth human capital shaped within our Lawson Family [franchise owners, store crews (part-time and temporary workers), and headquarters employees] through our empowerment and education programs.

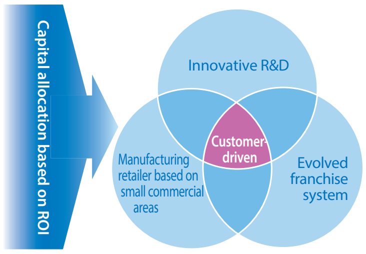
For business operations based in small commercial areas, franchise owners' entrepreneurial spirit is essential for success. We position each franchise owner as a business partner, creating an environment for them to speak freely, while fine-tuning headquarters' organizational structure to take in their voices. Our Management Owner (MO) system was implemented in 2010 for our franchise owners. This system certifies franchise owners as Management Owners when they successfully fostered their staff and developed comprehensive knowledge of their community. While incorporating their understanding of community changes and customer needs, they must also embrace the multiple store operation model. We are planning to provide more support to franchise owners, especially MOs, in order to inspire competitiveness in their commercial areas.

Further, we focus on diversity in our organization in order to respond to the needs of diversified customers. For this goal, we are working to raise the proportion of women hires to 50 percent since 2005 through periodic recruitment of new college graduates, while increasing the proportion of non-Japanese employees since 2008 to 30 percent of all employees. We train these non-Japanese with Japanese recruits in the same program, not putting them on a different track to staff them overseas, but offering them the same opportunity to experience Japanese-style convenience store operations, working as store staff or supervisors (SVs), who coach store operations. Additionally, we are strengthening recruitment of science students who are more skilled with high IT literacy for future innovation. As human capital is what Lawson stands on for its sustainable growth, we keep encouraging our people to have spontaneous ideas and to act autonomously where appropriate, thus moving us forward.

The Smart Women Project (refer to the page 31) was set up as part of diversity promotion initiatives. The team is developing products leveraging their distinctive female perspectives.

■ Related item
Promoting local empowerment Page 28
Lawson University Page 30
Management Owner (MO) system Page 29
Fostering staff as autonomous thinkers for their contribution to human capital Page 28
Taking the initiative for diversity Page 31

Targeting 20 percent in ROE, a criteria in capital efficiency for global investors



In globalized economies today, money flows without borders. Lawson as a listed company needs to meet global investors' expectations, not just those of domestic investors. A major part of our financial capital is shareholders equity, and they expect a higher rate of return than capital cost. Thus, management needs to perform optimal investment allocation that realizes high capital efficiency. Our business strategy optimizes funds distribution in our unique business model, in order to create value and increase return to shareholders efficiently as a listed corporation.

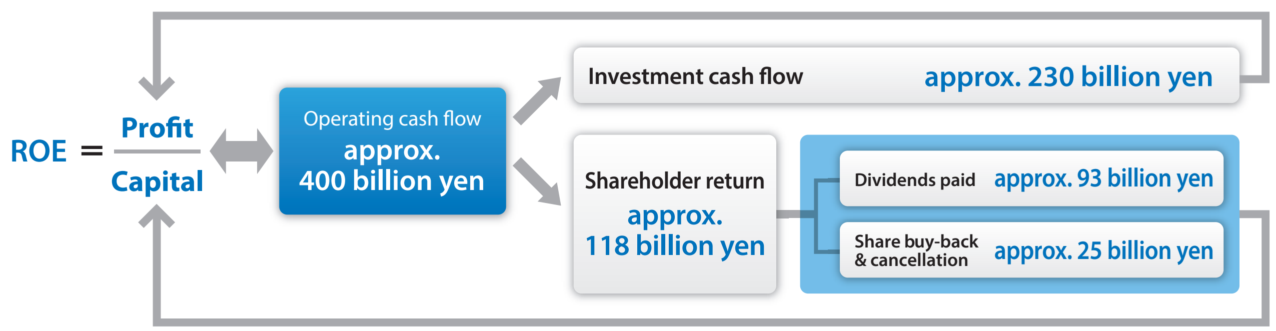
Lawson fulfills its mission, meeting global investor expectations through realization of high capital efficiency, far exceeding capital cost. Concretely, in the medium term, we intend to increase return on equity (ROE) to the level of 20 percent at the global standard from the current 15 percent. There are two ways to achieve our target: one is to increase profit, by increasing operating cash flow in our core business. The other is, through finance strategies, to increase capital efficiency. We put the first priority on profit growth through core business. We have also implemented buy-back and cancellation, to achieve more efficiency of capital. We particularly focus on distributing cash-flow to balance between optimal medium-term reinvestment and shareholder return, by choosing the right timing to implement a new capital policy. We regard decision-making about cash-flow allocation as central to our business strategy.

What we depend on in such decision-making is capital discipline as depicted in return on investment (ROI). ROI over 20 percent is our criteria in making every investment decision to allocate operating cash flow on such activities as new store opening, sales promotion, M&A, and launching new businesses. The effect of this strategy manifests in the fact that our rate of return on invested capital (ROIC) has increased over the past 10 years, while that of our competitors is decreasing.

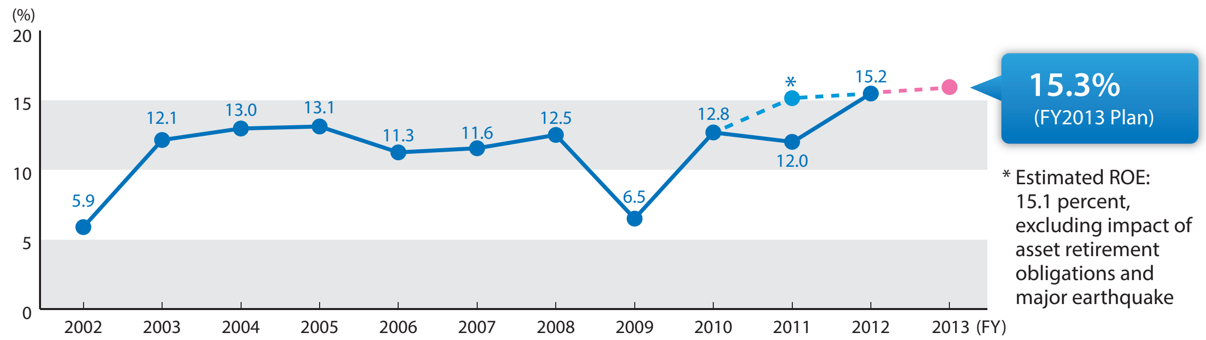
Also, along with ROE of 20 percent, we set medium-term numeral target of 100 billion yen in consolidated operating profit. To achieve this, we worked on increasing gross profit margin, along with gross profit, through revenue growth of existing stores. Just as importantly, we are decreasing SG&A Expenses (selling, general & administrative expenses) through business process re-engineering (BPR). Combining these, we aim at increasing operating margin for net sales of all stores by 5 percent, up from the current 3.5 percent.

We believe we can achieve these numeral targets, not so much through short-term policy for increasing sales or stores, but long-term, grounded efforts in local communities to meet their particular needs with precise selection of goods. These efforts manifest in our new development such as multiple store formats and perishable food implementation, bringing more customers to stores. In future, by unfolding Pharmacy LAWSON and the home delivery service, we will focus on increasing our share in day-to-day spends of customers. Through these various efforts, we work in our signature business model of manufacturing retailer based on small commercial areas. On the leading edge globally, in the domestic as well as the overseas food retail industry, we are setting the standard no other competitors can set, becoming No.1 worldwide in this type of business.

Operational cash flow allocation: accumulated profit over 6 years (FY2007-2012)

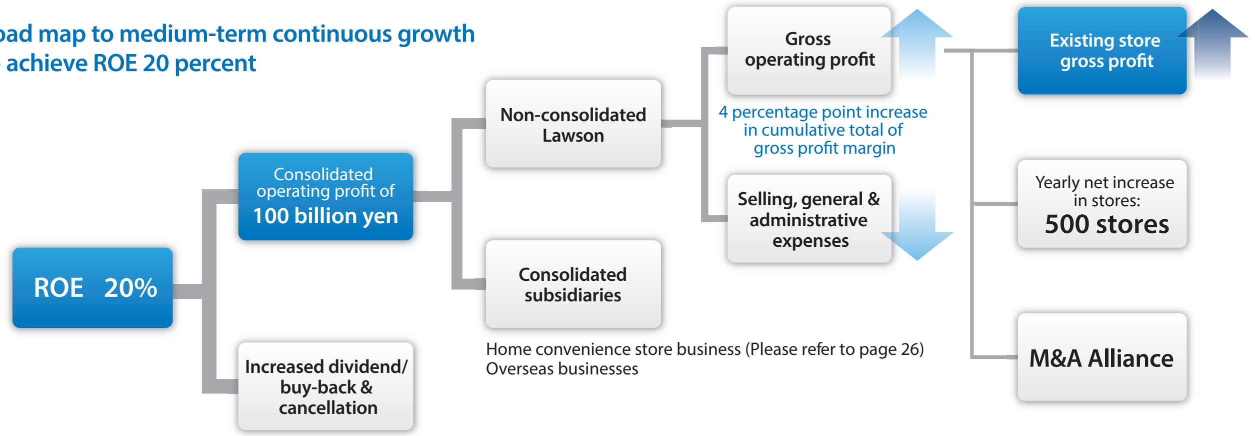


Changes in ROE

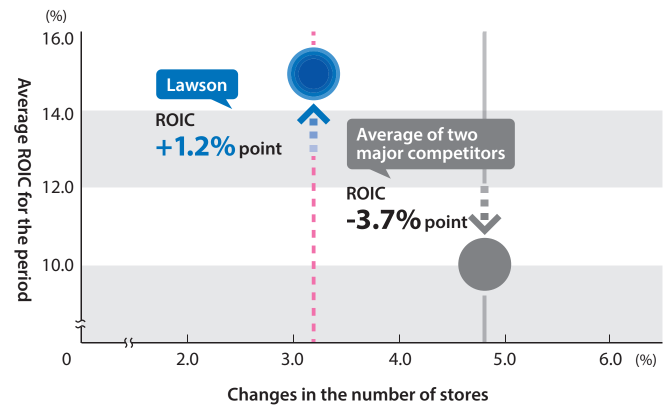


* Estimated ROE: 15.1 percent, excluding impact of asset retirement obligations and major earthquake

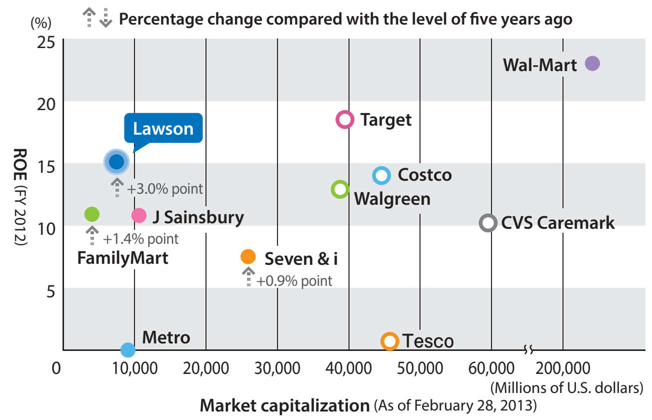
Road map to medium-term continuous growth to achieve ROE 20 percent



Changes in ROIC compared with our competitors for ten years



ROE: retailers of retailers around the world



Eleven-year financial summary

Lawson, Inc. and consolidated subsidiaries
Years ended February 28 and 29

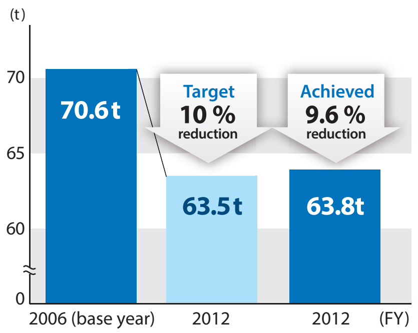
	Millions of yen											Thousands of U.S. dollars*1
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2013
For the year:												
Operating revenues												
Franchise commissions from franchised stores	¥230,003	¥215,574	¥197,673	¥185,656	¥186,928	¥177,443	¥174,325	¥170,785	¥162,963	¥153,910	¥149,032	$2,486,250
Net sales from company-operated stores*2	157,627	174,116	183,236	232,459	119,099	83,321	75,151	66,027	63,802	67,479	80,954	1,703,892
Other	99,815	89,267	60,369	49,077	43,449	40,413	33,577	31,246	27,630	24,212	20,348	1,078,964
Total operating revenues	487,445	478,957	441,278	467,192	349,476	301,177	283,053	268,058	254,395	245,601	250,334	5,269,106
Operating income	66,246	61,769	55,541	50,276	49,186	46,610	44,513	43,867	42,941	38,087	34,107	716,096
Net income	33,183	24,885	25,387	12,562	23,807	22,119	20,983	22,025	20,435	18,571	8,861	358,696
Cash flows from operating activities	85,189	86,357	72,210	40,696	51,717	55,771	47,596	46,933	47,329	37,424	33,860	920,863
Cash flows from investing activities	(54,196)	(52,912)	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(55,282)	(33,297)	(40,621)	(3,787)	(585,839)
Cash flows from financing activities	(31,980)	(27,545)	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(7,795)	(13,836)	(14,364)	(7,247)	(345,692)
Capital expenditures*3	77,361	74,572	50,326	71,399	42,907	64,413	49,822	54,417	46,873	48,303	75,828	836,245
Depreciation and amortization*4	43,886	37,846	33,084	27,468	20,879	21,469	21,352	20,896	19,641	18,499	16,071	474,392
At year-end:												
Total assets	¥579,810	¥531,454	¥476,037	¥448,132	¥436,096	¥397,108	¥398,258	¥375,107	¥356,310	¥354,831	¥342,599	$6,267,539
Total equity	230,182	214,663	208,467	198,136	201,167	188,574	199,493	175,184	160,282	154,317	151,864	2,488,186
Equity ratio	39.1%	39.7%	42.7%	42.8%	44.8%	46.6%	49.0%	46.7%	45.0%	43.5%	44.3%	39.1%
Cash and cash equivalents	72,766	73,670	67,712	54,843	83,982	62,823	75,547	60,441	76,585	76,389	93,994	786,574
Total number of stores*5	11,130	10,457	9,994	9,761	9,527	8,587	8,564	8,366	8,077	7,967	7,721	11,130
Number of employees (full-time)	6,404	6,475	5,703	5,236	5,186	3,735	3,614	3,585	3,391	3,402	3,462	6,404
Per share data:												
Net income (yen/ U.S. dollars*1)	¥332	¥249	¥255	¥127	¥240	¥215	¥202	¥216	¥198	¥176	¥82	$3.59
Cash dividends (yen/ U.S. dollars*1)	200	180	170	160	160	110	100	90	70	41	41	2.16
Payout ratio	60.2%	72.2%	66.8%	126.3%	66.6%	51.2%	49.6%	41.8%	35.3%	23.3%	49.8%	60.2%
Financial data:												
Return on equity (ROE)	15.2%	12.0%	12.8%	6.5%	12.5%	11.6%	11.3%	13.1%	13.0%	12.1%	5.9%	15.2%
Return on assets (ROA)	6.0%	4.9%	5.5%	2.8%	5.7%	5.6%	5.4%	6.0%	5.7%	5.3%	2.6%	6.0%
Net sales of all stores:												
Net sales by store category												
Franchised stores*6	¥1,748,920	¥1,651,693	¥1,499,576	¥1,433,678	¥1,434,166	¥1,331,785	¥1,311,479	¥1,295,704	¥1,265,257	¥1,220,819	¥1,213,088	$18,905,199
Company-operated stores*2	157,627	174,116	183,236	232,459	124,614	83,321	75,151	66,027	63,802	67,479	80,954	1,703,891
Net sales by product category*6												
Processed foods	1,064,133	1,022,619	897,426	902,306	844,324	726,750	705,155	682,006	665,687	625,031	600,508	11,502,897
Fast foods	373,385	345,424	321,865	324,197	332,894	327,501	324,993	312,289	297,369	302,568	303,098	4,036,158
Daily delivered foods	272,312	263,179	264,169	239,088	186,109	162,625	155,575	150,917	148,134	139,506	138,353	2,943,595
Non-food products	196,716	194,586	199,350	200,544	195,453	198,230	200,907	216,519	217,887	221,192	252,083	2,126,430
Net sales of all stores	¥1,906,547	¥1,825,809	¥1,682,812	¥1,666,136	¥1,558,781	¥1,415,106	¥1,386,630	¥1,361,731	¥1,329,077	¥1,288,297	¥1,294,042	$20,609,091

*1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2013, of ¥92.51=$1
*2. Net sales from Company-operated stores includes only convenience store-related sales
*3. Effective from annual report 2006, the composition of capital expenditures has changed to include leases, investments and advances, and construction assistance guarantees
*4. Including depreciation and amortization of intangible fixed assets
*5. Because Shanghai Hualian Lawson, Inc. was an affiliate accounted for by the equity method during the period from May 2004 to August 2011, its stores are not included in the number of stores from fiscal 2004 to fiscal 2010
*6. These figures include sales figures reported by franchise stores and are unaudited

Non-financial highlights

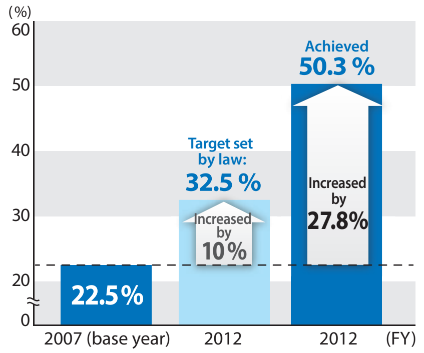
Per store CO_2 emissions from power usage*

* CO_2 emission coefficient is based on FY2006 3.68t-CO_2/10,000 kWh for comparison



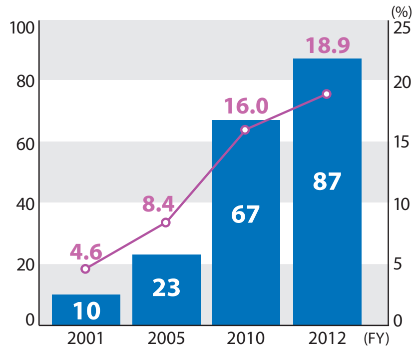
To reduce CO_2 emissions, we set a 10 percent reduction from FY2006 for CO_2 emissions from power usage per store, as a voluntary action goal to be achieved by FY2012. We achieved a 9.6 percent reduction in FY2012.
(Please refer to page 35.)

Food recycling ratio



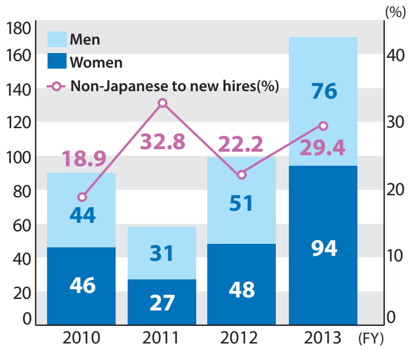
To effectively use surplus food and respond to the Food Recycling Law, we targeted more than 32.5 percent of Food recycling ratio to achieve by FY2012 (FY2007 as base year). We worked over years improving 2 percent or more yearly. As a result, we achieved 50.3 percent in FY2012.

Ratio of working mothers of female employees



Implementing Childcare Support Policy, working mother's ratio of female employees increased by 14.3 percent over 11 years. A reinstatement ratio from a childcare leave (on a cumulative basis since FY2000) is as high as 99.1 percent.

Number of men and women, and ratio of non-Japanese to new hires



Among new hires, half of them are women and 20 to 30 percent of them are non-Japanese nationalities. We promote diversity by consciously maintaining this ratio.

We will respond to customer needs in our communities driven by our "Three Essential Practices"

"Three Essential Practices" in our store operations to enhance customer satisfaction

With our Corporate Philosophy, we aspire to become the favorite store of customers, to shop for "whatever you want, whenever and wherever you need it" which is the vision we work to materialize. To make this happen, we focus on "Three Essential Practices": Be customer-friendly, provide a high quality merchandise assortment, and keep the store clean. This is how we improve customer satisfaction, along with choosing convenient locations in small commercial areas for new stores and developing product lines that meet customer needs. The Three Essential Practices are the ground rules of our store operations. For our franchise stores to improve these three practices, we at headquarters make various efforts including supervisor (SV)* guidance and Mystery Shopper visits for evaluation and feedback.

* Supervisor (SV): a coach for store operations

"Three Essential Practices" overseas — our world-class store creation and operation

We see abundant room for our Japanese-style convenience store business model to grow in developing countries in Asia and other regions, as well as in developed countries where this unique business model is not yet established. Careful selection of goods responding to particular customer needs in specific local communities, cordiality and friendliness with customers, and cleanliness of the store and its neighborhood — these are what we abide by in our business model, and which comprise the Three Essential Practices. Centering on, and bringing "Selfless Hospitality" to the world, we keep breaking new ground for convenience store business abroad to succeed, while further strengthening our product lines and ROI-oriented store opening strategy. (For detail, please see page 27.)

Genichi Tamatsuka
Chief Operating Officer,
Member of the Board

Three Essential Practices

Three Essential Practices focus on efforts to improve customer satisfaction

Our fundamental dedication to the LAWSON store brand strength, focuses us on the Three Essential Practices, the basics in our day-to-day operation.

Serving customers courteously
that conveys the value of products to them

Goods that sit on store shelves cannot convey to customers the full value of the store experience. We think what matters is a touch of friendliness, enhancing the value of goods to customers, which goes hand-in-hand with our overall attitude toward society. In addition, for over-the-counter sales of fast food, such as the out-of-the-oven delicatessen and freshly brewed coffee, store staff need customer service skills such as making conversation with customers. While over-the-counter fast food makes staff busier with extra work including customer service, gross profit increases because sales surpass input costs. The high level customer service increases profitability for both franchise owners and headquarters.

Keeping clean our stores and communities
working together with communities

Interior and exterior cleanliness of the store makes the store attractive, and helps bring customers back, while contributing to the cleanliness of the neighborhood. We believe efforts of individual stores, when put together, eventually help achieve environmental integrity of the whole society. We work to realize such store environments where we can enhance thoughtful action toward society and the environment, involving franchise owners, store crews, our employees and even customers. That is what our store operations are meant to be.
(For detail, please see pages 32-33.)

Ponta data analysis for precision ordering brings

Merchandise assortment responding to community needs

Our franchise stores number more than 11,000 nationwide, responding diversely to specific needs of customers who live in their respective local communities. Ponta loyalty card data analysis is vital to developing products and creating merchandise assortments that meet customer needs. Which particular customer buys what, when they buy it, and how much they buy - this data illuminates customer purchasing behavior, enabling stores to place orders precisely and timely. As ordering becomes more customized and specific, merchandise assortment becomes more responsive to and satisfying for customers, decreasing opportunity losses while increasing customer satisfaction.

Mystery Shopper Program to quantify operational capabilities for continuous improvement

To improve store operations, we implemented the Mystery Shopper program in 2004. This program uses third-party undercover researchers to inspect stores from a customer's perspective, and quantitatively assess them on the quality of their merchandise assortments, service, cleanliness and customer satisfaction. Feedback is provided to headquarter supervisors (SVs) who relay it to franchise owners on a regular basis. Objective evaluation of their store operations compared with competitors in their neighborhood helps franchise owners strengthen their store operating capabilities.

Convenient location for high performance in new store opening

Choosing convenient locations for new stores greatly helps increase usefulness of LAWSON for customers. We analyze community information such as the estimated number of customers, their attributes, and their behavior patterns to decide location and store format as well. Moreover, implementing the regional branch system to integrate store development and operation, we structurally focus on store performance after opening, not just pursuing the number of new stores. All these factors bring us higher return on investment (ROI) in store openings.

We serve freshly brewed coffee in person
That is our style of "customer service"

The reason why we hold to "hand serving" style

MACHI café hand service style, launched in 2011, is the style where store staff grind beans behind the counter, brew the coffee freshly, and hand serve it to customers. This takes much more time and effort compared with self-service which operating in stores of our competitors. How we maintain cost effectiveness, and use this as a training platform for all staff in excellent customer service will be explained later. We serve coffee in this way, personalizing conversation and relationships with customers, in perfect harmony with the Lawson attitude toward customers. With MACHI café installed in stores, with high-value added products and Three Essential Practices in place, we remarkably improve customer satisfaction, bringing continuous growth to both franchise stores and headquarters as well.

Specialty ingredients

With the slogan "from plantation to cup," MACHI café leverages our strong supply chain through all its production processes - product development, raw material procurement, manufacturing and sales, guaranteeing quality with strict attention to the beans used, roasting methods, coffee making machines, milk and other ingredients. Notably, we are in part using the beans from Ipanema Coffees, one of the world's biggest plantations in Brazil. The coffee from Ipanema boasts its certified high quality, classified as finalist for Cup of Excellence in 2011. As the only convenience store business in partnership with this renowned plantation, we enjoy steady use of quality beans outside price-cutting competition, which enables us to highly differentiate MACHI café. By adding a varied latte menu, we bring more female customers and help expand customer base, while increasing sales of sweets that go well with coffee. Serving quality coffee that rivals authentic coffee shops enhances LAWSON's brand image, as well as motivating store crews and employees.

MACHI café
Three Essential Practices in MACHI café

Environmental sustainability

Rainforest Alliance certification is awarded to plantations only when they satisfy rigorous standards in areas like environmental preservation and improvement in plantation worker quality of life. Rainforest Alliance Certified™ plantations supply 70 percent of MACHI café coffee. We also encourage our customers to bring their own tumblers offering 10 yen discount for MACHI café goods, in order to reduce unnecessary waste.

Hand delivery and conversation

The store staffs make coffee carefully by hand, and they hand the cup over the counter to a customer with making pleasant conversation. This is a high value opportunity to meet customers. MACHI café represents the relationship with customers to which we aspire.

Specialty coffee beans and milk

MACHI café's coffee is made exclusively from specially-selected, delicious Arabica beans, 20 percent of which comprises pulped natural coffee. Blends are made after bringing out the unique characteristics of each bean through different roasting processes best suited for each kind (post-roast blending). Milk is heated in a special way that gives less impact on its components, leaving its natural richness and sweetness.

(Contribution to society and environment)

"Unique experience of taste" realized with customer service

We qualify our stores to install MACHI café when they prove their excellent store operations capability with a certain score in the Mystery Shopper evaluation. Also, we certify store crews with a good knowledge of coffee as well as excellent customer service skills as Fantasistas, which motivates not only store crews but franchise owners in charge of fostering them. Through MACHI café, we provide delightful coffee tastes and aromas, while cultivating people who strive to create happiness in our communities.

Caring for society and environment throughout production process

In MACHI café production, we make conscious, pro-environmental choices. Trying to minimize impact on biodiversity, we choose 70 percent of our beans from Rainforest Alliance Certified™ farms. In addition, we offer discounts to customers who bring their own tumblers, and recycle used coffee grounds and coffee bean bags. We keep looking for new ways to reduce our impact on the environment in every phase of production.

MACHI café is a high-value added product, brought forth by our sophisticated supply chain, and for which we see big potential in terms of the Corporate-Value Creation Cycle. Selling the product, and realizing personalized customer friendliness, we improve customer satisfaction, expanding our customer base and gross profit growth. Reducing environmental impact of our whole supply chain, we contribute to development of sustainable society at the same time. The number of stores installed with MACHI café is expected to exceed 8,000 by the end of February 2014, rapidly increasing from 3,984 as of the end of July 2013. MACHI café has launched in operation partially in Shanghai and Indonesia. We plan to expand it in response to needs of regional customers in other areas overseas as well.

OWNER'S VOICE

Mr. Yanagida, Store owner (right)
Mr. Yasunaka, Store manager (left)

More than excellent customer service, our cup of aromatic coffee emphasizes our human touch

Mr. Ryousei Yanagida Franchise owner, LAWSON Kumamoto Yokote 4-chome Store

I am always telling my staff to create a happy atmosphere in our store, with our smiles expressing gratitude to customers. MACHI café training is useful to practice this. In pair-work, taking turns to play the customer and store staff, we practice handing the coffee over the counter, smiling and making eye-contact. Although we have another convenience store 100 meters away serving coffee self-service, we are increasingly hearing our customers say our store's coffee is the best. I feel rewarded as I have encouraged our staff to promote MACHI café in a heart-warming way.

FANTASISTA'S VOICE

Varieties of beans and roasting method - naturally starts conversation with customers

Mr. Shuji Yasunaka Fantasista and store manager

When I started to work as Fantasista at the store counter, to my surprise, I found myself effortlessly answering customers questions, like what kind of beans and how we roast it. This natural conversation starter eventually covers much a wider range of topics in many cases, which brings customers back to the store. As I am the first to be certified as Fantasista and also the manager, I can share with my store crews customer service tips, fostering them to become more skilled staff and improve our store's customer friendliness. In this way, I am helping them get certified as Fantasistas so they can join me.

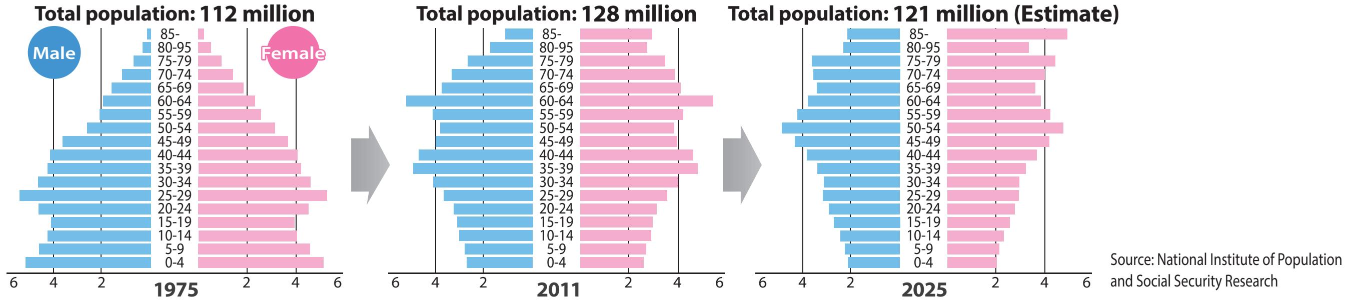
Bring solutions to our aging society with innovation that addresses concrete community issues

Changing social environment

Facing social challenges with decreasing population

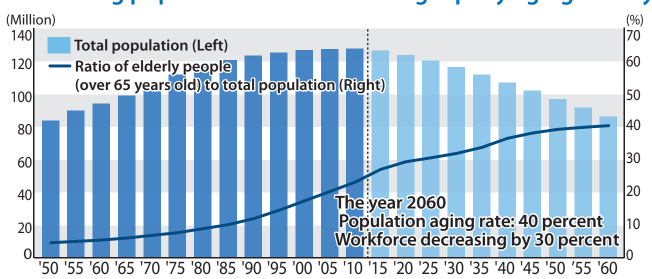
The demographic structure of Japan was a pyramid shape in the 1970s, changing to a bell shape in the second millennium, as the population aged. In 2011, the total population of Japan started to decrease, and we expect this decline to gain momentum in the 2020s, if these trends continue. With the number of workers decreasing, and women staying at home to raise children, it is imperative for us to enable women to work comfortably while raising children. Due to the rapidly increasing proportion of elderly people, Japan's social security system could face challenges in the future from rising medical expense. Our business must deal with these changes in social environment. Careful analysis of these trends, combined with leveraging our human capital, allow us to provide innovative solutions in our communities. This is how we achieve continuous growth hand-in-hand with our communities.

Demographic composition (Time/ Million)



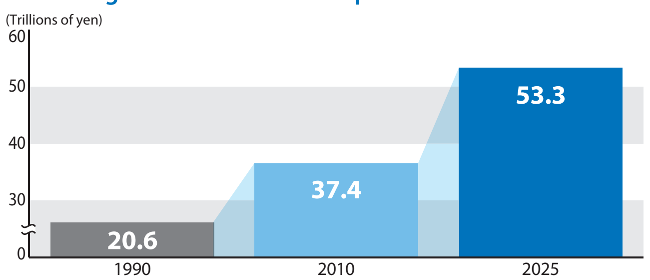
Source: National Institute of Population and Social Security Research

Decreasing population and accelerating rapidly aging society



Source: Cabinet Office, Government of Japan, Annual Report on the Aging Society (2012)

Increasing burden of medical expenses

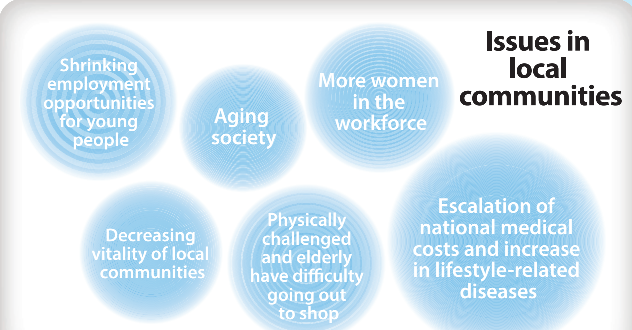


Source: Ministry of Health, Labour and Welfare

Actions addressing issues in society

Meeting new and diversified needs we create products and services

With changing social environment and its impact on local communities, what customers look for in convenience stores is rapidly changing. To meet customer needs, Lawson established a customer-driven business model. Thus we seek to walk hand-in-hand with our communities. We are provisioning stores that offer "whatever you want, whenever and wherever you need it," while addressing issues that our society is facing.



* Please refer to page 2 for details

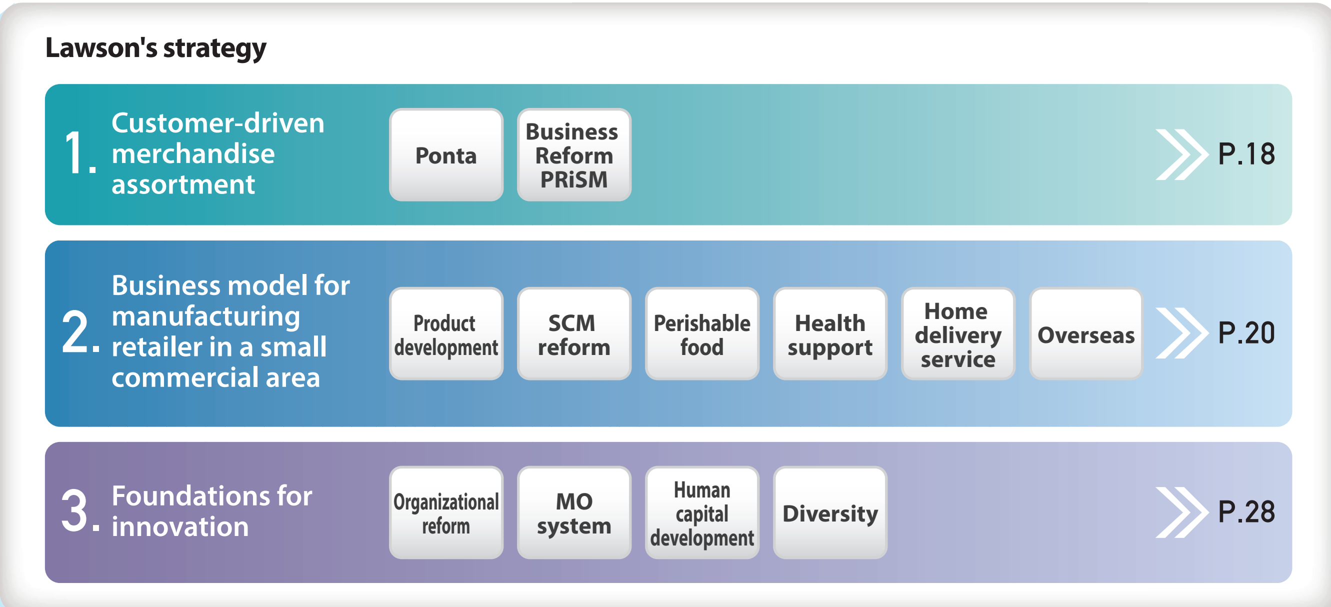
Creating customer-driven stores

A store in the neighborhood where especially female and senior customers can purchase what they need

It is about 40 years since the convenience store business started in Japan. Looking back, Lawson have always had a head start over our competitors, discerning customer needs as times change, putting forward products and services to meet these needs, but still focused mainly on male customers in their 20s to 30s.

Today, as we meet the challenges of a changing society, we are accelerating our product and service development to provide solutions faster, but always "customer-driven." We especially address female and senior customer needs by creating stores where they can shop in their neighborhood. We hope to help create the society in which women can comfortably raise children, and senior citizens can live more easily with their health concerns, while expanding our customer base at the same time.

Actions to realize "customer-driven"



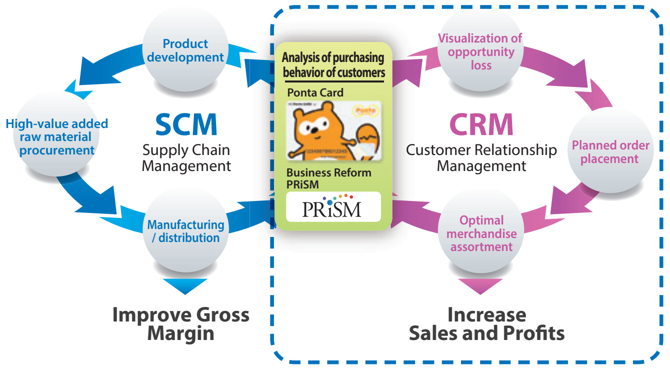
1. Customer-driven merchandise assortment

Each store grasps customer needs realizing optimal selection of goods with precision ordering

Grasp of customer needs

Ponta data analysis of purchasing behavior to precisely grasp customer needs

What helps each Lawson store to offer "whatever you want, whenever and wherever you need it"? It is precise understanding of customers in local communities — who they are, what they need and when they need it. We leverage our multi-partner loyalty program, the Ponta card, and analysis of that data.



For Lawson's SCM-CRM model, see page 6

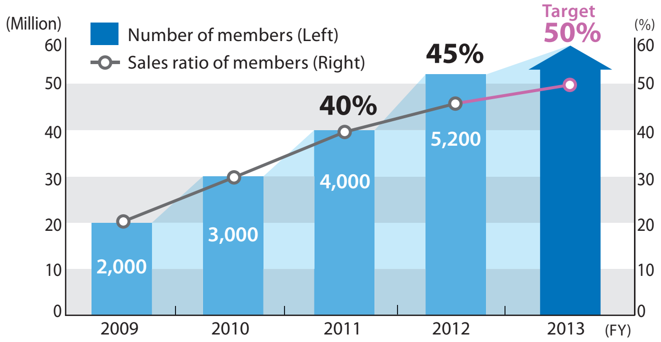
Multi-partner Loyalty Program "Ponta"

Important tool that enable us to grasp precise customer needs in our community

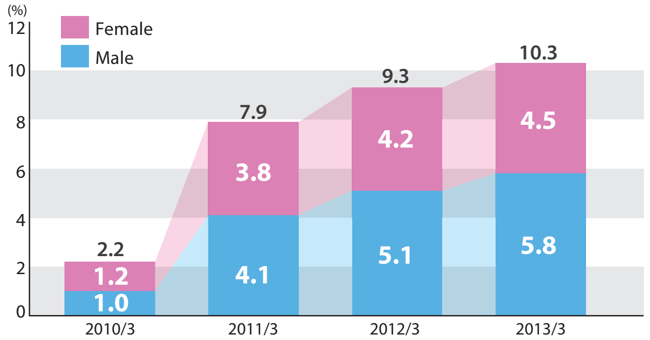
The number of Ponta members has now surpassed 56 million, representing Lawson customers as well as those of 69 partnered companies, 90 partnered brands. Members can use the card in 21,900 stores (as of the end of July 2013), including gas stations, travel agencies, publication companies and DVD rental shops.

Lawson leverage an enormous amount of Ponta card data to create a framework to grasp precise customer needs in each local community and to deliver an optimal merchandise assortment that is best suited for local customers.

Number of Ponta card members and their ratio in sales



Composition ratio of senior citizens over sixty in Ponta card members



Work restructuring through IT utilization (PRiSM)

Reduce opportunity losses by more precise orders and merchandise assortment matching customer needs

When customers do not find what they need, they just stop coming to the store. Along with leveraging Ponta card data, we promote work restructuring through IT utilization, PRiSM to realize customer-driven merchandise assortment. We strive to realize precise order placement, optimal selection of goods, and facilitating display of goods that meet customer needs. This business reform through IT utilization, PRiSM is essential to quantify sales opportunity loss, and thereby meet our customer-oriented goals.

Store layout suited for customers

From item-to-item management based on POS data to full range analysis of customer data, we realize our ordering and display goals in each store

Conventional operation of the convenience store		Lawson's strategic direction	
POS data: Item-based data to find top-selling items		POS data: Item-based data to find top-selling items + Ponta data	
Order based on item-to-item management	Order based on recent sales, those of previous year, and waste volumes	Order merchandise assortment based on customer needs	Order placement adjusted by change in number of customers, merchandise assortment which covers basic items, and optimal store display with easy access
Homogenous store operation and planning sales space	Produce sales space with headquarters instruction centering on new products or campaigns	Produce sales space to meet individual local needs	Store produce tailored to individual local needs collected through Ponta data analysis

Leveraging of Ponta data at stores

Analysis of Ponta purchase data enhanced franchise owners understanding of their customers

As Ponta member ratio came closer to 50 percent of total sales, we further see the detailed purchasing patterns in each store.

In 2013, we started to provide franchise owners with information of customers' attributes and their purchasing behavior compiled as Ponta Member Report of Your Store*. This is our unique tool, leveraging abundant data and statistical advantage, to support store creation optimized to particular customer and community needs.

* Data do not include information that specify individuals

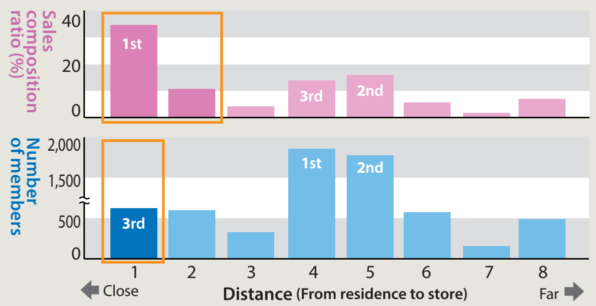
Case example of Ponta Member Report of Your Store

This report revealed a small number of female customers Adding health-conscious merchandise assortment increased female customer base (A store in Hokkaido region)

1 Ponta Member Report brings awareness

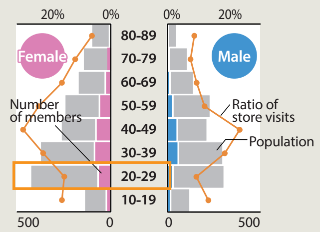
Not so many members despite excellent sales

The store has less Ponta members, but the number of "heavy users" (frequent repeaters buying a lot) is outstanding.



Demographic composition of population and Ponta members by age groups

Compared the age group of members with the whole population, the percentage of females in their twenties in the area is high, but Ponta members in that age group is not proportional.



2 Awareness leads to making merchandise assortment more attractive to women

Realizing that the store was not so popular for young women, the store owner decided to take action with a focus on them. Data comparison with stores located in a similar type of area, revealed bakery products sell well, along with beverages.

3 Hypothesis

More health-conscious bakery and beverage selections in the merchandise assortment can meet the at-home needs of young women for their supper and breakfast.

4 More health-conscious products among bakery and beverages

Beverages good for health and beauty	Increased items good for health and beauty, such as vegetable juice, appealing to customers with multi-faceted displays and large quantity display.
Health-oriented bakery	Increased items of bakery using bran as ingredient, displaying them on the top shelf to attract attention

5 Positive response attracting customers with improved health-oriented product lineup

Within two weeks of increasing beverages and bakery lineups, we had 16% and 8% increases in beverages and bakery sales respectively.

Leveraging Ponta data and quality raw materials procurement enables customer-driven product development

Policy for original product development

Strengthening original product brand to respond to female and senior customer base expansion

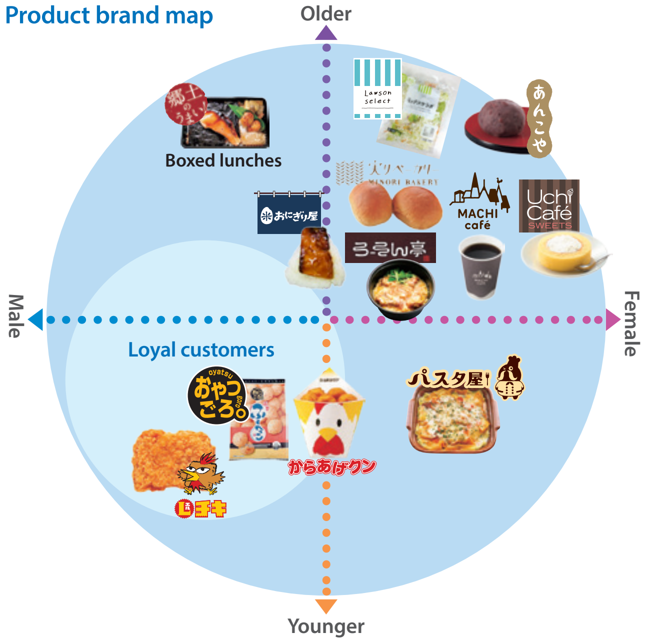
Lawson focus on quality original product development with special attention to ingredients targeting new customer base of women and senior segments, as well as our loyal male customers in their 20s to 30s.

Product brand map is a tool to analyze customers who purchase certain product brands by gender and age. We can see that among the products that Lawson is developing, there are more brands geared toward female and senior customers. Some of the products such as boxed lunches and onigiri (rice balls) which have been historically preferred by customers in the 20s and 30s are now underway in the development targeting female and senior customers.

Trial and Repeat purchase analysis is a tool to analyze the sales of a new product for several days immediately after the launch. We look at the ratio of trial buyers and repeat buyers and compare that data to a past similar product in an attempt to capture a sign of a hit product early on. As this illustrates we develop an original product brand by repeatedly employing multi-faceted analysis and merchandisers' hypothesis testing.

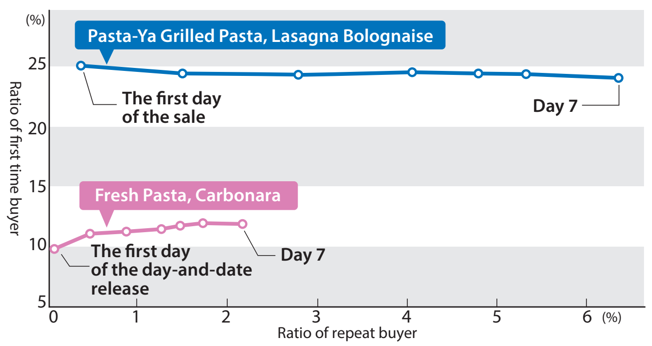
The premise in product development is "safe, reliable, healthy and delicious." For female and senior customer segments who are likely to look for safety in food, we pay special care to control quality. From choosing raw materials, to manufacturing, distribution and marketing, we pursue "safe, reliable, healthy and delicious" in all operations in compliance with relevant laws and regulations. We work to reduce the use of food additives, preservatives and artificial coloring.

Product brand map



Trial and repeat analysis

Used as criteria for successful products



Use of Social Network Service (SNS)

Social network service for two-way communication with customers

Official account with 13 million "friends"
Sales promotion by Lawson official social-networking character Akiko-chan, a virtual Lawson crew

Lawson uses social network service to understand customers in local communities and conduct two-way communication with them. We produced Lawson's official social-networking character, Akiko-chan, a virtual Lawson staff member, in April 2010, posting her messages and tweets that included product information and campaigns with discount coupons for a limited time. This virtual character became popular, having more than 13 million "friends" in SNS including LINE, Facebook and Twitter.

Akiko Shirai, a manager of Advertising & Sales Promotion Department of Lawson, won the 10th Web Creation Award Grand Prix*, for her contribution to the use of websites through the creation of Lawson's official social-networking character Akiko-chan

* The Web Creation Award is given to people who contributed to and influenced the development of the web industry. It was launched in 2003 under the auspices of JAPAN ADVERTISERS ASSOCIATION INC.

Total number of "friends"
13 million
(As of July 31, 2013)

- Twitter
- Facebook
- LINE

A case of product development

When, where, to whom — analyzing Ponta data and customer input, we develop specified products for each market segment

Lawson analyze Ponta data and customer input delivered by SNS to determine which particular products attract which customer segments, to develop customized products in their preference.

Pasta-Ya Grilled Pasta, Lasagna Bolognaise

We developed "Pasta-Ya Grilled Pasta, Lasagna Bolognaise" by picking up keywords regarding pasta product from customer input in social networking media. "Chewy", "speciality source" helped us develop fresh pasta products that satisfy customer preferences unmet by existing products. As "Pasta-Ya Grilled Pasta, Lasagna Bolognaise" showed a high repeat rate in the initial trial and repeat analysis, we expanded the sales space and found that the product sold more than a million units to women in their 20s and 30s within the first three weeks. The Pasta-Ya product line became a big hit, more than doubling sales.

Grilled Pasta, Lasagna Bolognaise ▶

Onigiriya, rice balls "Delicious! Local Specialities" product line

Delicious local cuisine and ingredients are what we provide in this product line. Our expertise in procuring local ingredients and our knowledge of hometown cooking procedures brought specialty rice ball products, using hard-to-find ingredients such as Kurose yellow tail from Miyazaki prefecture and Ohmi Beef. With successful sales of rice balls, we expanded the line to include lunch-boxes products in April 2013. These lunch-boxes use monthly domestic ingredients. Although prices are set a little higher, lunch-boxes are especially popular among senior customers. We conducted surveys during the product development process to reflect feedback from the targeted market for those products.

Delicious! from Miyazaki Teriyaki Kurose Yellowtail ▶

◀ Teriyaki Salmon Hokkaido Delicious! Lunch-box

Uchi Café SWEETS Ankoya series

In March, 2012 we launched the "Ankoya" series of chilled Japanese sweets in response to female customer input. They like to eat "small sized, not too sweet, Japanese sweets." We thoroughly surveyed popular Japanese sweet shops and chose Tsubu-an, mashed bean paste with a rich and crispy taste, using best quality red beans. The items we developed had exceptional sales results.

We also made follow-up surveys to acquire customer input from social networking media to determine their preferences around strained bean paste, Koshi-an. In response, we sell two different types of paste.

▲Tsubu-an (left) and Koshi-an (right), two different types of Ohagi, a Japanese sweet in sales

Backed up by expertise in raw materials procurement we develop high-value added products

We develop quality products that deliver "safe, reliable, healthy and delicious" to our customers. Our high-value added "Delicious! Local Specialities" product line, where we present rice ball products featuring local specialty pricing at 240 yen, attracts senior customers. The Uchi Café SWEETS Ankoya series attracts female customers, backed by large volume procurement of the best quality raw materials, and delivering more dessert value than expected for the price. Ankoya series desserts attract targeted female customers bringing us customer base expansion.

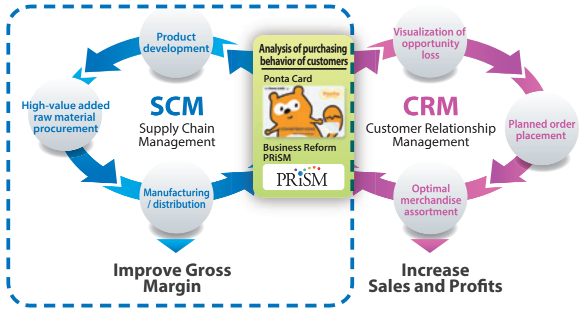
These key abilities are instrumental in developing our high-quality food products: determining customer needs through Ponta card data analysis, optimizing food product circulation and selling out timely through our sales channel with over 11,000 stores. We also leverage the expertise accumulated through our procurement experience. We established the Raw Materials Procurement Department in 2003, taking the lead over competitors in the industry. This has enabled us to create an integrated value chain from upstream to downstream, helping realize wide-ranging variety and differentiation in our products. Looking further up and down the stream, we aim at reducing waste, being more eco-friendly and innovating to bring new value to market.

CO-COO Senior Vice President
Merchandising & Logistics Division Director
President of SCI Inc.
Masayuki Sawada

2. Business model for manufacturing retailer in a small commercial area

From raw materials procurement to marketing, we continuously improve our supply chain structure

As a Manufacturing Retailer, we are becoming more deeply involved in our supply chain to add more value. By doing so, we strengthen profitability, bringing thoughtfulness to society and the environment, which compliments communities promoting our manufacturing retailer business model.

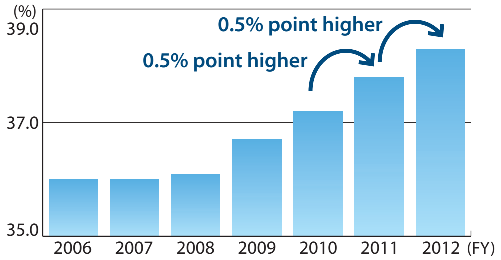


Actions for streamlining

Established SCI, Inc. in July 2012, we further streamline our supply chain

As supply chains involve many business partners, complication and redundancy of work are likely to happen. We have addressed this issue by establishing a dedicated division for raw material procurement, while seeking transparency and efficiency in our supply chain processes. We took a further step with the launch of SCI, Inc. as a subsidiary, managing a wider range of supply chain operations upstream for even more efficiency.

Changes in gross profit margin excluding cigarette sales



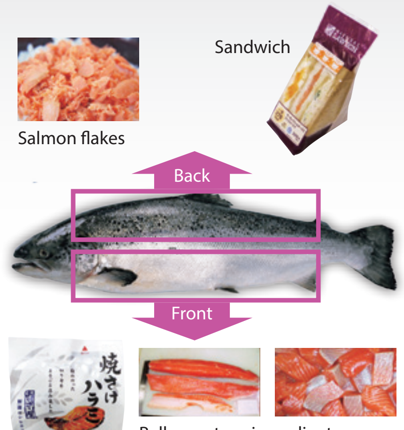
Continuous improvement in gross profit margin from streamlining supply chain, procuring quality items at low cost

Business

Analysis and utilize of purchase behavior of Ponta Card members

High quality at low cost in procuring raw materials, leveraging our ability to sell out timely

Leveraging advantage of our business scale, we procure raw materials in a lump sum, using them as basic ingredients in different product lines. Taking salmon as an example, we exhaust our supply in production of rice balls and sandwiches. Establishing this system to procuring high quality materials at low cost both reduces risks for raw material suppliers and increases our gross profit margin.



Belly meat, an ingredient in rice balls

Lawson's unique HACCP system for strict quality control over original products

We established a unique HACCP system for food sanitation control in rice dishes plants to prevent food poisoning and mixing of foreign matter. Focused control items such as cooking time and temperature in production are all logged for immediate tracing when needed for prompt and systematized response.

Optimized product lineup with IT utilization

We realize optimal merchandise assortments that meet customer needs timely by analyzing Ponta data with our information technology. We quantify and illuminate sales opportunity losses - the gaps that occur when customers cannot find what they need in our stores. We reduce these gaps, as well as waste from product disposal losses, at the same time.

Product development (Research and development) → **Raw materials procurement** (Managed in our department) → **Manufacturing** (Factories for lunch-boxes, rice balls, prepared food, bakery items) → **Distribution** (Distribution centers) → **Marketing** (Stores)

Accurate understanding of energy consumption of supply chain (CO_2 emission) and its reduction

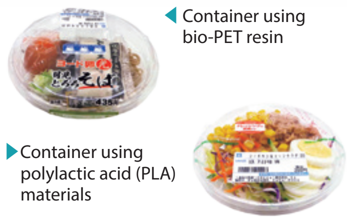
=

Cost reduction

Society and Environment

Use of eco-friendly materials for containers and packaging

To use limited resources more effectively, we adopted foamed materials for containers and packaging, making them thinner and more efficient in shapes. We also adopt bio-PET derived from sugarcane. Consequently we reduced CO_2 emissions from the incineration of containers and packaging by 30.8 percent in FY2012 compared with FY2006.



Container using bio-PET resin

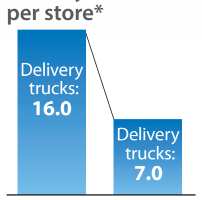
Container using polylactic acid (PLA) materials

We were commended by the Minister of the Environment for Promotion of Measures to Cope with Global Warming in 2012

Reduced CO_2 emissions in our distribution system by promoting eco-driving and efficiency of delivery trucks

We promote efficiency in our delivery system, by optimizing multi-drop delivery coordination and frequency of delivery. We also implemented eco-friendly tires and a traffic control system to improve the delivery process. By training drivers to raise their environmental awareness, urging them to turn off a vehicle engine when stopped and prevent noise, we promote safe and eco-friendly driving.

Daily number of delivery trucks per store*



* Delivering goods except for newspapers and cigarettes

Eco-friendly tire

Per store CO_2 emissions from power usage reduced by 9.6 percent* compared with FY 2006, with implementation of energy saving equipment

* CO_2 emission coefficient as fixed in calculation

As a voluntary action goal to be achieved by FY2012, we set a 10% reduction from FY2006 for CO_2 emissions generated in our store operations. Implementing energy-efficient equipment in stores, we achieved a 9.6 percent reduction in FY2012.

We conducted joint research with the University of Tokyo's Institute of Industrial Science on efficient reduction of store CO_2 emissions. Implementing AI-programmed energy monitoring and control systems in 8 stores, we jointly examine the smartest energy usage for each store as part of our efforts to reduce overall CO_2 emissions.

A store in Ebina city conducts energy-saving experiments, targeting 30 percent reduction in power usage compared with FY2010

Sales space for easy access for fresh vegetables, supporting customer health through food

Strengthening perishable food

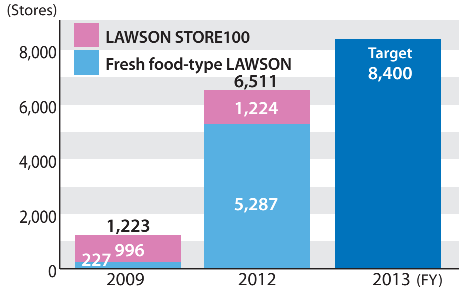
Enhance stores that offer perishable food to go with our newly developed delicious food products

We launched LAWSON STORE100 in FY2005, offering smaller-volume packages of perishable food and other food products dominantly at a uniform price (105 yen), ahead of our competitors. Leveraging expertise we accumulated in this format, we launched another fresh food-type LAWSON, targeting working women and seniors. We find that stores offering strengthened perishable food product lines attract more seniors, and customers buying perishable food spend 1.2 times more per purchase, visiting the store more frequently by 2.1 times.

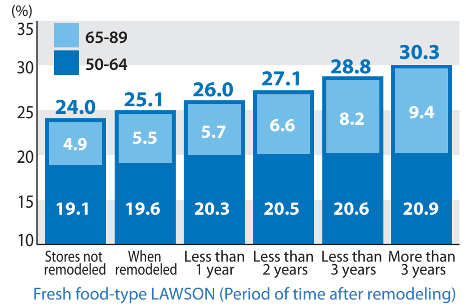
In October 2012, we made the "Proclamation to make all stores sell perishables," announcing that we would expand the offering of perishable food in our merchandise assortment. In May 2013, we launched the "Delicious Veggies More in Meals" campaign nationwide, while proactively developing food products to make vegetables more agreeable and delicious.

Recommended intake of vegetables per day and how many can be served by the product clearly shown with a seal

Number of stores offering perishable food



Ratio of senior customers in fresh food-type LAWSON
(Based on average spend per store in FY2012)



Our efforts to stably supply perishable food

Offer safe, reliable, and high quality through Lawson Farm

For a steady supply of perishable food nationwide, we needed to establish a procurement network of raw materials. We founded Farming Corporation Lawson Farm in partnership with contract farmers all over Japan. We also hold a stake respectively in DAICHI wo MAMORU KAI and Radish Boya, forerunners in organic food products, as well as Eisai Seikaken Co., Ltd. which owns the trademark of the "Nakashima Farming Method*," steadily providing safe, reliable and high-quality agriculture products.

* The "Nakashima Farming Method" is a cultivation method that uses its own unique meticulous diagnosis of soil conditions and techniques for developing healthy soil with good balance of minerals in conjunction with preserving the health of crops.

Lawson Farm

Lawson Farm is a farming corporation, founded to stably supply Lawson with perishable and safe food products. We have currently nine farms nationwide (as of the end of July 2013).

大地を守る会
DAICHI wo MAMORU KAI

DAICHI wo MAMORU KAI

One of the pioneer membership organizations with 37 years' expertise in organic food business, they networked approximately 2,500 contract producers, dealing only in organic vegetables and additive-free food products. Lawson holds a 33.4% stake from April 2013.

Radish Boya

The leading company delivering organic/organically grown fruits and vegetables nationwide, with largest number of members. Lawson formed a capital and business alliance with NTT DOCOMO, INC. and two other corporations as of December 2012 and made a 10% investment in the company.

VOICE

We want to serve customers, promoting health with vegetables we grow.

We are growing Japanese mustard spinach, radish, spinach and carrot in 7 hectare field and hothouses totaling 1 hectare in area. Leveraging Nakashima Farming Method, and developing healthy soil, our Japanese mustard spinach is rich in minerals as other delicious vegetables we produce. We are proud to see our vegetables displayed in Lawson stores, and happy as they benefit customer promoting health. We also aspire to see Lawson Farm, a new format of farming business, help leading the future of agriculture in Japan.

President
Lawson Farm Chiba
Mr. Toshihiko Shinozuka

2. Business model for manufacturing retailer in a small commercial area

Support healthy day-to-day life of customer — we are Health Station in the neighborhood

Marketing medication

Enhance opening of Pharmacy LAWSON stores, in collaboration with Qol Co., Ltd.

We have explored a store format, Pharmacy LAWSON, NATURAL LAWSON with the pharmacy function where people can obtain prescription medication. Since 2003, we have opened experimental Pharmacy LAWSON stores to verify the format. Further, we made a 5 percent investment in Qol Co., Ltd., a major pharmacy chain, to evolve the format. In collaboration with the company, we are increasing Pharmacy LAWSON stores as well as of people-to-people exchange.

We are also increasing the number of our stores selling over-the-counter (OTC) drugs because the Pharmaceutical Affairs Act was revised favorably in 2009, introducing the registered distributor system to the market.

Health-oriented products

Lunch-boxes in collaboration with Tanita and bran bakery

We launched in February 2011 products developed in collaboration with Tanita Corporation, known for its cafeteria which cares about calorie count, salt intake and nutritional balance for employees.

We also launched the product line of bakery using bran in June 2012. Bran, the hard outer layers of wheat have a low sugar content, while is rich in dietary fiber, and other nutrients including minerals like iron. Using ingredients that attract rising attention, we keep providing health-supporting products.

▲Lunch-box jointly developed with Tanita Corporation

▲Bakery products using bran

Flagship store opened to provide health support

Enhanced health-oriented products services to support health — a role model for future convenience stores

In May 2013, we opened LAWSON Kugahara 1-Chome Store in Ota-ku, Tokyo, as our flagship health-supporting store. Leveraging our expertise accumulated in NATURAL LAWSON and LAWSON STORE100 operations, we enhanced health-conscious merchandise assortment in the store. We also implemented a service, which enables customers to consult pharmacists, as well as a body composition analyzer by Tanita Corporation for customer use in monitoring this important health metric. We position this store as a model of future convenience store operations.

(1) Fresh and safe-vegetables and fruits on sale

We expanded the sales space for organic vegetables and fruits produced by DAICHI wo MAMORU KAI and quality products from Lawson Farm.

(2) Enhanced health-oriented products

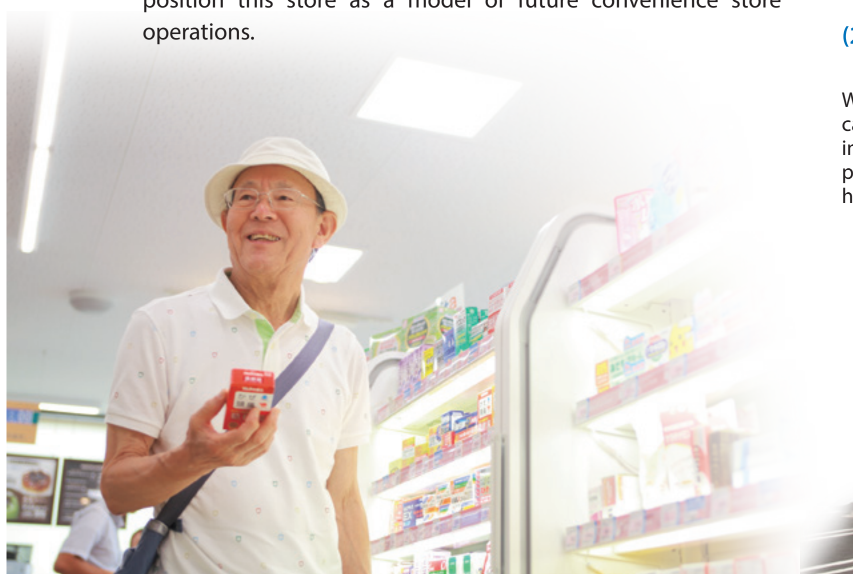
We are enhancing our low-calorie, low-carbon food lineup in the store, while conducting pilot-sales of our private brand health-oriented products.

(3) Health support services

We sell over-the-counter drugs assisted by a video phone, which enables customers to consult pharmacists around-the-clock. We also provide customers with a professional-use body composition analyzer by Tanita Corporation.

(4) Collaboration with national-brand manufacturers

We are providing our store space for different national-brand manufacturers to test-market their new health-oriented products.



2. Business model for manufacturing retailer in a small commercial area

Home convenience means convenience store in your home Creating fun with entertainment

Promote home convenience business*

O-to-O Strategy links online Store to actual stores in the neighborhood

We promote Online to Offline, or O-to-O Strategy, by providing huge online shopping mall in collaboration with our business partners, and linking it to actual stores in local communities. Leveraging the multi-partner loyalty program "Ponta" and its data analysis capabilities, we determine customer needs in detail, promoting visits to both actual and online stores in our O-to-O strategy.

We also launched a website where customers can easily order goods from their smartphones and other devices, while implementing the Lawson Reassurance, a service to exchange online-purchased items when defects are found. Making actual stores and online mall complement each other, we increase overall customer spends at Lawson, while enhancing convenience in day-to-day life.

* Home convenience business provides convenience of shopping at home, using internet and computers, smartphones or tablets, enabling customers to buy anything from their living rooms at home

Promote entertainment business

Attractive characters help realize stores where people can always find something new

We regard entertainment business as focus growing sector, providing customers with CDs, DVDs, books, magazines, event tickets and goods, through all channels we have. This one-stop shopping functionality contributes significantly to differentiate Lawson from e-commerce services of our competitors.

In actual stores, we install Multimedia terminals "Loppi," for the use of customers who have no access to online shopping, enabling them to purchase items like concert tickets. We also produce virtual characters to attract customers. Leveraging these characters, as well as through sales activities such as campaigns, we create the LAWSON store, a place where customers keep visiting to find something new, something fun.

Linking stores to online experience enhances convenience for customers, offering more options

CO-COO, President of Entertainment & Home Convenience Company, and Smart Kitchen, Inc.

Masaharu Kamo

Providing both online and actual stores enables customer to have more options for shopping. They can buy needed items immediately in actual stores and place items needed later in the online shopping cart from their smartphones and other devices.

Smart Kitchen is regarded as time-saving service to support more women in workforce. Our vision manifests here in product development starting from demand-side customers' perspective. The 10-minute easy-cooking kit we provide in Smart Kitchen is designed with room for different finishing touches. We carefully consider different tastes so that each family could add what it likes to cooking.

These first-hand services for various customers' needs can only be provided in stores. On the other hand, online services can complement them with advanced information technology and shipping expertise. Linking the two together, we are hoping to make a breakthrough, expanding and shifting our customer base.

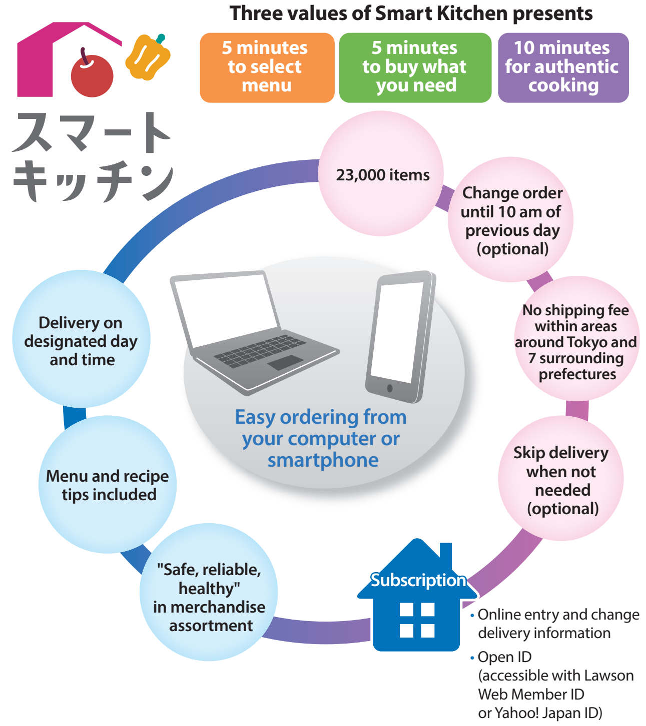
We have long served male customers, which we hope to expand including more female and senior customers as well. For senior customers especially, we believe feeling human touch is what they want and what we can provide. We proactively talk to them, recommending our products.

We believe such well-rounded approach enables us to better understand our customers. IT systems such as online purchasing can only complement the first-hand customer relationships in actual stores. We understand that the headquarters is to provide the background system to make this human touch service possible. We enhance Lawson's presence as the preferred convenience store for working women and senior customers providing wider-shopping purchase opportunities in our home convenience business.

Smart Kitchen, a regular home delivery service

Service started to offer ease, convenience and quality for busy working women

We teamed up with Yahoo Japan corporation in March 2013 to launch a joint project, Smart Kitchen, to deliver home perishable food regularly. We offer the 10-minute easy-cooking kit and other original product lines through the exclusive website to easily order the delivery from smartphones and other devices. Applying our expertise in procurement and product development to the home delivery service, we provide ease, convenience and quality, to support women at home raising children and in the workforce.



Menu example

Overseas expansion

Expand a Japanese-style small-commercial-area business model overseas

In growing Asian countries, there is an increasing need for "time convenience" that enables time saving, on the back of changing life styles. The Japanese-style convenience store business model has great potential to grow in developing countries, as well as in Europe and the United States.

Since 1996, we have expanded our store network in China, centering on big cities. We keep expanding in Indonesia, as well as opening two new stores in Hawaii, the United States, in July 2012 and three stores in Bangkok,Thailand, at the end of March, 2013.

In the future, we will strengthen LAWSON store overseas, by understanding local needs, creating LAWSON stores in local communities that attract customers there, while grounding in, and holding to, our business model for small commercial areas.

Overseas stores 466 stores

As of July 31, 2013

* The number of Indonesian stores is based on the flash report released in August, 2013

Support franchise owners to create value and enhance personnel training

Lawson's strategic direction of innovation

Foster franchise owners and educate headquarters personnel to think deeply over the local communities

In conventional chain store operations, homogeneity of stores nationwide were stressed. However, to meet the diversifying customer needs in local communities of today, we need to encourage franchise owners to deeply understand their community needs. For headquarters employees in turn, it is imperative to become someone who can provide creative support and advice to such franchise owners.

	Conventional convenience stores	Expected directions for Lawson to take for innovation
Ideal franchise stores	Franchise owners who execute common operational procedures for chain stores	Franchise owner who thinks deeply and take actions to meet community needs
Expectation for headquarters employees	Drive home franchise to owners the need to follow common operational procedures for franchise stores	Support franchise owners with data analysis to understand community and customer, and with innovative marketing strategies
		Support franchise owners, advising on their business expansion strategies

Promote local empowerment

Empower offices, branches and areas to make decisions closer to communities

We are now making a stepwise approach to restructure our chain store operational organization from centralized to decentralized within 10 years, in order to better respond to customer needs in local communities. First, we implemented a regional office system, dividing the nation into seven blocks (eight blocks as of FY2012). Then we integrated two headquarters responsibilities for store development and guidance of franchise store operations at the branch system level to make operational decision making more agile. In FY2012, we implemented area team consisting of two Supervisors (SVs) and one Assistant Supervisor (ASV), as the smallest unit for providing guidance on franchise store operations.

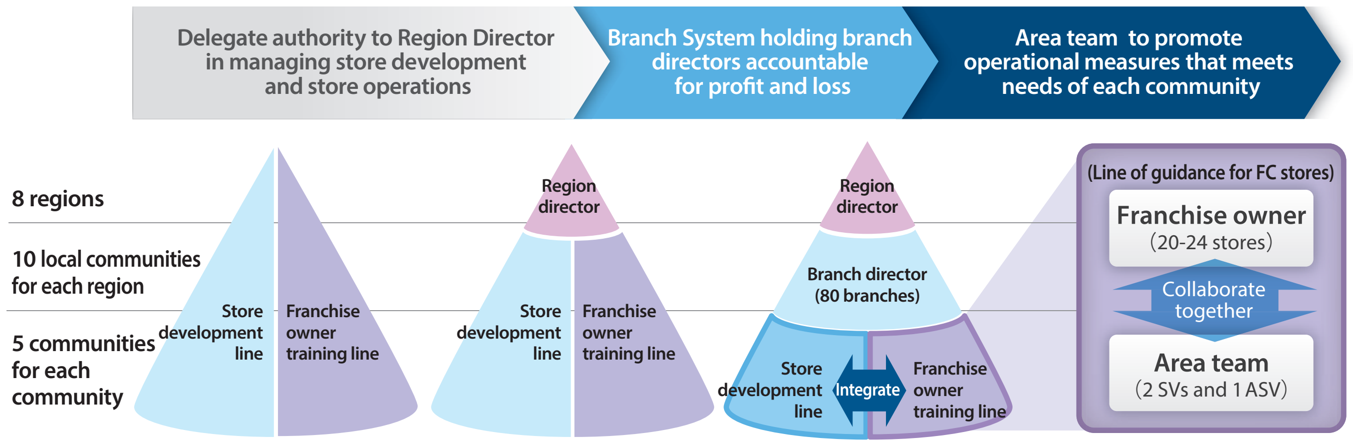
Foster Lawson's culture of deeply thinking, supported by area team system

Supervisor and franchise owner team-work for better solutions

An area team does not provide one-way guidance with the franchise owner, but forms a team to think together. This promotes our stores to discover customer needs in the local community. Thus, our store becomes an integral part of each community.

▲Area team meeting to share best practices and exchange information among franchise owners

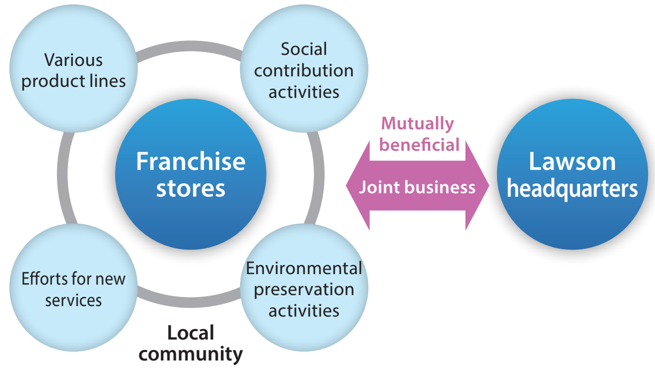
Restructure operational organization of Lawson



Features of the Lawson franchise system

Collaborate with franchise owners as our partners to realize our Corporate Philosophy

"Creating Happiness and Harmony in Our Communities." is the philosophy we share in the Lawson franchise system. It is a joint business with franchise owners and headquarters as business partners prospering together, playing respective roles in this collaboration. Headquarters provides various services including distribution, information, brand, and continuous guidance and support of store operations. Franchise owners in return, pursue the maximum profit through optimizing customer satisfaction as independent business operators, paying franchise fees and loyalties.



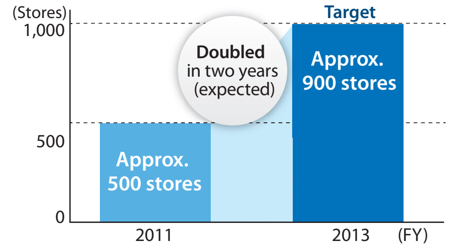
Enhance Management Owner (MO) system

Support community-based entrepreneurs to launch multi-store franchise operations

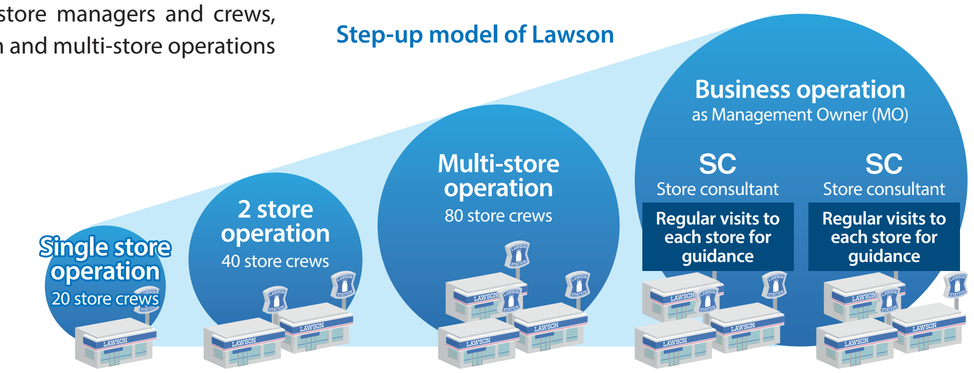
We are promoting the Management Owner (MO) system to support franchise owners who have entrepreneurial spirit and deeply understand local communities and their needs in their efforts of expanding their business.

The MO basic business skills, and training in skills that foster franchise owners who launch multi-store operations. MOs foster Store Consultants (SCs) as well as store managers and crews, aiming at further business expansion and multi-store operations with excellent customer satisfaction.

Number of stores operated by MOs



Step-up model of Lawson



VOICE

From store operation to business management: steadily implementing business plans as Management Owner (MO)

Management Owner
President
Shusei Inc.
Mr. Hideki Yomoda

I decided to take on a challenge and conclude a Management Owner (MO) agreement immediately when it was first introduced three years ago, when I ran into a stone wall in the efforts of expanding business beyond the nine stores that I was already operating. The MO system was a welcome offer as it has been designed to provide active support to owners aiming at multiple store operation. Now I run 18 stores as of August, this year.

Looking back these three years that I have worked with the MO system, what impresses me is the shift in my mindset from store operation to business management, in fostering people and creating organizations to maintain stores in their best state. Headquarters provides us with various strategic information, for example, to protect each store's commercial area, or to examine locations for new stores. I admit it is challenging: greater freedom goes with more competitiveness needed as a self-driven manager to solve our own problems. However, my aspirations for growth matter. My company created a 5-year business plan targeting "20 stores with 3 billion in annual sales," which we expect to achieve within this fiscal year at the end of the planning period.

education for franchise owner and employee strengthened ability to autonomously think and take action

"Lawson University," a unique education program

Integrate franchise owner program and headquarters employee education to enable personnel to learn specialized skills

"Lawson University," our unique educational program, integrates education for franchise owners and headquarter employees. The program is based on Lawson's corporate strategies and business strategies, delivering high-level skills needed according to job types and positions. The ultimate goal of "Lawson University" is to facilitate franchise owners and headquarters employees to be able to autonomously think and act, enhancing the development of self-sufficiency. We provide support to the entire staff of the Lawson Group in a continuous and systematic way.

Outline of "Lawson University"

Continuous and systematic support

Franchise stores

Before store opening		After store opening				Re-signing
Basic Ⅰ		Basic Ⅱ	Support for multi-store development	Operational support for Management Owners (MO)		Re-signing
BMC (Basic management course) training	Franchise owners	Training provided after employment (1 year, 2 yrs, and 5 yrs)	Multi-store operations training	Training for Management Owners (MO)		Training prior to resigning
	Full-time staff	Training for store manager candidates	Multi-store manager training	Training for Store Consultant (SC) candidates		
	Other staff	Various training We provide various training in a timely manner, such as customer service skill training for store crews, and training at the time of new operation implementation.				

Guidance and support

Headquarters employees

Basic knowledge of consultation	Basic knowledge of MBA	Staff's management consultant standard	Basic management skills	Raising awareness
Entry level management	Basic management	Training for those newly-appointed to MCs Training for MC candidates	Management course	Executive management course

Skill training to provide customers with higher value

Employee awards program, to reward significant contributions that transcend conventional departmental boundaries

Promote significant contributors who tackle a task that transcends conventional departmental boundaries

We need to encourage each employee to spontaneously challenge conventional boundaries if we seek new customer value. We launch various projects and task forces crossing department boundaries collecting different ideas and opinions of employees in different positions to create innovative products and services. In FY2013, we started the New Value Creator of the Year, an employee awards program to create a corporate climate of challenging the status quo, and to find new ways to create value. The award is for self-formed teams and we appraise new ideas and inter-departmental measures.

▲Poster of New Value Creator of the Year, an employee awards program

Promoting diversity

Recruitment of diversified personnel to foster an organization that is continuously renewing and moving forward

We promote diversity to enable individual staff to realize their full potential. We raised the proportion of women hires to 50 percent since 2005 through recruitment of new graduates, while hiring non-Japanese employees since 2008. We also founded a special subsidiary company to promote employment of people with disabilities, while implementing a system to continue employment of people over sixty. We actively work to achieve diversified employee composition to continuously develop the type of human capital that creates corporate value.

Implementing executive education of female candidates

In "Lawson University," we provide education for female executive candidates and create opportunities for top management to directly meet with female employees on a regular basis, as a part of our actions to create more diversity.


▲Education of female executive candidates

Labor-management meeting

For continuous growth of a corporation, it is essential that employees can work to their full potential. We look at employee satisfaction (ES) for continuous improvement, while making efforts at better working environments. In regular labor-management meetings, we hold in-depth discussions to improve work efficiency and working environments.

Especially for promoting diversity, we implemented a committee to discuss challenges on a regular basis. Diverse employees developing new skills, while advancing their careers, is what we want to see, as they will bring new value to Lawson and to themselves. We invite them to participate in efforts to improve the environment, including cultural reform and system utilization.


▲Diversity Promotion Committee

Aggressive recruitment of non-Japanese personnel

We employed 50 non-Japanese people through periodic recruitment in Spring 2013, resulting in more than 100 non-Japanese active personnel on the corporate staff, including SVs, MDs (Merchandisers, who are in charge of product development), treasury staff, and logistics staff, sustaining a 75 percent of retention rate. Non-Japanese employees comprise the foundation of our human capital strategy, to create innovative projects and services to be launched in Japan.

Support employees raising children

We support employees who are family members with small children, especially female employees. We implement measures for them including reduced working hours for childcare, telecommuting, and baby-sitting service support, to let them have children without anxiety for the future. Our efforts result in a 99.1 percent come-back rate after taking childcare leave. Now one out of five female employees at Lawson is a working mother.

Further, we launched Smart Women Project in April 2013 for career development of female employees after childcare leave. They work in this project for a limited time period, to bring a working mother's perspective to product development and store creation. As a part of our support for younger employees in their 20s to 40s, especially those in parental care, we raised their salary in FY2013.

Childcare support policy menu

- Reduced working hours for childcare*
- Shorter working weeks*
- Assured holidays*
- Telecommuting*
- Baby-sitting service support
- Loan of computers to employees on childcare leave
- Transfer to accompany spouse

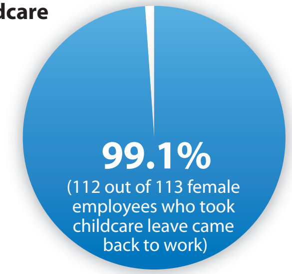
* Until the child finishes third grade

Next-Generation Certification Mark "Kurumin" was given by a related authority for our achievements in improved work-life balance

Reinstatement ratio from childcare

cumulative total over FY2000-2012

On a cumulative basis, since FY2000 almost all employees, 99.1% of them were reinstated in their former positions after a childcare leave. A working mother ratio among female employees marked more than a four-fold increase from FY2001.



VOICE

Smart Women Project

Leveraging our female employees' experience after their childcare leave

Smart Women Project facilitates female employees on baby break to come back to their previous posts by letting them address corporate issues such as product development and store improvement.

Female employees in Japan tend to quit their job, thinking they would burden those around them with extra work. However, they can contribute their uniqueness if they can share with us their working mothers' perspective, which is quite similar to customers'. This can motivate them to return to their job, as well as help us have more diversity by adding their unique perspective.

By launching this project, we could provide evidence that female employees can successfully return after childcare leave, while communicating our commitment to improve work-life balance of both genders. Taking these "baby steps," we hope to develop another unique framework in our tradition.

Project leader
Smart Women Propulsion Project
General Manager, Marketing Office
Hitomi Suzuki

Consideration for society and the environment — as the company goes hand-in-hand with our communities

We aspire to keep serving society, going hand-in-hand with our local communities, providing solutions to social issues through our business operations, and growing sustainably together. We work with consideration for society and the environment, through our frameworks of business in terms of compliance, risk management and environmental management.

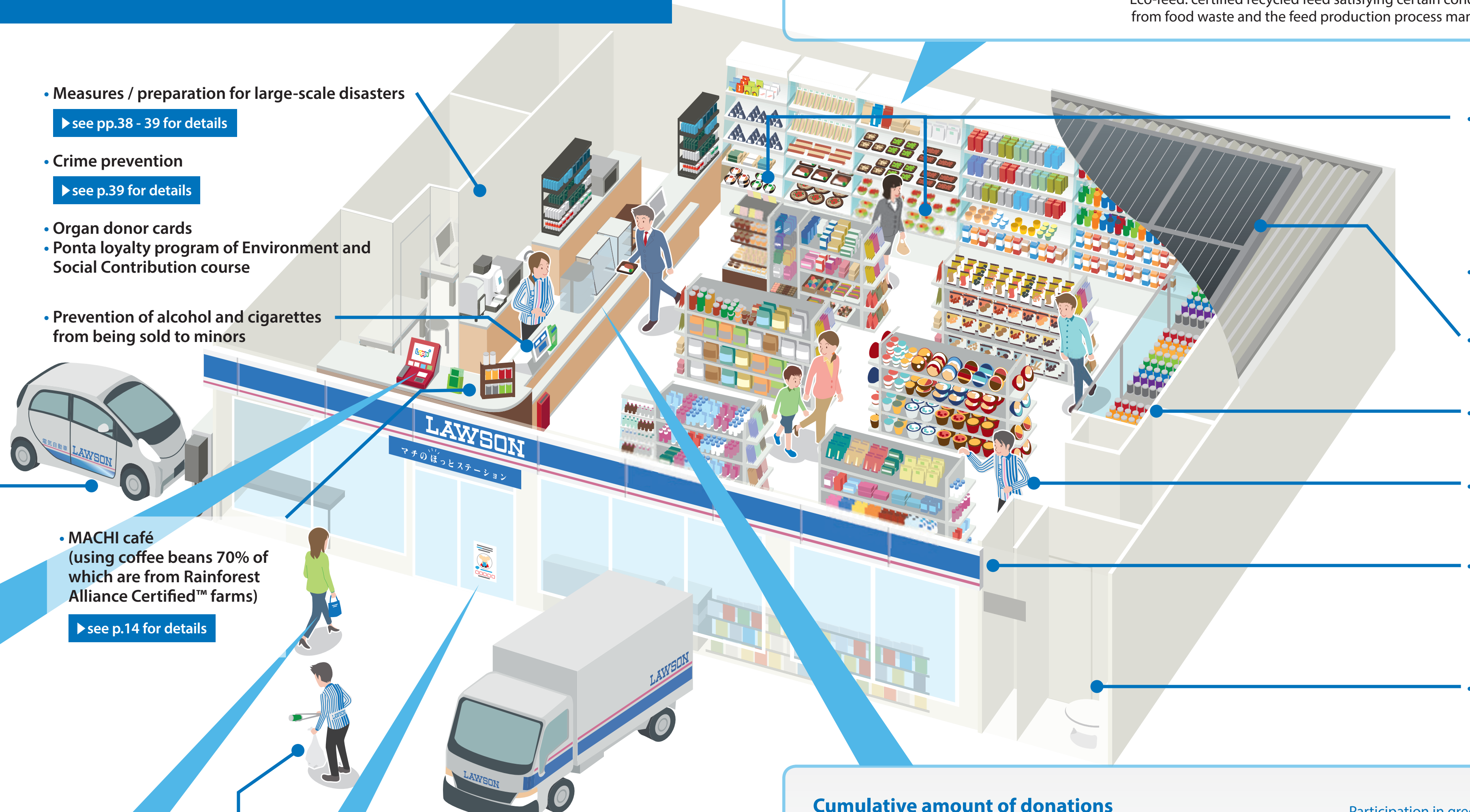
Food recycling (recycling food into feed and compost)/ promoting recycling waste oil

Food recycling ratio: **50.3%** (FY2012)

We work to reduce food waste, actively recycling. Used cooking oil is processed into feed additive (fowl and swine feed ingredient) and natural soap. Also, lunchbox-type foods that exceed sell-by dates are recycled into livestock feed and compost.

▲As the first in the convenience store industry, we began selling eggs from chickens raised partially on recycled feed

* Eco-feed: certified recycled feed satisfying certain conditions and standards regarding percentage of content from food waste and the feed production process management



- Measures / preparation for large-scale disasters
  ▶see pp.38 - 39 for details
- Crime prevention
  ▶see p.39 for details
- Organ donor cards
- Ponta loyalty program of Environment and Social Contribution course
- Prevention of alcohol and cigarettes from being sold to minors
- 62 EVs (electric vehicles)
- 11 high-speed rechargers deployed nationwide
- MACHI café (using coffee beans 70% of which are from Rainforest Alliance Certified™ farms)
  ▶see p.14 for details
- Neighborhood cleanup activities
- Multi-drop deliveries
- Eco tires
  ▶see pp.22 - 23 for details
- Local production for local consumption/ Local production for nationwide consumption

  Local production for local consumption: framework to consume products that use local produce in the same local area

  Local production for nationwide consumption: framework to market products that use local produce outside of the area
- Plant-derived packaging
  ▶see p.22 for details
- Solar power generation system
  Installed on the roofs of 1,000 stores in FY2012
  Targeted to expand to 2,000 stores in FY2013
- Energy-efficient equipment (Integrated cooling and air conditioning systems)
- Uniform recycling
- LED use for shop signs and in-store
- Designing for accessibility

CO₂ Offset Program

CO_2 Offset accumulated volume: **20,512 t**
Number of participants: **25.29 million**

Customers can exchange shopping reward points of Ponta multi-partner loyalty point card for CO_2 offsets, or purchase CO_2 offsets with cash using the Loppi multimedia terminals in our stores. Through the CO_2 Offset Program, customers can help offset CO_2 emissions.

▶Products with attached emissions credits: Suntory Liquors Limited's Kin-Mugi "Stop! Global Warming Can" (2 sizes)

Reduction in the use of plastic shopping bags & disposable chopstick use

Total number of Bring Your Own bags diffusion: **3.26 million**

We work on reducing unnecessary use of plastic shopping bags & disposable chopsticks by asking customers at the register whether they need them or not, along with posters, in-store broadcasting.

▶Bring Your Own Lawson original bag that best fits boxed lunches and plastic bottles

Safety Station activities

Lawson contributes to creating a safe and secure community. We take measures to prevent in-store theft and provide a place for women and children to escape attackers.

▶Safety Station activities poster

Cumulative amount of donations from fundraising activities at stores nationwide

(including Lawson headquarters donations) : **6.6 billion yen**

We launched Lawson Green Fund in 1992, and Support Dreams Fund in 2011. Further in June 2013, we started the TOMODACHI Fund. For all these funds, we perform the Lawson Group's fund-raising activity, which we call "Happiness in Communities." We implement fundraising activities at stores, to contribute to creating sustainable society through supporting children, who are the next generation, as well as tree planting. In addition, we also donate the contribution from Lawson, and also Ponta reward point donation, the contribution part of the sales of products that come with donation, and the fund raised in our group companies to relevant organizations.

▲Fundraising boxes are installed in all stores of the Lawson Group nationwide (approx. 11,000 stores)

Participation in greening contribution projects: **over 1,000 times**

Franchise owners, store managers, store crews as well as headquarters employees have participated in some of the Green contribution projects, leveraging Lawson Green Fund.

Green contribution projects we started in May 1994 and this year marks its 20th year. We celebrated our 1000th tree-planting in Minoh, Osaka

Total number of tree planting projects in FY2012:

90 projects (37 forest improvement projects and 53 school afforestation projects)

Total number of participants: **772**

Sustain the blessings of the earth for future generations

The Lawson Group Environmental Policy

Contribute to society and the environment through core business operations

Abiding by our corporate philosophy, the Lawson Group works proactively on a continuous basis, for sustainable development, to Create Happiness and Harmony in Our Communities. Based on the Lawson Group Environmental Policy, we work to sustain the blessings of the earth for future generations, committing to action for creating a low-carbon society, as well as social contribution activities as a member of local communities.

The Lawson Group Environmental Policy

Our commitment To sustain the blessings of the earth for future generations, the Lawson Group will consider the environment in every aspect of our business activities and strive to achieve sustainable development and coexistence with local communities.

Our principles

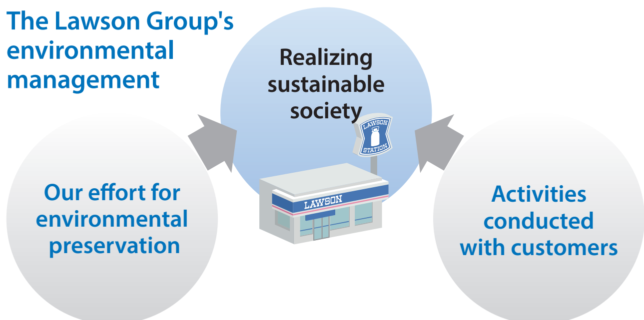
1. Creation of a low-carbon society
2. Considerations in the development of products and services
3. Active participation in social contribution activities
4. Continuous improvements
5. Observing laws and regulations
6. Promotion of communication

Environmental management system

For realizing sustainable society, we leverage ISO14001

The Lawson Group is taking two key approaches to environmental management. One is reducing CO_2 emissions resulting from our business activities. One other is supporting our customers' environmental conservation and societal contribution activities, providing eco-friendly products and related services. Through these two approaches, and involving customers, we work to create a sustainable society.

In order to promote eco-friendly and community-friendly business activities, we use an ISO14001 environmental management system, especially its Plan-Do-Check-Act (PDCA) cycle, in order to reduce the effects on the environment/ to reduce environmental impacts.



Environmental education

Raising awareness, deepening understanding we train the whole Lawson Group

The Lawson Group educates its employees, franchise owners, store managers, and store crews, in an effort to enhance the awareness of environmental conservation. For the headquarters employees, training is given to new employees and newly-appointed Assistant Merchandise Developers (AMDs). Moreover, general environmental training via e-learning is given annually to all the employees. Further, for franchise owners, store managers, and store crews, we provide environmental education incorporated in a Basic Management Course (BMC) prior to opening their stores, and share the environment-related knowledge through our publication such as communication magazine and Environmental Report as well. From FY2012, we encourage representative members of the Social & Environment Subcommittee meeting to take the Certification Test for Environmental Specialists (Eco Test).

The Social & Environment Subcommittee meeting

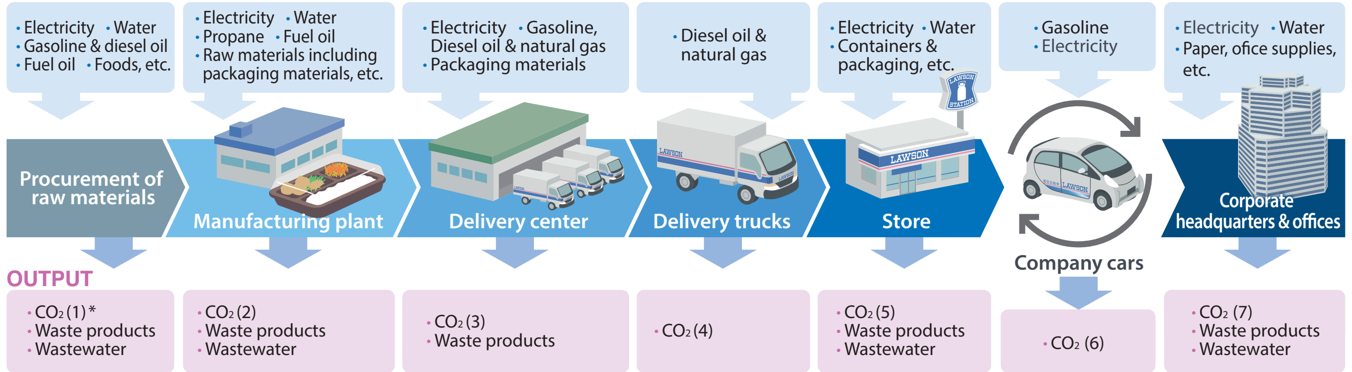
Thirty representative members from headquarters divisions, stations, branch offices, and affiliated companies meet to manage progress with environmental goals and to share information. They also provides stores with guidance and support for internal audits and external reviews, promoting environmental education as well.

Lawson's supply chain material flow and CO_2 emissions

From raw materials procurement to product disposal, we work to reduce environmental impact

We strive to grasp our impact on the environment at each stage in our supply chain and reduce waste through in-depth energy saving and resource saving measures to minimize environmental footprint.

Material flow in our supply chain



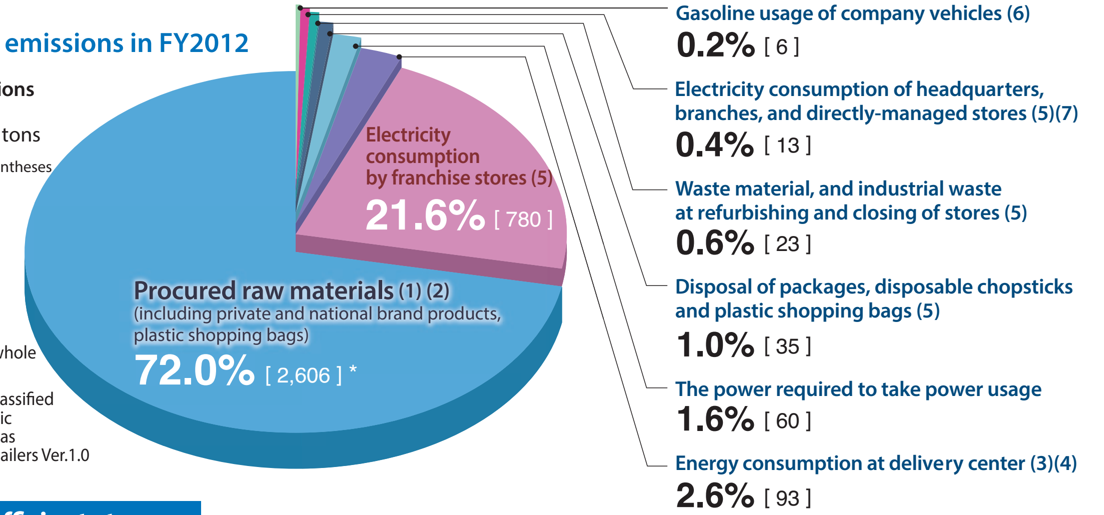
* The numbers placed after CO_2 correspond to those in the pie chart below

Supply chain CO_2 emissions in FY2012

Total annual CO_2 emissions

3,616 thousand tons

* CO_2 emissions volume in parentheses (Unit: thousand tons)



Greenhouse gas emissions calculation method for the whole supply chain operations

Calculated as per industry-classified interpretation regarding Basic Guidelines on Greenhouse gas emissions calculation, for retailers Ver.1.0

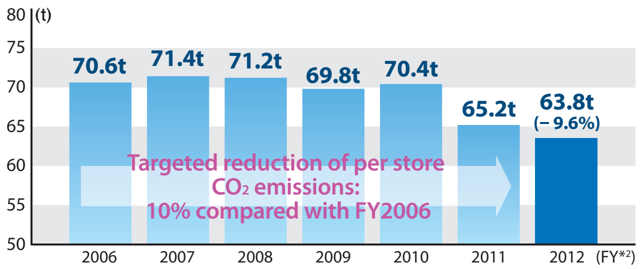
Build energy-efficient stores

Reduce store power consumption by installing cutting-edge energy-saving technology

We set the voluntary action goal and endeavor to achieve a 10 percent reduction of CO_2 emissions from electric power usage in store operation by FY2012 from the FY2006 level. We work hard for this, introducing energy-efficient equipment, such as outdoor units for integrated cooling and air-conditioning, LED lighting and other such equipment. Though it was on a voluntary basis, and newly launched products and services brought more power usage, we achieved 9.6 percent reduction in FY2012 compared with FY2006.

To more accurately ascertain the amount of CO_2 emissions from LAWSON stores, we asked the Japan Quality Assurance Organization to conduct inspections in July 2013. The results led to Lawson being issued The Third Party Verification for GHG Emissions on CSR report in FY2012.

Changes in per store CO_2 emissions*1 from electric power usage



*1 CO_2 emission coefficient is based on FY2006 3.68t-CO2/10,000 kWh
*2 Calculated by administrative year: from April 1, 2012 to March 31, 2013

CO_2 Emissions calculation rules

Stores targeted for inspection	10,115 LAWSON and NATURAL LAWSON convenience stores. For stores that cannot track power usage, usage was estimated using data from other stores.
Test period	April 1, 2012 - March 31, 2013 (administrative year)
Target gas	CO_2 (carbon dioxide) generated from stores' electricity usage

The Third Party Verification for GHG Emissions on CSR report

Target and achievement of our environmental preservation activities

We promote environmental preservation activities to the whole supply chain

Target and achievement of our environmental preservation activities in FY2012

Items	Actions	Targets of FY2012	Achievement	Achievement level*
Energy saving	Reduce CO_2 emissions by installing energy-saving equipment in store for cooling, air-conditioning and lighting	• New stores Adopt energy-saving equipment for targeted stores • Existing store Adopt energy-saving equipment for targeted stores	• New stores Energy-saving equipment as below installed in all targeted stores • Existing store Energy-saving equipment for targeted stores	5
		Implementing solar power generation system 1,000 stores in FY2012	Solar power generation system Implemented in 1,002 stores in FY2012	5
	Promote eco-driving of trucks at delivery centers	Reducing delivery truck CO_2 emissions per store Reduced by 22.0% compared with FY2007	Delivery Truck CO_2 Emissions per store: 6,921kg, reduced by 23.8% compared with FY2007	5
	Use packaging materials that reduce environmental impact	Spurring adoption of non-petroleum- based plastics	Adopted containers and packaging using bio-PET derived from sugarcane, and those derived from used PET bottle plastic	5
Energy saving/ Resource saving	Reduce packaging weight	Reduce CO_2 emissions from the incineration of containers and packaging Reduced by 12.0% compared with FY2006	Reduced CO_2 emissions from the incineration of containers and packaging by 30.8% compared with FY2006	5
Resource saving	Improve operational efficiency while reducing paper using digitalization	Reduce use of paper media by digitizing routine work including daily sales reports	Reduced use of paper media by approx. 4.21 million sheets (in A4 size) yearly	5
	Reduce use of plastic shopping bags	Promote coordination among regional offices, branches, and local governments regarding reducing disposable plastic shopping bag usage	1. Bring Your Own Bag point program to unfold nationwide 2.Active participation in local government campaigns to cut down on plastic shopping bag usage 3. Production of the new Bring Your Own bags and its dissemination campaign	4
Waste reduction	Promote food recycling	Improvement in recycling, including food recycling Statutory target: 32.5% in FY 2012	Food recycling ratio: 50.3%	5
Publicity activities	Promote CO_2 Offset Program	CO_2 Offset volume 3,000 tons	• FY2012 CO_2 Offset volume 3,593 tons • Accumulated total 20,512 tons	5
Contribution to local communities	Promote social contribution activities in the Lawson Group	Lawson Green Fund forestry volunteer Participation encouraged and increased to 110.0% compared with FY2011	Forestry volunteer program participants increased to 118.4% compared with FY2011 37 projects: Total number of participants is 400 members of the Lawson Group	5

* Degree of achievement
Evaluation of numerical goals: 100% or more: 5, 90% or more: 4, 80% or more:3, 70% or more:2, less than 70%:1
Evaluation of qualitative goals: Better than expected: 5, as expected: 4, achieved to a certain degree/ implementation in progress: 3, behind schedule: 2, very little implemented: 1

Environmental conservation costs

We grasp investment amounts and expenses needed for environmental conservation efforts in each phase of our business operation, in order to find cost-effective solutions.

Period: March 1, 2012 - Feb. 28, 2013/ Lawson headquarters and franchise stores*1 (Thousands of yen)

Categories		Main Activities	Investment	Expenses	Benefits
(1) Business area costs	(1)-1 Global environmental conservation costs	Introduction of energy efficient equipment, CO_2 Offset program	8,086,154	101,153	CO_2 reduction
	(1)-2 Resource recycling costs	Waste-related expenses*2	0	4,851,732	Legal compliance
(2) Upstream/ downstream costs		Costs related to the Container and Packaging Recycling Law	0	449,569	Legal compliance
(3) Administration costs		Preparation of CSR reports, ISO14001 inspections	0	13,617	Publicity activities
(4) Research & development costs		Energy-efficient store research	0	7,830	CO_2 reduction
(5) Community engagement activity costs		Greening activities, Neighborhood cleanup activities, donations to NPOs	0	67,560	Biodiversity conservation, local community beautification
Total			8,086,154	5,491,461	

*1 Includes area franchise stores in Japan
*2 The cost of waste disposal and resource recycling is an estimate calculated based on the figures of a standard store as a sample

Compliance & risk management

Establish a compliance & risk management structure responding to expanding business of the Lawson Group

The basic policy for maintaining the internal control system

Tuning our internal control system in changes and development

The Lawson Group operates centered on the convenience store business, and also in wide-ranging business areas including ticket sales, financial services, e-commerce, consulting, and food services, with numerous stores in every prefecture of Japan and overseas as well. This means we need to comply with different laws and regulations as per what and where we operate or provide, as well as to respond to diverse risks accordingly.

With all these factors, and aiming at sound and sustained corporate growth, we have the Basic Policy for Maintaining the Internal Control System, and conduct periodic reviews to moderate it to changes in business environment and other factors to maintain an effective and rational internal control system.

The Following are the main changes in the Basic Policy in FY2013:

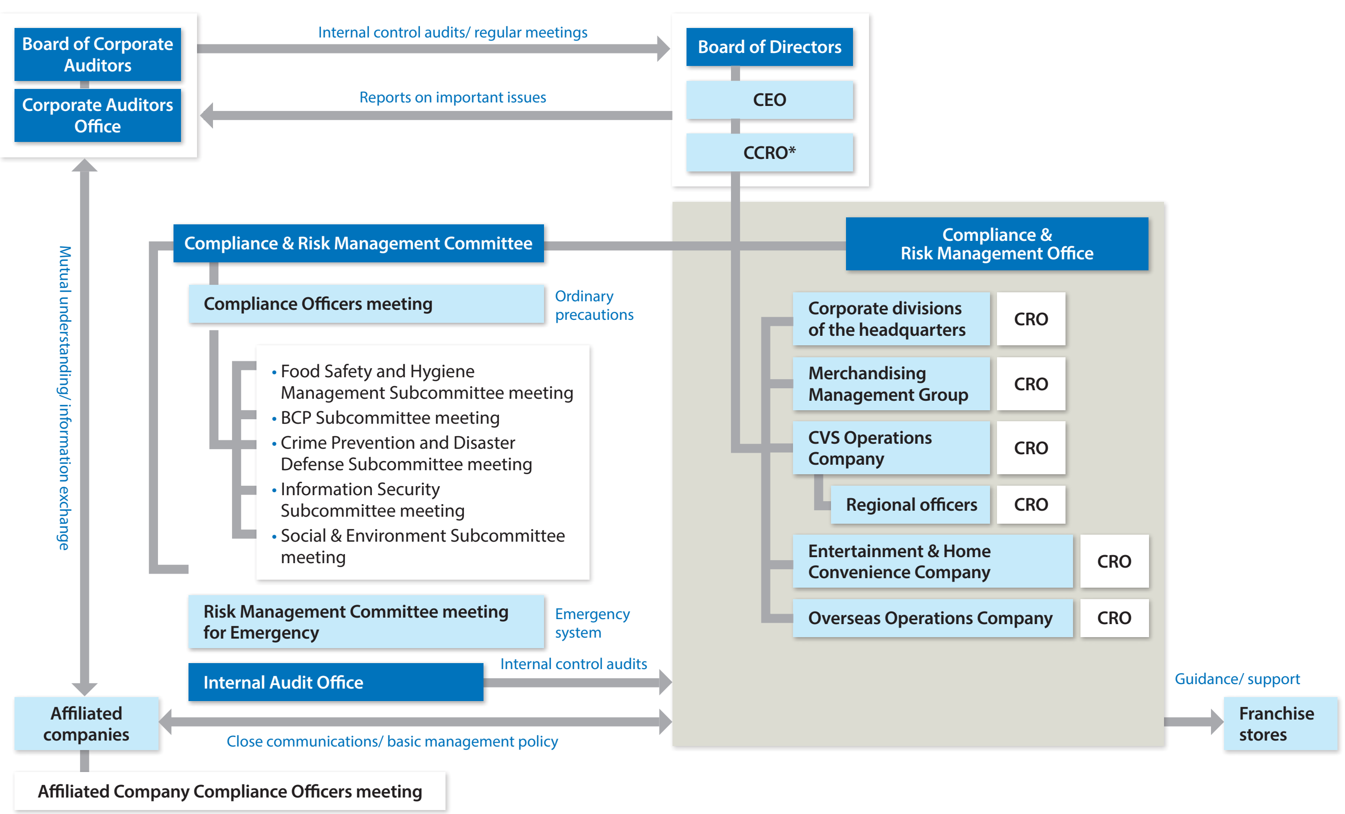
Consultation clearly addressing whistle-blowing

We stated clearly the objective of our consultation services including internal reporting as whistle-blowing, while taking thorough measures to protect reporters. We have respective consultation counters operating separately for our employees, for external, cross-Group use, and for employees and staff of franchise stores and business partners, in order to find out the sign of misconducts within the Lawson Group as soon as possible, and prevent them from occurring.

Response to expanding e-commerce business and overseas business

We added agendas for development of the Lawson Group information security system to respond to expanding business domain and particular risks accordingly. Also, we are taking actions to familiarize overseas employees with our Corporate Conduct Charter as we appoint persons in charge of risk management and its promotion, in order to build the brand value of Lawson.

Overall view of Lawson's internal control system

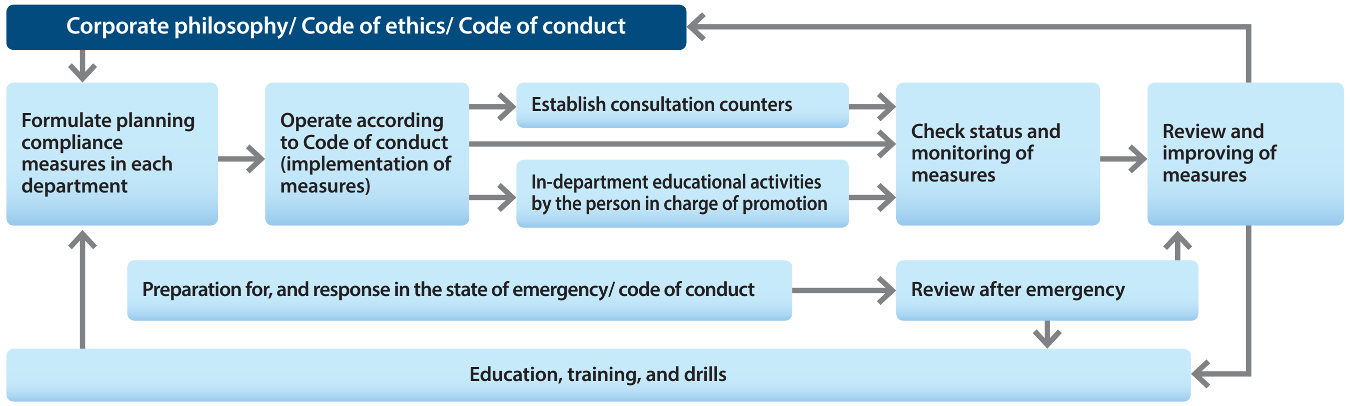


* CCRO: Chief compliance and risk management officer is an executive who has overall responsibility for the development and execution of framework to recognize and prevent misconduct and problems in terms of legal compliance

Compliance and risk management system

Going beyond just compliance: we conduct with consideration for others

We regard compliance as not only following laws and regulations and respecting social norms but also as implementing our Corporate Conduct Charter, by taking thoughtful action in accordance with it. We create an environment in align with ethics and social rules. By organically linking our Code of conduct, education, training, communication functions, and implementing a Plan-Do-Check-Act (PDCA) cycle, we aim to conduct our business as a good corporate citizen.



Corporate Conduct Charter

Basic declaration

We believe that fulfilling our corporate social responsibilities while responding to the requests of the Lawson Group stakeholders will lead to the enhanced corporate value of the Lawson Group. With a solid understanding of the Charter's contents, we pledge to always act sincerely and considerately with a high sense of corporate ethics while adhering to all laws.

Basic disciplines

1. We shall act with consideration toward all customers.
2. We shall support Lawson franchise stores, which represent our largest partner.
3. We shall conduct fair and transparent business transactions with every business partner.
4. We shall create a friendly workplace environment for all employees.
5. We shall disclose necessary information to all shareholders and investors.
6. We shall take an active approach to environmental protection and proactively carry out social contribution activities as a member of the local community.
7. We shall maintain no ties with anti-social organizations and maintain healthy and proper relations with elected officials and public employees.
8. We shall adhere to internal regulations and various rules while undertaking our daily work to ensure that we do not lose any valuable assets of the Lawson Group.

(1) Training on compliance and risk management

We conduct systematic and continuous training for our employees and staff of all job types and positions to share issues, so that they can leverage learned knowledge and skills to improve operations.

- Regular annual training, by e-learning and group training for all employees
- New employee training, training for those newly appointed to administrative positions
- Training for those newly-appointed to specialist jobs for area & store, or merchandising development
- Semiannual training for management team provided by visiting lecturers

(2) Publication of the Lawson Group C&R Handbook

We distribute to all employees the Lawson Group C&R Handbook, which summarizes these standards including Corporate philosophy, the Corporate Conduct Charter, the Lawson Group Environmental Policy, the Lawson Group Purchasing Policy, Code of Ethics, as well as Initial actions in disasters and Correspondence criteria in serious events and accidents.

(3) Disaster control drills

Effective disaster control needs practical drills, not only plans and code of conduct. We run disaster control drills, and the main focus is:

- Practicing the use of disaster message board service and safety confirmation system
- Running a simulation of Disaster countermeasures office
- Checking emergency contact system utilizing multiple means of communication

We conduct disaster control drills three times a year so that all Lawson employees can be clear on the initial actions in disasters

We also work to get more people to attend the workshops on AED, automated external defibrillator, which helps save lives

Priority targets in FY2013

More penetration of compliance and risk management practices

Compliance with the Basic Policy, as well as responding to risks we perceive (listed as below), are becoming more and more important. Our focus in FY2013 is on the following action items to raise awareness and deepen understanding of compliance and risk management within our group:

(1) Development and instillation of compliance and risk management frameworks
(2) Instillation and leveraging of information security system
(3) Improving our disaster response capacity as part of lifeline to protect community
(4)Re-development and evaluation of crime prevention and disaster defense measures in stores

Risk factors for Lawson

1. Risks relating to changes in the business environment
2. Risks relating to food safety, hygiene management, and labeling
3. Risks relating to the handling of personal information
4. Legal and regulatory risks
5. Risks relating to franchise operations
6. Risks relating to disasters
7. Risks involving problems with IT systems
8. Risks relating to sharp rises in raw materials prices

(1) Development and instillation of compliance and risk management frameworks

Based on the findings of questionnaire survey conducted with all employees, we decided to further strengthen management framework for regional offices and branches. We promote clearer systematization of Compliance & Risk Management Committee and implemented Compliance and Risk Management Officer (CRO) system, for developing and executing a system to take control of issues relating to compliance with laws and regulations and to prevent misconduct. Also for better communication with business partners, we meet them more often in the Affiliated Company Compliance Officers meeting, changing the previous quarterly meetings to every other month.

(2) Installation and leveraging of information security system

We increased the number of Information Security Subcommittee meetings, changing from meeting quarterly to every month, promoting instillation of the information security system. Also, we scrutinize contractors that we entrust services involving personal data for their adequacy and privacy protection measures they take.

(3) Improving our disaster response capacity as part of lifeline to protect the community

To serve the community as a part of its lifeline in the event of large-scale natural disasters and other emergencies, we need to build resilient systems to continue our business operation. For this purpose, we prepared a Business Continuity Plan (BCP) Guideline and Disaster Control Manual, to clarify the initial actions in disasters for all employees. We also continue to improve our disaster response capability while maintaining crisis-sensitivity in our organizational climate.

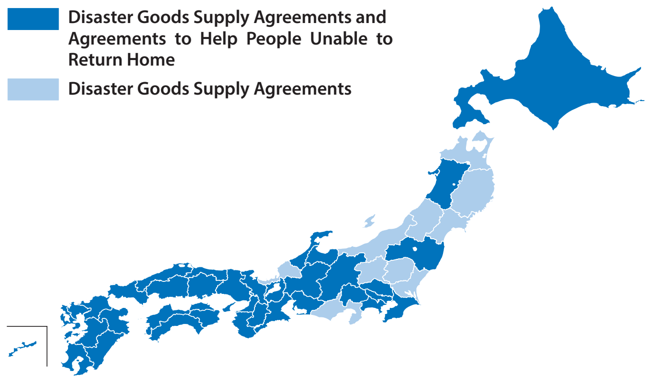
System for improving business continuity capability

(4) Re-development and evaluation of crime prevention and disaster defense measures in stores

Promoting crime prevention and disaster defense measures in stores and also in the whole Lawson Group, we hold Crime Prevention and Disaster Defense Subcommittee meeting at regional offices every month. As we go through trainings, we check manuals to make them more workable. While we prepare ourselves for eventualities, we make ourselves available for communities as well. We are signing Disaster Goods Supply Agreements as well as Agreements to Help People Unable to Return Home, in order to function as a part of lifeline to protect the community in the time of eventualities and disasters.

Agreement with municipalities in case of disasters

(As of March 31, 2013)



Agility, transparency and diversity in our governance system to assure ever-increasing corporate value

Characteristics of Lawson's corporate governance

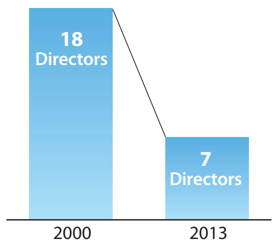
Ahead of our competitors, Lawson has established a corporate governance system with agility and transparency.

We separated the execution and administrative functions according to the executive officer system, in order to clarify executive officers' responsibility. We also reduced the number of directors drastically, making business judgements more prompt. Out of eleven directors and auditors, we appointed seven from outside, of whom five are independent officers.* Also we appointed three female directors and auditors to the Boards.

This change in composition reinforces our corporate governance system with diverse viewpoints. As a Company with Board of Company Auditors, Lawson has double-checking mechanisms, the Board of Directors overseeing business execution, and corporate auditors supervising the execution of the duties of the Directors.

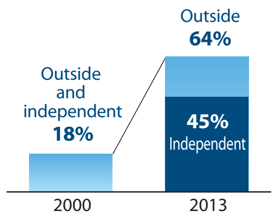
* Lawson implemented an independent officer system in FY2010

(1) Reduced the number of directors by over 60 percent



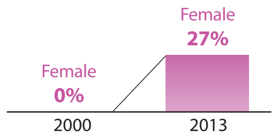
Since 2002, we have maintained the number of directors at less than 10 and separated administration from execution of business, in order to make more agile business judgements.

(2) More outside officers for more independent governance



With a greater ratio of outside officers with specialized knowledge from diverse backgrounds, we strengthened our supervisory system, making it more independent and providing more objective viewpoints, to maintain appropriate and compliant business execution.

(3) Promoted female on the Boards



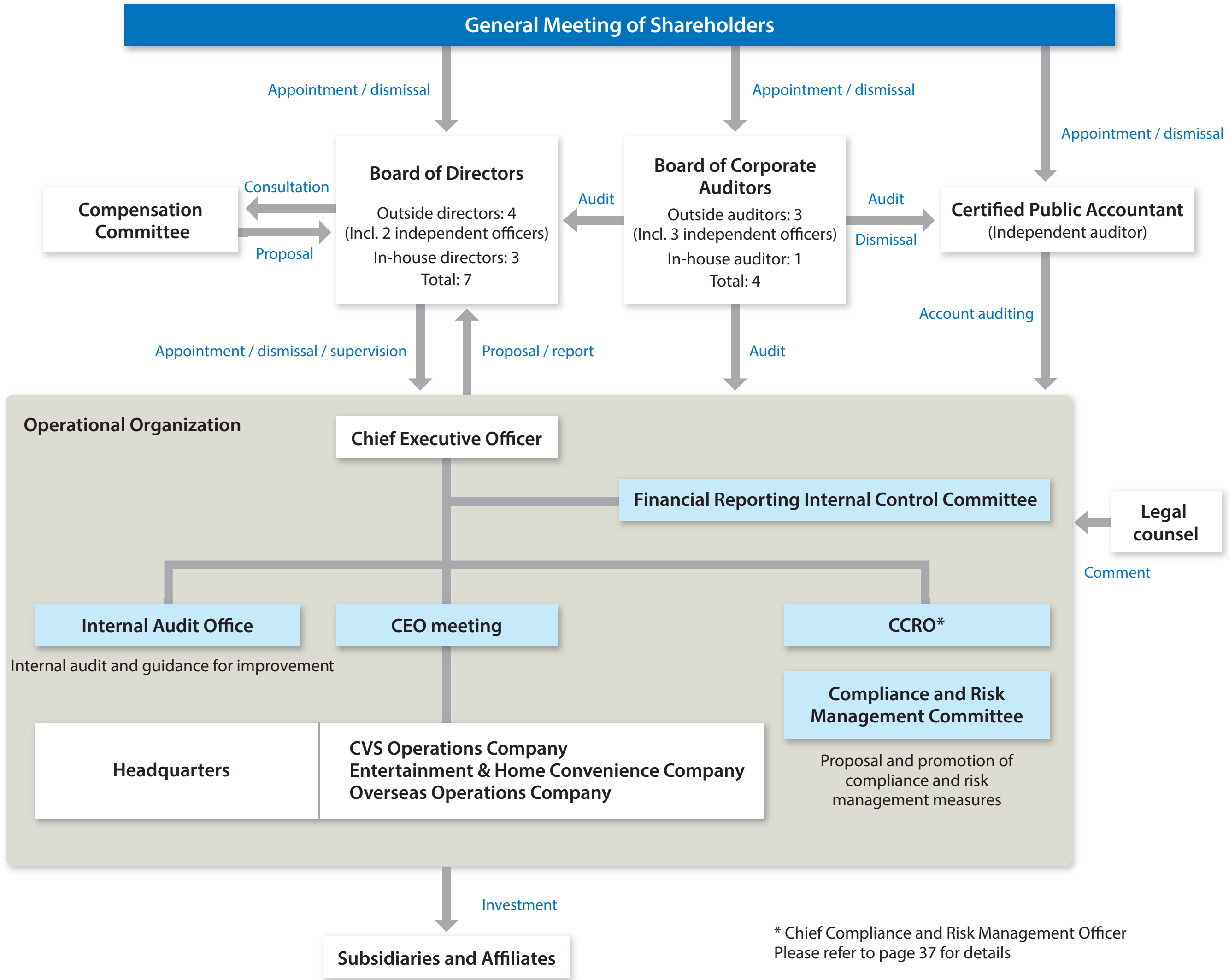
We focused on diversity and took action to highly increase the ratio of female officers on the Boards. The viewpoint of female is essential for expanding our customer base. We proactively involve female in future business development.

Evolution of Lawson's corporate governance

	2000	2001	2002	2003	2010	2011	2012	2013
Separation of management from execution	18 directors*	20	The number of directors was reduced to less than half in 2002 8	9	7 directors since 2007 →			Currently 7 directors
			The officer system was introduced in 2002					
Secure transparency and diversity of management	4 outside officers →		6	8	6	6	6	Currently 7 outside officers
					2 independent officers	4	5	Currently 5 independent officers
			1 female directors →			2 female auditor joined in 2011	3	Currently 3 female officers
Secure transparency in directors' compensation			Established Compensation Review Board in 2002					
					Abolished allowance for directors' severance benefits in 2005			
					Introduced stock option for directors' compensation in 2005			
							Abolished allowance for corporate auditors' severance benefits in 2012 Disclosure of the compensation of the representative director since 2012	

* The number of directors and corporate directors shown above is as of after an annual shareholders' meeting

Corporate governance system (As of May 22, 2013)



* Chief Compliance and Risk Management Officer
Please refer to page 37 for details

The internal control system

We regard the internal control system as the key component of our sustainable and robust business growth. We revise yearly the Basic Policy on Internal Control System in accordance with the provision of the Companies Act, the Ordinance for Enforcement of the Companies Act and Financial Instruments and Exchange Act (refer to page 37).

Besides this yearly revision, we make regular efforts to update our internal control system to maintain effectiveness and efficiency of operations, as well as to adapt to changes in business environment.

Special factors with an important bearing on corporate governance

Mitsubishi Corporation (Mitsubishi) holds 32.5 percent of the Company's voting rights, including indirectly held rights. Consequently, Mitsubishi treats Lawson as an equity-method affiliate on its financial statements (as of February 28, 2013). Under a comprehensive business alliance, Mitsubishi exchanges personnel and conducts joint raw materials procurement businesses with the Lawson Group and also introduces potential store locations. Despite this relationship, as an independent publicly listed corporation, Lawson makes its own management decisions.

Record of Meetings and Attendance - Board of Directors and Board of auditors (FY2012)*

		Board of Directors' Meetings	Board of Corporate Auditors' Meetings
Frequency (Extraordinary)		12 (Including 1 extraordinary meetings)	15 (Including 3 extraordinary meetings)
Attendance	Outside directors	Approx. 91%	–
	Outside corporate auditors	Approx. 94%	Approx. 98%

* Attendance includes that for extraordinary meetings

Compensation policy for board members

We designed our compensation system to link shareholders' value with directors' compensation. With incentives for greater corporate value and sustainable growth and profitability, we compensate at a sufficient and reasonable level for the execution of duties. Directors' compensation consists of basic compensation, which is a fixed amount, and "variable compensation," a flexible amount. Performance evaluation indices, such as Earnings Per Share (EPS), are linked within the compensation system so that Directors' contribution to maximizing shareholder value is clearly reflected. Moreover, by incorporating stock options as a part of compensation, directors' and shareholders' interests are now more closely related to each other.

Director compensation

Compensation for directors consists of (A) **basic compensation paid in cash**, and (B) **stock-price-linked variable compensation paid in stock options.**

A + B = Director compensation

A Basic compensation

comprises **Fixed cash amount** (60%) **+** **Variable cash amount** (40%)

Fixed cash amount:	Established amounts by position ranking.
Variable cash amount:	Introduced "performance-based compensation" which reflects performance assessment such as EPS of each term (to link the directors' compensation to shareholders' interests)

B Stock-price-linked compensation

Paid in stock options, as compensation linked to medium- to long-term corporate value growth.

- **Share option value per share:** ¥1
- **Number of shares:** determined by position ranking
- **Option term:** Option can be exercised for a specified period of time after retirement only. (While in the office, it cannot be executed.)

The four non-executive directors—Toru Moriyama, Reiko Okutani, Takehiko Kakiuchi, and Emi Osono—do not receive any compensation linked with business performance because of their specialized supervisory and advisory roles for the Chief Executive Officer and the Board of Directors.

Decision-making process of director compensation

For better transparency, the Compensation Committee comprising only outside officers, submits a compensation package to the Board of Directors for approval.

Compensation Committee members

Compensation Committee

Outside directors	Takehiko Kakiuchi (Chairman)
	Reiko Okutani
	Emi Osono
Outside corporate auditors	Tetsuo Ozawa

(Three meetings in FY2012)

Submit → Board of Directors' Meetings → Fix directors' compensation

Fee for corporate auditors

We make it our policy to pay corporate auditors at a sufficient and reasonable level for their executed duties in a fixed amount in cash. The amount for each auditor is decided in their (auditors') discussion within the extent of the total fee amount determined by the resolution of the shareholders meeting. The factors such as working full-time or part-time and types of assignment are considered to decide the amount. In addition, we abolished the severance payment system and we paid the equivalent amount for the period of time prior to the discontinuation by the resolution in the 37th ordinary shareholder meeting held on March 29, 2012.

Compensation disclosure

The total amount of compensation for all directors as well as the compensation for Chief Executive Officer are listed in the Company's securities and business reports respectively.

Compensation for directors and corporate auditors (FY2012)

Category	Number	Total Compensation
Directors (number of outside directors)	9 (4)	¥213 million (¥24 million)
Corporate auditors (number of outside corporate auditors)	5 (4)	¥76 million (¥52 million)
Total	14	¥290 million

[Reference] In addition to the above, in a meeting held on March 27, 2013, the Board of Directors resolved to pay the Directors additional a 148 million yen in total (including 8 million for outside directors) in stock options

Compensation for Takeshi Niinami, Chief Executive Officer (FY2012)

Categories of officers	Categories of companies	Compensation/benefits amounts		Total consolidated compensation
		Basic compensation	Stock options	
Representative director	Lawson, Inc.	¥107 million	-	¥111 million
Chairman, member of the Board	Ninety-nine Plus, Inc.	¥3 million	-	

[Reference] In addition to the above, in a meeting held on March 27, 2013, the Board of Directors resolved to pay the Directors additional a 82 million yen in total in stock options

Independent officers' contribution to the Board of Directors and the Board of Auditors

Independent officers

Directors	Reiko Okutani	She poses questions and offers opinions based on her abundant experience and knowledge as business manager. She is also a member of the Compensation Committee.
	Emi Osono	As an academic with her in-depth expertise on global corporate management, business strategy and organizational behavior, she provides questions and ideas. She is also a member of the Compensation Committee.
Corporate auditors	Shinichi Hokari	As a full-time corporate auditor, he oversees execution of duties of directors including updating of the internal control system, inspects documents and visits our offices and affiliates' to check operation and asset managements. With his experience at the Board of Audit of Japan, he provides questions and views based on his expertise on finance and accounting.
	Tetsuo Ozawa	With his diverse experience and technical expertise as a lawyer, he provides questions and views. He is a member of the Compensation Committee.
	Eiko Tsujiyama	Based on her deep insight as an academic on management especially accounting, she provides questions and opinions.

Criteria for independence

To improve our corporate governance, we appoint those outside directors or outside corporate auditors as Independent Officers who fulfill the requirements as described in the Guidelines Concerning Listed Company Compliance, etc. established by Tokyo Stock Exchange. Further, we fully examine them at the time of appointment, to check that they "are not at risk of having conflicts of interests with general shareholders."

Qualification requirements for Independent Officers
(An independent officer must not be described by any of the following items)

(1) A person executing the operations (hereinafter "executing person") of the holding company of Lawson

(2) An executing person of affiliate companies of Lawson

(3) A party for whom the Lawson Group is a <u>principal business partner</u> or an executive person of such a party

(4) <u>A principal business partner</u> of the Lawson Group or an executing person of such a party

(5) A consultant, an accounting professional such as a certified public accountant or a legal professional such as an attorney-at-law who has received <u>a significant amount of money</u> or other property from Lawson, other than as compensation for being a director or a corporate auditor.

(6) A large shareholder of Lawson or an executing person of such party in a case when said person is a juridical person;

(7) An immediate family member, etc. of a key executing person of the Lawson Group

(8) An immediate family member, etc. of a non-executive director or an accounting advisor of the Lawson Group (in case the independent officer in question is an outside corporate auditor);

What may deserve special mention about our requirements is their strictness. In items (3) and (4), we define the term "a principal business partner" as "a business partner group (parties which belong to the consolidated group to which the Lawson Group's direct business partner belongs, offering products and/or services to the Lawson Group, whose total amount of transactions with the Lawson Group in the last fiscal year exceeds 2% of the consolidated gross operating revenues of the Lawson Group or gross sales of such business partner group." Also in item (5), we define "a significant amount of money" as "an amount or money which exceeds the greater of JPY five million annually in the previous two fiscal years."

Contracts for Limitation of Liability

Lawson has entered into an agreement with outside directors and outside corporate auditors to limit their liabilities, as provided in Article 423, paragraph 1 of the Companies Act, to the extent in the aggregate amount as provided in items of Article 425, paragraph 1 of the Companies Act.

Shareholder meeting

We regard shareholder meetings as an excellent opportunity to help shareholders understand more about Lawson, as part of our groundbreaking efforts at better disclosure (ahead of all our competitors).

After the listing in 2000, we started earlier dispatch of invitations in 2001, in English as well, and added non-mandatory disclosure through our website.

In 2002, we added disclosure of the total amount of retirement benefits, which were still in our system then. We also started on-demand online distribution of the content of shareholder meetings for those unable to attend in person. This year, we also received an award from the Tokyo Stock Exchange for our efforts at disclosure practices.

In 2009, we computerized voting, adopting Tokyo Stock Exchange's electronic voting platform.

In 2010, ahead of legislation and our competitors, we disclosed voting results on a non-mandatory basis.

In 2012, we included independence requirements for our independent officers in the invitation. Also, to highlight as our focused business index, we provided ROE trends over time as an agenda aid for the part of the proposal on appropriation of surplus. Additionally, we distributed a questionnaire on voting to shareholders who attended, disclosing the result in an extraordinary report on the web.

In 2013, we posted the invitation on our website six days prior to sending it out.

Year	Content
2001	Started earlier dispatch of the notice and non-mandatory disclosure on the website
2002	• Disclosure of total amount of retirement benefits • On-demand distribution of shareholder meeting content, received TSE Disclosure Award
2009	Computerized voting adopting TSE voting platform
2010	Started disclosing voting results (non-mandatory)
2011	Changed the shareholder meeting venue (to Tokyo International Forum)
2012	• Disclosed independence requirements for Independent Officers and ROE trends over time • Implemented questionnaire on voting with attending shareholders and disclosed the result in an extraordinary report on the web.
2013	Started posting invitation on the web (6 days prior to postal dispatch)

Enhancing Investor Relations

Lawson established the IR department exclusively dedicated to the dialogue with investors and shareholders. We help them deepen their understanding of our goals of sustainable growth and greater corporate value, the roadmap to it with business strategies as well as our performance. Exclusively for analysts and institutional investors, we implement half-yearly results meetings, as well as quarterly results briefings through a tele-conference presided over by CFO. With management's lead, we work hard for timely disclosure. Fair disclosure is also our focus. For foreign investors, we proactively work to promptly post on our website information in English, such as results meetings and other disclosed information. Our Basic Principles Concerning Information Disclosure are posted on our website. (http://lawson.jp/en/ir/disclose.html)

Lawson's IR activity is highly rated by capital markets for our positive stand about disclosure, to create and enhance shareholders' value. It is also appreciated as message of our focus in business strategies on sustainability and capital efficiency. In FY2012, we were given the 17th Best IR Award in the 2012 Annual IR Grand Prix by Japan Investor Relations Association, as well as 2012 Award for Excellence in Corporate Disclosure by he Securities Analysts Association of Japan, ranked the highest among retailers (the award received for sixth time).

Won the 17th Excellent IR Company Award

Security analysts choose excellent disclosure companies

Directors, corporate auditors, and executive officers As of May 22, 2013

Takeshi Niinami

Representative Director, Chief Executive Officer and President of Lawson University

Years as a director: 11 years
Number of Lawson shares held: 9,200 shares

1981 Joined Mitsubishi Corporation
1995 Representative Director, Sodex Corporation (Currently LEOC Co., Ltd.)
1999 General Manager, Restaurant Business Team, Living Essentials Logistics Planning Department, Mitsubishi Corporation
2000 General Manager, Lawson Project Integration Office; General Manager,Restaurant Business Office, Mitsubishi Corporation
2001 Manager, Lawson Business Unit; Manager, Restaurant Business Unit, Consumer Business Division, Mitsubishi Corporation
2002 Corporate Advisor, Lawson, Inc. President, Representative Director and CEO, Lawson, Inc.
2006 Outside Director, ACCESS, CO., LTD. (Current position)
2010 Outside Director, ORIX Corporation (Current position)
2013 Representative Director, Chief Executive Officer, Lawson, Inc. (Current position)

Genichi Tamatsuka

Member of the Board, Representative Executive Officer, COO, and President of CVS Company and Overseas Operations Company

Years as a director: 1 year
Number of Lawson shares held: 2,600 shares

1985 Joined Asahi Glass Co., Ltd.
1998 Joined IBM Japan Ltd. Joined Fast Retailing Co., Ltd.
2002 President, Representative Director and COO, Fast Retailing Co., Ltd.
2005 Established Revamp Corporation President, Representative Director and COO, Revamp Corporation
2010 Corporate Advisor, Lawson, Inc.
2011 Senior Executive Vice President and COO, Group CEO, CVS Operating Group, Lawson, Inc.
2012 Member of the Board, Senior Executive Vice President and COO, Group CEO, CVS Operating Group, Lawson, Inc.
2013 Member of the Board, Representative Executive Officer, COO, and President of CVS Company and Overseas Operations Company, Lawson, Inc. (Current position)

Yoshiyuki Yahagi

Member of the Board, Representative Executive Officer, and Chief Corporate Officer

Years as a director: 6 years
Number of Lawson shares held: 900 shares

1979 Joined Mitsubishi Corporation
2004 Deputy General Manager, Audit Department, Mitsubishi Corporation
2006 Senior Vice President and Executive Assistant to CEO, Lawson, Inc.
2007 Member of the Board, Executive Vice President and CFO, in charge of Corporate Planning Office, Human Resources Office, Lawson, Inc
2009 Member of the Board, Senior Executive Vice President and CFO, Lawson, Inc.
2013 Member of the Board, Representative Executive Officer, and Chief Corporate Officer, Lawson, Inc. (Current position)

Reiko Okutani

Member of the Board (Outside)

Years as a director: 11 years
Number of Lawson shares held: 0 shares

1974 Joined Japan Airlines International Co., Ltd.
1982 President, The R Co., Ltd. (Current position)
1986 President, Will Co., Ltd. (Saison Group) (Concurrent post: President, The R Co., Ltd.)
1991 Chairman, Will Co., Ltd. (Concurrent post: President, The R Co., Ltd.)
1992 Retired from the position of Chairman, Will Co., Ltd.
2002 Member of the Board (Outside), Lawson, Inc. (Current position)

Emi Osono

Member of the Board (Outside)

Years as a director: 1 year
Number of Lawson shares held: 0 shares

1988 Joined Sumitomo Bank (Currently Sumitomo Mitsui Banking Corporation)
1998 Assistant Professor, Institute of Asia-Pacific Studies, Waseda University
2004 Outside Director, Nisshin Fire and Marine Insurance, Co., Ltd.
2006 Outside Director, Resona Bank, Ltd.
2010 Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (Current position)
2011 Outside Director, Resona Holdings, Inc. (Current position)
2012 Member of the Board (Outside), Lawson, Inc. (Current position)

Takehiko Kakiuchi

Member of the Board (Outside)

Years as a director: 8 years
Number of Lawson shares held: 100 shares

1979 Joined Mitsubishi Corporation
2005 Outside Director, Kentucky Fried Chicken Japan, Ltd. (Current position) Member of the Board (Outside), Lawson, Inc. (Current position)
2013 Executive Vice President, Group CEO, Living Essentials Group, Mitsubishi Corporation (Current position)

Yutaka Kyoya

Member of the Board (Outside)

Years as a director: Assumed from May 22, 2013
Number of Lawson shares held: 0 shares

1984 Joined Mitsubishi Corporation
2010 Outside corporate auditor, Kadoya Sesame Mills inc. (Current position)
2013 General manager, Foods (Commodity) Division, Mitsubishi Corporation (Current position) Member of the Board (Outside), Lawson, Inc. (Current position)

Shinichi Hokari

Standing Corporate Auditor (Outside)

Years as a director: 1 year
Number of Lawson shares held: 0 shares

1975 Joined the Board of Audit of Japan
1990 Supervisory Manager of 2nd Bureau, Board of Audit of Japan
2005 Director General of 4th Bureau, Board of Audit of Japan
2007 Chief Audit Commissioner, Gifu Prefecture Government
2011 Rejoined the Board of Audit of Japan
2012 Retired from the Board of Audit of Japan Standing Corporate Auditor (Outside), Lawson, Inc. (Current position)

Atsuhiko Seki

Standing Corporate Auditor

Years as a director: 3 years
Number of Lawson shares held: 1,200 shares

1977 Joined The Daiei, Inc.
1999 Joined Lawson, Inc.
2007 Deputy Senior Vice President, Division Director, Franchisee Support Office, Lawson, Inc.
2010 Standing Corporate Auditor, Lawson, Inc. (Current position)

Eiko Tsujiyama

Corporate Auditor (Outside)

Years as an auditor: 2 years
Number of Lawson shares held: 100 shares

1974 Registered as a Certified Public Accountant
1980 Assistant Professor, College of Humanities, Ibaraki University
1991 Professor, Faculty of Economics, Musashi University
2003 Professor, School of Commerce and Graduate School of Commerce, Waseda University (Current position)
2008 Outside Corporate Auditor of Mitsubishi Corporation (Current position)
2010 Outside Director of ORIX Corporation (Current position)
2011 Corporate Auditor (Outside), Lawson, Inc. (Current position) Outside Corporate Auditor, NTT DOCOMO, INC. (Current position)

Tetsuo Ozawa

Corporate Auditor (Outside)

Years as an auditor: 10 years
Number of Lawson shares held: 100 shares

1973 Registered as Lawyer and joined Tokyo Fuji Law Office (Current position)
2003 Corporate Auditor (Outside), Lawson, Inc. (Current position)
2004 Outside Corporate Auditor, Monex Beans Holdings, Inc. (currently Monex Group, Inc.) (Current position)
2007 Outside Corporate Auditor, CEMEDINE CO., LTD. (Current position)

Members of executive officer

Senior Executive Vice President	**Takatoshi Kawamura**
Executive Vice President	**Masaharu Kamo**
	Masahiro Oyama

Senior Vice President	**Masayuki Sawada**
	Norikazu Nishiguchi
	Katsuyuki Imada
	Syuichi Imagawa
	Takaki Mizuno
	Jun Miyazaki
	Ichiro Kijima
	Hisashi Yasuhira
	Tetsu Yamada
	Kenichi Kato
	Shigeaki Kawahara

Senior Vice President	**Tatsushi Satou**
	Masakatsu Gounai
	Kenji Gotou
	Kei Murayama
	Hajime Nakai
	Kazuo Tougasa
	Hajime Kawamura
	Motonobu Miyake
	Yuichi Wada
	Hiroyuki Endo
	Atsushi Maeda
	Akira Ushijima

Lawson's growing presence in convenience store industry Response to rapidly aging society awaits further IT implementation

Over twelve years since I was appointed as an outside director, I witnessed Lawson gain more and more presence and personality in the convenience store industry in Japan. In the Entertainment segment, for example, the Lawson store network is now boasting the top ticket sales in the industry, constantly making use of its strength of store network. Top management has shown outstanding energy and communication, especially as revealed in the time of the East Japan Earthquake. Lawson quickly responded to the need of the society for an infrastructure, radically using its store network, regional mobility and other advantages. Also, with aggressive M&A strategy, Lawson's store network, as well as related business segments, have been enhanced.

Imperatives for future growth are streamlining of store operation with further IT implementation to respond to the rapidly aging society, in addition to improving working environment for female employees. Further plans might include architecting the online marketing channel with websites or mobile terminals, developing human resources, and leveraging management for strategic global business operations.

Reiko Okutani

President, The R Co., Ltd.
She has abundant experience and knowledge as a business manager. She also has customer service expertise with her work experience as a Japan Airlines' flight attendant servicing international routes. She has served as an outside director since 2002.

Lawson's strength - various ideas and energy from wide-ranging people: management to front-line workers

As an academic, I am specializing the organizations with competitive strategies and innovation on a continual basis. Excellent companies, when seen through these two lenses, have several common characteristics: 1) having a clear vision of the value it wants to provide; 2) assuring the vision is understood throughout the organization, and 3) challenging management to realize it in a new way, creating new footsteps, not just following what exists.

Lawson is trying to provide tasty, safe, enjoyable and convenient commodities and services. During this one year when I came to know better about Lawson as an outside director, I have witnessed a number of new developments addressed, discussed and launched. These new developments range from cross-industrial efforts to detailed in-store action rules. They reveal that ideas and actions within Lawson are coming from wide-ranging people from the management to store staff. This is where I believe the strength of Lawson resides.

I also believe there are more changes they can make. I expect a lot from Lawson and also want to continue to support them.

Emi Osono

Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
As an academic, she has in-depth expertise in global corporate management, business strategy and organizational behavior.
She has served as an outside director since 2012.

Outside directors and auditors, vigorously evaluates management, detect excellent governance

Lawson is operating with well-designed strategies under the strong leadership of management with Mr. Niinami as CEO. Mr. Niinami, as I observe, is a thorough and careful planner. The members of the Board of Directors are more than half outsiders and auditors. Management gives clear and detailed explanations of matters to be discussed. Reciprocally, members actively speak at Board meetings, sometimes having heated discussions to talk through everything. I can proudly state the governance of Lawson is excellent.

Additionally, Board meeting agendas are improving remarkably compared to earlier days. From my perspective as a lawyer, I assign high value to the thoughtful management decisions seen in the agenda, which are made in accordance with business judgement rules.

Future tasks for Lawson in my view are securing human resources for more aggressive overseas expansion as well as creating means for female workers to shine with their various talents.

Tetsuo Ozawa

Lawyer (Tokyo Fuji Law Office)
As a lawyer, specializing in lawsuits, including representative suits in relation to Companies Act, he is in charge of in-house research of directors' misconduct, corporate compliance and risk management. He also plays a leading role in establishing corporate governance, while overseeing compliance, internal control. He has served as an outside corporate auditor since 2003.

Incorporating to changes and needs in society - Lawson is always looking ahead

Two years have passed since I was designated as an outside corporate auditor in May 2011. For these two years, the environment of Japan has greatly changed. We have had falling birth rate with rapidly aging population, along with social advancement of women, as well as issues like energy disputes and food safety. And we had the aftermath of the Great East Japan Earthquake and Tsunami which is unforgettable. Looking back, it is impressive to see that Lawson keeps looking ahead to the future, responding to social change and its needs, serving people with its core business of convenience store operation and more. The convenience store industry is much more competitive today, compared to two years ago. With "serve day-to-day life of people," Lawson's Corporate Philosophy, robust in the Group, I strongly believe Lawson will keep winning in the industry.

Certainly there are some business challenges, especially regarding overseas development. Corporate compliance and governance in overseas operation are also big issues. Lawson needs to strike the balance between their inner strength and the different national characters and business cultures. As an outside corporate auditor, I would keep an eye on all this, with positive regard for further development of Lawson.

Eiko Tsujiyama

Professor, School of Commerce and Graduate School of Commerce, Waseda University
As an accountant, she has diverse experience and technical expertise.
She has served as an outside corporate auditor since 2011.

Lawson at a glance

Corporate data

As of February 28, 2013; consolidated basis

Company name	Lawson, Inc.
Address	Head Office: East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan
Chief Executive Officer Representative Director	Takeshi Niinami
Established	April 15, 1975
Capital	¥58,506.644 million
Number of employees	6,404
Business activities	Franchise chain development of LAWSON, NATURAL LAWSON, and LAWSON STORE100
Net sales of all stores	¥1,906.5 billion
Number of stores	11,774 (As of July 31, 2013)
Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian), Indonesia, Hawaii, Thailand (As of July 31, 2013)

Note: The number of stores is a sum of the total number of LAWSON and NATURAL LAWSON stores operated by Lawson, Inc., LAWSON stores operated by Lawson Okinawa, Inc., and LAWSON STORE100 stores operated by Ninety-nine Plus, Inc.

Shareholder information

As of February 28, 2013; non-consolidated basis

Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	33,629
Stock exchange listings	Tokyo Stock Exchange (1st Section) Osaka Securities Exchange (1st Section)
Stock transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Distribution of shareholders by type

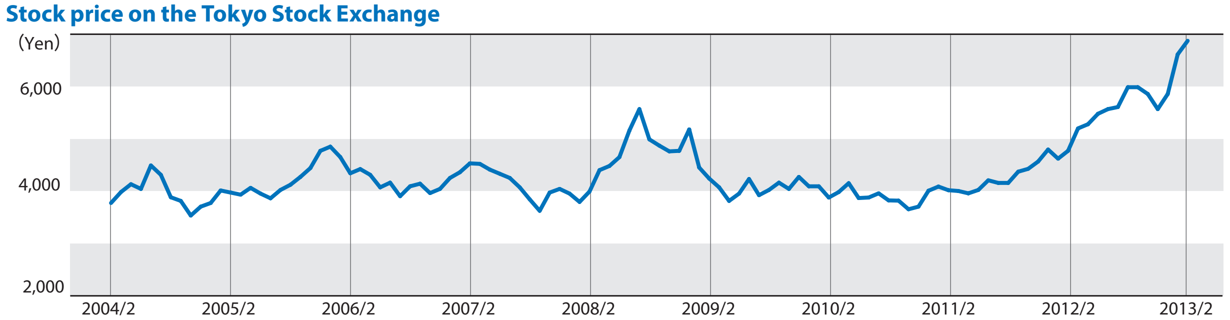
	Number of shareholders	Number of shares (Thousands)	Percentages of total shares
Financial institutions	102	14,387	14.3
Securities companies	28	3,191	3.2
Other domestic entities	479	35,592	35.5
Foreign entities	464	38,222	38.1
Individuals, Others	32,554	8,498	8.5
JASDEC	1	0	0.0
Treasury stock	1	406	0.4
Total	33,629	100,300	100.0

Major shareholders

		Number of shares held (Thousands)	Percentages of total shares held*
1.	Mitsubishi Corporation	32,089	32.1
2.	STATE STREET BANK AND TRUST COMPANY 505223	2,877	2.9
3.	Japan Trustee Services Bank, Ltd. (Trust account)	2,462	2.5
4.	The Master Trust Bank of Japan, Ltd. (Trust account)	2,228	2.2
5.	NTT DOCOMO, INC.	2,092	2.1
6.	STATE STREET BANK AND TRUST COMPANY	1,856	1.9
7.	The Chase Manhattan Bank NA, London SL, Omnibus Account	1,853	1.9
8.	STATE STREET BANK AND TRUST COMPANY 505202	1,653	1.7
9.	STATE STREET BANK AND TRUST COMPANY 505225	1,638	1.6
10.	MELLON BANK N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1,580	1.6

* The above shareholding ratios exclude treasury stock 406,853

Stock price on the Tokyo Stock Exchange



(Yen)

	2005/2	2006/2	2007/2	2008/2	2009/2	2010/2	2011/2	2012/2	2013/2
Interim dividend	35	45	50	55	80	80	85	87	100
Year-end dividend	35	45	50	55	80	80	85	93	100
Annual dividend	70	90	100	110	160	160	170	180	200
Stock price as of February 28 or 29	3,980	4,350	4,540	4,000	4,250	3,885	4,025	4,780	6,890

Store network expansion area

Total number of stores (Worldwide total)

11,774 stores As of July 31, 2013

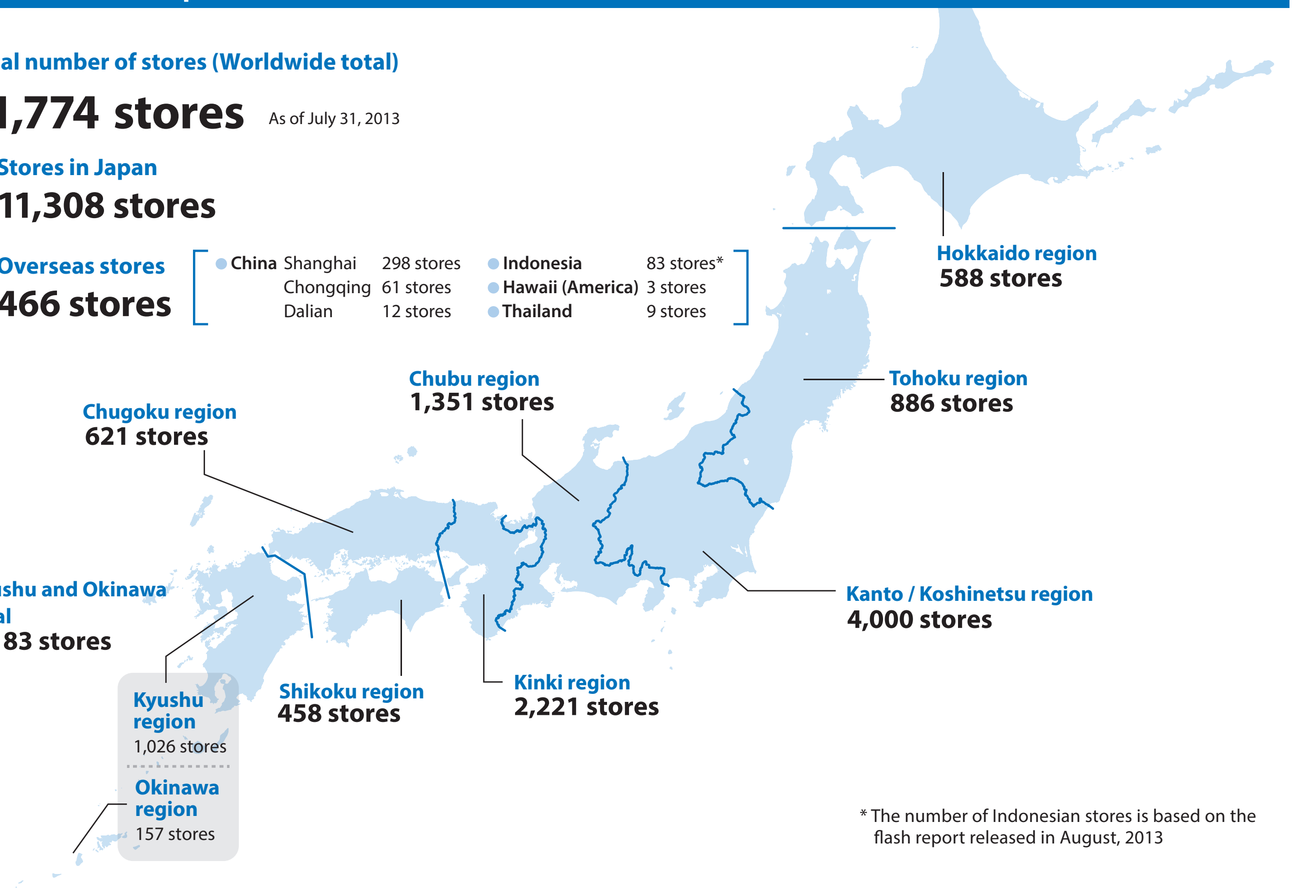
Stores in Japan

11,308 stores

Overseas stores

466 stores

China Shanghai	298 stores	**Indonesia**	83 stores*
Chongqing	61 stores	**Hawaii (America)**	3 stores
Dalian	12 stores	**Thailand**	9 stores



* The number of Indonesian stores is based on the flash report released in August, 2013

Lawson store formats

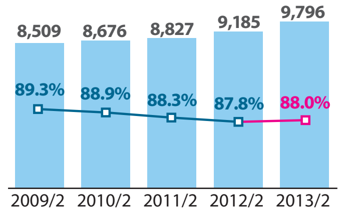
As of February 28, 2013

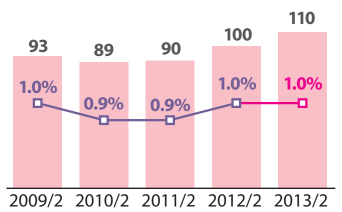
	LAWSON	NATURAL LAWSON	LAWSON STORE 100
Operations begun	April 1975	July 2001	May 2005
Features	The Lawson store concept is shifting from the traditional convenience store format that targets men in their 20s and 30s to a format where individual stores match their merchandise assortment with their own catchment areas. This store format is aiming to become a highly convenient neighborhood store. Recently, taking into consideration locations, the Company is increasing the number of stores that offer perishable food (fresh food-type stores).	This store format promotes a beautiful, healthy, and comfortable lifestyle. Its merchandise assortment mainly targets health-conscious working women in their 20s, 30s, and 40s.	These convenience stores feature perishable foods in their merchandise and product lineup. With housewives and seniors in mind, the LAWSON STORE100 format focuses on small and appropriately sized portions, simple pricing, and bargain value to attract customers.
Percentage of female customers (Estimate)	Approx. 30%	Approx. 45%	Approx. 40%
Network regional-orientation	Nationwide	Office and residential districts in the metropolitan Tokyo area	Residential districts and nearby train stations in the major metropolitan areas
Items handled	Approx. 2,800 items	Approx. 2,500 items	Approx. 4,000 items
Percentage of merchandise items shared with Lawson stores	—	Approx. 60%	Approx. 10%
Total stores in Japan	9,796 stores	110 stores	1,224 stores

Number of stores

Number of stores (Stores)

Composition ratio (%)





* As of September 2008, Ninety-nine Plus, Inc. became a consolidated subsidiary

Trend in industry

While the Japanese economy enjoyed a short-lived strong performance thanks to the continued high demand for the restoration of the Great East Japan Earthquake in the first half of the fiscal year of 2012, it rapidly lost its momentum since the mid year, when the effect of eco-car subsidy peaked out. It was coincided by the sudden decrease of exports due to the sluggish overseas economy.

Let us look back and review the performance of the convenience store industry as a whole for 2012 (January - December). Aggregate annual sales of all stores of 10 top franchise companies was 926.4 billion yen, up by 8.0% YoY, but the sales of existing stores was down by 0.3% YoY. In the first half of the year sales grew, driven by the aggressive efforts of opening new stores. It was also propped up by the increase of customer traffic for the earthquake of the previous year has had them recognize that convenience stores are part of the social infrastructure. In the second half, however, due to the backlash of the earthquake recovery demand, declining trend of cigarettes and slow personal spending, both the average number of customers and average spending per customer fell short of the level of the previous year since June.

Retail Industry Market Size and Convenience Store Share*1 (Billions of yen)

	2012	2011	2010	2009	2008	2007	2006	2005	2004*2	2003	2002
Total retail industry annual sales	137,585	135,157	136,479	132,961	136,019	135,417	134,911	134,828	133,649	132,446	132,280
Convenience store sector annual sales	9,477	8,775	8,114	7,981	7,943	7,490	7,399	7,360	7,289	7,096	6,980
Convenience store share	6.9%	6.5%	5.9%	6.0%	5.8%	5.5%	5.5%	5.5%	5.5%	5.4%	5.3%

Source: "Current Survey of Commerce," Ministry of Economy, Trade and Industry
*1. Annual sales amounts of the retail industry and the convenience store sector are on a calendar-year basis.
*2. The figures above reflect the revision of the figures in 2004 and onwards that Ministry of Economy, Trade and Industry made in March, 2013.

The aggregate sales of all stores of the top four chains in the convenience store industry. *2 (Billions of yen)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Lawson	1,907	1,826	1,683	1,666	1,559	1,415	1,387	1,362	1,329	1,288	1,294
Seven-Eleven Japan	3,508	3,281	2,948	2,785	2,763	2,574	2,534	2,499	2,441	2,343	2,213
FamilyMart	1,585	1,535	1,440	1,274	1,246	1,122	1,069	1,032	998	954	932
Circle K Sunkus*1	947	980	923	902	940	902	911	920	934	902	892
Total	7,947	7,622	6,994	6,627	6,508	6,013	5,901	5,813	5,702	5,487	5,331
Total market share of top 4 chains	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%	78.2%	77.3%	76.4%

Source: Data published by each company
*1. C&S Co., Ltd.; for the fiscal years from 2002 to 2003
*2. The figures for the top four chains are on a fiscal-year basis, while the total market share of the top four chains is the proportion of sales of the convenience store industry on a calendar-year basis.

Convenience Store Numbers (Number of stores) (Number of stores)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Convenience store numbers	47,593	45,769	45,006	44,391	43,228	43,087	42,643	41,340	41,114	40,644	39,809

Source: "2011 JFA Franchise Chain Statistics," Japan Franchise Association. The number of convenience stores is on a calendar-year basis.

The management policy for the term of February, 2013

Proliferation of MACHI café

Building upon our strength of stores being physically close to customers' neighborhood communities (where they live), we have strengthened our recent efforts of offering what was just "freshly prepared." In the term of February, 2013, we rolled out "MACHI café" at existing stores throughout Japan in which coffee beans are ground right before brewing coffee. Our freshly brewed coffee is not offered in a self-serve type service. The staffers make and serve customers. This way of service prompts more opportunities for conversation with customers and thereby enhances customer satisfaction and differentiates us from the competition. For this aim, we have established the criteria for the installation of machines and introduce one to high performance level stores before others. At the end of February, 2013, 2,860 stores have machines installed.

Reinforcement of the sale of perishables

Our fresh foods convenience stores operations, which constitute a major part of a strategy for the expansion of our customer base, includes the operation of "LAWSON STORE100" run by Ninety-nine Plus, Inc. a consolidated subsidiary. In addition we operate "Fresh food-type LAWSON" where more diversity is provided to the assortment of perishables and daily delivered foods. In October 30, 2012, "Proclamation to make all stores sell perishables" was issued. Not only "Fresh food-type LAWSON," all LAWSON stores have begun selling perishables. We anticipate customers look for seasoning as well, so such merchandises can be found near the perishables. As customers see their shopping experience is more convenient, it helps to increase the sales steadily. At the end of February, 2013, the number of "Fresh food-type LAWSON" counts 5,287.

The establishment of SCI, Inc.

SCI, a subsidiary with a function of supply chain management (SCM) was established in July, 2012 to promote more structural reform of SCM, which makes up the core of principal strategy. The details are found in the subsidiary article (p. 62).

The proliferation and promotion of a MO system and introduction of a new FC contract package

To support franchise (FC) owners who wish to run multiple stores, we have introduced a management owner (MO) system beginning in February, 2011. MOs are certified by the headquarter among FC owners who embrace our corporate philosophy and run more than a prespecified number of stores. The criteria for MOs are to have vibrant entrepreneurship spirits, caliber of operations and resource development, and thorough knowledge about the area they serve. The headquarter provides MOs, through a management consultant (MC), with advice that could facilitate multiple store management. At the end of February, 2013, 72 owners are certified as MOs and we plan to increase the number to 100 by the end of February, 2014.

Also we introduced a new FC contract package in March, 2012. The details are found on page 53. It is a tool to let FC stores and the headquarter work as a team and it is designed to boost the sales and gross profit significantly more than before. As of the end of February, 2013, we have concluded a new FC contract with some 752 stores.

Overview on merchandises and services

As for merchandises and services, we have been promoting product development leveraging high quality raw materials, and synergy effects brought together by entertainment business. We have taken more direct approach to loyal customers by using purchase data analysis of the Ponta Card, multi-partner loyalty program results in an effort of expansion of customers in the segments of the elderly and females through strategies with the reinforcement on perishables and others.

- We developed an important strategic theme of the sales expansion of perishables. We reinforced the assortments of perishables including cut vegetables and the extension of products that are expected to support domestic cooking such as seasoning. As of the end of February, 2013, we have nine farms, produce of which are dedicated to Lawson only. The aim of concluding the agreement with these farms is to ensure the stable supply of vegetables and fruits for the sales in the stores and to use to make Lawson original products.
- As for rice category, customers appreciate rice balls of the "local delight!" series which are highly value added products of "Onigiriya" brand with emphasis on high quality ingredients.
- For over-the-counter fast foods, we added more fried food centering around "Tori-kara" which is Japanese style fried chicken and was released in June. The MACHI café belong to this category.
- On the dessert front, we launched new Japanese confectionary products "Ankoya" (sweet beans products) under the "Uchi Café SWEETS." This brand is derived from customers asking for "small Japanese sweets that are not too sweet."
- "Machikado Chubo" or in-store kitchen is equipped with cooking space inside the store and offer freshly prepared and home cooking type foods, such as "sandwiches containing thick slices of pork cutlet" and rice balls incorporating inside "a whole cooked egg" and "Hokkaido salmon" as well as out-of-the-over delicatessen sold by weight. As of the end of February, 2013, 400 stores installed "Machikado Chubo" or in-store kitchen and plan to roll it out to some other stores to the total of up to 1,200 stores in the term of February, 2014.
- A subsidiary, Lawson HMV entertainment, Inc. successfully secured tickets for large scale concerts by popular musicians which were enthusiastically received. They posted the record high ticket sales among our group stores exceeding 100 billion yen best ever so far, and helped us to establish the number one sales in the industry.

As for the sales promotion, we prioritized our efforts on potentially high return on investment (ROI) policies and carried out point collect campaigns using popular characters such as "Rilakkuma" and "Miffy."

As for service, we handled approximately 190 million proxy public utility bill payment transactions amounting to 1,879,679 million yen.

Overview on store management

Our initiatives to reinforce the "Three Essential Practices" continued in our store management: 1) serving customers courteously, 2) keeping clean our stores and communities, 3) merchandise assortment responding to community needs. As we are rolling out MACHI café extensively, we have made conscious efforts to clarify goals for store staff in their interaction with customers and develop leadership to improve the overall quality of all the stores.

As of the end of July, 2013, the number of Ponta card holders exceeded 56 million and they account for as high as over 45% of the total sales. Making the most of the customer analysis based on the purchase data, we endeavored to improve ordering precision and product development, targeting to reduce the loss of sales opportunity.

Store development and overview by store format

• Store development of our group

We rigorously adhere to our unique return on investment (ROI)-principle-based store opening criteria and continued to employ an opening policy that could potentially bring high returns on investment. To avoid in kind competition with other convenience stores, we are utilizing multiple formats such as LAWSON, NATURAL LAWSON, LAWSON STORE100. In addition, we are promoting "Fresh food-type LAWSON" which can endure challenges of residential areas. Thus we are flexible in the operations of opening stores addressing unique demographic conditions of a given neighborhood and customer attributes. Our ability to open stores in areas where conventional convenience stores could not is stemmed in our greatest advantage of multiple formats. The following explains our efforts at each format.

The following is the difference between "Fresh food-type LAWSON" and "LAWSON STORE100."

- "Fresh food-type LAWSON" is based on LAWSON concept and has been carrying perishables and daily delivered foods also, whereas LAWSON STORE100 is a hybrid model between a convenience store and a mini supermarket store with distinct features of small portion package and simple pricing where the majority of products are sold for 105 yen with the consumption tax included.
- LAWSON STORE100 is rolled out targeting at housewives and senior citizens in our commercial areas in three major metropolitan areas and government ordinance cities. On the other hand "Fresh food-type LAWSON" is being opened not only in big cities but residential areas throughout Japan.

Fresh food-type convenience stores

• Fresh food-type LAWSON

Aiming to reorient conventional convenience stores more towards meeting needs of customers in an effort of having them evolve into a neighborhood store, we are rolling out "Fresh food-type LAWSON," a remodeled format with more emphasis on product offering of perishable foods and daily delivered foods. It is our hope to better tailor to needs of female and elderly customers to expand our customer base. We have made conscious decisions to open these stores predominantly in residential areas.

As of the end of February, 2013, the number of "Fresh food-type LAWSON" is 5,287, up from 1,374 last year.

• Fresh food convenience store "LAWSON STORE100"

To meet needs of housewives and senior citizens which have not been catered to by conventional convenience stores, we have been rolling out convenience stores with functions of mini super market added on to sell fresh perishables. 84 "LAWSON STORE100" have been opened as of the February term of 2013, with the attrition of 32. It represents 52 net increase and totals 1,224 (495 of which are FC stores) at the end of February, 2013.

Health care reinforced stores

• Health oriented convenience store "NATURAL LAWSON"

"NATURAL LAWSON," health oriented convenience store is a format to offer "a beautiful, healthy, and comfortable" lifestyle to working women and health conscious customers, and its introduction began in 2001. In recent years there are efforts to put more emphasis on health care functions and reorient the format to better fit to the needs of health conscious customers. In addition, we are actively developing products for women and health promotion for other store formats of our group and E-commerce business. As of the end of February, 2013, the number of NATURAL LAWSON is 110 (69 of which are FC stores).

• Reinforcement of health care business

Deregulations on drug sales continue after the revision of the Pharmaceutical Law in June, 2009. We expect that business opportunity of selling pharmaceutical products will expand further for convenience stores.

To handle ethical pharmaceuticals, we opened "Pharmacy LAWSON" in the February term of 2004, which is a hybrid between dispensing pharmacy and NATURAL LAWSON. Building upon the partnership with Qol Co., Ltd. who operates a pharmacy chain, we opened "Pharmacy LAWSON," fusion between Qol and Lawson in August, 2010. In August, 2012, with intent to develop the stronger partnership and to accelerate business development, Lawson acquired 5% of the total outstanding shares of Qol. As of the end of July, 2013, Pharmacy LAWSON numbered 34.

As for OTC (over-the-counter) drugs, the number of registered pharmacists (sellers) increased to 116 and the number of store selling OTC drugs has reached 78 as of the end of July, 2013.

The introduction of a new FC contract package

Beginning in March, 2012, we have revisited the FC contract that has been put into practice since December, 1998 and introduced a new FC-Cn contract. In the process we reviewed the charge rate design. We will bear part of disposal loss and utility bills that have been borne by FC owners up to this point. We hope that this change will motivate the owners to be more actively engaged in initiatives to expand customer base by selling more perishable food and over-the-counter fast food and the like, and thereby accelerate the improvement of top line revenues. The major changes from the conventional FC-C and FC-G contracts include: 1) the headquarters will bear part of expenses related to disposals, aiming to thoroughly reduce opportunity loss and assisting the FC stores with order placing, 2) 50% of utility costs will be paid for by the headquarters, while conventionally it was entirely borne by the FC owners. It was due to new fixture introduction for the sales promotion of perishable food, over-the-counter fast food and prepared food, as their utility costs are expected to rise, 3) as the headquarters will take stronger initiatives to promote and strengthen sales, charge rates have been revised as shown in the following page. In the term of February, 2013, it was primarily employed for the contracts for new store openings but from the February term of 2014, we will apply it to extending the existing contracts in a full-fledged manner.

Please refer to page 54 for details.

Number of Stores in the Lawson Network in Japan (Group Stores)

(Number of stores)

	2013/2*1	2012/2*1	2011/2*1	2010/2*1	2009/2
Number of stores	**11,130**	10,457	9,994	9,761	8,674
Openings	**938*2**	766	550	607	501
Closings	**265**	303	317	373	414
Net increase (decrease)	**673**	463	233	234	940

*1. The outlets managed by Lawson Okinawa, Inc. are included. 154 stores in FY2012, 147 stores in FY2011, 141 stores in FY2010, 136 stores in FY2009.
*2. New store opening in FY2012 includes the stores of CVS Bay Area Inc. that switch to a Lawson sign.

Number of Stores by FC Contract Type (Group Stores, Stores in Japan)

(Number of stores)

	2013/2		2012/2		2011/2		2010/2		2009/2	
Franchise stores	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
B	**1,292**	**11.6%**	1,176	11.2%	1,216	12.2%	1,258	12.9%	1,322	13.9%
G	**2,236**	**20.1%**	2,223	21.3%	2,057	20.6%	2,001	20.5%	2,041	21.4%
C	**6,008**	**54.0%**	5,455	52.2%	5,284	52.9%	5,074	52.0%	4,863	51.0%
NATURAL LAWSON	**69**	**0.6%**	41	0.4%	35	0.4%	27	0.3%	22	0.2%
LAWSON STORE100	**495**	**4.4%**	356	3.4%	268	2.7%	167	1.7%	114	1.2%
Lawson Toyama*	–	–	61	0.6%	–	–	–	–	–	–
Subtotal	**10,100**	**90.7%**	9,312	89.1%	8,860	88.7%	8,527	87.4%	8,362	87.8%
Company-operated stores	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
LAWSON	**106**	**1.0%**	111	1.0%	129	1.3%	207	2.1%	283	30.0%
NATURAL LAWSON	**41**	**0.4%**	59	0.6%	55	0.6%	62	0.6%	71	0.7%
LAWSON STORE100	**729**	**6.5%**	816	7.8%	809	8.1%	829	8.5%	811	8.5%
Lawson Toyama*	–	–	12	0.1%	–	–	–	–	–	–
Subtotal	**876**	**7.9%**	998	9.5%	993	9.9%	1,098	11.2%	1,165	12.2%
Lawson Okinawa	**154**	**1.4%**	147	1.4%	141	1.4%	136	1.4%	–	–
Total	**11,130**	**100.0%**	10,457	100.0%	9,994	100.0%	9,761	100.0%	9,527	100.0%

* Lawson Toyama, Inc. was merged into Lawson, Inc. in FY2012.

Types of Lawson's contracts

(Previous)

Contract type		C	G	B
Contract term		10 years from store opening day		
Requirements for FC owners		At least 20 years old, 2 full-time store workers		
Land and buildings		Provided by Lawson		Prepared by franchisee
Investment in store construction and interior decoration expenses		Borne by Lawson		Borne by franchisee
Signage and business fixtures		Provided by Lawson		
Payment by franchisee at time of contract*1	Franchise fee	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000) (excluding tax)		
	Investment	¥1.5 million (Including payment for some merchandise purchased on behalf of the store)		
Guarantee deposit provided by franchisee		Not required	Average monthly sales x 2 months	Not required
Head Office income*2		Gross profit x 50%	Gross profit x 45%	Gross profit x 34%
Burden of utility expenses		Franchisee		
Minimum guarantee (annual)*2 (thousands of yen)		21,000	22,200	22,200

(New Contracts)

Contract type		Cn	B4
Contract term		10 years from store opening day	
Requirements for FC owners		At least 20 years old, 2 full-time store workers	
Land and buildings		Provided by Lawson	Prepared by franchisee
Investment in store construction and interior decoration expenses		Borne by Lawson	Borne by franchisee
Signage and business fixtures		Provided by Lawson	
Payment by franchisee at time of contract*1	Franchise fee	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000) (excluding tax)	
	Investment	¥1.5 million (Including payment for some merchandise purchased on behalf of the store)	
Partial guarantee for expenses associated with product disposal losses		Headquarters will bear the following percentage of clearance and disposal costs according to their proportion of merchandise sales • Greater than 2.0%, but less than 3.0%: 20% • Greater than 3.0%, but less than 4.0%: 30% • Greater than 4.0%: 55%	—
Head Office income*2		Headquarters' percentage of gross profit • Less than ¥3.0 million: 45% • From ¥3.0 million to under ¥4.5 million: 70% • Greater than ¥4.5 million: 60%	Gross profit x 34%
Burden of utility expenses		50%*3 of electricity expenses and store air conditioning energy expenses are borne by Lawson	Franchisee
Minimum guarantee (annual)*2 (thousands of yen)		18,600	22,200

*1. The amount is paid by the franchisee to the Head Office at the time of the franchising contract. In addition, the franchisee needs to separately provide a total of ¥500,000, including the cash register float, at the time of store opening.
*2. The Head Office income and minimum guarantee apply to stores operating on a 24-hour basis.
*3. The ceiling on the amount borne by headquarters monthly is ¥250,000.

Outline of LAWSON STORE100 Contracts

Contract type		VL-J	VL-B
Land and buildings		Provided by Ninety-nine Plus	Use land and buildings owned by franchisee
Contract stores		Stores already being operated by Ninety-nine Plus as LAWSON STORE100	Land and buildings owned by franchisee
Contract term		10 years from the opening day	10 years from the opening day
Necessary expenditure	Payment by franchisee at time of contract*4	¥2.55 million (consumption tax included) Breakdown Franchise fee ¥1.05 million (consumption tax included) Contract fee ¥262,500 Training expenses ¥262,500 Store opening preparation commission ¥525,000 Investment ¥1.5 million (including payment for some merchandise purchased on behalf of the store)	
	Other expenses	Store opening expenses: Approx. ¥500,000 (i.e., change, licensing fee for operation)	
Investment	Store construction and interior decoration	Borne by Ninety-nine Plus	Borne by franchisee
	Business fixtures	Borne by Ninety-nine Plus	
Minimum guarantee*5		¥20.4 million per year	¥22.2 million per year
Head Office income*5		[Franchisee's percentage of sales fees] On gross profit (monthly) ¥1–¥3,000,000 Gross profit x 27% ¥3,000,001–¥3,500,000 Gross profit x 68% ¥3,500,001–¥4,500,000 Gross profit x 62% Over ¥4,500,001 Gross profit x 48%	Gross profit x 27%
Support to Franchise stores (The headquarters bearing part of franchise store operating expenses)		The headquarters pay for the amount equivalent to the cost of clearance goods and disposed goods which is the product of the total monthly sales multiplied by the prescribed headquarters' burden rate applying the percentages of those goods against the total monthly sales shown below. • Above 1.5% up to 2.0%: 30% • Above 2.0%: 60% Provided the headquarters pays 100,000 yen a month maximum.	—

*4. The amount is paid by the franchisee to the Head Office at the time of the franchising contract. In addition, the franchisee needs to separately provide a total of ¥500,000, including the cash register float, at the time of store opening.
*5. The Head Office income and minimum guarantee apply to stores operating on a 24-hour basis.

The overview of performance figures

Sales figures

• Net sales of all stores (consolidated basis)

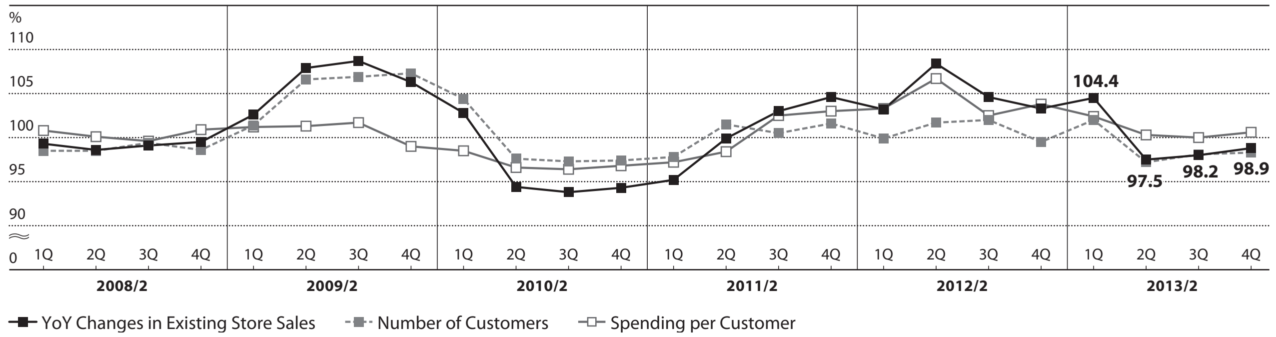
Consolidated net stores of all Lawson stores in the February term of 2013 was 1,906,548 million yen, 43,453 million yen below the plan* of 1,950,000 million yen, but 4.4% up YoY. Main reasons of not achieving the plan were contraction of the earthquake triggered demand that was on the ascending trend and the cigarette sales ending lower than anticipated. The sales of non-consolidated basis was 1,693,435 million yen, up by 4.4% YoY.

*It is the revised plan announced in October, 2012.

• The sales of existing stores (consolidated basis)

The sales of existing stores on the consolidated basis in the February term of 2013 including Ninety-nine Plus was 99.8% YoY. That on the non-consolidated basis was 100.0%, 0.5% below the target.

YoY Changes in Existing Store Sales, Number of Customers, and Spending per Customer (Consolidated)



Growth Rate of Existing Store Sales, Average Number of Customers, and Average Spending per Customer at Existing Stores (Non-Consolidated)

	2013/2	2012/2	2011/2	2010/2	2009/2
Growth rate of existing store sales	100.0%	105.4%	100.8%	95.9%	106.5%
Growth rate of average number of customers and average spending per customer at existing stores					
Number of customers	99.4%	101.0%	100.4%	99.0%	105.7%
Average spending per customer	100.6%	104.3%	100.4%	96.9%	100.8%

• The net sales by product category (all stores, consolidated basis)

The sales of fast food (up by 8.1% YoY) and processed food (up by 4.1% YoY) significantly increased from the previous year.

For the fast food category, over-the-counter fast food category that has been developed aiming to expand the customer base, including "Tori-kara" (Japanese-style fried marinated chicken) and delicatessen category including prepared food and salads contributed to the sales growth.

As for daily delivered food, the contribution came from the increase of the number of outlets of Fresh-food type LAWSON and the sales increase of perishables boosted by "Proclamation to make all stores sell perishables."

In the processed food category, as a result of the more emphasis on perishables, customer bought seasoning and bottled and canned food together when buying fresh fruit and vegetables, and thus their sales increased, as well.

As for non-food category, the sales of books, magazines continue to decline because of slow business throughout of the industry as a whole. Despite this, the sales of daily necessities was slightly improved from the previous year thanks to the strong sales of products for family use such as paper/sanitary/hygiene products, detergents and household articles that leverage our private brand (PB) Lawson select.

Sales by Product Category (Consolidated, total net sales)

(Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Fast foods	373,385	345,424	321,866	324,198	332,895
Share	19.6%	18.9%	19.1%	19.5%	21.4%
Daily delivered foods	272,312	263,180	264,169	239,088	186,109
Share	14.3%	14.4%	15.7%	14.3%	11.9%
Processed foods	1,064,133	1,022,619	897,427	902,306	844,324
Share	55.8%	56.0%	53.3%	54.2%	54.2%
(Cigarettes)	496,971	470,666	382,167	358,600	342,450
(Share)	26.1%	25.8%	22.7%	21.5%	22.0%
Total food sales	1,709,830	1,631,223	1,483,462	1,465,592	1,363,328
Share	89.7%	89.3%	88.2%	88.0%	87.5%
Non-food products	196,716	194,587	199,350	200,544	195,453
Share	10.3%	10.7%	11.9%	12.0%	12.5%
Net sales of all stores	1,906,547	1,825,810	1,682,812	1,666,137	1,558,781
Share (%)	100.0%	100.0%	100.0%	100.0%	100.0%

Breakdown of Product Category

Category	Products Included
Fast foods	Rice dishes, noodles, sandwiches, delicatessen items, over-the-counter fast foods, etc.
Daily delivered foods	Bakery items, desserts, ice cream, perishable foods, etc.
Processed foods	Soft drinks, alcoholic beverages, cigarettes, processed foods, confectionery, etc.
Non-food products	Daily necessities, books, magazines, etc.

• Gross Profit Margin by product category (non-consolidated basis)

Gross profit margin by product category (on the non-consolidated basis) was 30.5%, 0.4% up YoY. This was thanks to the improved gross profit margin of fast food, processed food and non-food products such as daily necessities. The gross profit margin excluding cigarette sales improved by 0.5% YoY.

The fast food category met with 0.2% improvement YoY. In particular, in-store cooked over-the-counter fast food experienced marked improvement, thanks to the penetration of MACHI café and robust sales of fried food and delicatessen items.

The daily delivered food category declined by 0.1% as our strategy was introducing low gross profit margin perishable food as magnet that should lure more customers to stores.

The processed food category improved by 0.1% YoY. We have promoted synchronization of retail product offering and product development (coupling the point-of-sales merchandise assortment and product development efforts) for such products as beverages, processed food, and confectionaries and succeeded in data-based ordering implementation and narrowing merchandise assortments, which helped to improve the YoY gross profit margin.

For non-food category, the synchronization of retail product offering and product development pushed the gross profit margin up in daily necessities. The gross profit margin in this category had pronounced increase of 2.2% YoY, compounded by the growth of commission business such as ticket sales and proxy utility payment transactions.

Gross Profit Margin by Product Segment (Non-Consolidated)

	2013/2	2012/2	2011/2	2010/2	2009/2
Fast foods	38.4%	38.2%	37.8%	37.3%	36.1%
Daily delivered foods	34.4%	34.5%	34.6%	34.3%	33.7%
Processed foods*1	23.9%	23.8%	24.5%	24.6%	24.8%
Non-food products*2	45.6%	43.4%	42.2%	40.8%	39.5%
Gross profit margin	30.5%	30.1%	30.6%	30.4%	30.1%

*1. The processed foods category includes cigarettes.
*2. The calculation of the gross profit margin for non-food products includes bill settlement and other commission income.

Bill Settlement Services (Non-Consolidated)

	2013/2	2012/2	2011/2	2010/2	2009/2
Bill settlements (millions of yen)	1,879,679	1,725,788	1,639,203	1,553,832	1,506,531
Number of transactions (millions)	190.4	177.7	169.8	162.2	156.6
Commission income (millions of yen)	10,191	9,487	9,027	8,651	8,415

In regards to each line item of the consolidated balance sheet

• Gross operating revenues

The gross operating revenues that comprise the net sales of company-operated stores, franchise commissions from FC stores and others was 487,445 million yen that was 13,555 million below the plan but was up by 8,488 million (1.8% increase YoY). The primary drivers of this improvement were: 1) Lawson HMV Entertainment contributed to additional 20,296 million yen by robust ticket sales, 2) the growth in the number of convenience stores that opened during this period represent the revenue increase of 10 billion 255 million yen on the non-consolidated basis, and 3) a subsidiary, SCI started its operation this term.

The sales of the company-operated stores was 157,627 million yen (including 121,167 million yen of Ninety-nine Plus), the income from FC stores was 230,003 million yen (including 7,453 million yen from Nine-nine Plus) and that from others was 99,815 million yen.

• Selling, General and Administrative expenses

The Selling, General and Administrative expenses was 276,314 million yen, up by 15,372 million (5.9% increase YoY) on the consolidated base which fell below the plan by approximately 2,600 million yen. While the advertisement and promotion expenses went through scrutinization from a ROI perspective, we conducted active sales promotion initiatives such as a point collection campaign and support to FC owners, which resulted in an increase of 2,461 million (17.4% up YoY). With regard to the personnel expenses, our cost reduction efforts such as the improvement of personnel efficiency yielded 874 million yen reduction YoY (negative 1.4% YoY). The significant net increase of the number of FC stores predominantly of the Cn type pushed up rent by 6,095 million over the previous year level (7.8% increase YoY).

The non-consolidated IT related expenses (the total of equipment lease fee, depreciation of property and store equipment, and some other items) reduced by 600 million yen YoY to 15,100 million yen, thanks to cost reduction efforts such as the review of the system maintenance fee.

Breakdown of Main SG&A Expenses (Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Personnel expenses	60,013	60,887	58,020	60,834	46,203
Share	21.7%	23.3%	23.9%	25.0%	21.8%
Advertising and promotional expenses	16,607	14,146	10,977	12,166	13,781
Share	6.0%	5.4%	4.5%	5.0%	6.5%
Rents	84,578	78,483	73,231	70,571	62,323
Share	30.6%	30.1%	30.2%	29.0%	29.4%
Equipment leasing charges	5,914	8,205	10,230	13,444	14,989
Share	2.1%	3.1%	4.2%	5.5%	7.1%
Depreciation and amortization	43,886	37,846	33,084	27,468	20,879
Share	15.9%	14.5%	13.6%	11.3%	9.9%
Depreciation expenses*	34,030	28,999	24,529	21,053	16,752
Share	12.3%	11.1%	10.1%	8.7%	7.9%
Amortization expenses	9,856	8,847	8,555	6,414	4,126
Share	3.6%	3.4%	3.5%	2.6%	1.9%
Other	65,315	61,375	57,093	58,711	53,755
Share	23.7%	23.5%	23.5%	24.1%	25.4%
Total	276,314	260,942	242,636	243,194	211,932
Share	100.0%	100.0%	100.0%	100.0%	100.0%

* With the application of new lease-accounting standards, since FY2010, the depreciation of property, facility and equipment has included the depreciation of lease assets that are to be purchased.

• Operating profit

The operating profit was 66,246 million yen, an increase by 4 ,476 million yen (7.2% increase YoY) and 246 million (0.4%) above the target. The operating margin for all stores' net sales was 3.5%, 0.1 percentage point improvement YoY.

• Income before income taxes and minority interests

As for the income before income tax and minority interests, we posted a loss of 4,571 million in the non-operating profit and loss account, which was caused by impairment loss and the closing of non-performing stores. Asset retirement obligations* generated due to the change of the accounting system in the previous year and extraordinary loss related to the earthquake both amounting to the total of 11,754 million yen was written off. Thereby the loss was compressed to 6,657 million yen by 8,827 million yen from the previous year. As a result, the consolidated income before income tax and minority interest increased by 13,304 million yen (up by 28.7% YoY) to 59,589 million yen.

* Asset retirement obligations are generated through acquisition, construction, development or normal use of tangible property. It is estimated as value after a discount (discount value) of future cash flow that will be potentially needed to retire tangible property and this estimate is posted as obligations. Regarding the retirement expenses corresponding to the asset retirement obligations, when the asset retirement obligations are posed as debt, the amount equivalent to said debt is added to the book value of relevant tangible property and is allocated as expense to each term over the remaining service years of said tangible property in a way of depreciation. In addition, the debt increases every term over time.

• Net profit

The deferred income taxes were 749 million yen. As a result, consolidated net income increased by 8,298 million yen (up by 33.3% YoY) to 33,183 million yen. The net income per share was 332.20 yen.

In regard to each line item of the consolidated balance sheet

Balance sheet

• Current assets

The current assets increased by 20,138 million yen (up by 12.6%) over the previous year to 180,297 million yen. It was because accounts receivable-other was posted for the transactions between SCI and their vendors*, amounting to 46,009 million yen, an increase of 13,363 million yen (40.9% improvement).

* Venders: Affiliated companies producing Lawson original dishes, noodles and deli type bread.

• Property and store equipment, investment and other assets

Property and store equipment is 209,139 million yen, an increase over the previous year by 25,304 million yen (up by 13.8%), primarily due to the increase of lease assets including fixture, that was driven by new store opening and IT investment.

The investment and other assets is 190,374 million, up by 2,914 million from the previous year (up by 1.6%). This was due to the increase of long term loans receivables and guarantee deposits derived from aggressive new store opening.

• Current liabilities

The current liabilities increased from the previous year by 21,814 million (up by 10.0%) to 239,794 million yen. The major underlying factors were: 1) Deposits payable increased to 87,529 million yen by 12,524 million yen (up by 16.7%) due to the strong ticket sales and 2) SCI's accounts payable-other to suppliers increased to 26,106 million yen, up by 8,565 million yen.

• Long-term liabilities

The long-term liabilities is 109,834 million yen, up by 11,022 million yen (+ 11.2%) above the previous year. While the repayment to FC stores of the G type (guarantee deposit type) reduced the guarantee deposits received from franchised stores and other by 931 million yen, long-term debt including long-term lease obligations increased by 9,448 million yen.

• Net assets

The net assets increased by 15,519 million yen (+7.2%) to 230,182 million yen. 33,183 million yen of net profit was posted and the dividend was paid amounting to 19,278 million yen, therefore the retained earnings increased by 13,905 million yen to 121,154 million yen.

Characteristic ledger account of our balance sheet

The following are ledger accounts unique to our financial statements.

• Accounts receivable — due from franchised stores

We purchase all products that each FC store orders, calculate the payment amount to each supplier and pay for them. The headquarters collects this money as accounts receivable — due from franchised stores. This line item primarily refers to this kind of obligations of FC stores to the headquarters. At the end of February, 2013, they were 25,374 million yen, up by 5,853 million yen YoY.

• Accounts receivable — Other

Accounts receivable from customers are included in "Accounts receivable – Other." This includes that of FC stores (such as credit card sales at FC stores). Accounts payable are divided into 1) accounts receivable for company-operated stores and 2) accounts receivable — due from franchised stores. However, accounts receivable on credit card sales due from credit card companies are all posted under "Accounts receivable — Other" as we are a party to the contracts with credit card companies on credit card sales and we are entitled to any accounts receivable.

It was 46,009 million yen, up by 13,363 million yen in the February term of 2013.

• Long-term loans receivable

What is included in this line item are primarily construction aid loans to owners (of the land or the building of a store) and loans from the headquarters to FC stores. Capital deposited for (land/building) owners for store opening was journalized as lease deposits before but now as long-term loans receivable. As of the end of February of 2013, it is 34,581 million yen, up by 2,442 million yen from the previous year.

• Lease deposits

Based on the rental agreement with a store, Lawson provides a land/building owner with a deposit that is equivalent to rents of a few months. With more store opening, lease deposits increased by 2,443 million yen YoY to 86,109 million yen in the term February, 2013.

• Accounts payable — due to franchised stores

This is obligations of the headquarters to FC stores. Every store remits daily sales to the headquarters and there are times that this exceeds "Accounts receivable — due from franchised stores." When that happens, outstanding obligation is posted under "Accounts payable — due to franchised stores." It increased 14 million yen from the end of the previous year to 1,404 million yen.

• Deposits payable

Mostly it is the account that were received on behalf of public utility companies and ticket money for concerts and the like. For the number of transactions and the number of companies we provide service for increased, transaction amount is 1,879,679 million yen, an increase of 8.9% YoY and it keeps growing. As of the end of February, 2013, it was 87,529 million yen, up by 12,524 million yen YoY.

• Guarantee Deposits Received from Franchised Stores and Other

It is guarantee deposits that were received by Lawson from FC owners with a G type contract. With the introduction of a new FC contract package, which is a Cn type contract, we are no longer concluding new G type contracts. As we repay FC stores upon concluding a new contract or the expiration of existing contracts, guarantee deposits received from franchised stores and other is 34,805 million, 931 million decrease from the previous year.

Capital expenditure

The total capital expenditure on the consolidated basis in the February term, 2013 (including investments and advances and acquisition costs of leases) was 77,361 million yen, up by 2,788 million yen YoY.

As the number of stores increased (the total came from 766 to 938 stores in our group), the capital expenditure grew 11, 536 million yen YoY to 33,132 million yen. As for the existing stores, the backlash from the investment on LED lighting for electricity saving last year kept the capital expenditure this year at 8,768 million yen, down from the last year by 1,472 million yen. A large scale investment on IT related equipment peaked out and now the company is moving toward more efficient investment, therefore we spent 1,837 million yen less than last year, totaling 5,907 million yen. For lease, the installation of photovoltaic power generation systems primarily drove the expenditure upward and it was 24,764 million yen, up by 2,804 million yen YoY.

The below is the breakdown of the capital expenditure.

Breakdown of Capital Expenditures

(Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
New store investments	33,133	21,596	13,675	19,887	15,635
Existing store investments	8,769	10,241	8,934	8,101	6,747
IT-related investments	5,907	7,744	7,479	9,409	12,064
Other	3,238	630	1,003	629	3,886
Investments subtotal	51,047	40,211	31,091	38,026	38,331
Investments and advances	1,550	12,401	2,544	(3,004)	(14,564)
Leases*	24,765	21,960	16,691	36,376	19,140
Total	77,361	74,572	50,326	71,399	42,907

* The amount equivalent to the acquisition cost of leased property acquired during each fiscal year. The amount of repayments of lease obligations was ¥13,769 million in fiscal 2012.

Breakdown of Depreciation

(Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Depreciation expenses*	34,030	28,999	24,529	21,053	16,752
Amortization expenses	9,856	8,847	8,555	6,414	4,126
Total depreciation and amortization	43,886	37,846	33,084	27,468	20,879

* With the application of new lease-accounting standards, since FY2010, the depreciation of property, facility and equipment has included the depreciation of lease assets that are to be purchased.

Cash flow

Net cash provided by operating activities was 85,189 million yen, down by 1,168 million yen YoY, primarily due to the extraordinary loss on adjustment for the last year's changes of accounting standard for asset retirement obligations and the decline that is reactionary to earthquake related extraordinary loss.

For net cash provided by investing activities the outlay increased by 1,284 million yen YoY to 54,196 million yen. This was mainly due to the acquisition of property for more store opening.

Calculating free cash flow based on the net cash provided by operating activities and investing activities, it was 30,992 million yen, down by 2,452 million yen YoY.

Net cash provided by financing activities resulted in the outlay of 31,980 million yen, up by 4,435 million yen YoY due primarily to the repayments of lease obligations related to accelerated store opening.

All these activities resulted in 72,766 million yen cash and cash equivalents at the end of February, 2013, down by 904 million yen YoY.

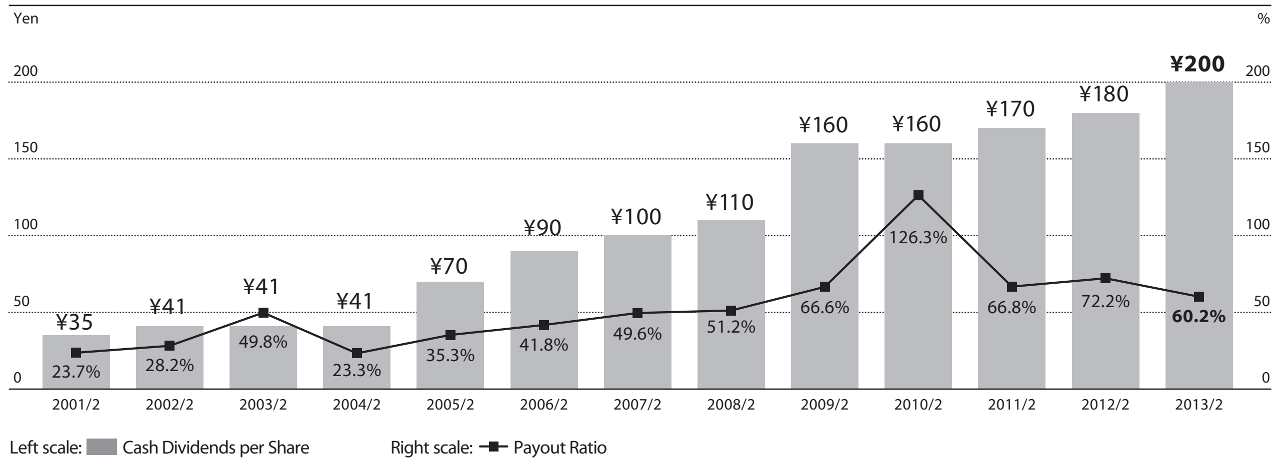
Capital policies: dividend and the share buyback and cancellation

We recognize return to shareholders is one of the most critical policies thus manage businesses always conscious of maintaining cost of capital at a level that reflects the expectations of investors for their return on investment. To obtain an ability to properly select businesses that would potentially bring return on investment (ROI) that exceeds capital cost, we employ return on equity (ROE) as one of the most important management metrics as it indicates capital efficiency. We secure retained earnings for mid-to-long term sustainable corporate growth to maintain the financial health. We screen through scrutinization and implement those investment ideas that are likely to provide high profitability. We improve net cash by operating activities in a sustainable manner and create free cash flow. We also pay dividend and share buyback and cancellation based on a capital structure we deem appropriate. By endeavoring toward capital efficiency that exceeds costs of capital, we will target to achieve 20% of ROE in the medium term.

We do not have any specific target payout ratio for dividend. First we will make sufficient investment for sustainable future growth to generate sizable free cash flow so that we will continuously increase dividend. Our basic policy directs us that we should not retain surplus funds without making best use of it, rather we should improve capital efficiency. We plan to pay 210 yen (up by 10 yen) of dividend per share for February, 2014.

We have acquired approximately 43 billion yen of share buyback and cancellation for four years from February, 2002 through February, 2005. Once again from October, 2007 through January, 2008 for one year we executed share buyback for approximately 21 billion yen (some 5.3 million shares) to cancel the total of 5 million treasure shares in February, 2008. We will consider possible share buyback and cancellation as a way to improve ROE.

Cash Dividends per Share and Payout Ratio



Overview of major consolidated subsidiaries and equity method affiliated companies

The consolidated final results for February, 2013 reflect those of 11 consolidated subsidiaries and 2 equity method affiliated companies, the total of 13 companies. Our subsidiaries are categorized into three: convenience store business, entertainment and home convenience related business, and overseas businesses. The following is the overview of the businesses and performance of our major ones in our group consolidated companies.

Convenience store business

• Ninety-nine Plus, Inc. (consolidated subsidiary)

Ninety-nine Plus operates fresh food convenience store "LAWSON STORE100." It was established in October, 2000 and grew very rapidly as a fresh food convenience format pioneer in the industry with a business model of selling a wide range of products from food that consumers buy on a day-to-day basis including perishable food to sundries for a single price. Fresh food convenience stores offer substantial assortments of perishable food and daily delivery food and are well supported by housewives and elderly customers. Comparing to conventional convenience store, they account for a larger percentage in customer makeup. In 2007, Lawson decided to make a capital and business alliance with Ninety-nine Plus Inc. Ninety-nine Plus implemented a third-party share allotment for Lawson. In January, 2008, they implemented a third-party share allotment to strengthen the business alliance with Lawson and finance for store opening and Lawson became the largest shareholder holding 34.2% of shares. In September of the same year we implemented a takeover bid and raised our equity stake to 76.8%.

Furthermore, we have developed a LAWSON STORE100 format as our subsidiary. Value Lawson who was operating fresh food convenience stores and Ninety-Nine Plus decided to work together for the colossal number one in the fresh food convenience store industry. They wished to share know-how and expertise of the sales of perishable food and daily delivered food and to upgrade their business alliance by carrying out joint development of a private brand "Value Line" which is for small portion. For that goal, two of them merged on May 1, 2009 with Ninety-Nine Plus remaining as a surviving company.

As for the book keeping until the fiscal year 2008, since their fiscal year ended on March 31, their revenue of the fiscal year 2007 was posted for nine months up until the third quarter in 2007 into our profit and loss statement based on the equity method. In the fiscal year 2008, their revenue for nine months from the fourth quarter of FY2007 to the second quarter of FY2008 was posted into our profit and loss statement based on the equity method and their third quarter of FY 2008 results were reflected in our consolidated results. During the shareholders' meeting in June, 2009, their closing date for a fiscal year changed to the end of February, which resulted in irregular 11-month financial statements for FY 2009. For our consolidated results of FY 2009, their results of the fourth quarter of FY 2008 and 11 months in FY 2009, the total of 14 months were reflected.

Ninety-Nine Plus was listed in Osaka Securities Exchange JASDAQ market but in June, 2010 it was delisted and in July, it became 100% LAWSON owned subsidiary through stock swap.

Consequently the amount of our contribution to the company was cumulatively about 16.7 billion yen since FY2007.

The February term of 2013 experienced deterioration of consumer sentiment and was affected by a sluggish perishable food market as a whole, thus the top line struggled. Against this backdrop we strived to improve a gross profit margin, and convert more stores into franchised stores as well as reduce cost. We ended the year with the operating income of 2,085 million yen, up by 10.7% from the previous year. The reduction of extraordinary loss in reaction to the adjustment for changes of accounting standard for asset retirement obligations in the previous year, the net profit for the full year was 556 million yen, significantly improved from the previous year.

Ninety-nine Plus, Inc. (Millions of yen)

	2013/2	2012/2	2011/2	2010/2*	2009/3
Total operating revenues	131,869	141,801	142,228	135,410	134,247
Operating income	2,086	1,883	1,772	1,793	262
Net income (loss)	557	(747)	(840)	1,673	(505)
Number of stores	1,224	1,172	1,077	996	856

* Fiscal 2009 was an 11-month transitional fiscal year due to a change in the fiscal year closing to the end of February.
Lawson's consolidated operating profit for fiscal 2009 included 14-months of operating profit for Ninety-nine Plus, amounting to ¥2,160 million, the sum of the fourth quarter for fiscal 2008 and 11 months for fiscal 2009.

• SCI (consolidated subsidiary)

Aspiring to be a "small commercial areas' manufacturing retailer," we established SCI, in July, 2012, a subsidiary specialized in supply chain management (SCM) innovation & enhancement so that we can take more initiatives in improving efficiency of manufacturing and distribution throughout the supply chain. We aim to develop a coherent manufacturing retail model in which waste and redundant work will be reduced that are generated throughout a supply chain starting from the procurement of raw materials, to manufacturing, distribution and operations at stores. Values created through our SCM structural reform efforts will be leveraged to improve products' competitiveness and sales promotion support for FC owners. In the medium term, making the most of this expertise and know-how, we will expand the sales of raw materials and products to customers outside our group companies.

• Lawson Okinawa, Inc. (Equity method affiliate)

In January, 2009, we signed a business alliance agreement for the operations in Okinawa with San-A, Inc., who runs the largest retail business in Okinawa. It was our belief that the alliance with San-A should help us to adapt our services and operations to distinctive lifestyles and food preferences of people in Okinawa, as San-A has gained overpowering confidence from customers in that local area. We want to create products and stores that fit local customers' needs and wants. For that goal, we have established Lawson Okinawa, Inc., as our 100% owned subsidiary in October, 2009.

Later in December, 2009, we transferred 51% of the outstanding stocks of Lawson Okinawa to San-A to run as a joint venture business.

In the term of February, 2013, the number of stores was 154 at the end of the fiscal year and the operating income was 923 million yen, improved by 18.5%.

We will continue our efforts through this company to keep our stores well tuned to local needs, thereby further develop the Lawson chain in Okinawa Prefecture.

Lawson Okinawa, Inc. (Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Total operating revenues	3,954	3,659	3,347	733	
Operating income	924	780	601	109	<Established in October 2009>
Net income	799	1,049	612	101	
Number of stores	154	147	141	136	

Entertainment and Home convenience related business

• Lawson HMV Entertainment, Inc. (consolidated subsidiary)

Lawson HMV Entertainment was established in 1992 as RIZA JAPAN as a company to sell tickets as its main business. It changed the name to Lawson Ticket in 1996, and became a consolidated subsidiary of Lawson in 1997.

The ticket transactions in 2012 among group companies hit a record sales of over 100 billion yen, hence established the number one position in the industry. Tickets for concerts, sports, and theaters and cinemas are sold primarily at a multimedia terminal "Loppi" or "LAWSON HOT STATION L-paca," a website comprehensive entertainment mall. Our forte is on the sales of J-POP*1 and sports.

To make the most of customer interface of Lawson Ticket and expertise and mechanism of E-commerce business that i-convenience has developed, who used to be our 100% owned subsidiary, two of these companies merged in March, 2013, with Lawson Ticket remaining as a surviving company. In July, 2009, the company name changed to Lawson Entertainment Media. It was listed on Osaka Securities Exchange JASDAQ Market but was delisted in June, 2010 and became one of our 100% owned subsidiaries in July through stock swap.

In September, 2011, Lawson Entermedia and our subsidiary HMV Japan*2 were merged to be Lawson HMV Entertainment to realize more synergy in future entertainment E-commerce. Going forward, leveraging our solid base in the E-commerce business, we can offer enhanced convenience of one-stop shopping experience to customers who used to buy a concert ticket of an artist at one time and a CD by the same artist at a separate time. Combining the competitive edge of the HMV brand in the CD music industry and Lawson Ticket's status of the ticket industry is expected to create more synergy.

As for the revenue structure of this company, the major source of income is commission from ticket sales. The gross operating revenue with commission as a major component of revenue source is posted in "Operating revenue: other" in the consolidated profit and loss statement.

The performance of the February term of 2013 was good thanks to strong ticket sales centering around large scale concerts. The operating profit was 2,445 million yen, marked a significant increase by 48.2% YoY.

*1. It is one of genres among popular music with singing in the Japanese language, which is generally loved by a relatively young generation.
*2. HMV Japan (which was a consolidate subsidiary up until the end of August, 2011) is selling CD and DVD under the "HMV" brand. It was established in 1990 and opened the first store in Shibuya, Tokyo. It opened the "HMV Online" in 1999 and started the current E-commerce business. In 2007, Limited Company HMV Japan Holdings, which is 100% owned by Daiwa Securities SMBC Principal Investments including their indirect ownership, acquired all stocks. To reinforce our entertainment business, in December 2010, we acquired all shares from HMV Japan Holdings to realize more synergy with Lawson Entermedia.

Lawson HMV Entertainment, Inc. (Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Total operating revenues	45,481	25,545	9,864	10,022	7,620
Operating income	2,446	1,650	1,111	1,099	791
Net income (loss)	2,450	2,073	1,870	(11,887)	(1,445)

• Lawson ATM Networks, Inc. (LANs) (consolidated subsidiary)

In 2001 Mitsubishi Corporation, associated banks and Lawson made capital contributions to set up this company to operate ATM (automated teller machine) at Lawson stores. Since then, ATM machines were installed at some stores and ATM service started. The ATM business of this company is to install a multi-bank ATM machine at a Lawson store in a local community that was agreed upon with each associated bank. A major income source for the company is commission from the banks for operating ATM machines and the revenue is posted in "Operating revenue: other" in the consolidated profit and loss statement. Principal expenses include operation center commission, ATM line costs and ATM lease costs.

For the performance of the February term of 2013, the operating profit was 4,753 million yen, a significant increase of 30.6% YoY, with the more associated banks that we have concluded agreement with, which offer more bank service and consequently favorably pushed the utilization upward.

In this term additional eight banks initiated service, and the total of 58 financial institutions throughout Japan including leading city bank groups, local banks and internet banks provide service and 9,672 ATM machines are installed in 46 Prefectures, up by 670 machines YoY. We have raised our capital contribution to 76.5% at the end of February, 2013, from 70.9% in the previous year to commit ourselves more to the ATM business.

Lawson ATM Networks, Inc. (Millions of yen)

	2013/2	2012/2	2011/2	2010/2	2009/2
Total operating revenues	**23,975**	23,063	20,826	18,570	16,965
Operating income	**4,753**	3,640	3,159	2,444	1,439
Net income	**2,712**	1,993	1,788	1,412	590
Number of ATM machines installed (Units)	**9,672**	9,002	8,526	6,978	5,970

Overseas businesses

• Shanghai Hualian Lawson, Inc. (consolidated subsidiary)

We were the first Japanese convenience store company that gained a foothold in China in 1996. We established shanghai Hualian Lawson in Shanghai with us holding 70.0% stake and Hualian Group 30.0%, a Shanghai city government related company. Aspiring to acquire land/building in good locations and motivate local employees, we transferred 21.0% (our ownership ratio being 70.0%) to Hualian Group and our ownership ratio was reduced to 49.0%. The economic environment of China (Shanghai) changed and that prompted us to realize that we needed to reinforce a Japanese-style convenience store concept, so we acquired incremental shares in September, 2011 to regain the management control of the company. Hence our equity ratio became 85.0% and the company became our consolidated subsidiary. In the meantime, retail industry restructuring took place driven by a national government policy and Hualian Group was merged into Bailian Group. In this course of process 100% of the shares of Hualian Group were transferred to Bailian Group in December, 2008. In our drive to strengthen and expand the Chinese business, we concluded an agreement with Bailian Group who was working on restructuring their retail division within the group. The agreement was for us to accelerate our development efforts of Japanese style convenience stores that excel in product development capability, customer interaction and cleanliness. We will carefully watch how economic situations change in the Shanghai market. At the same time we will upgrade store quality in Shanghai, the economic center in China, thereby to improve store brand equity, while placing emphasis on ROI as a criteria for store opening.

At the end of February, 221 of the total of 305 stores are franchised stores.

Shanghai Hualian Lawson, Inc. (Millions of yen)

	2012/12	2011/12	2010/12	2009/12	2008/12
Total operating revenues	903	4,917	5,402	6,313	6,670
Operating income (loss)	(574)	(283)	15	2	13
Net income (loss)	(2,034)	(443)	25	5	22
Number of stores	305	314	317	300	300

• Chongqing Lawson, Inc. (consolidate subsidiary)

Chongqing, the People's Republic of China, is the fourth largest city with the population of over 33 million, following Beijing, Shanghai, and Tianjin. Its double-digit economic grow has been continuing for 10 consecutive years. Its double-digit economic growth rate exceeds that of a national average and coastal cities such as Shanghai. Potential demands for convenience stores are heightening in inland cities in China.

We were invited by the city of Chongqing to operate. To gain a foothold in inland China, we established Chongqing Lawson, Inc. in April, 2010, and opened the first store equipped with a training facility in July. At the end of February, 2013 the company now operates 49 stores.

Chongqing Lawson, Inc. (Millions of yen)

	2012/12	2011/12	2010/12	2009/12	2008/12
Total operating revenues	977	258	30	<Established in April 2010>	
Operating income (loss)	(671)	(243)	(47)		
Net income (loss)	(775)	(249)	(59)		
Number of stores	49	38	4		

• Dalian Lawson, Inc. (consolidate subsidiary)

Dalian is one of leading port cities in the north eastern area of China with the population of over 6 million. Upon the invitation by the city of Dalian, we established Dalian Lawson with a local enterprise, Dalian Acasia Fast Foods Co. in September, 2011 and opened the first store in November. Our equity stake is 95% and there are eight stores at the end of February, 2013.

Dalian Lawson, Inc. (Millions of yen)

	2012/12	2011/12	2010/12	2009/12	2008/12
Total operating revenues	176	4	<Established in September 2011>		
Operating income (loss)	(163)	(21)			
Net income (loss)	(196)	(27)			
Number of stores	8	3			

• Lawson Asia Pacific Holdings Pte. Ltd. (consolidate subsidiary)

Outside China, we established our 100% owned consolidated subsidiary in Singapore in May, 2011 to manage all overseas operations excluding China. We signed a license agreement in June, 2011 with PT MIDI UTAMA INDONESIA Tbk (hereinafter MIDI) which is a company under Alfa Group. Lawson Asia Pacific Holdings Pte. Ltd. acquired 30% of MIDI shares in July, 2011. MIDI, as of the end of February, 2013, operates 574 stores of a small format "Alfamidi" that they developed themselves and two store brands of "Alfaexpress" and 83 Lawson stores mainly in Greater Jakarta. MIDI is our equity method affiliated company.

Outlook for the term February 2014

The second Abe administration that came into being at the end of 2012 advocates Abenomics that has brought forth depreciation of the Japanese yen. In the term February, 2014 manufacturing and other industries are getting back on track with recovery and personal spending is gradually improving. This could work positively for our performance, whereas there are concerns about the ability of its "third arrow strategy" of encouraging private investment and people are unsure if it could be realized. As a consumption tax increase is looming around the corner, its affects on consumers' mindset remains uncertain. We have to take into account risks in that economy may not recover in a way expected.

In regards to the convenience store industry, leading companies are planning to roll out a large scale store opening. Store opening may take place faster than a growth rate triggered by the expansion of customer base and the industry may be wound up in intense competition.

Against this backdrop, we will take a strategy different from the competition who are more inclined to large scale store opening. We will place adequate attention to the existing stores and beef up our efforts of tapping in un-catered customers ahead of the competition. To make this happen, we will implement the following management strategies and make sure that our corporate mission of "Creating Happiness and Harmony in Our Communities" come true. Through these strategies we will fortify the competitive edge of the existing stores and expand revenues for both the company and FC owners, thereby improve the corporate value.

We forecast 70 billion yen for the consolidated operating profit (up by 5.7% YoY) for the term February, 2014, that will mark the profit improvement for the 11th consecutive year, and 35.9 billion yen consolidated net profit (up by 8.2%YoY).

• Product assortment with high gross profit margin

MACHI café has been implemented as a driving force to expand customer base where freshly brewed coffee is served in person by store staff, this sets us apart from the competitors. The number of stores that have implemented this scheme was 740 at the end of February, 2012, and steadily increased to 2,860 in February, 2013. In FY2013 while upgrading the quality of stores, we will accelerate the implementation speed of MACHI café and plan to achieve the 8,000-stores mark at the end of February, 2014. In parallel, we will develop and promote more sales of such foods of high gross profit margin as over-the-counter fast foods, and delicatessen items.

• The promotion of fresh foods convenience store business

We are enjoying the steady increase of the number of Fresh food-type convenience stores from 3,913 stores at the end of February, 2012, to 5,287 at the end of February, 2013. While working for the expansion of fresh food-type convenience stores, we will also reinforce the fresh food offering at regular stores in parallel. This way we can expect to expand high profit margin products when they buy perishables. We target to achieve 8,400 stores between fresh food-type LAWSON and LAWSON STORE100 at the end of February, 2014.

• The promotion of CRM by leveraging Ponta card holders' data

As of the end of July, 2013, more than 56 million Ponta cards have been issued and the sales of the Ponta card holders make up for more than 45% of the total sales. We will continue to analyze their purchase data to be utilized for product development so that their preference and needs differing based on their age and sex can be met. In addition, in the FY2013, we will leverage Ponta data at an individual store level to develop product assortment that meet their needs in a hope that they are lured to our stores more frequently.

• Operation efficiency and profitability improvement by a supply chain structural reform

As analysis technology for Ponta data is advancing, we will promote our unique structural reform of the supply chain with SCI leading the efforts. By optimizing the supply chain, we will strengthen the competitiveness of products and provide sales promotion support to FC owners, and thereby achieve highly efficient operation and higher profitability.

• Drug sales and addressing health care demands

We will endeavor to expand drug sales and at the same time we will develop and sell health oriented food leveraging know-how accumulated through the operations of NATURAL LAWSON so that we will assist customers for their healthy and comfortable life. We will roll out more Pharmacy LAWSON stores so that OTC drugs can be sold there in addition to the sales at regular stores. We will implement the health care business in a full-fledged way. Pharmacists at Pharmacy LAWSON can gain credibility from customers particularly from the elderly. In accordance with the philosophy of "food is medicine," we will contribute to a healthy and affluent life of each customer.

• Full scale roll-out of entertainment and home convenience related business

We will develop a portfolio of entertainment products that can meet diversifying needs of customers who we would meet in person or on the internet. We will start new services in the home convenience segment including "Smart Kitchen" targeting customers who did not bother to come to brick-and-mortar stores so far. "Smart Kitchen" is a regular food home-delivery service that was rolled out in March, 2013.

• Overseas businesses

We will explore more store opening opportunities not only in the countries we already have operations but those countries and regions that have potential to grow economically, while making accurate assessment of their political and economic landscape. If we identify opportunities in Europe and the US in which we might be able to implement a business model of Japanese style convenience stores in such ways of developing FC system, infrastructure or highly value added products of unique and original design, as this is where our strength lies, we will positively explore those paths.

Consolidated Balance Sheet

Lawson, Inc. and Consolidated Subsidiaries
February 28, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2013**	2012	**2013**
CURRENT ASSETS:			
Cash and cash equivalents	¥ 72,766	¥ 73,670	$ 786,574
Time deposits	12,004	10,404	129,759
Accounts receivable:			
Due from franchised stores (Notes 3 and 8)	25,374	19,521	274,284
Other	46,009	32,645	497,341
Allowance for doubtful accounts	(1,281)	(149)	(13,847)
Inventories	8,964	8,076	96,898
Deferred tax assets (Note 14)	4,656	4,800	50,330
Prepaid expenses and other current assets	11,805	11,191	127,607
Total current assets	180,297	160,158	1,948,946
PROPERTY AND STORE EQUIPMENT (Note 5):			
Land (Note 6)	8,295	6,815	89,666
Buildings	244,845	221,344	2,646,687
Furniture, fixtures, and equipment	67,399	63,564	728,559
Lease assets (Notes 2.o and 16)	96,252	72,538	1,040,450
Total	416,791	364,261	4,505,362
Accumulated depreciation	(207,652)	(180,426)	(2,244,644)
Net property and store equipment	209,139	183,835	2,260,718
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	2,691	528	29,089
Investments in associated companies	7,446	7,175	80,489
Long-term loans receivable	34,581	32,139	373,808
Goodwill	9,683	10,872	104,670
Software	23,915	27,552	258,513
Lease deposits	86,109	83,666	930,807
Deferred tax assets (Note 14)	16,216	16,871	175,289
Other assets (Note 2.u)	10,951	24,510	118,376
Allowance for doubtful accounts	(1,218)	(15,852)	(13,166)
Total investments and other assets	190,374	187,461	2,057,875
TOTAL	¥579,810	¥531,454	$6,267,539

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	**2013**	2012	**2013**
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 7 and 19)	¥ 87,188	¥ 88,263	$ 942,471
Due to franchised stores (Note 8)	1,404	1,390	15,177
Other	27,082	19,050	292,747
Short-term bank loans (Note 9)	1,431		15,468
Current portion of long-term debt (Note 9)	14,496	11,754	156,697
Income taxes payable	14,475	15,305	156,469
Money held as agent	87,529	75,005	946,157
Accrued expenses and other current liabilities	6,189	7,212	66,901
Total current liabilities	239,794	217,979	2,592,087
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	9,899	8,745	107,005
Allowance for retirement benefits to executive officers and audit & supervisory board members	332	308	3,589
Guarantee deposits received from franchised stores and other	34,805	35,735	376,230
Long-term debt (Note 9)	47,356	37,908	511,901
Asset retirement obligations (Notes 2.m and 11)	16,683	15,161	180,337
Other (Note 2.u)	759	955	8,204
Total long-term liabilities	109,834	98,812	1,187,266
EQUITY (Note 12):			
Common stock—authorized, 409,300,000 shares in 2013 and 2012; issued, 100,300,000 shares in 2013 and 2012	58,507	58,507	632,440
Capital surplus	47,718	47,707	515,815
Stock acquisition rights	427	443	4,616
Retained earnings	121,154	107,249	1,309,631
Treasury stock—at cost, 406,853 shares in 2013 and 416,166 shares in 2012	(1,594)	(1,628)	(17,231)
Accumulated other comprehensive income:			
Net unrealized gain (loss) on available-for-sale securities	78	(12)	843
Land revaluation difference (Note 6)	(567)	(567)	(6,128)
Foreign currency translation adjustments	1,180	(101)	12,755
Total	226,903	211,598	2,452,741
Minority interests	3,279	3,065	35,445
Total equity	230,182	214,663	2,488,186
TOTAL	¥579,810	¥531,454	$6,267,539

Consolidated Statement of Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥230,003	¥215,574	$2,486,250
Net sales from Company-operated stores	157,627	174,116	1,703,892
Other	99,815	89,267	1,078,964
Total operating revenues	487,445	478,957	5,269,106
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 19)	144,885	156,246	1,566,155
Selling, general, and administrative expenses	276,314	260,942	2,986,855
Total costs and operating expenses	421,199	417,188	4,553,010
Operating income	66,246	61,769	716,096
OTHER (EXPENSES) INCOME:			
Interest expense—net	(462)	(447)	(4,994)
Equity in earnings of associated companies	394	381	4,259
Gain on negative goodwill	153	291	1,654
Loss on disposal of property and store equipment	(1,641)	(2,069)	(17,740)
Provision of allowance for doubtful accounts	(1,128)		(12,193)
Impairment of long-lived assets (Note 5)	(2,930)	(3,319)	(31,672)
Other—net (Note 2.u)	(1,043)	(10,321)	(11,274)
Other expenses—net	(6,657)	(15,484)	(71,960)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	59,589	46,285	644,136
INCOME TAXES (Note 14):			
Current	25,346	22,963	273,981
Deferred	749	(2,321)	8,097
Total income taxes	26,095	20,642	282,078
NET INCOME BEFORE MINORITY INTERESTS	33,494	25,643	362,058
MINORITY INTERESTS IN NET INCOME	(311)	(758)	(3,362)
NET INCOME	¥ 33,183	¥ 24,885	$ 358,696

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 21):	2013	2012	2013
Net income—basic	¥332.20	¥249.17	$3.59
Net income—diluted	331.69	248.80	3.59
Cash dividends applicable to the year	200.00	180.00	2.16

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥33,494	¥25,643	$362,058
OTHER COMPREHENSIVE INCOME:			
Unrealized loss on available-for-sale securities	90	(7)	973
Land revaluation difference (Note 6)		67	
Foreign currency translation adjustments	1,926	(116)	20,819
Share of other comprehensive income in associates	(639)	16	(6,907)
Total other comprehensive income	1,377	(40)	14,885
COMPREHENSIVE INCOME	¥34,871	¥25,603	$376,943
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥34,553	¥24,843	$373,506
Minority interests	318	760	3,437

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2013

Thousands of Shares/Millions of Yen

	Common Stock			Stock		Treasury Stock	
	Shares	Amount	Capital Surplus	Acquisition Rights	Retained Earnings	Shares	Amount
BALANCE, MARCH 1, 2011	100,300	¥58,507	¥47,696	¥406	¥ 99,608	(433)	¥(1,694)
Net income					24,885		
Year-end cash dividends, ¥85 per share					(8,489)		
Interim cash dividends, ¥87 per share					(8,688)		
Reversal of revaluation reserve for land					(67)		
Purchase of treasury stock						(1)	(3)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			11			18	69
Others—net				37			
BALANCE, FEBRUARY 29, 2012	100,300	58,507	47,707	443	107,249	(416)	(1,628)
Net income					33,183		
Year-end cash dividends, ¥93 per share					(9,289)		
Interim cash dividends, ¥100 per share					(9,989)		
Purchase of treasury stock						(1)	(7)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			11			10	40
Disposal of treasury stock						0	1
Others—net				(16)			
BALANCE, FEBRUARY 28, 2013	100,300	¥58,507	¥47,718	¥427	¥121,154	(407)	¥(1,594)

Thousands of Shares/Millions of Yen

	Accumulated Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2011	¥(5)	¥(634)	¥ 1	¥203,885	¥4,582	¥208,467
Net income				24,885		24,885
Year-end cash dividends, ¥85 per share				(8,489)		(8,489)
Interim cash dividends, ¥87 per share				(8,688)		(8,688)
Reversal of revaluation reserve for land		67				
Purchase of treasury stock				(3)		(3)
Exercise of stock acquisition rights to shares (delivery of treasury stock)				80		80
Others—net	(7)		(102)	(72)	(1,517)	(1,589)
BALANCE, FEBRUARY 29, 2012	(12)	(567)	(101)	211,598	3,065	214,663
Net income				33,183		33,183
Year-end cash dividends, ¥93 per share				(9,289)		(9,289)
Interim cash dividends, ¥100 per share				(9,989)		(9,989)
Purchase of treasury stock				(7)		(7)
Exercise of stock acquisition rights to shares (delivery of treasury stock)				51		51
Disposal of treasury stock				1		1
Others—net	90		1,281	1,355	214	1,569
BALANCE, FEBRUARY 28, 2013	¥78	¥(567)	¥1,180	¥226,903	¥3,279	¥230,182

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, FEBRUARY 29, 2012	$ 632,440	$ 515,696	$4,789	$ 1,159,323	$ (17,598)
Net income				358,696	
Year-end cash dividends, $1.01 per share				(100,411)	
Interim cash dividends, $1.08 per share				(107,977)	
Purchase of treasury stock					(76)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		119			432
Disposal of treasury stock					11
Others—net			(173)		
BALANCE, FEBRUARY 28, 2013	$632,440	$515,815	$4,616	$1,309,631	$(17,231)

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 29, 2012	$(130)	$(6,128)	$(1,092)	$2,287,300	$33,132	$2,320,432
Net income				358,696		358,696
Year-end cash dividends, $1.01 per share				(100,411)		(100,411)
Interim cash dividends, $1.08 per share				(107,977)		(107,977)
Purchase of treasury stock				(76)		(76)
Exercise of stock acquisition rights to shares (delivery of treasury stock)				551		551
Disposal of treasury stock				11		11
Others—net	973		13,847	14,647	2,313	16,960
BALANCE, FEBRUARY 28, 2013	$843	$(6,128)	$12,755	$2,452,741	$35,445	$2,488,186

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥59,589	¥46,285	$644,136
Adjustments for:			
Income taxes paid	(26,225)	(18,405)	(283,483)
Depreciation and amortization	43,886	37,846	474,392
Impairment of long-lived assets	2,930	3,319	31,672
Reversal of allowance for doubtful accounts	(13,511)	(384)	(146,049)
Loss on disposal of property and store equipment	1,642	2,065	17,749
Equity in earnings of associated companies	(9)	(291)	(97)
Other—net (Note 2.u)	718	7,218	7,761
Changes in assets and liabilities:			
Decrease in claims in bankruptcy and reorganization	14,547	236	157,248
Increase in accounts receivable	(19,104)	(2,794)	(206,507)
Increase in prepaid expenses and other current assets	(453)	(1,252)	(4,897)
Increase in inventories	(861)	(921)	(9,307)
Increase in accounts payable	8,498	1,328	91,860
Increase in money held as agent	12,524	12,656	135,380
Increase (decrease) in accrued expenses and other liabilities	775	(242)	8,378
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	1,178	1,289	12,734
Decrease in guarantee deposits received from franchised stores and other	(935)	(1,596)	(10,107)
Total adjustments	25,600	40,072	276,727
Net cash provided by operating activities	85,189	86,357	920,863
INVESTING ACTIVITIES:			
Payments into time deposits	(23,900)	(20,404)	(258,350)
Proceeds from withdrawal of time deposits	22,300	20,104	241,055
Purchases of property and store equipment	(37,263)	(28,867)	(402,800)
Purchases of software and other intangible assets	(5,659)	(7,449)	(61,172)
Increase in lease deposits—net	(2,430)	(1,933)	(26,267)
Increase in long-term loans	(2,442)	(298)	(26,397)
Acquisition of associated companies	(1,327)	(6,335)	(14,344)
Other—net (Note 2.u)	(3,475)	(7,730)	(37,564)
Net cash used in investing activities	(54,196)	(52,912)	(585,839)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(14,298)	(10,434)	(154,556)
Cash dividends paid	(19,278)	(17,177)	(208,388)
Other—net	1,596	66	17,252
Net cash used in financing activities	(31,980)	(27,545)	(345,692)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	83	8	896
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(904)	5,908	(9,772)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73,670	67,712	796,346
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF CONSOLIDATION		50	796,346
CASH AND CASH EQUIVALENTS, END OF YEAR	¥72,766	¥73,670	$786,574

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2013

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Lawson, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥92.51 to $1, the approximate rate of exchange at February 28, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Mitsubishi Corporation ("Mitsubishi") owns 32,399 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2013, which represent 32.5% of the total voting rights of the Company. Accordingly, Mitsubishi is a principal shareholder.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements include the accounts of the Company and its eleven (ten in 2012) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, those entities in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in two (three in 2012) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period not exceeding 20 years.

b. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In March 2008, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained.

The Companies applied this accounting standard effective March 1, 2011. There was no effect on applying this change.

c. **Business Combination**—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

The Companies applied this accounting standard for business combinations undertaken on or after April 1, 2010.

d. **Franchise Agreement and Basis of Recognizing Franchise Commission**—The Company operates principally in a single industry commonly classified as the convenience store business with its own stores and franchised stores. The Company allows each independent franchisee to operate relatively small-sized convenience stores using specific designs and the LAWSON brand names, and provides related managerial or technical know-how under a franchise agreement. Under the agreement, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchisor. In return, such franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the gross margin earned by each franchised store and the applicable commission percentage. According to the franchise agreement, a franchised store may pay additional guarantee deposits equal to twice the average monthly sales amounts of the respective store and pay a lower commission percentage.

The term of a franchise agreement is effective primarily for 10 years from the commencement date of a new store's operation as a franchised store, and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

The franchise agreement usually provides that the franchised store shall make a cash payment to the Company in the amount of ¥3 million upon commencement. Upon receipt of such payment, ¥1.5 million is credited to income of the Company as "Operating revenues—franchise commissions from franchised stores" for services related to the opening of the LAWSON store. The remaining amount received by the Company is credited to the "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures, and equipment designed for the LAWSON stores. In some cases, franchisees may also be provided with the land or buildings for the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

e. **Cash and Cash Equivalents**—Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which mature or become due within three months of the date of acquisition and which are readily convertible into cash and are exposed to insignificant risk of changes in value.

f. **Inventories**—Substantially all inventories are stated at the lower of cost, determined by the retail method as generally applied in the retail industry, or net selling value. Inventories of certain consolidated subsidiaries are stated at the lower of cost, determined by the specific identification method, or net selling value.

g. **Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value based on market quotation. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable available-for-sale securities are reduced to net realizable value by a charge to income.

h. **Property and Store Equipment**—Property and store equipment are stated at cost except for land (see Note 6). Depreciation is computed mainly by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures, and equipment.

The useful lives for lease assets are the terms of the respective leases.

i. **Long-Lived Assets**—The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group, mainly by each store, may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition.

j. **Software**—Software used by the Companies is amortized using the straight-line method based on the estimated useful life (mainly five years).

k. **Employees' Retirement Benefits**—The Company and a certain domestic subsidiary have defined benefit lump-sum severance indemnity plans which cover substantially all of their employees. The Company established a trust fund for its lump-sum severance indemnity plan.

The Companies account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

In addition to the lump-sum severance indemnity plan, the Company has a defined contribution plan for severance payments. The Company recognizes expenses in the period when the contribution was called for.

l. **Allowance for Retirement Benefits to Executive Officers and Audit & Supervisory Board Members**—The provisions are calculated as a liability at 100% of the amount that would be required if all executive officers and audit & supervisory board members resigned as of each balance sheet date.

m. **Asset Retirement Obligations**—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance

No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost. The Companies applied this accounting standard effective March 1, 2011.

n. Stock Options—In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The standard and guidance are applicable to stock options granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right in a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value. The Company has applied this accounting standard for stock options to those granted on and after May 1, 2006.

o. Leases—In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Companies applied the revised accounting standard effective March 1, 2009. In addition, the Companies continue to account for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

p. Income Taxes—The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. Appropriations of Retained Earnings—Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

r. Foreign Currency Financial Statements—The balance sheet accounts of an associated company denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" and "Minority interests" in a separate component of equity. Revenue and expense accounts of an affiliated company denominated in foreign currencies are translated into yen at the current exchange rate.

s. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The number of shares used in computing net income per share was 99,887 thousand shares for 2013 and 99,871 thousand shares for 2012.

Diluted net income per share for the years ended February 28, 2013 and February 29, 2012, is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of year.

t. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(**1**) **Changes in accounting policies**
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard include specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(**2**) **Changes in presentation**
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(**3**) **Changes in accounting estimates**
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(**4**) **Corrections of prior-period errors**
When an error in prior-period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after March 1, 2012.

u. Reclassification of Prior Year's Consolidated Financial Statements —The Company has made reclassifications of amounts in the consolidated balance sheets and consolidated income statements and the consolidated cash flows statements for the year ended February 28, 2013. In order to conform with the presentation for the year ended February 28, 2013, the Company has reclassified the related amounts in the consolidated balance sheets and the consolidated income statements and the consolidated cash flows statements for the year ended February 29, 2012, respectively, as stated below.

The Company has reclassified the "claims in bankruptcy and reorganization" in the Investments and Other Assets section of the consolidated balance sheets for the year ended February 29, 2012, to "other assets" among the Investments and Other Assets section of the consolidated balance sheets for the year ended February 28, 2013. The amount included in the other assets as of February 29, 2012 was ¥15,136 million.

The Company has reclassified the "allowance for impairment loss on leased property" in the Long-Term Liabilities section of the consolidated balance sheets for the year ended February 29, 2012, to "other liabilities" among the Long-Term Liabilities section of the consolidated balance sheets for the year ended February 28, 2013. The amount included in the other liabilities as of February 29, 2012 was ¥679 million.

The Company has reclassified the "loss on sales of property and store equipment", "Gain on step acquisitions", "Loss on adjustment for adoption of accounting standard for asset retirement obligations" and "Loss on disaster" in the Other (Expenses) Income section of the consolidated income statements for the year ended February 29, 2012, to "other-net" among the Other (Expenses) Income section of the consolidated income statements for the year ended February 28, 2013. The amount included in the other-net as of February 29, 2012 were ¥ (41) million, ¥1,571 million, ¥(8,293) million and ¥(3,461) million, respectively.

The Company has reclassified the "Payments for loss on disaster", "Loss on adjustment for adoption of accounting standard for asset retirement obligations", "Gain on step acquisitions", and "Loss on disaster" in the Operating Activities section of the consolidated cash flows statements for the year ended February 29, 2012, to "Other-net" among the Operating Activities section of the consolidated cash flows statements for the year ended February 28, 2013. The amount included in the other-net as of February 29, 2012 were ¥(3,373) million, ¥8,293 million, ¥(1,571) million and ¥3,461 million, respectively.

The Company has reclassified the "Acquisition of a subsidiary, net of cash paid" and "Payments for transfer of business" in the Investing Activities section of the consolidated cash flows statements for the year ended February 29, 2012, to "Other-net" among the Investing Activities section of the consolidated cash flows statements for the year ended February 28, 2013. The amount included in the other-net as of February 29, 2012 was ¥(982) million and ¥(3,415)million, respectively.

v. New Accounting Pronouncements

Accounting Standard for Retirement Benefits —On May 17, 2012, the ASBJ issued ASBJ Statement No. 26 "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet—Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.
Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
(b) Treatment in the statement of income and the statement of comprehensive income [or the statement of income and comprehensive income]—The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013, with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on March 1, 2014 and is in the process of measuring the effects of applying the revised accounting standard for the year ending February 28, 2015.

3. ACCOUNTS RECEIVABLE—DUE FROM FRANCHISED STORES

Under the franchise agreement, the Company is responsible for providing architectural and design services with respect to the franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Company generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the franchise agreement, the Company, as a representative for all franchised stores, pays amounts payable to the vendors on the stores' behalf. When the merchandise is received by each franchised store, the Company records the cost of the merchandise in the "Accounts receivable—due from franchised stores" account since such costs shall be subsequently recovered from the respective franchised stores.

The "Accounts receivable—due from franchised stores" account represents net amounts recoverable from the franchised stores.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2013 and February 29, 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Non-current—Marketable and other equity securities	¥2,691	¥528	$29,089

The costs and aggregate fair values of marketable and investment securities at February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen			
February 28, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	¥1,129	¥62		¥1,191

	Millions of Yen			
February 29, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	¥169		¥54	¥115

	Thousands of U.S. Dollars			
February 28, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	$12,204	$670		$12,874

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen		
February 28, 2013	Proceeds	Realized Gains	Realized Loss
Available-for-sale: Equity securities	¥5	¥1	

	Millions of Yen		
February 29, 2012	Proceeds	Realized Gains	Realized Loss
Available-for-sale: Equity securities			

	Thousands of U.S. Dollars		
February 28, 2013	Proceeds	Realized Gains	Realized Loss
Available-for-sale: Equity securities	$54	$11	

5. LONG-LIVED ASSETS

The Companies mainly identify each store as the smallest cash generating unit. The Companies recognize an impairment loss in the case where the value of long-lived assets has declined, primarily as a result of due to continuous operating losses. The carrying amounts of those assets are written down to the recoverable amounts and an impairment loss is recorded in other expenses in the consolidated statements of income.

The Companies recognized an impairment loss in the following asset categories for the years ended February 28, 2013 and February 29, 2012:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	2013	2012	2013
Stores	Buildings and	Tokyo	¥ 421	¥ 547	$ 4,551
	Furniture, fixtures,	Osaka	472	558	5,102
	and equipment	Others	2,010	2,214	21,727
Other	Software		26		281
	Others		1		11
Total			¥2,930	¥3,319	$31,672

The above-noted assets, which incurred impairment losses for the years ended February 28, 2013 and February 29, 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Fixed assets and lease assets:			
Buildings	¥1,923	¥2,102	$20,787
Furniture, fixtures, and equipment	204	251	2,205
Lease assets	759	674	8,204
Land		155	
Software	26		281
Others	18	137	195
Total	¥2,930	¥3,319	$31,672

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or an expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rate used was mainly 4.0% and 4.3% for the years ended February 28, 2013 and February 29, 2012, respectively.

6. LAND REVALUATION

Under the "Law of Land Revaluation," promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Company chose a one-time revaluation of its own-use land to a value based on real estate appraisal information as of February 28, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2013, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥307 million ($3,319 thousand).

7. ACCOUNTS PAYABLE—TRADE

The balances of "Accounts payable—trade" represent the amounts payable to vendors for merchandise purchased by Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for Company-operated stores and franchised stores and makes collective payments to vendors (see Note 3).

"Accounts payable—trade" as of February 28, 2013 and February 29, 2012, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Accounts payable—trade for franchised stores	¥76,018	¥74,501	$821,727
Accounts payable—trade for Company-operated stores	11,170	13,762	120,744
Total	¥87,188	¥88,263	$942,471

8. ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to franchised stores is recorded as "Accounts receivable—due from franchised stores" as described in Note 3.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable—due from franchised stores." In the accompanying consolidated balance sheets, such excess balances are presented as "Accounts payable—due to franchised stores."

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2013 consisted of notes to banks.
The annual interest rates applicable to the short-term bank loans were 4.90% at February 28, 2013.

Long-term debt at February 28, 2013 and February 29, 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Loans from banks and leasing companies, due serially through 2019 with interest rates ranging from 1.59% to 6.44% (2013) and from 1.00% to 5.01% (2012)—Unsecured	¥61,852	¥49,662	$668,598
Less current portion	(14,496)	(11,754)	(156,697)
Long-term debt, less current portion	¥47,356	¥37,908	$511,901

Annual maturities of long-term debt as of February 28, 2013, for the following five years (and thereafter) are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2014	¥14,496	$156,697
2015	12,416	134,213
2016	10,377	112,171
2017	8,957	96,822
2018 and thereafter	15,606	168,695
Total	¥61,852	$668,598

10. EMPLOYEES' RETIREMENT BENEFITS

The Company and a certain domestic subsidiary each have a defined benefit lump-sum severance indemnity plan.

Under the plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay, years of service, and certain other factors at the time of termination. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from a certain subsidiary. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The funded status of these plans as of February 28, 2013 and February 29, 2012, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥16,659	¥14,890	$180,078
Fair value of plan assets	(5,578)	(5,577)	(60,296)
Unrecognized prior service cost	(175)	(351)	(1,892)
Unrecognized actuarial loss	(1,007)	(217)	(10,885)
Net liability	¥ 9,899	¥ 8,745	$107,005

The costs of defined benefit pension plans are accrued based on amounts determined principally using an actuarial method. Additionally, the Company and a certain subsidiary each have a defined contribution plan. The costs of defined contribution plans are charged to expense when incurred.

The components of net periodic benefit costs for the years ended February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥1,274	¥1,076	$13,771
Interest cost	290	265	3,135
Amortization of prior service cost	171	173	1,848
Recognized actuarial loss	54	92	584
Contribution to defined contribution plan	289	278	3,124
Net periodic benefit costs	¥2,078	¥1,884	$22,462

Assumptions used for the years ended February 28, 2013 and February 29, 2012, were as follows:

	2013	2012
Discount rate	1.2%	2.0%
Expected rate of return on plan assets	0%	0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Balance at beginning of year	¥15,263	¥14,305	$164,987
Additional provisions associated with the acquisition of property, plant, and equipment	1,667	1,151	18,020
Reconciliation associated with passage of time	306	214	3,308
Reduction associated with settlement of asset retirement obligations	(445)	(407)	(4,810)
Total	16,791	15,263	181,505
Less current portion	(108)	(102)	(1,168)
Asset retirement obligations, less current portion	¥16,683	¥15,161	$180,337

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. STOCK OPTIONS

The Company has stock option plans as an incentive for directors, executive officers, and selected employees.

The stock options outstanding as of February 28, 2013, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 ($0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 ($0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 ($0.01)	From September 6, 2007 to August 20, 2027
7th (b) Stock Option	14 executive officers	45,000 shares	2007.9.5	¥3,949 ($42.69)	From September 7, 2009 to August 20, 2012
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 ($0.01)	From January 17, 2009 to December 15, 2028
8th (b) Stock Option	11 executive officers	36,000 shares	2009.1.16	¥5,174 ($55.93)	From January 18, 2011 to December 15, 2013
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 ($0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 ($0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 ($0.01)	From February 18, 2012 to February 1, 2032

The stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option
Year Ended February 29, 2012										
Non-vested										
February 28, 2011—Outstanding										
Granted										27,000
Canceled										
Vested										(27,000)
February 29, 2012—Outstanding										
Vested										
February 28, 2011—Outstanding	15,000	21,300	80,000	18,000	42,000	26,400	36,000	21,500	18,900	
Vested										27,000
Exercised			(8,700)		(9,000)					
Canceled			(71,300)							
February 29, 2012—Outstanding	15,000	21,300		18,000	33,000	26,400	36,000	21,500	18,900	27,000
Year Ended February 28, 2013										
Non-vested										
February 29, 2012—Outstanding										
Granted										
Canceled										
Vested										
February 28, 2013—Outstanding										
Vested										
February 29, 2012—Outstanding	15,000	21,300		18,000	33,000	26,400	36,000	21,500	18,900	27,000
Vested										
Exercised					(6,000)		(4,600)			
Canceled					(27,000)					
February 28, 2013—Outstanding	15,000	21,300		18,000		26,400	31,400	21,500	18,900	27,000
Exercise price	¥1	¥1	¥4,053	¥1	¥3,949	¥1	¥5,174	¥1	¥1	¥1
	($0.01)	($0.01)	($43.81)	($0.01)	($42.69)	($0.01)	($55.93)	($0.01)	($0.01)	($0.01)
Average stock price at exercise					¥5,680		¥6,635			
					($61.40)		($71.72)			
Fair value price at grant date		¥3,178		¥2,852	¥397	¥3,477	¥582	¥2,652	¥2,689	¥3,339
		($34.35)		($30.83)	($4.29)	($37.59)	($6.29)	($28.67)	($29.07)	($36.09)

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal statutory tax rate of approximately 40.7% for the years ended February 28, 2013 and February 29, 2012.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2013 and February 29, 2012, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Accrued enterprise taxes	¥ 1,132	¥ 1,282	$ 12,237
Accrued employees' bonuses	968	1,304	10,464
Excess of depreciation	10,022	9,052	108,334
Excess of amortization of software	567	740	6,129
Employees' retirement benefits	5,602	5,231	60,556
Allowance for doubtful accounts	674	3,503	7,286
Impairment loss	3,123	2,930	33,758
Tax loss carryforwards	7,096	5,609	76,705
Other	2,782	3,503	30,072
Less valuation allowance	(9,044)	(9,433)	(97,762)
Total	22,922	23,721	247,779
Deferred tax liabilities—Affiliates' stock (paid-in capital decrease)	2,050	2,050	22,160
Net deferred tax assets	¥20,872	¥21,671	$225,619

At February 28, 2013, certain domestic subsidiaries have tax loss carryforwards aggregating to approximately ¥17,185 million ($185,764 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 637	$ 6,886
2015	220	2,378
2016	752	8,129
2017	1,072	11,588
2018	8,791	95,028
2019	235	2,540
2020	5,478	59,215
Total	¥17,185	$185,764

15. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2013, amounted to ¥24,945 million ($269,647 thousand).

16. LEASES

The Companies lease certain store facilities, machinery, computer equipment, office space, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases at February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2013		2012		2013	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥14,489	¥ 976	¥11,224	¥ 910	$156,621	$10,550
Due after one year	47,207	1,688	37,902	1,527	510,291	18,247
Total	¥61,696	¥ 2,664	¥49,126	¥2,437	$666,912	$28,797

Pro forma Information of Leased Property Whose Lease Inception Was before February 28, 2009

ASBJ Statement No.13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No.13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Companies applied ASBJ Statement No.13 effective March 1, 2009, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before February 28, 2009, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
Furniture, Fixtures, and Equipment and Other Assets	2013	2012	2013
Acquisition cost	¥21,035	¥30,181	$227,381
Accumulated depreciation	16,007	21,058	173,030
Accumulated impairment loss	662	755	7,156
Net leased property	¥ 4,366	¥ 8,368	$ 47,195

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥2,950	¥4,324	$31,888
Due after one year	2,475	5,411	26,754
Total	¥5,425	¥9,735	$58,642

Allowance for impairment loss on leased property of ¥533 million ($5,762 thousand) and ¥667 million as of February 28, 2013, and February 29, 2012, is included in obligations under finance leases.

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense, interest expense, and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Depreciation expense	¥4,077	¥6,627	$44,071
Interest expense	215	389	2,324
Lease payments	4,374	6,940	47,281
Reversal of allowance for impairment loss on leased property	187	444	2,021
Impairment loss	69	388	746

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

17. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended February 28, 2013, were the following:

	Millions of Yen	Thousands of U.S. Dollars
	2013	2013
Unrealized gain on available-for-sale securities:		
Gains arising during the year	¥ 143	$ 1,546
Reclassification adjustments to profit or loss	(1)	(11)
Amount before income tax effect	142	1,535
Income tax effect	(52)	(562)
Total	¥ 90	$ 973
Foreign currency translation adjustments:		
Adjustments arising during the year	¥1,926	$20,819
Share of other comprehensive loss in associates		
Losses arising during the year	¥ (639)	$ (6,907)
Total other comprehensive income	¥1,377	$14,885

The corresponding information for the year ended February 29, 2012, was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and is not disclosed herein.

18. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments
The Company's financial information is provided separately by reporting segment and is subject to regular review by the Board of Directors with regard to the allocation of managerial resources and performance evaluation. The Companies' primary business is the operation of convenience stores, which is undertaken by the incorporation of related businesses.

Therefore, the Companies have made the convenience store unit its main reporting segment, based on consideration of financial characteristics and the nature of the services provided.

Lawson, Inc.; Ninety-nine Plus, Inc.; and Lawson Toyama, Inc. running the LAWSON, NATURAL LAWSON, LAWSON STORE100, and other chains—The convenience store unit operates a franchise system as well as undertaking the direct management of stores in Japan. SCI, Inc. performs the increase in efficiency and optimization of the whole process as a subsidiary which manages the process from supply to sale synthetically.

(b) Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment
The accounting policies of each reportable segment are basically consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."
Operating income is applied in "Segment profit." "Intersegment sales or transfers" are calculated based on market price.

(c) Information about sales, profit (loss), assets, and other items is as follows:

Millions of Yen

	2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥416,935	¥70,510	¥487,445		¥487,445
Intersegment sales or transfers	2,159	2,493	4,652	¥(4,652)	
Total	¥419,094	¥73,003	¥492,097	¥(4,652)	¥487,445
Segment profit	¥ 61,336	¥ 4,872	¥ 66,208	¥ 38	¥ 66,246
Segment assets	562,237	69,759	631,996	(52,186)	579,810
Other:					
Depreciation	40,050	2,780	42,830		42,830
Amortization of goodwill	671	419	1,090	(34)	1,056
Payment for associated companies	2,181	4,228	6,409		6,409
Increase in property, plant, and equipment and intangible assets	40,194	2,728	42,922		42,922

Millions of Yen

	2012				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 413,899	¥ 65,058	¥478,957		¥478,957
Intersegment sales or transfers	1,976	2,129	4,105	¥(4,105)	
Total	¥415,875	¥67,187	¥483,062	¥(4,105)	¥478,957
Segment profit	¥ 57,371	¥ 4,445	¥ 61,816	¥ (47)	¥ 61,769
Segment assets	520,992	46,607	567,599	(36,145)	531,454
Other:					
Depreciation	34,376	2,520	36,896		36,896
Amortization of goodwill	677	306	983	(34)	949
Payment for associated companies	2,786	4,241	7,027		7,027
Increase in property, plant, and equipment and intangible assets	35,288	1,027	36,315		36,315

Thousands of U.S. Dollars

	2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$4,506,918	$762,188	$5,269,106		$5,269,106
Intersegment sales or transfers	23,338	26,948	50,286	$(50,286)	
Total	$4,530,256	$789,136	$5,319,392	$(50,286)	$5,269,106
Segment profit	$ 663,020	$ 52,665	$ 715,685	$ 411	$ 716,096
Segment assets	6,077,581	754,070	6,831,651	(564,112)	6,267,539
Other:					
Depreciation	432,926	30,051	462,977		462,977
Amortization of goodwill	7,253	4,530	11,783	(368)	11,415
Payment for associated companies	23,576	45,703	69,279		69,279
Increase in property, plant, and equipment and intangible assets	434,483	29,488	463,971		463,971

Notes: 1. "Other" is operating segments that are not included in reportable segments, consisting of entertainment/home convenience business (formerly, entertainment/e-commerce business), financial services-related business, overseas business, and so on.
2. Reconciliations for segment profit, segment assets, and amortization of goodwill are due to the elimination of intersegments transactions.

(d) Information regarding loss on impairment of long-lived assets of reportable segments

	Millions of Yen 2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥2,780	¥150	¥2,930		¥2,930

	Millions of Yen 2012				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥3,276	¥43	¥3,319		¥3,319

	Thousands of U.S. Dollars 2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	$30,051	$1,621	$31,672		$31,672

(e) Information regarding amortization of goodwill and carrying amount of reportable segments

	Millions of Yen 2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2013	¥6,995	¥3,273	¥10,268	¥(585)	¥9,683

	Millions of Yen 2012				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2012	¥7,666	¥3,825	¥11,491	¥(619)	¥10,872

	Thousands of U.S. Dollars 2013				
	Reportable Segments				
	Convenience Store	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2013	$75,613	$35,380	$110,993	$(6,323)	$104,670

The amount under "Other" is for the entertainment/home convenience business and overseas business.

Amortization of goodwill has been omitted, as similar information is disclosed in "(c) Information about sales, profit (loss), assets, and other items."

19. RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with subsidiaries of Mitsubishi as of and for the years ended February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥ 36,370	¥ 7,851	$ 393,147
Purchases	428,342	104,340	4,630,224
Food Service Network Co., Ltd.:			
Accounts payable—trade		22,280	
Purchases		276,918	

Purchase prices and other conditions are determined at an arm's-length basis.

Balances and transactions of Ninety-nine Plus Inc., a consolidated subsidiary of the Company, with subsidiaries of Mitsubishi as of and for the years ended February 28, 2013 and February 29, 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥ 6,173	¥ 5,959	$ 66,728
Purchases	80,324	72,459	868,274

Purchase prices and other conditions are determined at an arm's-length basis.

20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Companies primarily use short-term deposits, etc., to manage their funds and raise funds as necessary through borrowings from financial institutions and leasing according to the financing plan. The Companies do not engage in derivative transactions.

(2) Nature, Extent of Risk, and Risk Management System for Financial Instruments

Trade receivables, such as other accounts receivable are exposed to credit risk from business counterparties.

Long-term loans receivable (primarily referring to construction cooperation funds which are loaned to the owners when a store opens and loans to franchised stores) and lease deposits are exposed to credit risk from the owners, etc. The responsible department monitors these risks on receivables on a daily basis with the aim of early detection and reduction of concerns associated with the collectibility of debt due to deterioration in the financial conditions of the owners.

Investment securities are primarily shares of companies with business relationships and listed shares of which are exposed to the risk of market price fluctuations. With regard to this risk, the Company monitors the financial conditions of business counterparties on a regular basis.

Among trade payables, most of the accounts payable—trade and deposits held as a result of bill settlement services have payment due dates within one month, while most deposits held as a result of ticket sales transactions have payment due dates within six months.

The primary purpose of long-term debt and lease obligations related to finance lease transactions is securing funds required for capital investments, and their maximum redemption dates are ten years after the balance sheet date.

Deposits received from franchisees and lessees are primarily operational deposits received from franchised stores based on franchise contracts and are returned to franchised stores after the expiry of the franchise contract term (contract term is 10 years in principle).

With regard to the liquidity risk associated with fund raising (risk for which payment cannot be executed on the payment due date), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures, including maintaining liquidity on hand.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on the quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were taken.

	Millions of Yen		
February 28, 2013	Carrying amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 72,766	¥ 72,766	
Time deposits	12,004	12,004	
Accounts receivable	70,102	70,102	
Investment securities	1,191	1,191	
Investments in associated companies	4,228	6,659	¥ 2,431
Long-term loans receivable	34,484	34,536	52
Lease deposits	85,548	79,141	(6,407)
Total	¥280,323	¥276,399	¥(3,924)
Accounts payable	¥115,674	¥115,674	
Money held as agent	87,529	87,529	
Long-term debt (include current portion of long-term debt)	61,852	62,269	¥ 417
Guarantee deposits received from franchised stores and other	34,805	32,115	(2,690)
Total	¥299,860	¥297,587	¥(2,273)

	Millions of Yen		
February 29, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 73,670	¥ 73,670	
Time deposits	10,404	10,404	
Accounts receivable	52,040	52,040	
Investment securities	115	115	
Investments in associated companies	4,880	4,374	¥ (506)
Long-term loans receivable	32,044	32,109	65
Lease deposits	83,064	75,662	(7,402)
Claims in bankruptcy and reorganization	36	36	
Total	¥256,253	¥248,410	¥(7,843)
Accounts payable	¥108,703	¥108,703	
Money held as agent	75,005	75,005	
Long-term debt (include current portion of long-term debt)	49,662	49,955	¥293
Guarantee deposits received from franchised stores and other	35,735	32,484	(3,251)
Total	¥269,105	¥266,147	¥(2,958)

	Thousands of U.S. Dollars		
February 28, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 786,574	$ 786,574	
Time deposits	129,759	129,759	
Accounts receivable	757,767	757,767	
Investment securities	12,874	12,874	
Investments in associated companies	45,703	71,981	$ 26,278
Long-term loans receivable	372,760	373,322	562
Lease deposits	924,743	855,486	(69,257)
Total	$3,030,180	$2,987,763	$(42,417)
Accounts payable	$1,250,395	$1,250,395	
Money held as agent	946,157	946,157	
Long-term debt (include current portion of long-term debt)	668,598	673,106	$ 4,508
Guarantee deposits received from franchised stores and other	376,230	347,152	(29,078)
Total	$3,241,380	$3,216,810	$(24,570)

Cash and cash equivalents, time deposits, and accounts receivable

The carrying values of cash and cash equivalents, time deposits, and accounts receivable (include allowance for doubtful accounts) approximate fair values because of their short maturities.

Investment securities and investments in associated companies

The fair values of investment securities are measured at the quoted market price on the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments.

Long-term loans receivable

The fair values of long-term loans receivable (include allowance for doubtful accounts) are determined by discounting the cash flows related to the loans at the interest rate deemed to be applied for similar loans.

Lease deposits

The fair values of lease deposits (include allowance for doubtful accounts) are determined by discounting future cash flows which reflect the collectibility with the yield rate of government bonds during the remaining period.

Accounts payable and money held as agent

The carrying values of accounts payable and money held as agent approximate fair value because of their short maturities.

Long-term debt (include current portion of long-term debt)

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate discount rate.

Guarantee deposits received from franchised stores and other

The fair values of guarantee deposits received from franchised stores and other are determined by discounting future cash flows based on the estimated repayment amount with the yield rate of government bonds during the remaining period.

(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Investments in equity instruments that do not have a quoted market price in an active market	¥1,038	¥273	$11,220
Investments in unconsolidated subsidiaries and affiliated companies	3,218	2,295	34,786
Others	462	140	4,995

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	2013			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 72,766			
Time deposits	12,004			
Accounts receivable	71,383			
Long-term loans receivable	3,270	¥12,176	¥10,444	¥ 8,691
Lease deposits	5,177	19,266	20,371	41,295
Total	¥164,600	¥31,442	¥30,815	¥49,986

	Millions of Yen			
	2012			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 73,670			
Time deposits	10,404			
Accounts receivable	52,166			
Long-term loans receivable	3,125	¥11,234	¥10,575	¥ 7,205
Lease deposits	4,769	18,957	19,781	40,159
Total	¥144,134	¥30,191	¥30,356	¥47,364

	Thousands of U.S. Dollars			
	2013			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 786,574			
Time deposits	129,759			
Accounts receivable	771,625			
Long-term loans receivable	35,347	$131,618	$112,896	$ 93,947
Lease deposits	55,961	208,259	220,203	446,384
Total	$1,779,266	$339,877	$333,099	$540,331

21. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2013 and February 29, 2012 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2013	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥33,182	99,887	¥332.20	$3.59
Effect of dilutive securities—				
Stock options		152		
Diluted EPS—Net income for computation	¥33,182	100,039	¥331.69	$3.59
Year Ended February 29, 2012				
Basic EPS—Net income available to common shareholders	¥24,885	99,871	¥249.17	
Effect of dilutive securities—				
Stock options		149		
Diluted EPS—Net income for computation	¥24,885	100,020	¥248.80	

22. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders meeting held on May 21, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥100 ($1.08) per share	¥9,989	$107,977

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel:+81 (3) 3457 7321
Fax:+81 (3) 3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Lawson, Inc.:

We have audited the accompanying consolidated balance sheet of Lawson, Inc. and its consolidated subsidiaries as of February 28, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lawson, Inc. and its consolidated subsidiaries as of February 28, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 21, 2013

Member of
Deloitte Touche Tohmatsu Limited

Lawson, Inc.

East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome,
Shinagawa-ku, Tokyo 141-8643, Japan

http://lawson.jp/en/

Published in September 2013

Printed in Japan