INTEGRATED REPORT 2014

Creating Happiness and Harmony
in Our Communities

Corporate Philosophy

Creating Happiness and Harmony in Our Communities

Lawson's Multi-Stakeholders

Lawson operates its business in conjunction with society (local communities) as a whole, including seven core stakeholders. Moving forward, we will continue to provide unique value in order to address a variety of social challenges through our accessibility within local communities.

Greetings

I assumed the position of President and CEO and Representative Director on May 1, 2014.

Guided by a corporate philosophy that places the utmost emphasis on "Creating Happiness and Harmony in Our Communities," Lawson has continued to implement a variety of reforms in order to address the needs of customers and the community. As a result, we have experienced uninterrupted growth in business profits for more than a decade and achieved an ROE of at least 15% for two consecutive years.

The convenience store business is adept at sensing day-by-day changes in the community and at applying this sensitivity to address a wide range of social issues. From our perspective, these shifts are a source of innovation and provide the foundation for future growth. Recent trends in Japanese society, such as the declining birthrate, aging population, and burgeoning female workforce, are prompting calls for the Company to take the lead in providing new and unique value.

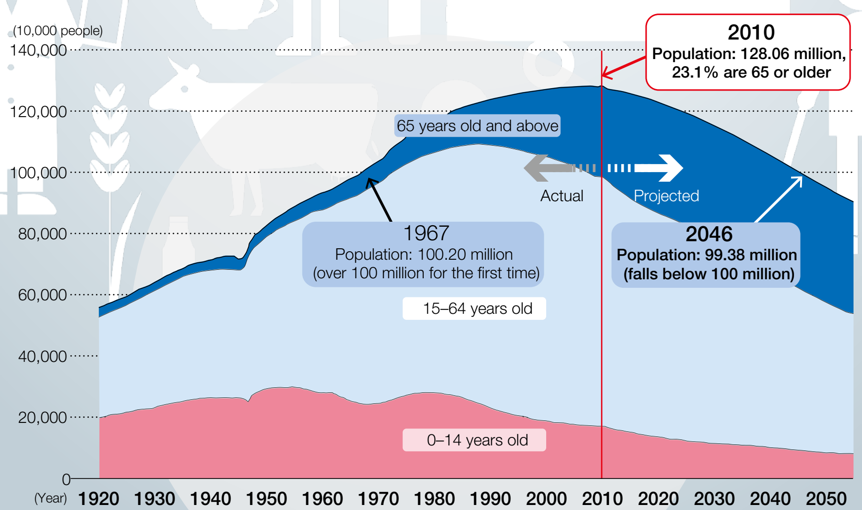
In order to meet expectations and fulfill our role as a key component of today's social infrastructure, it is imperative for every member of the Lawson convenience store group, including franchise owners, to nurture the human capital necessary to take up the challenge of creating new value. Passing on the unique attributes that have continued to define "Team Lawson" from generation to generation, we will take action in a timely manner and enhance our corporate value for the benefit of all stakeholders, including customers, franchise owners, suppliers and business partners, shareholders, and employees.

Genichi Tamatsuka
President and CEO,
Representative Director

Tackling issues in the community, for the community

The evolution of convenience stores has mirrored changes in society at large. Most notable among these is the unprecedented pace at which Japan's birthrate has continued to decline and its population to age. In overall terms, our role as a convenience store chain is to help build attractive communities while improving lifestyles and providing additional comfort and convenience. With this in mind, Lawson recognizes the importance of women in offsetting the decline in the working population to revitalize communities. Accordingly, we acknowledge the critical need to support women in their efforts to remain in the workforce and to make their working lives easier. On the other hand, increasing health care costs associated with the aging population are another social issue that requires immediate attention. Lawson is therefore channeling its energies toward supporting society by helping improve the health of the elderly and promote long, healthy lives. As a familiar presence in the neighborhood, Lawson has engaged in a wide range of activities aimed at resolving social issues since the turn of the century. Moving forward, we will continue to take up this challenge through the pursuit of innovation and work diligently to live up to our corporate philosophy of "Creating Happiness and Harmony in Our Communities."

Japan's population composition by age



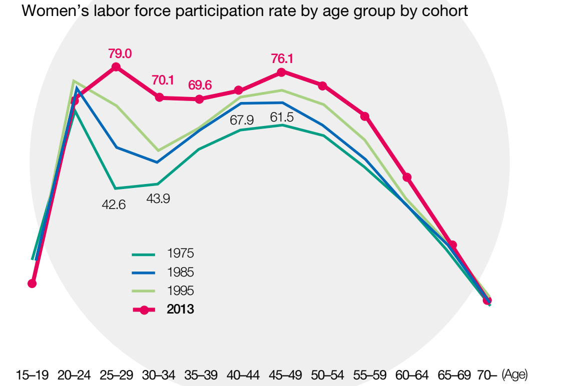
Materials used: Up to 2010: Ministry of Internal Affairs and Communications, "Population Census," "Population Estimates," "1945 Population Survey."
After 2015: National Institute of Population and Social Security Research, "Population Projections for Japan (December 2006)," based on the figures estimated with medium-fertility and medium-mortality assumptions.
Note: Figures for 1941 to 1943 are interpolated from the figures for 1940 and 1944. Figures for 1945 to 1971 do not include Okinawa. People of uncertain age are evenly distributed in the figures for the years in which the census is carried out.
Source: Cabinet Office, Government of Japan, *White Paper on Children and Young People 2011*

Creating communities where women can excel

Because its labor force has shrunken due to the declining birth rate and aging population, for Japan's economy to continue growing, the role that women can play in revitalizing the workforce is especially vital. Looking at the employment rate of women by age, we see an M-shaped curve. Employment peaks for women between the ages of 25 and 29 and then again between the ages of 45 and 49. The employment rate of women during what is generally considered the childbirth and nursing period, between the ages of 30 to 44, is lower. At the same time, statistics also indicate a significant pool of women between the ages of 25 and 44 who are currently unemployed but seeking work. As the birth rate declines, creating a comfortable working environment for working mothers is becoming crucial. In addition to upgrading and expanding such facilities as nursing and childcare centers, providing a network of neighborhood stores offering products and services that reduce the burden of housework is an absolute imperative. Lawson is placing considerable emphasis on bolstering its lineup of fresh foods and perishables to better support working mothers.

Labor force participation of women of main child rearing ages (%)

Women's labor force participation rate by age group by cohort

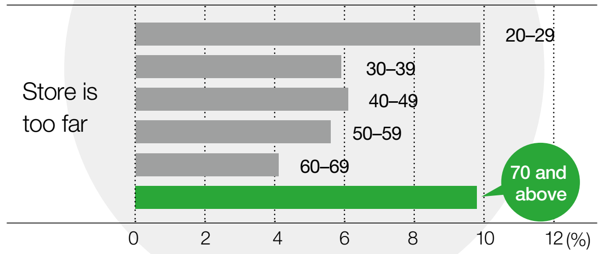


Source: Gender Equality Bureau Cabinet Office, Cabinet Office, Government of Japan, *White Paper on Gender Equality 2014*

Building communities in which the elderly can lead active and vibrant lives

As Japan becomes a super-graying society, the nation's attention is shifting toward promoting long, healthy lives. Steps are being taken to establish an environment in which the elderly can lead active and vibrant lives while minimizing the need for nursing care. While a wholesome diet is essential to maintaining good health, we are seeing an upswing in the number of people over the age of 70 who are either abstaining from or unable to purchase perishable foods due to the constraints of distance (see the graph at right). This is particularly true for the elderly individuals and couples living on their own. Here, the concern is that the burdens of shopping and cooking are leading to deterioration in dietary habits. For the elderly, this trend triggers fears of malnutrition rather than obesity and metabolic syndrome. A loss of appetite or an unbalanced diet can lead to insufficient nutrient intake before the person in question realizes there is a problem, increasing risks of heart disease or becoming bedridden. With this in mind, the importance of accessibility of perishable foods, including cut vegetables, for the elderly at neighborhood stores cannot be overestimated.

Reason for abstaining from or being unable to obtain perishable foods (vegetables, fruits, fish, meat, etc.)
(Men and women, by age group)

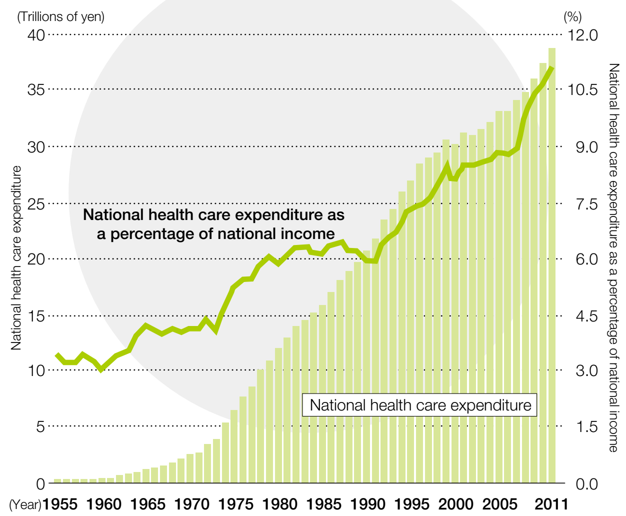


Source: Ministry of Health, Labour and Welfare, *National Health and Nutrition Survey*

Working hand-in-hand with the community to promote improved health

As the population has become more affluent, Japan has witnessed dramatic changes in types and prevalence of disease. In the immediate aftermath of the Second World War, infectious diseases such as tuberculosis were rife. Beginning in the 1950s, there was a sharp rise in adult disorders, including cancer as well as cerebrovascular and cardiac disease. More recently, this onset of adult disease has been increasingly attributed to lifestyles as opposed to advancing age. We are now at the point where "metabolic syndrome" has become a household term. With this trend, the approach to medicine has shifted from seeking to merely extend people's lives as long as possible to disease prevention and enabling healthy lifestyles that naturally lead to living longer. In this regard, we recognize that health is not a closed domain centered solely on medical institutions. Today, health is an issue that affects the whole of society and must be tackled by the entire community.

Rising national health care expenditure



Source: Ministry of Health, Labour and Welfare, *Overview of Estimates of National Medical Care Expenditure, FY2011*

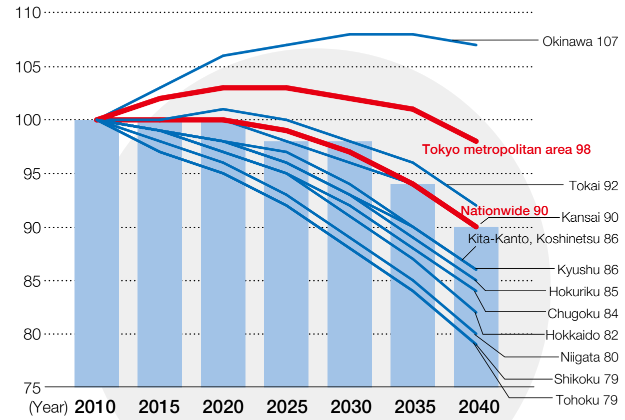
Communities that breathe new life into their residents

Japan's population continues to decline. To maintain healthy local communities, revitalizing local economies using communities' own resources as well as increasing local employment and incomes through business are essential.

A drop in the population, for example, presents the risk of deterioration in the level of shopping and other services available, making it increasingly difficult for people to lead comfortable and convenient lives. This increases the need to address the requirements of local communities in small commercial areas. It is vital that we help put in place the social infrastructure to provide local communities with easy access to daily necessities, over-the-counter medicines to alleviate worrying minor ailments, important mechanisms to protect children and women against crime, and essential support in the event of a disaster.

At the same time, we must work with local residents in creating added value to revitalize communities at large. Collaborating with local governments and companies to utilize local specialty products, sightseeing spots and resources is an important role for us to play as a convenience store.

Regional differences in total consumption exacerbated by population decline



Estimated total consumption (nationwide)
Estimated total consumption by region
Indexed with 2010 levels as 100; assumes zero growth and no change in average consumption habits
Bar graph shows national figures, lines show regional figures

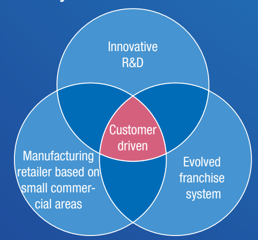
Source: Development Bank of Japan Inc., *Final Report of the Population Decline Study Group* (June 2014)

Lawson Integrated Report 2014

Fiscal 2013 is the second year Lawson has prepared an integrated report incorporating both financial and non-financial information. The purpose of the Lawson Integrated Report 2014 is to provide our medium- to long-term stakeholders with an overview of the state of the Company and our direction for the future. In addition to outlining our aspirations for business growth, which center on our mainstay convenience store operations, we hope to provide each and every stakeholder with a better understanding of our ongoing efforts to become an essential lifeline for the community.

LAWSON

Contents

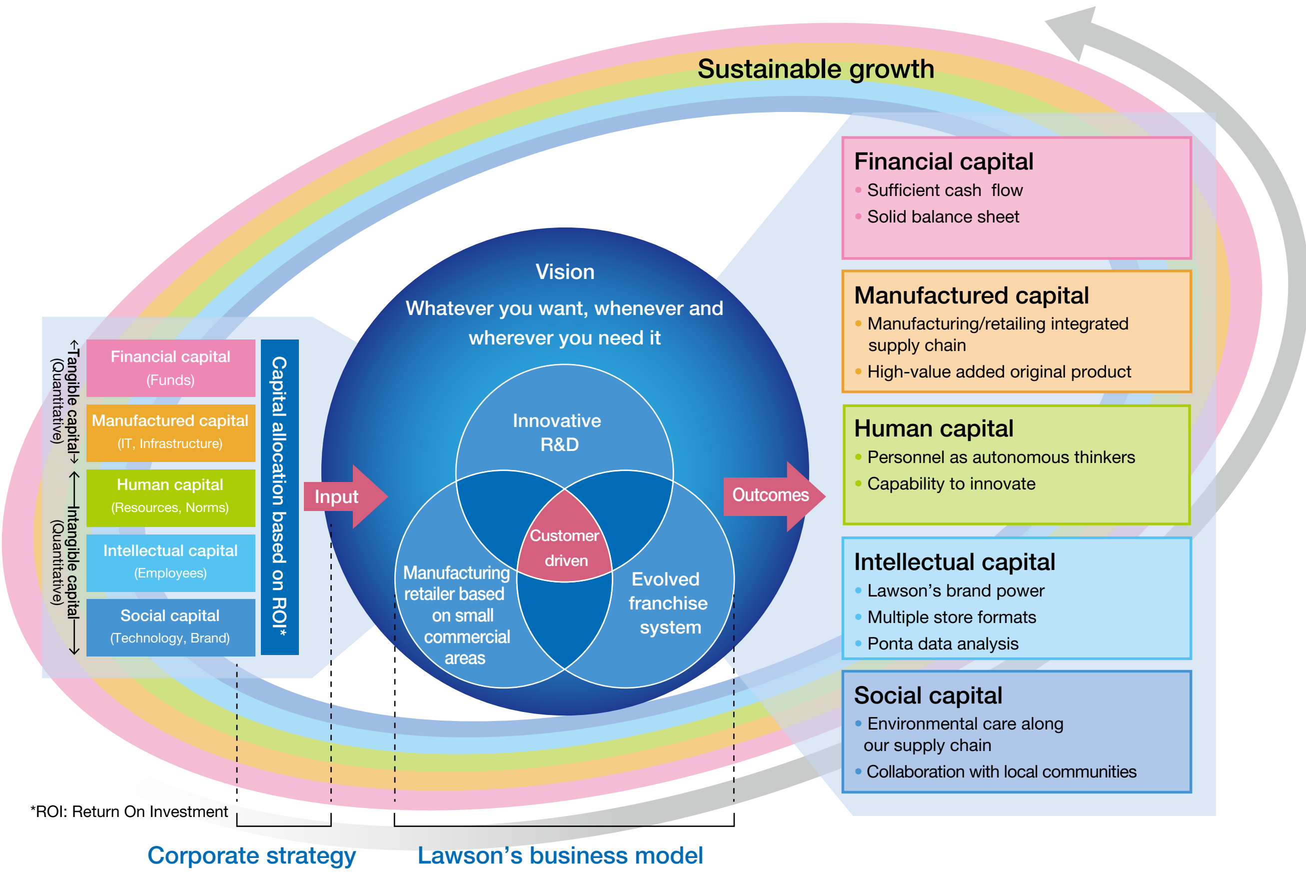


For detailed information, please refer to our website http://lawson.jp/en/

Creating corporate value: optimal capital allocation and a customer-driven business model

Lawson's ability to sustain growth in its corporate value is the product of its corporate strategy combined with its business model. Guided by well-timed corporate strategy, we work toward the proper allocation of tangible capital, goods and finances appearing on financial statements, and intangible capital, most notably human resources, ensuring high capital efficiency. At the same time, we push forward a customer-driven business model made up of three core elements: innovative research and development; our position as a manufacturing retailer based on small commercial areas; and an advanced franchise system. This business model enables a cycle of corporate value creation wherein we create added value in excess of the capital invested, generating capital not only for use within the Group, but also for distribution to society.

Corporate value creation cycle



The links between our business model and various forms of capital

Financial capital	We undertake investments based on a disciplined approach toward capital in order to address the expectations of stock markets
Manufactured capital	We work across the entire supply chain to create products that fulfill the needs of local communities
Human capital	We foster employees who take action based on their own initiative in order to accurately meet the needs of local communities
Intellectual capital	We recognize the need to remain acutely aware of and sensitive to changes in the community and the role of continuous innovation as a wellspring for growth
Social capital	We do our utmost to address environmental concerns and make the most of resources derived from the natural environment

Our business model and issues confronting local communities

A Short History of the Convenience Store Industry

Convenience stores began appearing in the 1970s. Open 24/7 and occupying a relatively small retail space of between 100 and 130 square meters in local neighborhood locations, these stores offered a carefully selected lineup of daily necessities. Products including bread, cigarettes, alcoholic beverages, stationery, and sundries that had generally been marketed by individual category in separate stores were sold together with an eye toward promoting consumer convenience. Over the years, a service component has been added to steadily augment the function and role of convenience stores in society. This includes home delivery, third-party bill settlement, concert ticket sales, ATM banking, and postal services. By addressing the small inconveniences of life and solving difficulties faced by local communities, the convenience store industry has continued to enjoy solid growth. With the more recent growth in large-scale roadside stores and decline in local shopping promenades as a result of motorization, convenience stores took on a neighborhood flavor, providing the backbone for small commercial areas. Industry growth was particularly supported by single-person households, namely men in their 20s and 30s.

Against the backdrop of continued growth in the convenience store industry, Lawson undertook anticipatory investments in order to build stores that match the needs of customers, taking into consideration population trends and changes in society. The Company has rolled out a succession of new formats. In 2001, we launched the health-oriented NATURAL LAWSON format. This was followed by the fresh food-type convenience store, LAWSON STORE100, in 2005. The ability to develop these formats and the know-how accumulated by broadening the Company's customer base to include women and the elderly provide Lawson with its underlying strength. Making the most of its unique customer-driven research and development of products that continue to enhance convenience, its position as a manufacturing retailer based on small commercial areas engaged in activities that extend across the entire supply chain, and its franchise system that produces store owners well versed in the needs of the community, Lawson is steadily expanding its nationwide network of stores.

Today, convenience stores are an essential part of the community and a vital component of society's infrastructure, together with electricity, gas, and water. Going forward, Lawson will continue to promote its corporate philosophy of "Creating Happiness and Harmony in Our Communities" amid ongoing changes in society. At the same time, we will continue to confront each challenge faced by local communities head-on through the evolution of our business model.

Lawson's activities aimed at addressing challenges within the local community

Challenges within the Local Community	Lawson's Activities (Output)	The Impact of Lawson's Activities (Outcomes)
Women: Enabling women to excel and promoting their increased participation in society	● Upgrade and expand products and services targeting female customers ● Support working women by providing ready-made meals and ingredients ● Reflect women's experience and knowledge regarding childbirth and childcare in product development	● Reenergizing society through the increased participation of women ● Promoting efficient use of time by reducing the time needed for housework ● Creating workplace environments that allow women to balance childbirth and childcare with work commitments
The elderly: Responding to an aging society and promoting long, healthy lives	● Upgrade and expand products and services targeting elderly customers ● Provide continued employment for people over 60 ● Promote home delivery services	● Helping the elderly maintain healthy dietary habits and responding to the needs of the physically challenged and elderly ● Preventing the need for nursing care and reducing the number of bedridden elderly
Local communities: Strengthening community foundations and revitalizing regional economies and employment	● Develop products and services that revitalize the local community (local production for local consumption and local production for external consumption); conclude comprehensive agreements with local governments ● Support franchise owners; foster and support MOs ● Cooperate in regional disaster prevention measures; participate in Safety Station activities	● Creating new business and employment opportunities in conjunction with local communities ● Increasing the profile of local and signature products ● Contributing to the safety and security of local communities ● Providing essential infrastructure in the event of large-scale disasters
Health: Curtailing national health and medical expenses and addressing lifestyle-related diseases	● Provide health-supporting products and services ● Support efforts aimed at promoting health throughout local communities ● Support employee healthcare management	● Increasing awareness toward health ● Contributing to preventive measures ● Building platforms that contribute to sustainable growth
Energy conservation; preventing global warming	● Introduce solar power generation systems ● Introduce energy-efficient equipment ● Reduce CO_2 emissions across the entire supply chain	● Contributing to energy conservation and reductions in CO_2 emissions in the retail industry ● Cultivating cutting-edge activities
Increasing waste; depletion of natural resources	● Adhere strictly to a policy of waste reduction ● Establish a recycling system ● Reduce the use of plastic shopping bags, disposable chopsticks, and containers/packaging	● Increasing efficiency across the entire supply chain ● Reducing impacts on the natural environment ● Expanding the use of reusable eco bags

Eleven-Year Financial Summary

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

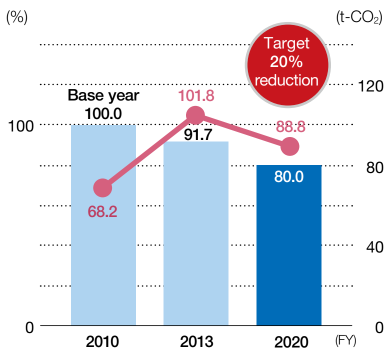
	Millions of yen											Thousands of U.S. dollars[1]
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	**2014**
For the year:												
Operating revenues												
Franchise commissions from franchised stores	**¥ 242,079**	¥ 230,003	¥ 215,574	¥ 197,673	¥ 185,656	¥ 186,928	¥ 177,443	¥ 174,325	¥ 170,785	¥ 162,963	¥ 153,910	**$ 2,374,720**
Net sales from company-operated stores[2]	**133,976**	157,627	174,116	183,236	232,459	119,099	83,321	75,151	66,027	63,802	67,479	**1,314,263**
Other	**109,193**	99,815	89,267	60,369	49,077	43,449	40,413	33,577	31,246	27,630	24,212	**1,071,150**
Total operating revenues	**485,248**	487,445	478,957	441,278	467,192	349,476	301,177	283,053	268,058	254,395	245,601	**4,760,133**
Operating income	**68,127**	66,246	61,769	55,541	50,276	49,186	46,610	44,513	43,867	42,941	38,087	**668,305**
Net income	**37,966**	33,183	24,885	25,387	12,562	23,807	22,119	20,983	22,025	20,435	18,571	**372,435**
Cash flows from operating activities	**81,503**	85,189	86,357	72,210	40,696	51,717	55,771	47,596	46,933	47,329	37,424	**799,519**
Cash flows from investing activities	**(47,924)**	(54,196)	(52,912)	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(55,282)	(33,297)	(40,621)	**(470,120)**
Cash flows from financing activities	**(39,650)**	(31,980)	(27,545)	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(7,795)	(13,836)	(14,364)	**(388,954)**
Capital expenditures[3]	**84,032**	77,361	74,572	50,326	71,399	42,907	64,413	49,822	54,417	46,873	48,303	**824,323**
Depreciation and amortization[4]	**47,889**	43,886	37,846	33,084	27,468	20,879	21,469	21,352	20,896	19,641	18,499	**469,776**
At year-end:												
Total assets	**¥ 620,993**	¥ 579,810	¥ 531,454	¥ 476,037	¥ 448,132	¥ 436,096	¥ 397,108	¥ 398,258	¥ 375,107	¥ 356,310	¥ 354,831	**$ 6,091,750**
Total equity	**250,498**	230,182	214,663	208,467	198,136	201,167	188,574	199,493	175,184	160,282	154,317	**2,457,308**
Equity ratio	**39.5%**	39.1%	39.7%	42.7%	42.8%	44.8%	46.6%	49.0%	46.7%	45.0%	43.5%	**39.5%**
Cash and cash equivalents	**68,760**	72,766	73,670	67,712	54,843	83,982	62,823	75,547	60,441	76,585	76,389	**674,514**
Total number of stores in Japan	**11,606**	11,130	10,457	9,994	9,761	9,527	8,587	8,564	8,366	8,077	7,967	**11,606**
Number of employees (full-time)	**6,336**	6,404	6,475	5,703	5,236	5,186	3,735	3,614	3,585	3,391	3,402	**6,336**
Per share data:												
Net income (yen/ U.S. dollars[1])	**¥ 380**	¥ 332	¥ 249	¥ 255	¥ 127	¥ 240	¥ 215	¥ 202	¥ 216	¥ 198	¥ 176	**$ 3.73**
Cash dividends (yen/ U.S. dollars[1])	**220**	200	180	170	160	160	110	100	90	70	41	**2.16**
Payout ratio	**57.9%**	60.2%	72.2%	66.8%	126.3%	66.6%	51.2%	49.6%	41.8%	35.3%	23.3%	**57.9%**
Financial data:												
Return on equity (ROE)	**16.1%**	15.2%	12.0%	12.8%	6.5%	12.5%	11.6%	11.3%	13.1%	13.0%	12.1%	**16.1%**
Return on assets (ROA)	**6.3%**	6.0%	4.9%	5.5%	2.8%	5.7%	5.6%	5.4%	6.0%	5.7%	5.3%	**6.3%**
Net sales of all stores:												
Net sales by store category												
Franchised stores[5]	**¥1,810,418**	¥1,747,915	¥1,651,433	¥1,499,576	¥1,433,678	¥1,434,166	¥1,331,785	¥1,311,479	¥1,295,704	¥1,265,257	¥1,220,819	**$17,759,652**
Company-operated stores[2]	**126,873**	156,339	173,820	183,205	232,459	124,614	83,321	75,151	66,027	63,802	67,479	**1,244,590**
Net sales by product category[5]												
Processed foods	**1,060,455**	1,063,120	1,022,378	897,415	902,306	844,324	726,750	705,155	682,006	665,687	625,031	**10,402,744**
Fast foods	**408,672**	372,706	345,226	321,851	324,197	332,894	327,501	324,993	312,289	297,369	302,568	**4,008,949**
Daily delivered foods	**275,437**	271,920	263,101	264,166	239,088	186,109	162,625	155,575	150,917	148,134	139,506	**2,701,957**
Non-food products	**192,726**	196,506	194,546	199,348	200,544	195,453	198,230	200,907	216,519	217,887	221,192	**1,890,591**
Net sales of all stores	**¥1,937,292**	¥1,904,254	¥1,825,253	¥1,682,782	¥1,666,136	¥1,558,781	¥1,415,106	¥1,386,630	¥1,361,731	¥1,329,077	¥1,288,297	**$19,004,241**
Ratio of operating income to net sales of all stores	**3.5%**	3.5%	3.4%	3.3%	3.0%	3.2%	3.3%	3.2%	3.2%	3.2%	3.0%	**3.5%**

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2014, of ¥101.94=$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. These figures include sales figures reported by franchise stores and are unaudited

Non-Financial Highlights

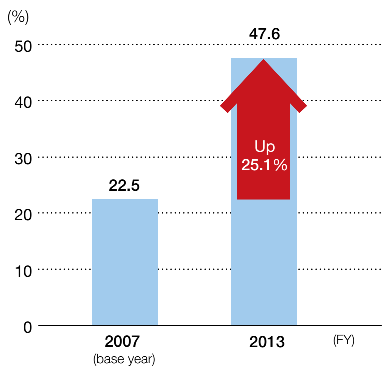
Per-store electricity use (index) and CO_2 emissions*

* The power-receiving end coefficient after adjustment identified by the Federation of Electric Power Companies of Japan is used to measure CO_2 emissions. Calculated in line with the administrative year from April 1 to March 31.



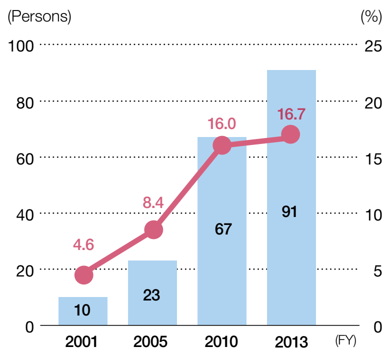
We set the voluntary action goal of reducing per-store electricity use 20% from fiscal 2010 levels by fiscal 2020. By installing energy-efficient equipment and replacing equipment at existing stores, we achieved an 8.3% reduction in fiscal 2013.

Food recycling ratio



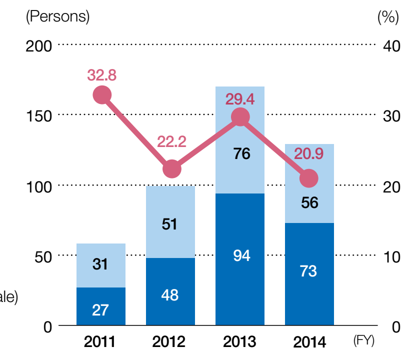
To effectively use surplus food and respond to the Food Recycling Law, we have worked to improve this ratio 2 percentage points or more each year (using 22.5 percent in fiscal 2007 as a base). As a result, we achieved a ratio of 47.6% in fiscal 2013 against a statutory target of 34.5% or above.

Ratio of working mothers to all female employees



As a result of our childcare support policies, the ratio of working mothers to all female employees has increased 12.1% over the past 12 years. The ratio of employees reinstated after childcare leave is also quite high, at 98.3 percent (cumulative basis since fiscal 2000).

Number of men and women and ratio of non-Japanese among new hires



Half of new hires are women and 20% to 30% are of non-Japanese nationalities. We promote diversity by consciously maintaining these ratios.

Innovation through teamwork

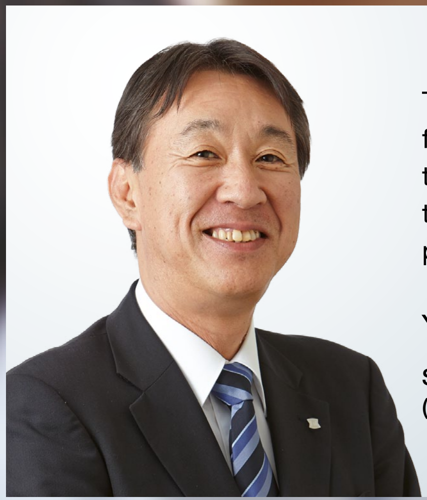
At Lawson, we have a tradition of using the corporate culture we have developed over time to spark innovation. Going forward, we will continue to innovate as "Team Lawson" to solve issues in communities from the customer's viewpoint.

While sticking to our core corporate strategy, I will push forward with the realization of our corporate philosophy of "Creating Happiness and Harmony in Our Communities."

Genichi Tamatsuka
President and CEO,
Representative Director

I hope to improve corporate value by continuously taking on bold initiatives unique to Lawson together with our stakeholders.

Sadanobu Takemasu
Senior Executive Vice President,
Representative Director

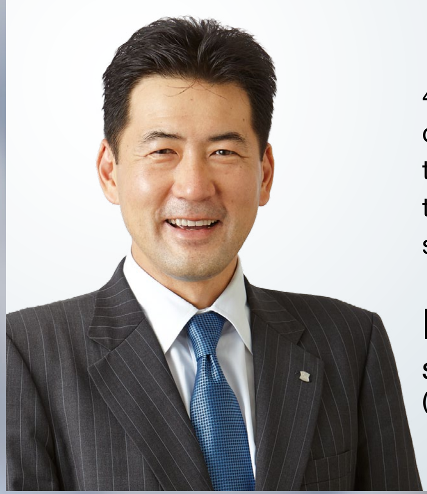


Think for yourself before acting, finish what you start, and stay true to the basics. These are the keys to success in the harsh realm of product development.

Yuichi Wada
Senior Vice President
(in charge of merchandising & logistics)

Lawson has consistently increased dividend payments over time; we will communicate with the stock market, always keeping in mind the importance of consistency and discipline in this and other areas.

Yutaka Yoshitake
Executive Vice President, CFO
(in charge of finance, accounting, etc.)



40 years since the inception of the convenience store, it is now time to reinvent the industry's conventional business model and IT infrastructure.

Masaharu Kamo
Senior Executive Vice President
(in charge of strategic IT, etc.)

We have seen a dramatic increase in human resources who seek out innovation and who speak with passion about what should be done and how they should do it. Look forward to what happens next.

Seiko Osumi
Deputy Senior Vice President
(in charge of human resources & diversity)

Building on our unwavering commitment to innovation, we will make every effort to ensure customer satisfaction while continuing to create new value and thus realize sustainable growth in concert with all stakeholders.

Making a dramatic leap forward by taking action and delivering value

Looking back on our time as a member of the Daiei Group as our "first foundation," I see the period since our public listing in 2000 and our success since then in pushing forward a wide range of innovations that have contributed to considerable growth as a "second foundation." I joined the Lawson management team as COO in January 2011 and over the ensuing period have worked closely with our former chairman, Takeshi Niinami, to continue on this path of innovation and ensure that the Company maintains its growth trajectory. In this regard, for me, the past three years have served as a period to sow seeds for the future.

Health and wellness in communities-oriented initiatives; perishable foods; freshly-brewed coffee (MACHI cafe); and fast foods. These are just some of the seeds we have planted over the past few years through ongoing innovation that have already sprouted and come to hand. I strongly believe that our mission and responsibility is to deliver new value to customers, to fully satisfy customer needs, and to ensure that these seeds blossom by strategically taking action and delivering value. Naturally, this is not a responsibility that I can meet on my own. Placing the utmost emphasis on taking action in a timely manner, it is vital that we take up the challenge as a team. The Group as a whole must adopt a disciplined approach in carrying out its Corporate Philosophy while nurturing human resources distinguished by initiative and autonomy.

To secure sustainable growth, I will lead Lawson under the following five key principles.

1. Ensure that Lawson's Corporate Philosophy is instilled in our organization and its people, respecting the values articulated, as everything we do is inspired by this Corporate Philosophy
2. Strengthen the relationship with the franchise owners and achieve mutual growth in addition to collaborative success
3. Become the world's No. 1 manufacturing retailer based on small commercial areas
4. Motivate each individual to take initiative, at the same time adhering to discipline, in order to pursue success
5. Foster and empower 100 young leaders of the next generation

Reflecting on Fiscal 2013

Achieved a year-on-year increase in operating income of 2.8% while focusing on raising the profits of franchise owners

In fiscal 2013, the fiscal year ended February 28, 2014, Japan's economy took positive steps toward recovery. Despite this favorable development, operating conditions were impacted by poor weather conditions during the first half and intense competition throughout the period due to such factors as the large-scale opening of stores by other companies. Lawson drew a sharp contrast with this large-scale opening, placing emphasis instead on developing products that address the needs of local communities and providing an attractive assortment of merchandise. At the same time, we accelerated the pace at which MACHI café and Machikado Chubo (the provision of hand-made products in stores) were introduced across the store network. Through these means, Lawson placed considerable weight on raising the profits of franchise owners. For the fiscal year under review, sales at existing stores on a non-consolidated basis edged down 0.2% compared with the previous year. While the number of customers declined 1%, spending per customer climbed 0.8%. On this basis, results were in line with initial plans. Meanwhile, we continued to focus on profitability in rolling out new stores. As of February 28, 2014, the total number of stores stood at 11,337, up 361 stores year on year. As a result of these factors, net sales of all stores climbed 2.0% compared with the previous fiscal year to 1,945,394 million yen for the fiscal year under review.

From a profit perspective, operating income improved 2.8% year on year to 68,127 million yen. While selling, general and administrative (SG&A) expenses increased as a result of expenses incurred in raising the profits of franchise owners, this improvement was largely attributable to the sales growth of over-the-counter fast food products, which boast a relatively high profit margin, and the positive flow-on effect to gross profit margins. Net income increased 14.4% compared with the previous fiscal year to 37,966 million yen. This was 2.0 billion yen higher than initial full fiscal year plans and due mainly to the decrease in deferred income taxes in accordance with the business reorganization of Ninety-nine Plus, Inc.

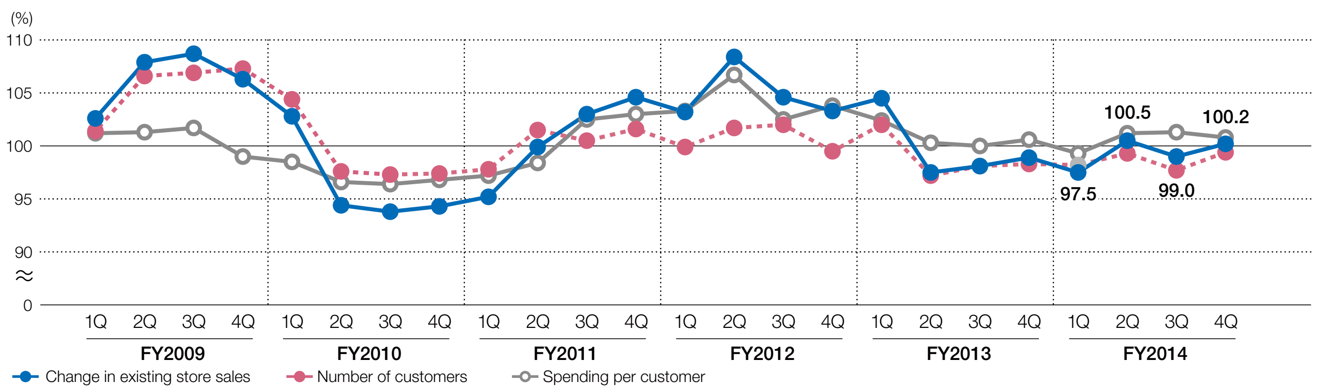
Consolidated performance highlights for the year ended February 28, 2014

(Billions of yen, %)

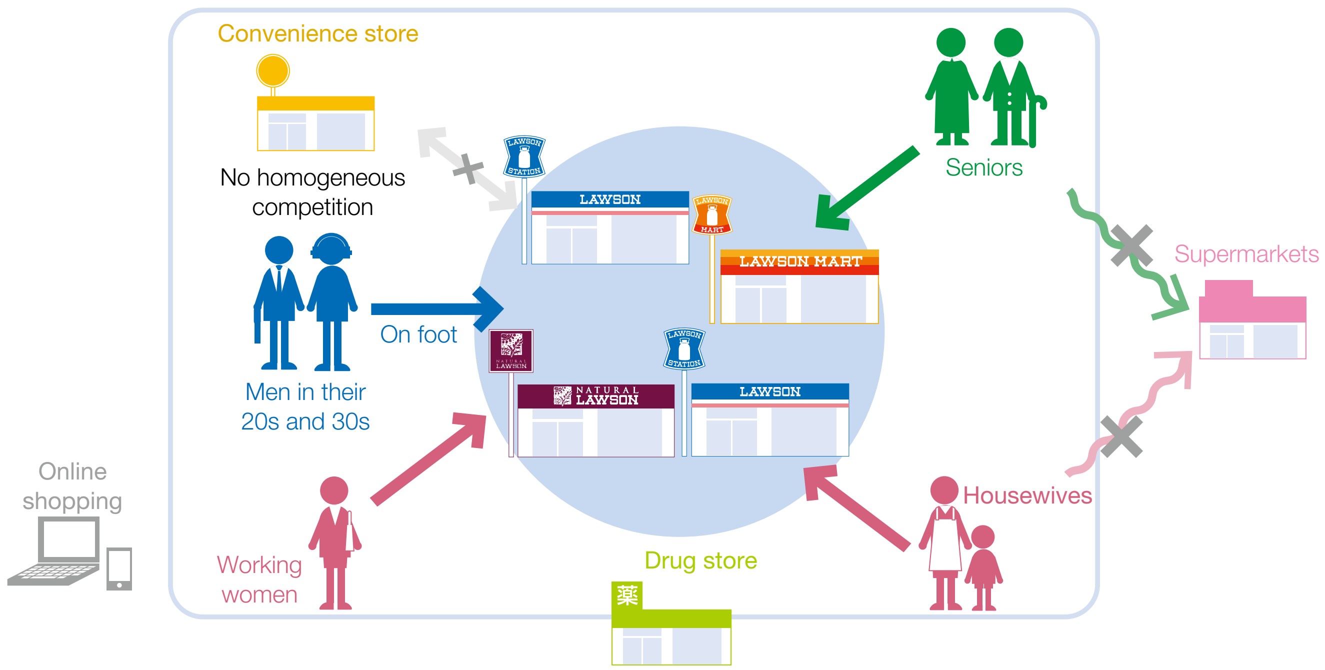
	FY2013	FY2014	% Change
Operating income	¥ 66.2	¥ 68.1	+2.8
Net income	33.1	37.9	+5.8
ROE (%)	15.2	16.1	+0.8
All stores' net sales	1,906.5	1,945.3	+2.0
Operating margin (%)[1]	3.5	3.5	+0.0
Gross profit margin at existing stores (%)[2]	30.5	31.0	+0.5

Notes: 1. Based on all stores' net sales
2. A sum of all LAWSON and NATURAL LAWSON stores

YoY changes in existing store sales, number of customers, and spending per customer (consolidated)



Lawson as a neighborhood store



Convenience Store Growth Potential

The industry maintains the capacity to grow mainly through expansion that transcends conventional business modes

The convenience store industry recorded 2013 calendar-year sales of 9,872.4 billion yen, a year-on-year increase of 4.2%. On this basis, the industry is in sight of the major milestone of 10 trillion yen in sales. At the same time, the total number of stores climbed 5.0% year on year to 50,234.

Leveraging their underlying strength as neighborhood stores that operate on a 24-hour basis, convenience stores have continued to develop and grow by providing products and services across a variety of formats. Against the backdrop of an increase in demand for ready-made meals and in-store foods, for example, we are seeing a shift in demand from eating out toward food services, lunch-boxes, prepared foods, fast foods, and, more recently, freshly brewed coffee.

This trend reflects shifts in demographics, especially such changes in society as the growing number of women in the workforce as well as the declining birthrate and aging population. There are indications that these trends will trigger a major readjustment within the retail industry in three to five years. As a case in point, there are currently 50,000 supermarkets and 60,000 drugstores and prescription-selling pharmacies in Japan. If we successfully implement a fine-tuned response to changes in local communities, we anticipate the frequency of visits to neighborhood convenience stores will increase, to the detriment of supermarkets in far-off locations and downtown drugstores. Taking into consideration this forecast industry reorganization and various trends, including the expansion of the customer base across conventional business modes, I am confident that there is ample room for convenience stores to grow.

Establishing a Presence as a Manufacturing Retailer based on Small Commercial Areas

Pursuing additional growth opportunities as a neighborhood store

The Great East Japan Earthquake served to reinforce awareness of the social infrastructure function of convenience stores in providing essential items and services at the local level. Against this backdrop, I strongly believe in the potential of our business model, which focuses on our status as a manufacturing retailer based on small commercial areas and our ability to provide customers with whatever they want, whenever and wherever they need it. I would like to take this opportunity to briefly outline how we are attempting to promote this business model from the three perspectives of store opening, products, and store management.

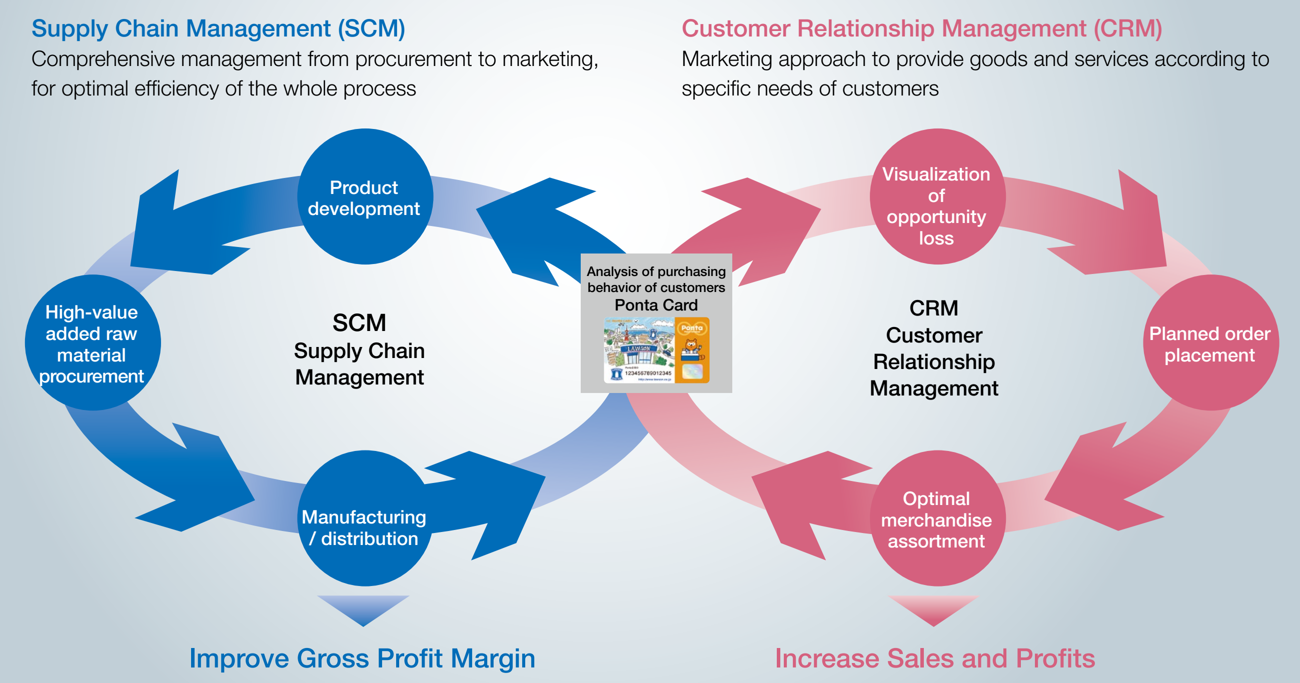
Looking first at our strategies for opening new stores, we have worked to differentiate ourselves from other companies by promoting our role as a neighborhood store and developing multiple formats at the earliest possible opportunity. This focus on the aggressive development of multiple formats has led to the launch of health-conscious NATURAL LAWSON, fresh food-type LAWSON STORE100, and next-generation LAWSON MART convenience stores. Through a process of store development evolution, we have successfully addressed the needs of women and the elderly, which for the most part had been unmet by conventional convenience stores. Following the announcement in October 2013 of our strategy to extend our business model and establish a presence as a provider of health and wellness in our communities, we have attracted keen interest from these new customer segments. Recognizing the potential for expansion in the health-related market, we are dramatically accelerating the pace of business development. By ensuring that the format of newly opened stores matches the needs of each community, we will expand our market share as a neighborhood store.

Moving forward, we will make the most of our unique strengths as a manufacturing retailer by positioning original products as the driving force behind our expansion. In developing original products, Lawson utilizes a supply chain management (SCM)-customer relationship management (CRM) model while working closely with raw material procurement and product development departments as well as marketing departments that engage in Ponta multi-partner loyalty point program data analysis. This model goes a long way toward developing high-value added products from the customer's perspective while helping to secure high profitability. At the same time, efforts to strengthen original products that boast high gross profit margins contribute to an

increase in the gross profits of existing stores. This in turn is a major factor in achieving significant improvements in franchised store earnings.

From a management and store operating perspective, reinforcing relationships with franchised stores will be increasingly important if we are to prevail over the competition. Historically, we have conducted Lawson Seminar and Owners' Meeting events to convey and share with franchise owners our Corporate Philosophy, strategies, and principles. In order to build robust stores and forge a strong position within each community, we have also held Area Meeting events to share best practices and reinforce collaboration. Looking ahead, we will endeavor to further reinforce these relationships through a variety of initiatives. We will, for example, expand mechanisms to support outstanding franchise owners who exhibit a strong entrepreneurial spirit by enhancing our Management Owner (MO) system.

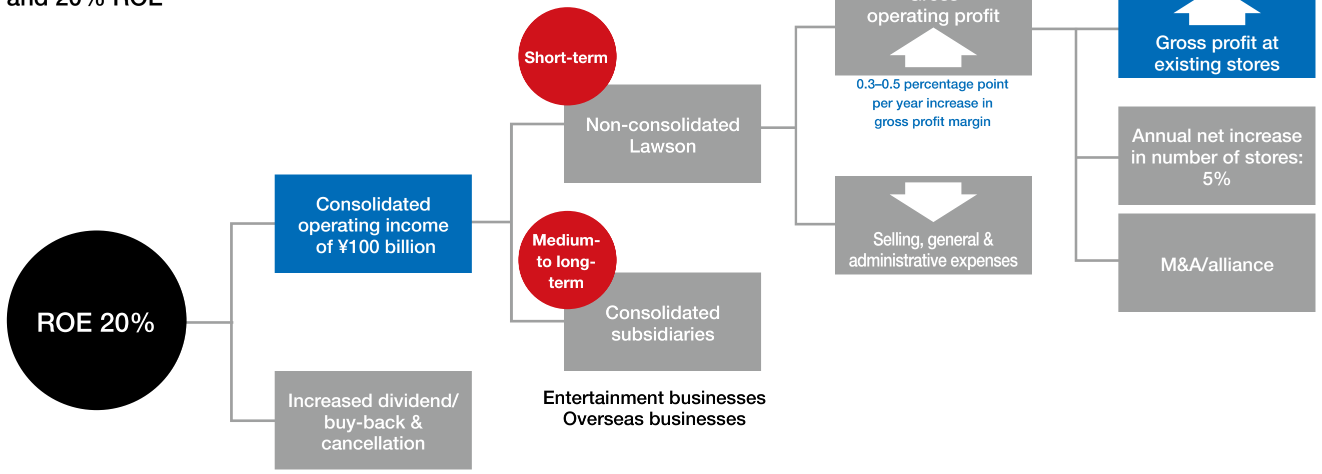
Lawson's SCM–CRM model



Lawson's Capital Discipline

Striving for an ROE of 20% and consolidated operating income of 100 billion yen to meet the expectations of global investors

Road map to medium-term continuous growth and 20% ROE



Lastly, I would like to elaborate on our plan for sustainable growth from a finance strategy perspective.

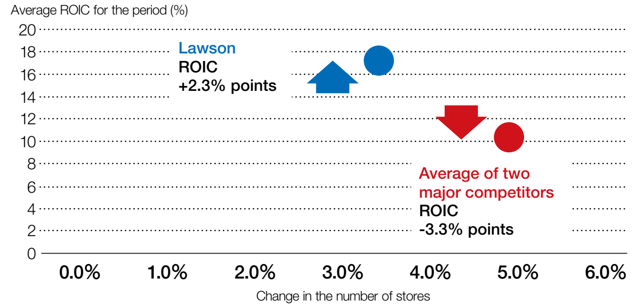
In carrying out its operations, Lawson has laid out a road map based on an ROE target of 20%, the global standard for capital efficiency. There are essentially two ways to achieve this target. One is to increase profit by increasing operating cash flows in our core business. The other is through finance strategies to increase capital efficiency.

Lawson places profit growth through its core business as its first priority. At the same time, we focus on distributing cash flow in a manner that balances the need for optimal medium-term reinvestment with the need to return profits to shareholders. In this regard, deciding how to allocate cash flows is central to our business strategy.

Return on investment (ROI) is the criteria that we use to determine how operating cash flows will be allocated to various activities, including the opening of stores, sales promotions, M&A, and new businesses. Lawson adheres strictly to a capital discipline that mandates an ROI of at least 20% when determining the allocation of funds. The positive effect of adhering to this capital discipline is evident in the fact that our return on invested capital (ROIC) has consistently increased over the past decade while those of our competitors have decreased.

Turning to our plans to open new stores during the fiscal year ending February 28, 2015, we will continue to focus on profitability. Our plan is to open 1,100 stores, up from the 869 stores opened during fiscal 2013. In terms of cash flows, cash provided by operating activities is projected to reach around 100 billion yen due to such factors as the increase in the number of stores and improvements in the gross profit margin. Allowing that cash used in investing activities will temporarily rise to around 70 billion yen due mainly to efforts aimed at strengthening existing stores and investments in systems, we still forecast free cash flows of approximately 30 billion yen. In the future, cash used in investing activities is expected to total between 50 and 60 billion yen, assuming that the opening of stores continues at its current pace. Cash used in financing activities (focused largely on the payment of dividends) of around 40 billion yen is forecast to fall within the scope of free cash flows.

Changes in ROIC compared with our competitors for ten years



Notes: 1. ROIC = operating income after taxes (assuming a 40% tax rate) ÷ average invested capital during the period (total equity + interest-bearing debt)
2. Growth rate of total number of stores (average annual rate from fiscal 2003 to fiscal 2013)
3. Arrows indicate the direction of change in ROIC between fiscal 2004 and fiscal 2013

Along with an ROE of 20%, we have set the medium-term quantitative target of 100 billion yen in consolidated operating income. In order to achieve this target, we will place considerable emphasis on expanding the gross profit of existing stores, which is linked directly to the profits of franchise owners. In specific terms, we will upgrade and expand original products with high profit margins, including over-the-counter fast foods; reduce procurement costs by improving supply chain management; and review the pricing mainly of high-value-added products, reflecting the transition from deflationary to inflationary market conditions. As a result of these activities, our plan is to lift the gross profit margin from 31.0% in the fiscal year under review to 35.0% over the medium to long term. Just as importantly, we are reducing SG&A expenses through business process reengineering (BPR). Buoyed by these business initiatives, we aim to increase the ratio of operating income to the net sales of all stores from its current level of 3.5% to 5.0% over the medium term.

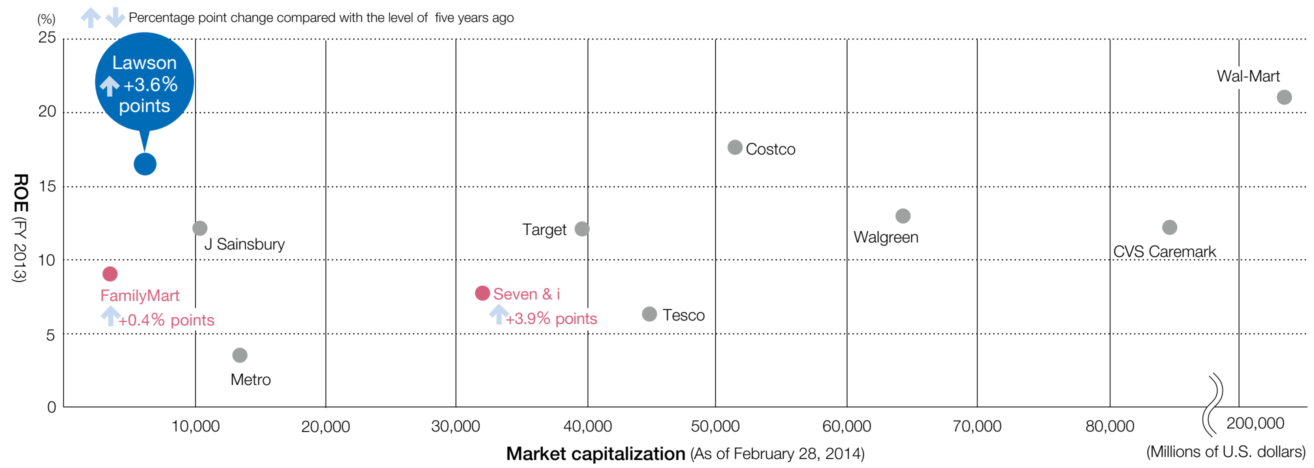
In addition to pursuing growth based on our existing convenience store business, we will also search out opportunities that arise from the anticipated future reorganization of the industry, taking into consideration M&As and alliances across conventional drugstore, supermarket, and other business formats. We will not, however, pursue M&As solely for the purposes of increasing net sales and the number of stores. We will adopt a strict approach that focuses on return on investment and the ability to generate synergy. Accordingly, we will continue to place the utmost importance on maintaining capital discipline.

With the change in the Company's top management, we have decided to change the structure of the Compensation Committee to newly establish the Nomination and Compensation Advisory Committee. This four-member committee is comprised of two external directors and two external corporate auditors. With this initiative, we are seeking to further enhance management transparency.

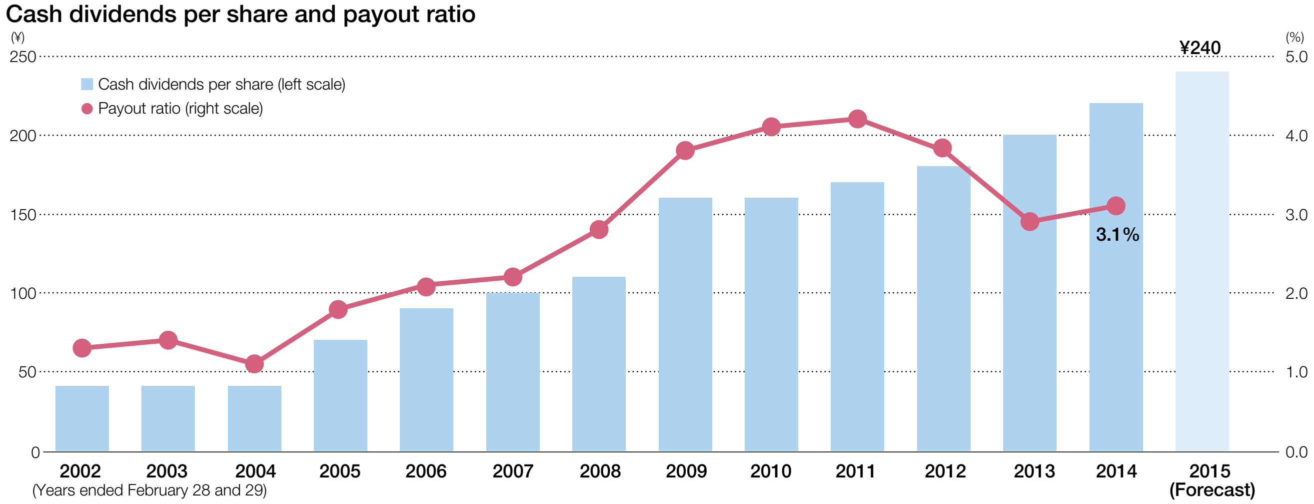
Recognizing that there is currently no global standard for neighborhood stores that seek to fulfill the needs of customers

in local communities, Lawson is endeavoring to establish a unique model as a manufacturing retailer based on small commercial areas. We understand that organizational prowess and human resources will be essential to achieving this end. In addition to promoting organizational diversity, we will also work to foster and empower 100 young leaders of the next generation. Moreover, we will position the return of profits as a key management mission and, while maintaining high standards of capital discipline, strive to meet the expectations of global investors through our share price and dividends.

ROE: Comparison with retailers around the world



Cash dividends per share and payout ratio

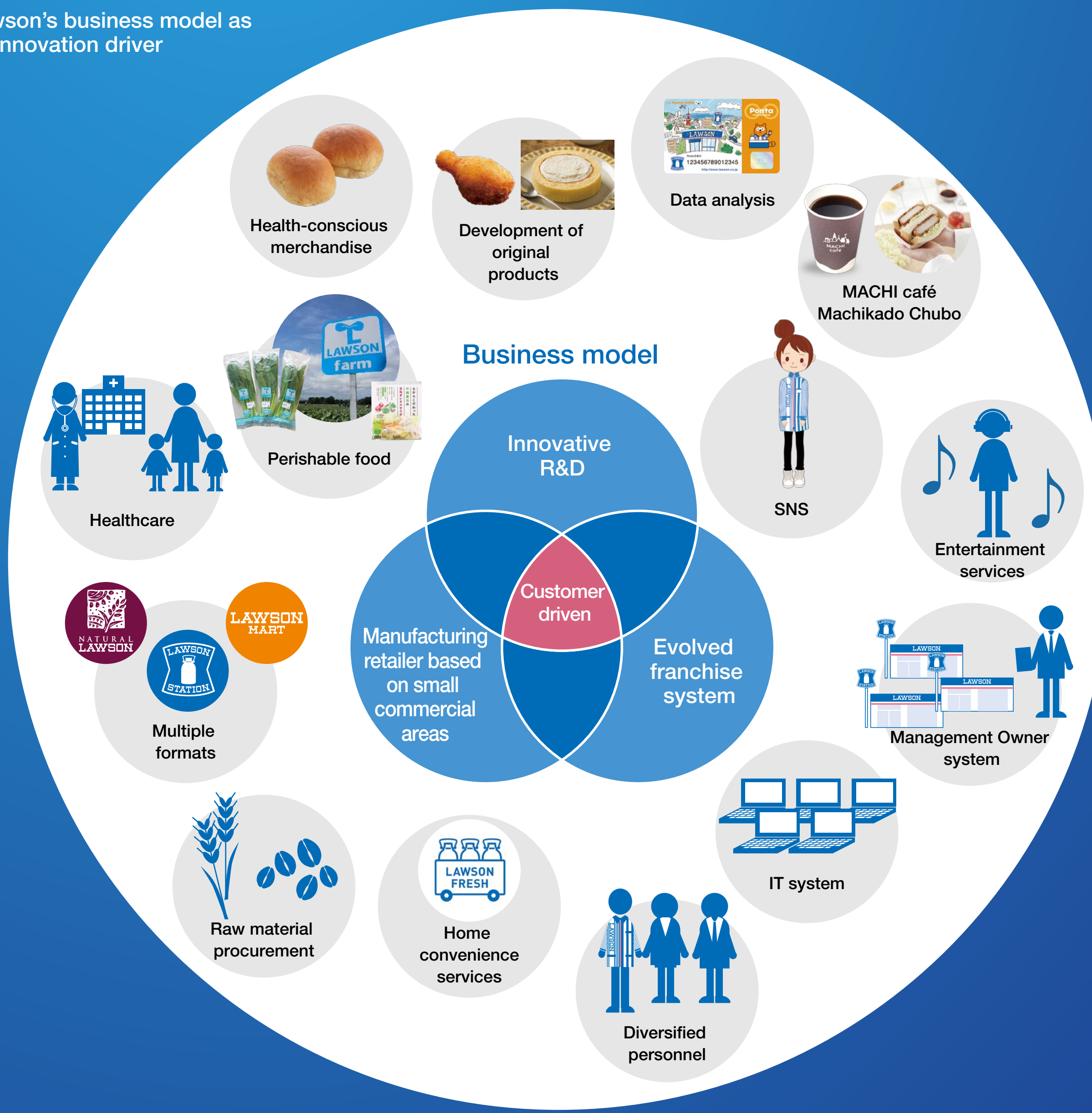


Thinking up new innovations for our customers

Lawson has successfully created innovative drivers of growth with original products, perishable foods, MACHI café, over-the-counter fast foods, and its Management Owner (MO) system. This success is rooted in a business model as a manufacturing retailer based on small commercial areas featuring innovative R&D from the customers' viewpoint and an advanced franchise chain system.

In this special feature, we explain how Lawson offers customers new value as an innovation driver that plants the seeds of future growth.

Lawson's business model as an innovation driver



Marketing

Honing our understanding of communities

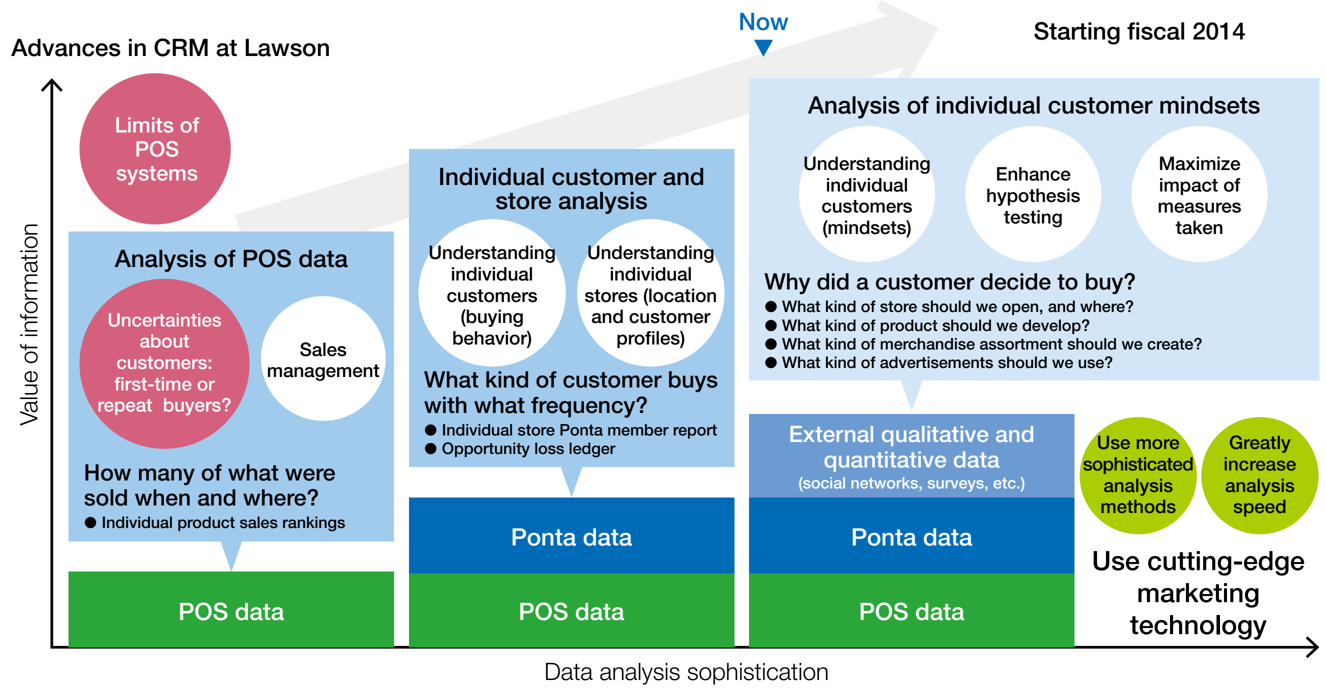
The point of sale (POS) systems that have supported strong growth in the convenience store industry are beginning to show their limitations. POS systems are an effective tool for constantly refining product lineups by managing individual products in order to efficiently turn over inventory in small store spaces. However, POS systems are unable to grasp diversifying individual customer needs. A deep understanding of our communities is essential. We believe there is always something more we can learn about our communities in order for Lawson to win the approval of its customers.

Lawson has introduced a multi-partner loyalty point program called Ponta, enabling us to better grasp trends in customer shopping patterns. With Ponta, in addition to simple information such as what products are selling well, we are able to discern, for example, whether many customers are buying a certain product once each, or whether a few customers are buying the product more than once. In analyzing frequent customers who buy a lot at individual stores, Ponta data can clearly reveal that men in their 30s and women in their 40s are the most common such users, instead of merely conjecturing that young men are probably the most frequent buyers. This data analysis helps individual stores identify their strengths and unique characteristics. It has also allowed us to unearth potential needs for product development by connecting customer traits to repeat rates. As of the end of July 2014, the number of Ponta members was around 64 million, and sales to Ponta members represented roughly 50% of total sales. The precision of Ponta data analysis has been improving every year.

Since March 2013, Lawson has compiled reports analyzing Ponta data on purchases for individual stores and distributed them to franchise chain stores throughout Japan. These reports reduce opportunity loss by helping individual stores optimize their assortment of merchandise and realize their full potential. Referring to this data when determining shelving allocation makes order placement more efficient while reducing labor. Property information in the hands of store development managers is paired with reports analyzing commercial areas based on Ponta data, thereby helping to create more precise regional store development strategies.

We aim to take this data analysis to the next level by studying the mindsets of individual customers based on the outcome of individual customer and store data analysis. Lawson is working hard to win the support of more customers by developing new products, identifying key customers, and enhancing its assortment of merchandise.

Advances in CRM at Lawson



Intellectual assets: Customer viewpoints, social networks

Every day, around 10 million people walk into a Lawson convenience store. Roughly half of our sales can be linked to data on the buying habits of Ponta members, and this in itself is a precious resource for management. In addition to customer traffic in our stores, our brand character, Akiko-chan, has more than 13 million followers on Line, Facebook Twitter and other social networks (as of July 2014). Our presence on social media has been expanding.

At Lawson, we analyze shopping data and keywords used on social networks to grasp customer needs and broader trends in society in order to deepen our understanding of communities.

Responding to social trends based on the keyword "Health" from customer viewpoints

Evolving convenience stores

Aiming to contribute to health and wellness in our communities

As lifestyles in our communities change, we aim to be a more helpful convenience store, and "Health" is a keyword that symbolizes how we can do this.

In Japan, birthrates have been declining and the elderly population and social security costs increasing. Against this backdrop, awareness has been increasing about what society can do, instead of leaving it up to individuals, by offering a wider range of lifestyle assistance services to help prevent lifestyle-related ailments (including symptoms of impending ailments) or help the elderly retain greater independence. Lawson wants to help people manage their health as part of their normal lifestyles by offering even more delicious and nutritious foods. With this objective in mind, Lawson wants to advance the reputation of convenience stores as being not only "easy and convenient" but also "easy and healthy" as an agent for health and wellness in communities.

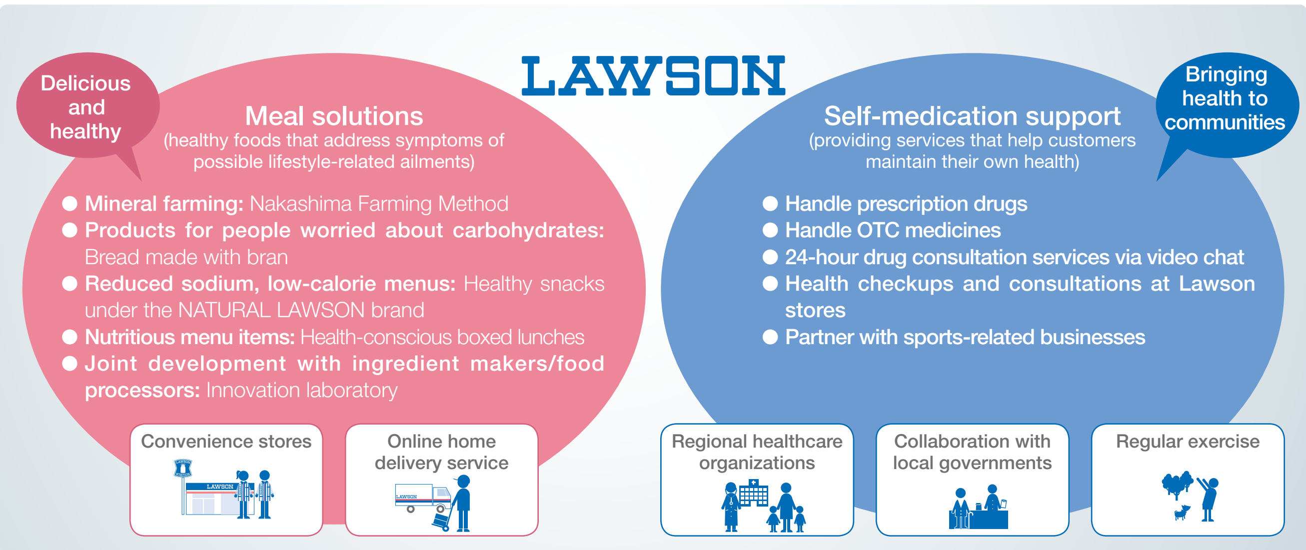
In 2001, Lawson launched the NATURAL LAWSON convenience store model with a health-conscious assortment of products. Since then, we have continued to make upfront investments with a greater consciousness of health in developing store formats, creating products and strengthening our merchandise assortment. With this accumulated expertise, Lawson aims to create convenience stores that contribute to the health of communities based on two approaches: meal solutions that nourish the body through daily eating habits, and support for self-medication that helps customers help themselves in times of need.

The meal solution approach entails offering delicious and healthy foods for our customers. Traditionally, healthy foods have been strongly associated with small portions and flavorlessness. Lawson aims to develop delicious and healthy products by leveraging its strengths as a manufacturing retailer based on small commercial areas. Such products include vegetables rich in minerals grown using the Nakashima Farming Method of caring for the soil; breads made with bran jointly developed with bakeries for people worried about carbohydrate intake; and reduced-sodium, low-calorie confectioneries sold under the NATURAL LAWSON brand.

Drug sales are an integral part of offering support for self-medication. Lawson has been developing store formats that incorporate dispensing pharmacies since 2003. Lawson has formed partnerships with Qol Co., Ltd., a major dispensing pharmacy chain, and MIZ-Pharmacy Co., Ltd., a dispensing pharmacy and drug store operator in Saga Prefecture and Fukuoka Prefecture. As of the end of July 2014, Lawson had opened 40 convenience stores with dispensing pharmacies, most located in the Tokyo metropolitan area. Lawson plans to aggressively expand the number of convenience stores that also sell drugs through partnerships with local dispensing pharmacies and drug store chains. In July 2014, we began offering order placement services for approximately 280 over-the-counter (OTC) medicines, such as for cold medicines, fever reducers, and stomach medications, via our multimedia terminal ("Loppi") in stores for customers that do not have internet access at home. We are examining ways to improve customer convenience even further.

One of our more unique initiatives is bringing medical checkups to Lawson stores. A prerequisite for healthy lives is the early discovery of diseases through regular medical checkups. Getting more people to undergo medical checkups has become a social issue. Lawson is collaborating with Amagasaki City in Hyogo Prefecture, Matsumoto City in Nagano Prefecture, and Saga City in Saga Prefecture to provide health checkups and consultation services for local residents at their nearest Lawson store.

Lawson will continue to pursue innovation to contribute to health and wellness in communities.



Pursuing innovative R&D from the customers' viewpoint

Product development

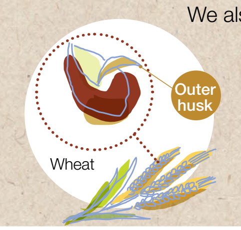
Focusing on the development of products that provide new value to society

Taking the customer's point of view, it is essential that we develop delicious and compelling products that customers prefer in order to offer an assortment of merchandise in tune with the needs of communities. Lawson concentrates on the development of original products with new added value that satisfies the needs and expectations of its customers.

It is said that one in four people in Japan are at risk of becoming diabetic, and health-conscious women are strongly interested in foods low in carbohydrates. Such foods, however, have a reputation for being expensive yet not flavorful, and many are sold only by direct order. In June 2012, Lawson began offering a series of bran breads in collaboration with a major bread bakery and THE-TORIGOE CO., LTD., which has patented technologies in Japan, the United States and Europe for making bread low in carbohydrates that incorporate the outer husk of grains. To make the bread more enjoyable, Lawson made several improvements to the mixture of bran and the production process. Thanks to these improvements, including the addition of rice bran to traditional dough, we succeeded in creating a softer, moister bread in May 2014. By offering customers new value in terms of a delicious staple food that they can buy locally without worrying about carbohydrates, we have introduced a product with social impact in the sense that it benefits customers who have to limit their carbohydrate intake. Based on Ponta purchase data, the repeat rate for bran bread is higher than 40%, even higher than other original Lawson products. Over the two years through May 2014, we have sold a total of 35 million bran bread products.

In May 2014, we also began selling healthy treats, such as cookies that use wheat bran, snacks low in sodium, marshmallows with lactobacillus added, and chips made out of konjak. Lawson will continue to focus its energies on creating products and services that anticipate customer needs and are in tune with social trends so that its convenience stores always have what customers in the community want, whenever and wherever they need it.

What is Bran? Bran is a grain's outer husk. It is higher in dietary fiber and lower in carbohydrates than ordinary wheat flour. Lawson offers bran bread across several product categories, such as sandwich bread, confectionery bread, and snack bread. We also use bran in other products, such as cookies, snacks, and roll cake.



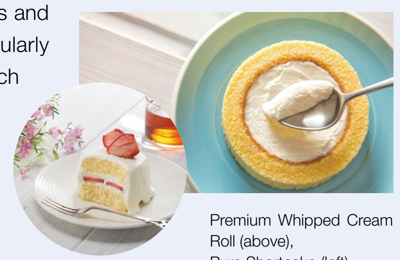

Bran bread rolls | Bran bread | Bran moist melon bread | Bran soy milk cookies | Bran black sesame cookies | Bran hard-baked snacks

Constant change and effort leads to new value

Yoshiyuki Suzuki

Deputy Division Director, Merchandising Division and General Manager, Bakery Products & Desserts Department

Lawson's desserts are quite popular among women in their 20s and 30s, outselling the competition. The first dessert that particularly struck a chord was our Premium Whipped Cream Roll, which was launched in September 2009. Desserts that men buy as an afterthought became a primary reason for women to visit our convenience stores. Starting with product planning, Lawson has unique strength in the process of procuring the finest ingredients itself, making desserts with the cooperation of vendors and delivering them to customers.


Premium Whipped Cream Roll (above), Pure Shortcake (left)

For example, we created our Pure Series products that do not, in principle, contain additives by first putting aside the success we had with Premium Whipped Cream Roll. We turned the conventional approach of "adding" on its head, instead "subtracting" ingredients as a concept for simple yet delicious foods that do not contain additives when at all possible.

Not using any additives was a concept that ran counter to common practices in food production, so we had to dive deep into our supply chain in order to make this concept a reality. The fruit of these efforts is the Pure Series products, which have won the approval of mothers in their 30s and 40s with small children. By tapping into a different customer category than that of the Premium Whipped Cream Roll, we were able to unearth a new market with potential for growth.

Visibility in the supply chain is a differentiating point for a manufacturing retailers based on small commercial areas

Supply chain

Focusing on high quality, low cost, and the environment by enhancing visibility in the supply chain

One of Lawson's strengths lies in the procurement of ingredients. To improve SCM, we eliminate inefficiencies and waste by increasing the visibility of quality and the cost structure through the integration and optimization of our entire supply chain. In 2003, Lawson created the Raw Materials Procurement Department, where experts carefully select ingredients. In 2012, Lawson established SCI, Inc. as a functional subsidiary and built relationships with producers nationwide. We then turned our attention to redundant and duplicated processes in logistics prior to the production stage, giving us a better view of ingredient processing. We methodically increase efficiency all the way up the supply chain.

Lawson takes pride in its Raw Materials Procurement Department, which supports product development by starting with high-value-added ingredients that are strategically procured in large volumes in collaboration with the merchandising departments, helping to find best foods. Through these initiatives, we are able to attain the opposing objectives of reducing costs and procuring high-quality ingredients, thereby realizing a high gross margin on our original products.

As a part of our food safety management, we only conduct business with food production plants that clear our own standards for quality management. Plants that make rice balls, boxed lunches and other original products are subject to stringent quality management standards through cooperative unions, and are inspected every six months. In addition, the merchandising section in each region of Japan conducts thorough on-site inspections of the plants in their region.

To provide products and services, such natural resources as electricity, gasoline, other forms of energy, and water are used in operations throughout the supply chain that emit CO_2 and waste byproducts. In order to minimize the impact of these factors on the environment, Lawson measures CO_2 emissions at each stage of its supply chain, from ingredient procurement to product production, distribution and sale at its convenience stores. Based on this data, Lawson implements various measures to reduce CO_2 emissions.

Creating visibility in the supply chain through structural reform

Aiming to control the supply/demand balance by integrating and optimizing our supply chain

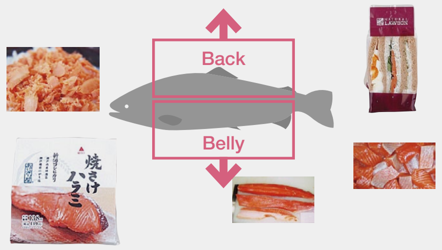
Visualization of all processes

Operations

Analyzing and using Ponta purchase data and other customer information

Procuring high-quality ingredients at low cost by selling all raw materials procured

Lawson procures whole trout farmed in Chile and uses it as a common ingredient in boxed lunches, rice balls, sushi, sandwiches and other products, not wasting any part of the fish.



Meticulous sanitation management with own HACCP system

At plants that produce rice dishes, Lawson has put in place its own Hazard Analysis and Critical Control Point (HACCP) system for food sanitation management in order to prevent accidental food poisoning and foreign matter mixing into food. Records are kept for every critical control point in the production process, such as cooking times and food temperature management. In the event of a problem, we are able to quickly identify the issue and implement countermeasures.

Optimizing the merchandise assortment by analyzing customers and stores

Using IT systems, Ponta data is analyzed for convenience stores and hypotheses are drawn up based on day of the week, weather patterns, regional events, and other factors in order to find an optimal assortment of merchandise to match customer needs. We aim to reduce the wasteful loss of products and cut down on opportunity losses that arise when customers are unable to find what they want in our stores.

Product development → Ingredient procurement (managed by the Raw Materials Procurement Department) → Manufacturing (Factories for boxed lunches, rice balls, prepared food, bakery items) → Distribution (Distribution centers) → Marketing (Stores)

Society and the environment

Proactive use of lighter, plant-derived packaging

Lawson strives to reduce CO_2 emissions by using plant-derived plastics in containers for its original products. At the same time, Lawson also promotes the use of lighter materials as a way of more effectively using limited natural resources. Through these efforts, we have cut CO_2 emissions by 31.3% compared with the fiscal 2006 level, based on calculations of emissions when containers are incinerated.

Containers made with plant-derived plastics

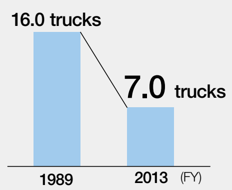
Creating a zero-waste production system

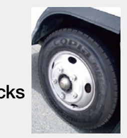
In order to cut waste at the production stage, we have introduced the Production Process Management System to carefully measure ingredients used, product volume, and servings down to the gram.

Efficient deliveries and eco-driving

Lawson aims to efficiently deliver products by promoting multi-drop deliveries and optimizing delivery frequencies. Eco-tires are put on trucks to improve their fuel economy, and drivers are trained in eco-friendly ways of operating vehicles.

Daily number of delivery trucks per store*





Eco-tire

* Delivering goods, except for newspapers and cigarettes

Examining energy-saving benefits and applying results in convenience stores

Since fiscal 2008, Lawson has operated experimental energy-saving stores around Japan to examine the benefits of using energy-conserving equipment with cutting-edge technologies. Leveraging the knowledge gained from these experiments, we plan to roll out energy-saving equipment at all of our locations in Japan and develop even better equipment to slash CO_2 emissions further.

Lawson convenience store in front of Panasonic (Moriguchi City, Osaka)

External evaluations

Lawson selected for three awards in Food Action Nippon Awards 2013

Food Action Nippon Awards 2013 recognizes outstanding efforts to help increase consumption of agricultural products made in Japan. On December 3, 2013, Lawson was selected for three of these awards, including the Award of Excellence in Logistics. Lawson was recognized for its contribution to revitalizing communities and for helping to spread the use of domestically produced foods through its sales of vegetables grown by Lawson Farm, a farming corporation, and creating and selling products made with ingredients grown in Japan, such as the "Delicious! Local Specialties" series of boxed lunches.

Commendation received from Minister of the Environment for promotion of measures to cope with global warming using CO_2 coolant and expanding energy-saving experimental stores

Lawson was commended by the Minister of the Environment for promotion of measures to cope with global warming by deploying advanced technologies in 2013, in recognition of the introduction of CO_2 coolant in refrigeration systems in new, experimental energy-saving stores. This award recognizes the benefits of using cutting-edge energy-saving equipment in our experimental energy-saving stores and the use of freezers and refrigerators that use CO_2 as coolant since fiscal 2010.

Manufactured capital **Enhancing value added along the supply chain**

Traditionally, convenience stores outsource the production of original products, such as boxed lunches, rice balls and sandwiches. Lawson visualizes the entire production process while leveraging its network of 12,000 stores and its low-cost, efficient logistics network. We aim to safely and reliably provide high-value-added products to our customers all over Japan through our supply chain designed to eliminate waste and minimize our environmental footprint.

Creating a framework unmatched by rivals as a manufacturing retailer based on small commercial areas

Maximizing our strengths to create original Lawson products

Lawson's original products leverage its advantages in ingredient procurement and product development. These original products are a key part of its strategy for growth over the medium and long term from the standpoint of improving existing store gross profits. As an example of a related initiative, we introduce below the "Delicious! Local Specialties" series of products, which exemplifies our competitive advantages.

The challenges we have boldly taken on are now a framework unmatched by rivals.

Koichi Fukuda

Deputy Division Director, Merchandising Division

Our strengths in rice-based foods originated with "Onigiriya" rice balls, which were launched in November 2002 and quickly established a brand as a regular product in our convenience stores. The "Delicious! Local Specialties" series of products featuring locally made ingredients also played a key role.

Competition among convenience stores is extremely intense, and popular products are quickly imitated by other chains. For example, there was a bout of intense price competition for boxed lunches after the 2008 financial crisis, in which practically all boxed lunches were priced at 398 yen. When I returned to the Rice Foods Department in 2011 after four years away, the first thing I did was try to absorb all the opinions of our customers. In the wake of food mislabeling scandals, many customers at the time said that they wanted products with reliable information about the origin of ingredients. Other customers had clear opinions about additives and nutrients. If we offer rice balls made only with ingredients grown in Japan, why not do the same with boxed lunches? Initially, merchandisers thought this idea would not work because a sufficient volume of domestically produced ingredients could not be sourced for boxed lunches sold nationwide. However, we paid heed to this customer need and talked with all of our suppliers in order to create the "Delicious! Local Specialties" series of products. Even though prices are 50 or 100 yen higher than regular boxed lunches, customers appreciated their higher value and the series became a hit.

Taking advantage of its pioneer status, Lawson has been putting together a framework including forward purchasing for procuring domestically produced ingredients. At the same time, the "Delicious! Local Specialties" brand has attracted increasing sales offers from producing areas around the country. We are building an ingredient procurement framework by promoting the sale of locally grown ingredients in our brands. We aim to establish a superior, highly differentiated position by focusing on seasonal ingredients and freshness.

Extending our lead in over-the-counter fast foods

Lawson has sold fried foods for the 35 years since it installed fryers in convenience stores in March 1979, an industry first. Lawson's fried foods are sold as prepared foods fried to perfection, including "Kara-age Kun" (crispy Japanese-style fried chicken) and "L-chiki" (fried chicken pieces) snack foods that can be eaten right away, as well as "Tori-kara" (Japanese-style fried chicken) and "Genkotsu Menchi" (fried minced meat balls) that are great as side dishes. In 2014, Lawson secured enough volume of Kitaakari potatoes grown in Hokkaido to launch nationwide sales of high-quality "Genkotsu Croquette," even though only about 2% of arable land in Hokkaido is used for potatoes. Reflecting changes in communities, namely the increasing number of women in the workforce and rising number of households with fewer people, Lawson's sales of fried foods in fiscal 2013 were five times higher than in fiscal 2010, when it began in earnest to offer more fried prepared foods to meet customer needs.

Kara-age Kun

Genkotsu Croquette

Maximizing benefits with partners to develop "Uchina*" products

In 2009, Lawson established Lawson Okinawa as a joint venture with SAN-A CO., LTD., the largest supermarket retailer in Okinawa. As of May 31, 2014, we had 168 Lawson convenience stores in Okinawa. In 2012, we began selling Lawson Select products, which are available around Japan, at SAN-A stores in Okinawa, boosting sales at not only SAN-A, but also at Lawson. In 2013, we began selling Lawson Select products featuring ingredients from Okinawa in a collaboration between Lawson merchandisers and SAN-A buyers. We created a range of products that reflect the unique food culture of Okinawa, such as Okinawa Soba, Okinawa Soki, and Taco Rice. Per-store sales of these Lawson Select products were 1.5 times higher than the national average. By partnering with leading local companies that are in tune with their communities, we are able to develop products and operate stores that suit the traits of these communities.

* A local word for "Okinawan"

Lawson select

沖縄 限定商品

Okinawa exclusive product label

Helping revitalize and change industry structures up the supply chain as a manufacturing retailer based on small commercial areas

Strengthening perishable food sales

Supplying our stores with safe, high-quality fresh foods

Fresh foods are one of the products unique to Lawson that drive customers to our convenience stores.

In 2005, Lawson began offering perishable foods. After creating procurement channels for nationwide deployment, we developed a new format called the fresh food convenience store, which handles fruits and vegetables. This made it possible for our customers to buy perishable foods as a staple of their daily eating habits at their nearest Lawson convenience store. Our Cut Vegetables products use vegetables grown using the Nakashima Farming Method in mineral-fortified soil and appeal to elderly shoppers that tend to avoid shopping in supermarkets and women with little time for shopping.

Lawson's efforts to strengthen perishable foods have led to innovation up the supply chain at farms, helping to provide customers with a safe and reliable supply of high-quality food products. In June 2010, Lawson decided to enter the agriculture business by helping to establish a farming corporation, Lawson Farm, owned 75% by local producers, 15% by Lawson, and 10% by produce wholesalers. As a jointly owned farming corporation with leading local farmers, Lawson Farm operates 19 farms around Japan (as of July 2014), and plans call for increasing this number to 40 farms in 2015. We ultimately aim to create a structure able to procure perishable foods throughout the year from Lawson Farms in various production regions. We also aim to expand the volume of vegetables produced by increasing the number of contracted farmers. To do so, we will invest in the produce home delivery services DAICHI wo MAMORU KAI (Earth Environment Preservation Society, an organic food delivery organization) and Radish Boya.

What is the Nakashima Farming Method?

The Nakashima Farming Method is an assembly of technologies for creating healthy soil based on soil analysis and technologies for controlling growth aimed at the sustainable production of nutrient-rich agricultural products. The method supplies cultivated plants with an optimal balance of nutrients based on their stage of growth while maintaining the balance of mineral nutrients in the soil. The objective of the method is to produce high-quality fruits and vegetables in a safe and reliable manner.

Lawson Green Project

The Lawson Green Project aims to deliver delicious vegetables to everyone in the community, starting literally from the ground up with soil cultivation.

ローソン グリーン プロジェクト

Lawson Green Project label

Lawson Farm

Working with professional farmers, Lawson develops products that match the needs of its convenience store customers while helping foster the next generation of farmers and develop regional agriculture through Lawson Farm.

Cut Vegetables

Lawson's Cut Vegetables products are packaged vegetables that have been cut, sterilized and washed in cold water. Customers love the convenience of being able to eat the cut vegetables right out of the bag without having to wash them first.

Oden daikon grown on Lawson Farms

Daikon (Japanese radish) used in oden (Japanese hot pot) sold at Lawson convenience stores is sourced entirely from Lawson Farms, with radishes grown at Lawson Farm Hokkaido Iwanai from August to early October, and radishes grown at Lawson Farm Tottori after October.

Social capital **Contributing to social capital through our business**

Perishable foods are the greatest bounty from the natural environment. When convenience stores began offering perishable foods, it was quite significant from a social perspective, because it gave people the option of easily buying fresh vegetables in individual portions at their nearest convenience store. This option also helps the elderly maintain healthier eating habits.

Meanwhile, with their considerable buying power, convenience stores offering fresh fruits and vegetables have created new business opportunities for farmers and increased employment opportunities in rural areas. The emphasis on quality by convenience stores in selecting suppliers has encouraged farmers to improve their operations, which is expected to have the ripple-down effect of boosting the competitiveness of Japan's agricultural sector.

Lawson is involved in agriculture through the agricultural corporation Lawson Farm and the promotion of the Nakashima Farming Method. As a result, Lawson contributes to the revitalization of Japan's agricultural industry through its engagement in the creation of a new form of industry (a sixth sector of the economy) combining farmers (the primary sector), food processors (the secondary sector), and distributors and resellers (the tertiary sector).

Advanced franchise system is key to creating stores in tune with communities

Strengthening individual stores and relationships with franchise locations

Aiming to fulfill our Corporate Philosophy together with entrepreneurs who deeply understand their communities

The Lawson franchise system is a cooperative business system that aims for growth by sharing our corporate philosophy of "Bringing happiness to communities" as the basis of partnership between headquarters and franchise owners. At Lawson, we concentrate on building relationships with franchise owners based on the awareness that our growth rests largely on the entrepreneurial mindset of franchise owners and our franchise system. We hold Lawson Seminar events to spread our companywide principles and vision as well as Owners Meeting events to openly exchange opinions. Moreover, our Area Meeting events held around Japan are designed to share the business plans and successful experiences of franchise owners.

At Area Meeting events, franchise owners discuss trends in consumption in their regions and share their thoughts on issues facing their businesses, thereby forming stronger connections among themselves and a greater awareness of ways to strengthen their respective areas. We believe franchise owners must form bonds in order to serve communities during emergencies as a fourth critical resource after electricity, gas and water.

In addition to Area Meeting events, our management owner (MO) system plays a major role in reinforcing our business foundation. Launched as a unique initiative at Lawson in 2010, the MO system helps nurture excellent franchise owners of multiple stores. At the MO meeting held once a year, members of management from headquarters exchange opinions and information about opening stores, helping franchise owners with their business plans. At product tasting events held every month, participants write down their opinions about new products before they are released, and these opinions have been reflected in some desserts and fast foods prior to launch.

Amid intensifying competition in the convenience store industry, it has become extremely important that franchise owners gain an intimate knowledge of their communities in order to manage their stores instead of waiting for instructions from headquarters. Lawson distributes Ponta reports for each store location with an analysis of shopping patterns based on Ponta data to fortify the competitiveness of each store.

Lawson Seminar

Lawson Seminar events are held every spring in eight locations around Japan for the purpose of spreading companywide principles and our vision. Top management gives a detailed explanation of business strategy to the roughly 20,000 attendees representing 10,000 stores.

Area Meeting

Area Meeting events are held monthly in about 260 locations around Japan within the business areas of Lawson's eight branch offices, from Hokkaido to Kyushu and Okinawa. Franchise owners share their success stories and exchange opinions to enhance their ability to manage individual convenience stores.

Owners Meeting

Owners Meeting events are held every autumn around Japan, with approximately 15,000 people participating on behalf of 10,000 store locations. The events are an opportunity for franchise owners to exchange opinions.

Aiming to be a "hundred-year company"

Akira Maeda　Management Owner, Progress, Inc.

I started working part-time at Lawson and then became an employee after the owner called me aside. After eight years, I launched my own store. A major turning point was the MO training I received as an owner of four stores. It was the impetus I needed to step up from a family-run business to a company-run business. Now I run 17 stores. Even when a rival store enters the area, we have the ability to compete effectively and take measures to make things happen.

I think Lawson's strength is the closeness of owners and top management. When product deliveries stopped due to a heavy snowfall recently, I received a phone call from President Tamatsuka himself, who was gathering information about the situation directly from the source. When opening a new store, preparations are made while talking with the area branch office about how to best proceed in solidifying our presence in the area. Store consultants and store managers are learning to view their own store operations from the perspective of regional characteristics and the big picture at area branch offices. More store managers are needed to sustain the current pace of store openings. We are making preparations, such as by developing our own trainers. By helping our employees grow as if they were members of our own families, we aim to be a "hundred year company."

Lawson's Franchise System

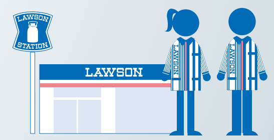
Lawson's evolution (1): An organization that understands communities better

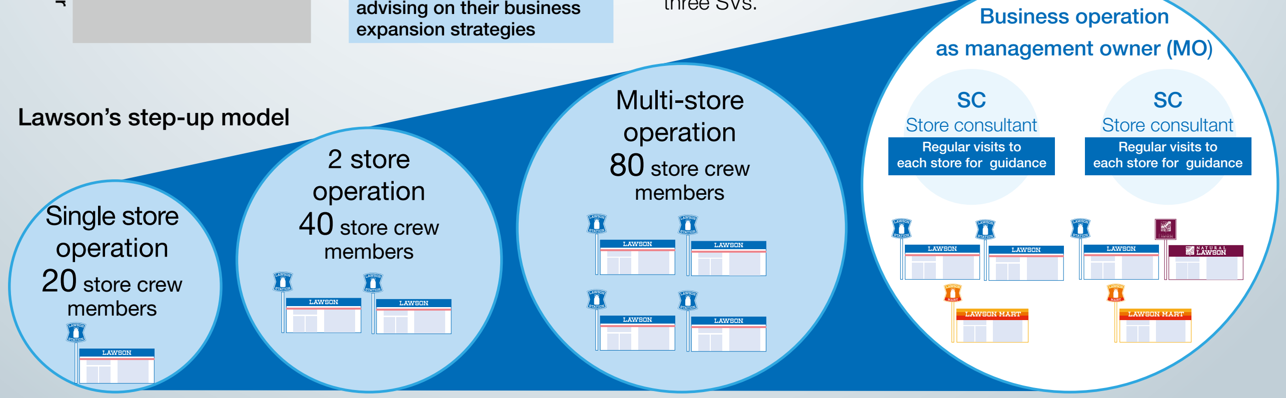
In traditional chain store management, it has been desirable to create the same store across the nation. Now and in the future, however, it is better to have franchise owners who deeply understand their diverse communities and their residents. Employees at headquarters support franchise stores and are essential resources for franchise owners thanks to the creative support and advice they provide.

	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 owners who think deeply and take actions to meet community needs
Expectation for headquarters employees	Drive home to franchise 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

Lawson's evolution (2): Delegating authority within the organization (decentralized operation)

In order to stay in tune with the needs of its customers and communities, Lawson has transitioned over the past decade from a central-command chain store operation to an organization that delegates authority. First, Lawson introduced a branch office system divided into seven areas of coverage across Japan and increased this number to eight in fiscal 2012. Next, Lawson integrated its store development and franchise store management lines of business at the branch level, and accelerated decision-making for regional store opening strategies and operational measures to create a more nimble store management system. Then, beginning in fiscal 2012, Lawson created area teams as its smallest unit, comprising a total of three people, two supervisors (SVs) and one assistant supervisor (ASV), who provide guidance to franchise owners. From fiscal 2014 onward, the composition was changed to three SVs.





The Three Essential Practices of Lawson store management

In order to win the approval of communities and customers, Lawson has established Three Essential Practices for store management: 1) serving customers courteously, 2) providing a merchandise assortment that meets community needs, and 3) keeping our stores and communities clean.

Lawson convenience stores have undergone changes as these Three Essential Practices are followed. MACHI café, for example, emphasizes face-to-face sales where store staff personally hand products to customers and heartfelt customer interactions that feel as good as our products taste. As the number of stores featuring MACHI café has grown, store staff have come to better understand the true meaning of courteous service and customer interactions. This has created a virtuous cycle where clear goals for customer interactions have fostered store staff into leaders, who then raise the level of their stores an additional notch.

Three Essential Practices

Human capital: Understanding issues affecting communities and taking organizational action to address them with novel ideas

What do communities want? During its transformation into a manufacturing retailer based on small commercial areas, Lawson concentrated on nurturing human capital. For this business model to function well, we need people able to think and act on their own, who are sensitive to trends in communities, able to make decisions, and who quickly respond to customers. To instill the necessary knowledge and skills these people need make the best business decisions, we created Lawson University as an internal educational institution in 2003. Lawson University's curriculum is aimed at training new employees, candidates for upper management positions, and franchise store staff.

As a company that advocates health, Lawson has been stepping up efforts to help employees with their health, such as by strictly enforcing employee health management measures since 2013. We plan to spread this initiative across the entire chain of Lawson convenience stores, including to franchise store owners.

Lawson is transforming itself into an organization of individuals able to think and act on their own to identify and solve issues facing communities.

Building a new business model

Using fresh thinking to build new businesses able to contribute to communities

LAWSON MART, a next-generation convenience store

In February 2014, Lawson opened its first LAWSON MART store, based on the LAWSON STORE100 format, as a part of its new store format strategy. LAWSON MART is a next-generation convenience store with ATMs and services found in convenience stores, such as utility bill payment services, in addition to an assortment of merchandise on par with a supermarket. The sales floor area of Lawson Mart is 1.5 to 2 times larger than the LAWSON STORE100 format, allowing for the presentation of a broader assortment of merchandise at various price points in addition to the uniformly priced, small-portion products LAWSON STORE100 offers. Lawson advances store development with the objective of creating stores that are convenient for working women who want to finish their shopping with little hassle on the way home from work, and for elderly customers who like to shop within walking distance of their residences.

Stores with more healthcare offerings, such as over-the-counter drugs

In October 2013, we created a store concept with better healthcare offerings, featuring a self-medication support function as a provider of health and wellness in communities. In addition to the traditional assortment of merchandise in convenience stores, healthcare-oriented LAWSON stores carry around 900 OTC medicines as well as 1,200 beauty care products (cosmetics, etc.) and household items. In all, about 5,000 items are available, roughly double the number at a traditional Lawson convenience store. By stationing a registered seller in the store, we are able to sell type 2 and type 3 drugs. At some stores with enhanced healthcare offerings, customers are able to ask pharmacists questions via video conferencing in the stores, such as inquiries regarding the use of drugs in conjunction with other prescription medicines or drug allergies.

Healthcare-oriented LAWSON stores

Lawson Fresh home delivery service for healthy and delicious food

Leveraging insight gained through our regular home delivery service, Smart Kitchen, we launched Lawson Fresh as a new service in July 2014. We aim to develop Lawson Fresh into an open platform that is both convenient and profitable by partnering with other retailers of products outside the lineup of foods offered by the Lawson Group, such as the popular 10-minute Simple Cooking Kit, and fresh foods from DAICHI wo MAMORU KAI and Radish Boya. We hope to create an online home delivery service built on relationships and good communications among people, thus deepening connections with Lawson stores while delivering fresh foods to our customers in a safe and reliable manner.

Homepage of the website

Foundations being laid for overseas business development

In overseas operations, Lawson has been opening stores in Shanghai, Chongqing, Dalian, and Beijing through a subsidiary in charge of business in China. We have been gradually solidifying our management foundation since switching to a consensus-based management structure. In Indonesia and Thailand, we have been collaborating with local partners to improve profitability. In the United States, we have been opening stores in Hawaii. In 2014, we plan to open our flagship store in the Philippines through a joint venture with a major retailer there.

Strategic steps overseas

Distinguish products and services while adapting to local needs and increasing brand awareness → Establish a model for entering new markets while identifying patterns of success in existing markets → Aim to be an essential part of communities in the region as a manufacturing retailer based on small commercial areas

China	>> Build business models for Shanghai, Chongqing, Dalian, and Beijing, and promote area franchise licensing in neighboring cities in these four regions
Southeast Asia	>> Seek out partnerships with leading local companies >> Make either Thailand or Singapore into a hub for product development and training for Southeast Asia to provide optimal support for partners
Other regions	>> Examine investments in existing retailers or M&As in promising growth markets

Helping customers lead rich lifestyles as an integrated entertainment logistics company

Lawson seeks to help its customers lead richer lifestyles by offering entertainment-related services in addition to managing stores in tune with their communities. Centered on consolidated subsidiary Lawson HMV Entertainment, Inc., our concert and other event ticket business is number one in terms of sales volume, and the CD/DVD sales business at HMV stores has grown into a core business of the Group. We aim to develop operations in such a way that we can provide a one-stop entertainment solution for customers, whether it be for CDs, DVDs, books, or event tickets.

Financial capital: Stringent rules for investing capital in sustainable growth

Lawson must reinvest profits to continue growing as a company and generate further profits. Cash generated by existing operations is invested in a manner consistent with our stringent rules, with the ultimate objective of increasing capital that can be returned to shareholders, group companies, and society in general.

Should Lawson decide to embark on building a new business in the future to fortify its business model, management will not simply pursue growth in business scale, but make every effort to allocate investments effectively with an eye on future returns.

Thinking and acting independently out of necessity

Japanese brochure reporting what Lawson did after the 3.11 Great East Japan Earthquake

Masakatsu Gonai

Executive Vice President,
Member of the Board—
Compliance & Risk Management
and Human Resources

Lawson suffered considerable damage from the Great Hanshin-Awaji Earthquake in 1995. Based on this experience, we created a manual for earthquake emergencies. We then updated our Business Continuity Plan (BCP) in 2005, a year after the Chuetsu Earthquake struck Niigata Prefecture. We also held drills several times a year to prepare for a major earthquake. When the Great East Japan Earthquake hit Japan, we not only had emergency manuals for reference, but our corporate mindset was prepared for a natural disaster, because our employees and franchise owners knew what to do should an earthquake strike. We believe these factors were key to our emergency responsiveness.

We have three basic priorities to pursue in the event of an earthquake or other natural disaster:

- Ensure the safety and well-being of our customers and employees
- Continue business as long as we can deliver products to customers
- Work together to help the people in our communities and to fulfill our social mission as a company

We took action based on these three principles in the wake of the Great East Japan Earthquake. However, due to the unprecedented scale and scope of the damage, compounded by the tsunami, our emergency manuals and preparations were inadequate.

We realized how important it is for each and every person to think and act independently while also following the spirit of our Corporate Philosophy when a disaster of this scale strikes. Despite panic-worthy conditions, we were able to take extremely useful steps by immediately setting up a disaster response headquarters, while employees at the branch offices most affected by the natural disaster managed to put together a response center. Franchise owners also took actions in accordance with the emergency manual.

People were imaginative and creative at every turn. For example, when gathering information after the disaster struck, one employee who had experienced the Great Hanshin-Awaji Earthquake came up with the idea of putting motorcycles onto the back of a truck, driving to the site of the disaster, and riding these motorcycles around to ascertain what convenience stores needed in order to get them up and running again. Branch offices and franchise owners tirelessly worked together to secure and deliver scarce fuel to areas heavily affected by the disaster.

The most effective response to a disaster is often the creative thinking done by those closest to it. Creative thinking and resourcefulness is possible only in a corporate culture open to the ideas and actions of its employees. By creating an even more open corporate culture, we aim to be more sensitive in identifying risks and swifter in addressing risks should they emerge. Being more attuned to changing customer preferences and being more sensitive to risks are basically one and the same.

We believe it is essential for regional communities to forge closer connections with local governments and companies. Lawson has entered into agreements with local governments and public organizations to deliver needed supplies in times of emergency. In these and other ways, Lawson is committed to fulfilling its mission as a key part of the social infrastructure.

Pursuing Business Continuity

■ Basic policy and aims of business continuity (BC)

In the event of an emergency that involves extensive damage, Lawson places the utmost importance on people's lives and safety. Every effort is also made to ensure that essential services remain uninterrupted. When the suspension of operations is unavoidable, the Company works diligently to resume operations as quickly as possible with the aim of avoiding any deterioration of customer satisfaction or corporate value.

Three main aims of business continuity (BC)

- Fulfillment of Lawson's mission as a community lifeline
  We will operate stores to the best of our ability and aim to continue providing products and services to our customers.
- Continuation of the franchise (FC) business
  Define the period of time and methods needed to resume franchise business operations and maintain the necessary business level at the FC headquarters.
- Ensuring suitable profits
  To ensure the profit necessary for the Company's survival, we are setting out measures that take into account such factors as the impact an emergency could have on profit and social conditions.

To realize this basic policy and achieve its aims, we are compiling specific procedures into a Business Continuity Plan (BCP), putting in place a business continuity structure in accordance with the Plan, and maintaining and improving the BCP as an important management issue.

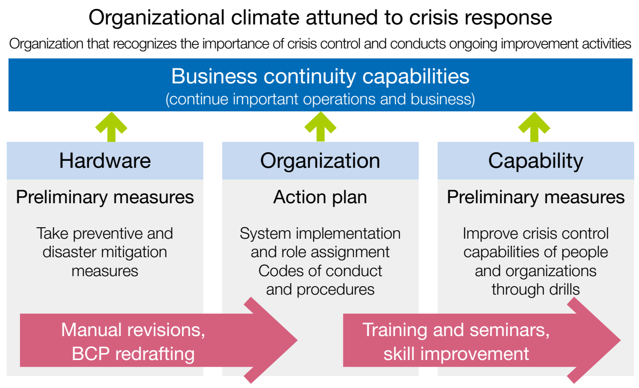
■ Formulation of BCP guidelines

Based on its BCP, Lawson has put in place BCP guidelines to set out specific procedures that should be followed in the event of an emergency. At the present time, the emergency situations we are planning for include an earthquake with its epicenter in the Tokyo area, an outbreak of a new strain of influenza, an ocean trench earthquake, an accident at a nuclear power station, a volcanic eruption, and large-scale flood damage. The BCP guidelines clearly summarize how people in positions of responsibility should be involved.

■ System for improving business continuity capabilities

Maintaining an organizational climate that can respond precisely to various crises requires efforts to improve response capabilities. Lawson endeavors to improve its Companywide crisis response capabilities by constantly reviewing and improving them with respect to each aspect of its business, namely, the hardware aspects that include office buildings and its role as a community lifeline; the organizational aspects that include the BCP and manuals; and the capability aspects of its employees and franchised stores.

System for improving business continuity capabilities

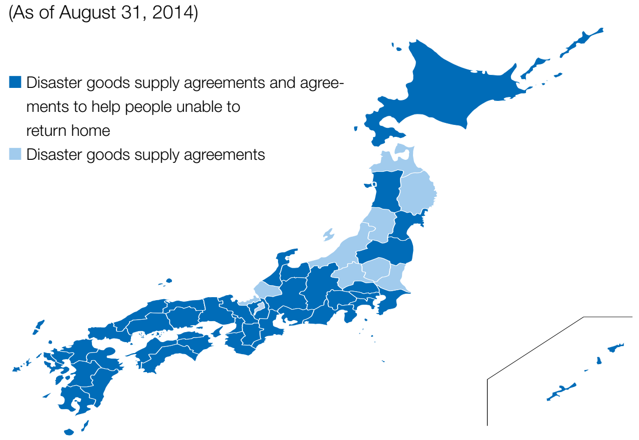


■ Collaboration with municipalities in the event of a disaster

To enable mutual cooperation with affected municipalities and enable the Company to fulfill its function as a community lifeline, Lawson is signing agreements to supply goods and help people unable to return home in the event of a natural disaster.

Agreements with municipalities in case of disasters

(As of August 31, 2014)



Internal Control

Basic policy regarding the internal control system

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 where and what we operate or provide, as well as to respond to diverse risks.

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

The following are the main changes in the Basic Policy in fiscal 2014.

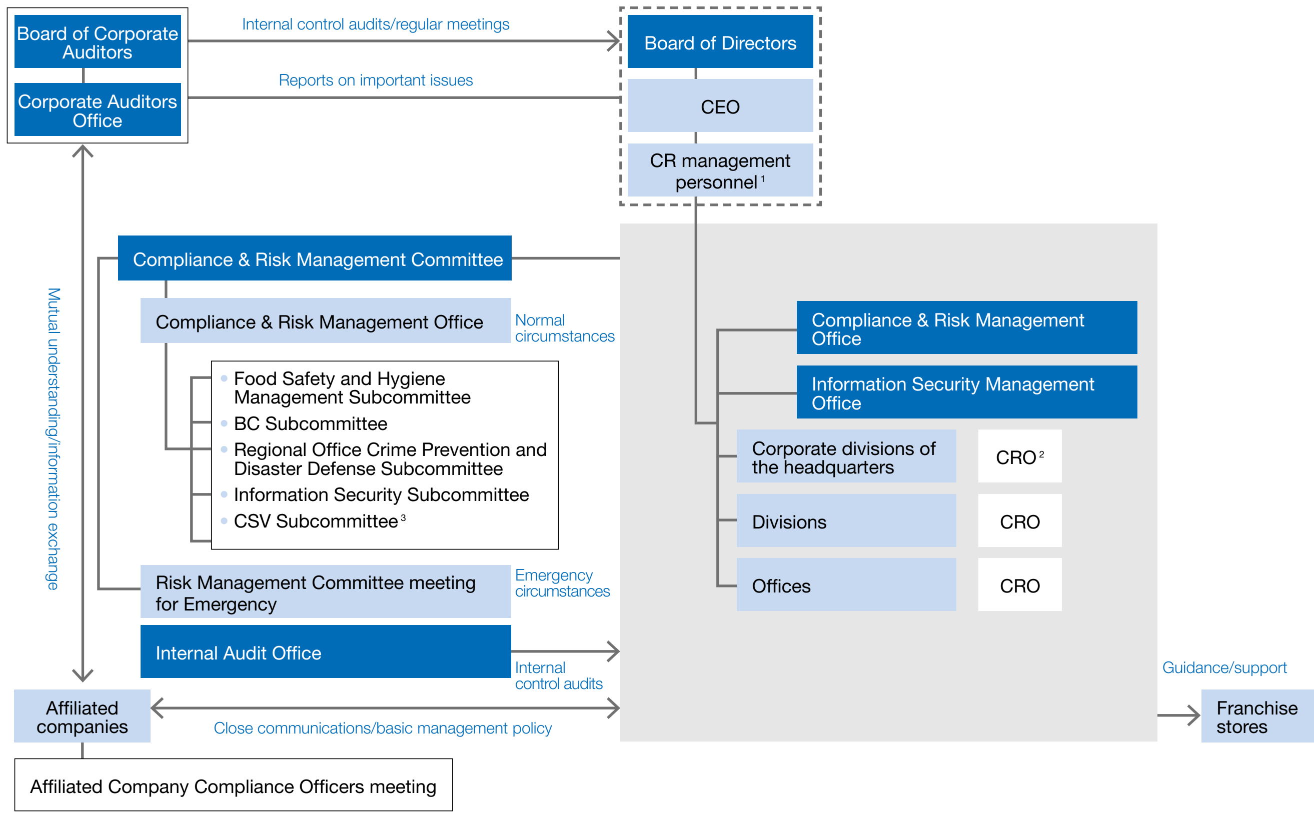
Deepening knowledge about important laws and regulations

Of the wide-ranging laws and regulations with which Lawson must comply, the Company decided to stipulate the Anti-Monopoly Act and the Subcontract Act as laws that should be particularly well understood by its employees.

Response to expanding e-commerce and overseas businesses

To guard against cyber incidents and in particular to respond to e-commerce business expansion and the active promotion of overseas development, the Company appointed persons to be in charge of information security, set up a department to oversee information security, and developed relevant systems.

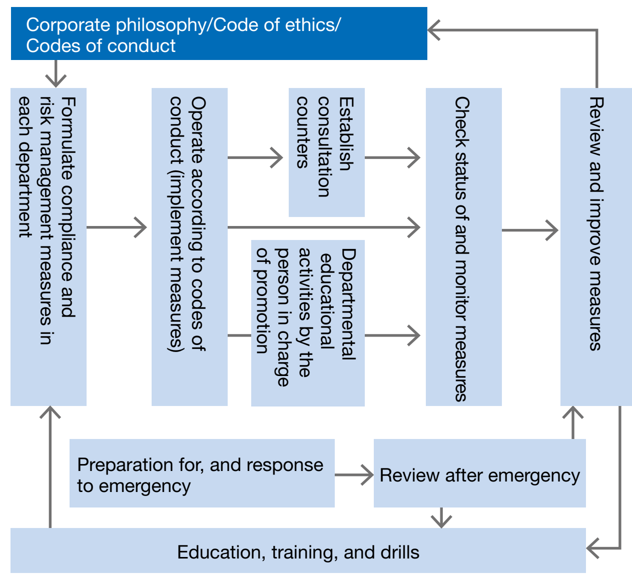
Lawson's internal control system (As of September 1, 2014)



Notes: 1. CR management personnel: The executives who have overall responsibility for the development and execution of frameworks for recognizing misconduct and problems in legal compliance and preventing risk from arising
2. CRO (compliance and risk management officer): A person in charge of compliance in each group who supports CR management personnel and has overall responsibility for the development and execution of frameworks for recognizing misconduct and problems in legal compliance and preventing risk from arising
3. CSV: Creating Shared Value

Lawson's Compliance and Risk Management System

Lawson has developed a compliance and risk management system based on its Corporate Conduct Charter and Code of Ethics. By organically linking our codes of conduct, education, training and communication functions, and implementing a Plan-Do-Check-Act (PDCA) cycle, we aim to conduct our business as a good corporate citizen that acts thoughtfully and with high ethical standards and integrity.



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.

Formulation of codes of conduct/rules

In addition to developing internal rules with regard to the Code of Ethics, compliance and risk management, Lawson established its Personal Information Protection Policy and Group Purchasing Policy in September 2010 and works to properly conduct business throughout the Group. The Company publishes a compilation of its compliance and risk policies as the Lawson Group C&R Handbook and works to make them widely known by distributing copies of the handbook to all employees.

Assigning responsible officers

Lawson appoints compliance/risk (CR) management personnel as officers responsible for facilitating the promotion and establishment of compliance as well as risk management. We have assigned a compliance and risk management officer (CRO) and a person in charge of compliance to each department at our corporate headquarters and all regional offices. As the flag bearers for the promotion of related measures, these personnel formulate and make known the compliance measures and risk responses in their own departments and facilitate the creation of a culture of compliance with social norms.

Enhancement of education/training

Conducting annual compliance and risk management training sessions directed at all employees, Lawson aims to further improve ethical awareness and crisis response capabilities. By conducting training when employees first join the Company and when personnel are promoted to management positions as well as occupation-based training and biannual compliance training led by outside instructors, the Company has developed a training system that allows structured, systematic learning. By continuing to implement these training sessions, Lawson is working to help employees in every position and type of occupation share in problem solving to create business improvements.

Establishment of consultation/reporting points

Lawson maintains dedicated consultation counters for sexual harassment and bullying, at which human resources departments provide advice and assistance, and a hotline through which legal departments provide business duties-related legal consultation. Furthermore, the Company has put in place consultation counters to provide advice related to other compliance and risk management issues and internal reporting. In addition to setting up the Lawson Group Outside Consultation/Whistleblower Hotline, the Company has upgraded the system to enable employees at its business partners to receive consultation anonymously.

Strengthening operational management/monitoring

Lawson has established a Compliance & Risk Management Office as well as an Information Security Management Office with full-time staff under the CR management personnel. Serving as the departments in charge of the promotion and establishment of compliance as well as of risk management, cross-organizational compliance and risk management secretariats manage the progress of measures implemented in each department. Five subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and Disaster Defense Subcommittee, the Information Security Subcommittee, and the CSV Subcommittee) have been separately established under the Compliance & Risk Management Committee and work to prevent risk from arising while managing the progress of important measures.

Collaborating with the auditing departments, the subcommittees also receive reports on the results of compliance audits on an as-needed basis, provide thorough guidance on measures, and make suggestions for improvements.

Besides awareness surveys of all employees, the Company's monitoring activities include reviews of the compliance system from a broad perspective. One means employed in such reviews is the ongoing use of questionnaires directed at business partners covering areas that include the delivery of store merchandise and store construction.

Strengthening collaboration between Group companies

Officers responsible for compliance and risk management have also been appointed at Group companies, and Lawson holds meetings of affiliated company compliance officers. In addition to formulating and providing training on the Code of Ethics to improve employee awareness, we also conduct the employee awareness surveys and business partner questionnaires undertaken at Lawson at Group companies. The Company also offers guidance and assistance in the development and improvement of compliance and risk management in the Lawson Group as a whole through such means as business audits of Group companies conducted by audit departments and Group corporate auditors' meetings.

Responses to Risks

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 relating to problems with IT systems
8. Risks relating to sharp rises in raw materials prices

Response to emergency situations

Placing emphasis on safety and hygiene management, information security, and disaster relief, the Company makes preparations for emergency situations and develops systems that allow flexible problem solving.

Under normal circumstances, the Company convenes the Compliance & Risk Management Committee and the five subcommittees, plans and promotes risk assessments and risk avoidance measures, and prevents risks from occurring.

In the event of a major risk arising, the Emergency Risk Management Committee forms, pursues flexible problem solving, and endeavors to minimize any damage. After the situation has returned to normal, the Company analyzes factors that contributed to the occurrence of risk and implement reviews of and improvements to measures to prevent a recurrence.

Improvements to the information security system

The Company is formulating the Lawson Group Personal Information Protection Guidelines to facilitate the protection of personal information. For these to be specifically understood and implemented, the Company works to improve awareness and knowledge of each type of store manual and specific ways of dealing with specific errors and complaints that arise at stores. In the case of headquarters employees, regular checks are made of compliance with the LAWSON Office Security Manual.

Measures to prevent in-store theft

Giving the utmost priority to personal safety in stores, we conduct training to ensure that employees constantly act with an awareness of crime prevention, giving cheerful greetings, for example. Working in conjunction with the police and the Japan Franchise Association, the convenience store industry as a whole is engaged in crime prevention measures.

Lawson's Social and Environmental Activities

The Lawson Group Environmental Policy

Contributing to society and the environment through our core business operations

Guided by its Corporate Philosophy, the Lawson Group engages vigorously in business activities that take into consideration social and environmental concerns. The Group is committed to securing sustainable growth and development by "Creating Happiness and Harmony in Our Communities." In this sense, the Group's environmental policy serves as both the underlying platform for and driving force behind all business activities. Based on its environmental policy, the Lawson Group strives to help realize a sustainable society. As a member of the local community, we also work to sustain the blessings of the earth for future generations through our social contribution and other activities. We take steps to share our corporate and environmental philosophies with each and every member of the Lawson Group as well as suppliers and business partners to help enhance corporate value.

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

Social and environmental activities based on two distinct approaches

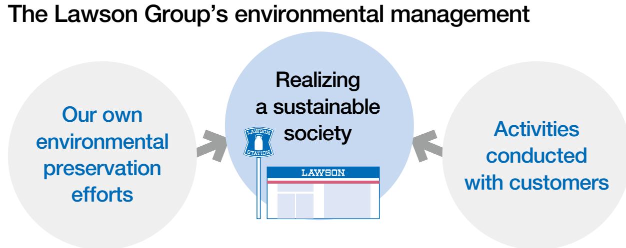
Two approaches to realizing a sustainable society

The Lawson Group utilizes two approaches in its social and environmental contribution activities to help realize a sustainable society.

The first approach entails engaging directly in social and environmental contribution activities. In particular, we are endeavoring to ascertain details regarding the amount of CO_2 emissions throughout the supply chain and installing cutting-edge energy-efficient equipment at our stores as a part of efforts to reduce CO_2 emissions produced in the course of our business activities. The second approach involves actively supporting the social and environmental contribution activities of our customers by providing eco-friendly products and services.

In order to promote eco- and community-friendly business activities, we use an ISO 14001 environmental management system and a Plan-Do-Check-Act (PDCA) cycle, ensuring harmonious coexistence with the community and reducing our environmental impact. In addition to internal audits conducted several times each year, we undergo an annual third-party audit by the Japan Quality Assurance Organization. Through these means, we are continuously confirming the status of our activities while improving our endeavors.

The Lawson Group's environmental management



Promoting social and environmental education

Conducting training across the group to raise awareness and understanding

Raising awareness and deepening understanding are essential to contributing to society and the environment. At the Lawson Group, we conduct social environmental education and training for headquarters employees, franchise owners, store managers, and store crews. Beginning with training for newly recruited employees as well as employees appointed to the position of assistant merchandise developer (AMD) at our headquarters, training encompasses all Lawson employees and includes annual general environmental training via e-learning. For franchise owners, store managers, and store crews, training is provided at the time of store openings. Moreover, we take steps to regularly share information through in-house magazines and our Environmental Report.

Since fiscal 2012, we have encouraged officers representing each department and responsible for promoting CSV* to take the Certification Test for Environment Specialists (the Eco Test).

* CSV: Creating Shared Value

The CSV Subcommittee

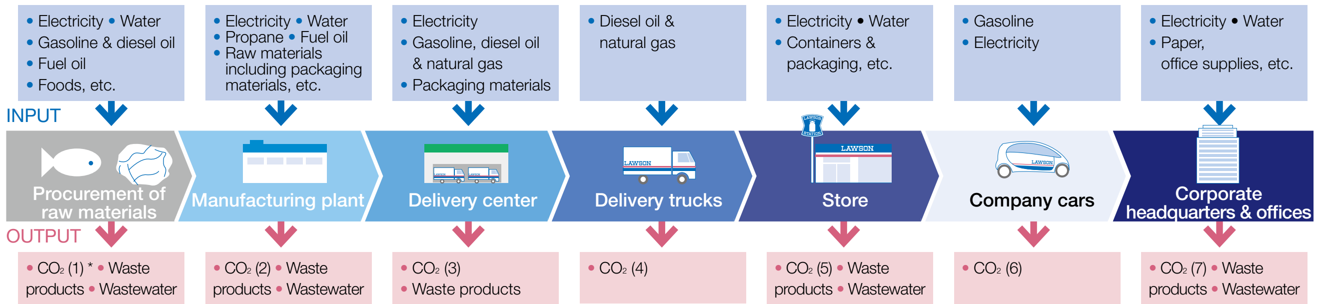
This subcommittee is made up representatives of 37 departments, including headquarters, offices, and affiliated companies. The Energy Conservation and Environmental Management Promotion Department serves as the subcommittee's secretariat, with meetings held every second month. In working to promote social and environmental education, this subcommittee mainly reviews progress toward achieving social and environmental targets, promotes the sharing of management skills and information, takes steps to instruct and support stores, and addresses issues that arise during internal and external audits.

Lawson's supply chain material flow and CO_2 emissions

Reducing environmental impact, from the procurement of raw materials to the disposal of products

In providing products and services at stores, the Lawson Group consumes energy and a variety of resources, including electric power, gasoline, and water. This leads to such wide-ranging emissions as CO_2 and waste. To minimize our environmental impact as much as possible, we assess the impact on the environment of every stage in our supply chain. At the same time, we adhere strictly to a policy of energy and resource conservation and work to cut back waste.

Material flow in our supply chain



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

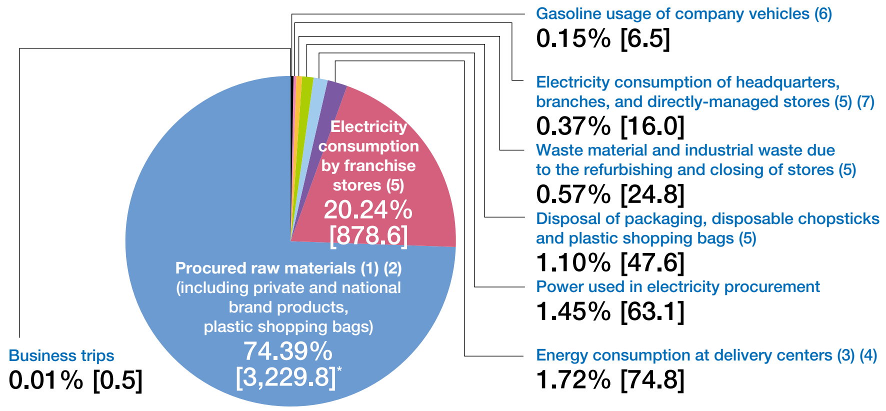
Supply chain CO_2 emissions in FY2013

Total annual CO_2 emissions

4,342 thousand tons

* CO_2 emissions volume in brackets (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



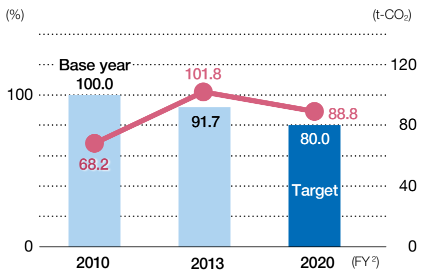
Building energy-efficient stores

Reducing store power consumption by installing cutting-edge energy-saving equipment

Excluding CO_2 emissions related to the procurement of raw materials, emissions caused by the consumption of electricity at stores make up the vast majority of CO_2 emissions generated across the entire supply chain. In order to reduce the amount of electricity used by stores, we are installing cutting-edge energy-efficient equipment. Since this initiative was first launched in fiscal 2010, refrigeration and cold storage equipment that use natural refrigerants (CO_2) have been installed at a total of 138 stores, with installation completed at 63 stores in fiscal 2013. We are promoting the adoption of such equipment as standard practice across our entire network. Through these endeavors, we are working to reduce per-store electricity consumption by 20% compared with levels recorded in fiscal 2010 by fiscal 2020.

In order to more accurately determine the amount of CO_2 emissions due to stores, we have undergone inspections by the Japan Quality Assurance Organization (JQA). A report on greenhouse gas emissions was published in fiscal 2013, offering an indication of the accuracy of our efforts to ascertain the amount of our CO_2 emissions.

Per-store electricity use (index) and CO_2 emissions[1]



Medium-term goal for fiscal 2020
Reduce per-store electricity consumption by 20% compared with fiscal 2010

Notes: 1. The power-receiving end coefficient after adjustment identified by the Federation of Electric Power Companies of Japan is used to measure CO_2 emissions. Figures for fiscal 2020 is calculated using the coefficient for fiscal 2013.
2. Calculated in line with the administrative year from April 1 to March 31.

CO_2 emissions calculation rules

Scope of inspection	Company cars and 10,621 LAWSON and NATURAL LAWSON stores. However, usage for stores where power usage could not be tracked was estimated using data from other stores.
Test period	April 1, 2013 to March 31, 2014 (administrative year)
Target gases	CO_2 generated from electricity use by stores that fall within the scope of inspection and the use of gasoline-powered Company cars.

Greenhouse Gas Emission Verification Statement

Social and environmental targets and results

Fiscal 2013 social and environmental targets and results (as of February 28, 2014)

Category	Issue	Actions	Fiscal 2013 Targets	Results	Achievement level*
Products & services	Resource saving/ Waste reduction/ Raising awareness/ Social contribution	Brand building with MACHI café (Promoting social and eco friendliness)	1. Use beans from Rainforest Alliance Certified™ growers 2. Expand initiatives with grower partners 3. Promote sales of tumblers	1. Increased usage rate of beans from Rainforest Alliance Certified™ growers 2. Promoted initiatives with partner growers 3. Sold tumblers and CD sets Stores with MACHI café: Approx. 7,800	5
	Energy saving/Social contribution	Local production for local consumption fast foods, expanding Lawson Farm products	Use Lawson Farm produce to provide safe, reliable products	Used Lawson Farm radishes and potatoes in *oden* (Japanese hot pot)	5
	Social contribution/ Waste reduction/ Energy saving	Expanding Lawson Farm initiatives	Launch new Lawson Farms	Established 7 new Lawson Farms	6
	Social contribution	Selling socially and eco-friendly products at NATURAL LAWSON	1. Sell eco-friendly products 2. Promote disposable chopsticks made of wood from domestic forest thinning 3. Continue to promote products of Swan Bakery, an employer of persons with disabilities	1. Continued sales of eco-friendly products 2. Continued use of disposable chopsticks made of wood from domestic forest thinning 3. Continued to promote products of Swan Bakery, an employer of persons with disabilities	5
	Energy saving/ Resource saving	Reducing container and packaging weight	Make containers and packaging thinner to reduce CO_2 emitted upon incineration 12% compared with fiscal 2006	Reduced CO_2 emissions upon incineration of containers and packaging 31.3% compared with fiscal 2006	6
	Energy saving/ Resource saving	Using containers and packaging that reduce environmental impact	Promote the use of non-petroleum plastics	Continued use of non-petroleum plastics in chilled noodle and salad containers	5
	Social contribution	Promoting government proxy services	1. Begin initiatives with government services 2. Expand municipalities where we offer government services	1. Began initiatives with government services 2. Expanded municipalities where we offer government services	5
	Raising awareness	Promote environmental initiatives with customers by expanding the CO_2 Offset Program	1. Explore new CO_2 offset projects 2. Continue sales of products with attached CO_2 offset credits Offset CO_2: 1,500 tons	1. Implemented CO_2 offset through MACHI café 2. Continued initiatives involving products with attached CO_2 offset credits Fiscal 2013 result: 2,934 tons (195.6% of target)	6
Logistics	Energy saving	Promoting eco-driving at distribution centers	Reduce per-store delivery truck CO_2 emissions 24% compared with fiscal 2007 levels	Reduced per-store delivery truck CO_2 emissions 22.8% compared with fiscal 2007 levels	4
Store facilities	Energy saving	Promoting switch to latest energy-efficient equipment	1. Promote installation of energy-efficient freezers 2. Promote replacement of air conditioners 3. Install anti-frost heater controllers 4. Install solar power generation systems	1. Freezer target achievement rate: 99% 2. Air conditioner target achievement rate: 167% 3. Anti-frost heater controller achievement rate: 102% 4. Solar power generation system achievement rate: 57.9%	4
	Resource saving/ Waste reduction	Promoting reuse of store fixtures	Reuse targeted fixtures less than six years old at new and remodeled stores	Total fixtures reused in fiscal 2013: 2,061	6
Store management	Resource saving	Promoting cooperation with local governments among offices and branches to reduce plastic shopping bag use	Implement measures to reduce plastic shopping bag use 1. Implement eco-bag point campaign 2. Take part in campaigns to reduce plastic shopping bag use with JFA and local governments	1. Reduced plastic shopping bag use by 7.36 million bags from March to November through eco-bag points 2. Implemented plastic shopping bag reduction campaigns with seven prefectures and three cities Plastic shopping bag handout rate: 78.3%	3
	Waste reduction	Increasing the food recycling ratio	1. Promote recycling of used cooking oil Fiscal 2013 target: 9,600 stores (10,000 Group stores) 2. Promote food recycling Fiscal 2013 target: 1,900 stores (2,350 Group stores) Statutory target food recycling ratio: 34.5% or more *Fiscal 2012 result: 50.3%	1. Recycled used cooking oil Fiscal 2013: 10,105 stores (10,468 Group stores) 2. Recycled food Fiscal 2013: 2,240 stores (2,292 Group stores) Food recycling ratio: 47.6%	3
Supply chain	Energy saving	Calculating fiscal 2012 supply chain CO_2 emissions	1. Collect data on energy use 2. Calculate CO_2 emissions and verify results	1. Implemented fiscal 2012 surveys of vendors and distribution centers, aggregated results 2. Calculated CO_2 emissions, responded to GHG verification audits	5
Overall	Legal compliance/ Risk management	Improving and spreading awareness of Group compliance and risk management frameworks	Reinforce organizational responsiveness and improve employee awareness through the CRO system	• Evaluated risks of new services and initiatives prior to launch and formulated recurrence prevention measures through the Compliance & Risk Management Committee • Implemented risk management training • Revised internal reporting system based on results of monitoring	5
	Risk management	Establishing a Groupwide disaster prevention framework	Improve business continuity/disaster response measures and increase disaster prevention awareness	• Conducted Group emergency drills three times during the year • Updated BCP guidelines	5
	Social contribution	Promoting diversity and social contribution initiatives	1. Promote advancement of women to management positions 2. Promote hiring of persons with disabilities	1. Women: Lawson was selected as a Nadeshiko Brand 2. Group hiring ratio of persons with disabilities: 2.10% (compliant with statutory rate)	5
	Social contribution	Promoting the health of FC owners and employees	Improve rate of comprehensive and ordinary medical checkups and promote health-related initiatives	• Rate of comprehensive health checkups in latter half of fiscal 2013 (compared with fiscal 2012): 120% • Health seminar participation rate (compared with fiscal 2012): 162%	5
	Social contribution	Promoting Groupwide social contribution initiatives	Operate in-store fundraising under a new framework	• Launched the Lawson Group "Happiness in Communities" fund and began distributing funds through the new system • Regularly reported monthly collection amounts on our website and POS displays	5
	Social contribution	Promoting Groupwide social contribution initiatives	Promote volunteer participation in Lawson Green Fund forestry projects. Year-on-year participation: 100%	Fiscal 2013 participation results: 403 volunteers in 29 projects. Year-on-year participation: 131.1%	6
	Social contribution	Promoting community contribution initiatives	1. Support children and scholarship recipients 2. Promote cleanup/greening activities and initiatives	1. Operated the Support Dreams Fund 2. Operated the KYOTO Student City 3. Implemented Mount Fuji Forestation Project, Tokyo Umi-no-Mori Project, and Arakawa Clean Aid, etc.	4
	Raising awareness	Implementing environmental education	1. Implement training for CSV officers, FC owners, new hires, product development assistants, affiliate companies, etc. 2. Promote certification under the Certification Test for Environmental Specialists (the Eco Test)	1. Implemented environmental training for officers in charge of CSV promotion, FC owners, new hires, product development assistants, affiliate companies, etc. 2. Promote and followed up on certification under the Certification Test for Environmental Specialists	5

*Achievement level:
Evaluation of numerical targets: More than 100%: 6, 100%: 5, 90% or more: 4, 80% or more: 3, 70% or more: 2, less than 70%: 1
Evaluation of qualitative goals: Better than expected: 6, as expected: 5, mostly as expected: 4, partially achieved but requires improvement: 3, behind schedule: 2, very little achieved: 1

Social and environmental conservation costs

Activities aimed at protecting the environment incur costs. We take steps to identify the amount of investment and expenses with respect to our environmental conservation endeavors across every phase of our business operations. We use the results of our findings to put in place appropriate solutions.

Period covered: March 1, 2013 to Feb. 28, 2014
Organization covered: Lawson headquarters and franchise stores[1] (Thousands of yen)

Category		Main Activities	Investment	Expenses	Benefits
(1) Business area costs	(1)-1 Pollution prevention costs	Maintenance of new stores' waste water treatment tanks	0	3,002	Water pollution control
	(1)-2 Global environmental conservation costs	Introduction of energy efficient equipment, CO_2 Offset Program	7,854,204	98,732	CO_2 reduction
	(1)-3 Resource recycling costs	Waste-related expenses[2]	0	5,806,473	Legal compliance
(2) Upstream/downstream costs		Costs related to the Container and Packaging Recycling Law	0	438,506	Legal compliance
(3) Administration costs		Preparation of CSR reports, ISO 14001 inspections	0	14,091	Raising awareness and promoting environmental activities
(4) Research & development costs		Research costs for energy-efficient stores	0	8,670	CO_2 reduction
(5) Community engagement activity costs		Greening activities, neighborhood cleanup activities, donations to NPOs	0	64,226	Biodiversity conservation, local community beautification
Total			7,854,204	6,433,700	

Notes: 1. Includes area franchise stores and LAWSON STORE100 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

Some of Lawson's social/environmental activities

● CO_2 Offset Program: Total CO_2 offset: approx. 23,450t; Number of participants: 29.93 million

Customers can exchange shopping reward points using their Ponta multi-partner loyalty point cards for CO_2 offsets, or purchase CO_2 offsets with cash using Loppi multimedia terminals in our stores. Through the CO_2 Offset Program, customers can help offset CO_2 emissions. We also sell products with attached CO_2 emission credits available for a limited time only.

In February 2014, Lawson sold its MACHI café hot coffee and café lattes with attached CO_2 emissions credits. Having calculated the amount of CO_2 emitted through each product's entire life cycle, we offset a total of around 1,500 tons (approximately 300g–600g per cup).

Sign advertising CO_2 offset campaign

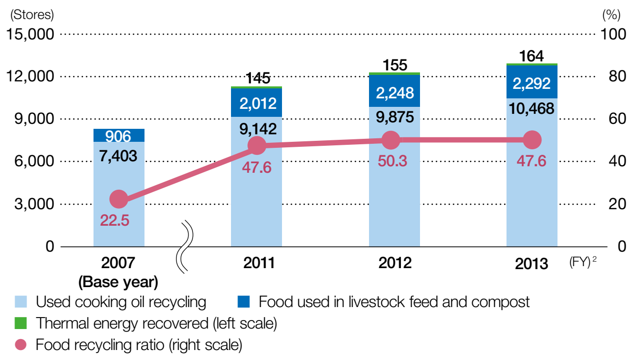
● Reduction and recycling of food waste

In one day a store generates 7.8 kg of lunchbox-type foods that have exceeded their sell-by dates[1] (surplus food) and 2.1 kg of oil (used cooking oil) used in the preparation of fast foods, a total of 9.9 kg[2] of food waste. Our efforts to reduce these types of food waste are centered on curbing the generation of waste and on recycling (the recycling of used cooking oil and converting surplus food into livestock feed or compost).

As a result of such initiatives, we achieved a food recycling ratio of 47.6% in fiscal 2013, against the statutory target of 34.5% or above.

1. Sell-by date: A date voluntarily set before the use-by date so that customers can buy safer products with confidence
2. The amount of food waste generated by the approximately 2,300 Lawson stores that conduct food recycling

Lawson Group stores that conduct food recycling



Notes: 1. The food recycling ratio does not include Lawson Okinawa, Inc. and Lawson Minami-Kyushu Inc.
2. Calculated in line with the administrative year from April 1 to March 31

● Per-store use of plastic shopping bags down by 24.1% from fiscal 2000

We work to reduce the use of plastic shopping bags in our stores by having staff ask customers whether they need a bag, using in-store broadcasting, putting up posters, and handing out reusable "Bring Your Own" bags. In fiscal 2013, the per-store use of plastic shopping bags decreased by 24.1% (683 kg) compared with fiscal 2000, and the plastic shopping bag handout rate* was 78.3%. In fiscal 2014, we will continue to reduce the use of plastic shopping bags by, for example, proactively participating in local municipality campaigns to reduce plastic shopping bag use.

* Plastic shopping bag handout rate = Number of bags purchased by stores ÷ Number of customers

● Cumulative donations at stores nationwide (including Lawson headquarters donations): 7.1 billion yen

Combining its existing Lawson Green Fund, Support Dreams Fund (a scholarship system for victims of the Great East Japan Earthquake), and TOMODACHI Fund (supporting students in the Tohoku region through U.S.-Japan educational and cultural activities), the Lawson Group has been conducting fundraising activities in the form of the Lawson Group "Happiness in Communities" fund since June 2013.* Fundraising at stores leverages the Group's infrastructure of around 12,000 stores and works in partnership with Lawson customers to create a sustainable society by supporting the children who will be the leaders of tomorrow and through greening contribution projects. We also donate contributions from Lawson headquarters, Ponta reward point donations, the contribution portion of sales from donation-linked products, and the funds raised by our Group companies to relevant organizations.

▲ Fundraising boxes are installed in stores of the Lawson Group nationwide (approx. 12,000 stores)

* In the event of a major earthquake or other disaster, the donations from fundraising at stores can be converted to disaster relief funds.

● Participation in greening contribution projects: 1,078 times (as of the end of February 2014)

Franchise owners, store managers, store crews as well as headquarters employees participate in greening contribution projects that make use of the Lawson Green Fund. Empowered by customers through the donation of funds, each and every member of the Lawson family shares in the desire to give back to the Earth directly. In this manner, every effort is being made to promote ongoing activities in Japan and other countries.

Cumulative total participation in greening contribution projects

1,078 times (594 forest improvement projects and 484 school afforestation projects from May 1994 to February 28, 2014)

Total number of participants: approx. 4,500 (since March 2009)

Attitudes toward Lawson's Human Capital

Training human capital that autonomously thinks and takes action to help Lawson grow

Takeji Hino
Deputy Senior Vice President, Division Director, Human Resources Office

What is Lawson's value to its customers? Our corporate philosophy of "Creating Happiness and Harmony in Our Communities" sums up the answer to this question. At Lawson, our Corporate Philosophy and Code of Conduct are clearly structured, and we are endeavoring to train the core human capital that will be responsible for their implementation.

Lawson seeks human capital who work together and express value in the form of teamwork, people who are able to adapt to consistently create value, and people who persevere to achieve their goals. It is important that autonomously thinking and taking action be a regular habit. While endeavoring to train human capital that autonomously thinks and takes action, over the past decade, Lawson has been delegating authority in stages from headquarters to offices, and then branches and area teams, thereby broadening the forums in which such human capital plays an active part. We set up Lawson University to equip human capital that autonomously thinks and takes action with specialist skills, and have also been devoting efforts to the training of senior management.

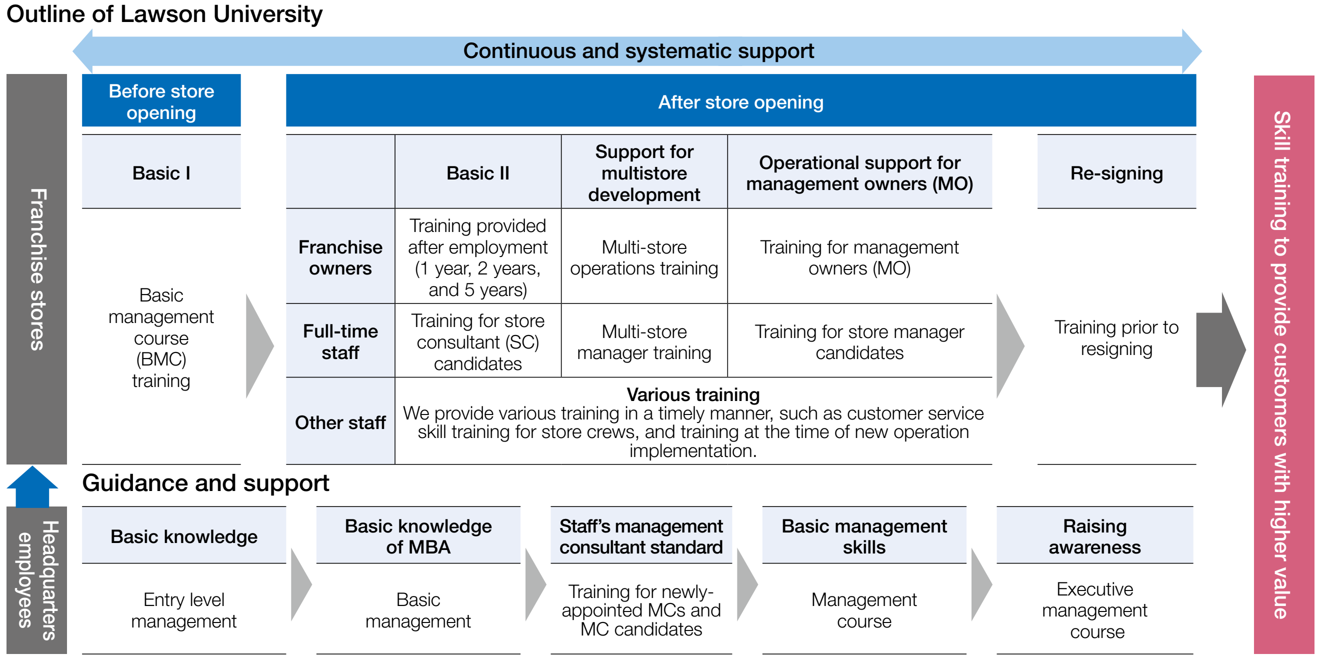
In addition, to enhance our diversity and increase our flexibility as an organization, we have been hiring women and non-Japanese employees. The promotion of diversity has at times led to friction and frustration. Despite these challenges, results have gradually begun to appear.

Having reached the stage where it is now corporate policy to "train 100 next-generation managers and leaders," the next innovation in terms of human capital is to broaden management echelons. Lawson is increasing its number of Group companies and will thus require an increasing quantity of this kind of human capital. Lawson believes that this broadening of management echelons will lead to corporate strength.

Lawson University: Integrating franchise owner 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, and delivers high-level skills needed for various 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. To this end, we provide support to the entire staff of the Lawson Group in a continuous and systematic way.

Outline of Lawson University



*MC: Management consultant

Recognizing and encouraging employees who tackle tasks that transcend 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 that cross departmental boundaries to collect ideas and opinions of employees in different positions and create innovative products and services. In fiscal 2013, we launched New Value Creator of the Year, an employee awards program to create a corporate climate that encourages 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.

Promoting Diversity

Fostering and utilizing diversified personnel

We promote diversity to enable individual staff to realize their full potential. We have maintained a 50% ratio of women among all hires of new graduates since 2005, and have been hiring non-Japanese employees since 2008. We also founded a special subsidiary to promote the employment of people with disabilities and are implementing a system to continue employment of people over sixty. We actively work to achieve a diversified body of employees to continuously develop the types of human capital that create corporate value.

Implementing executive training for female candidates

Through 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 part of our actions to foster diversity.

Labor-management meeting

For a corporation to grow continuously, it is essential that employees can work to their full potential. We seek to continuously improve employee satisfaction through efforts to improve working environments. In regular labor-management meetings, we hold in-depth discussions to improve work efficiency and working environments.

In particular, to promote diversity, we implemented a committee to discuss challenges on a regular basis. We hope to see diverse employees developing new skills to advance their careers while bringing new value to Lawson and to themselves. We invite such employees to participate in efforts to improve the corporate environment, including cultural reform and system utilization.

Aggressive recruitment of non-Japanese personnel

We hired 27 non-Japanese personnel through periodic recruitment in spring 2014, resulting in more than 100 non-Japanese personnel on the corporate staff, including SVs, MDs (merchandisers, in charge of product development), treasury staff, and logistics staff. Non-Japanese employees comprise the foundation of our human capital strategy to create innovative products and services to be launched in Japan.

Supporting employees raising children

We support employees who are raising small children, especially female employees. We offer support measures including reduced working hours for childcare, telecommuting, and baby-sitting service support, so that employees can choose to have children without anxiety for the future. Our efforts have resulted in a 98.3% rate of reinstatement after childcare leave. One out of five female employees at Lawson is now a working mother. Further, we launched the Smart Women Project in April 2013 to promote the career development of female employees after childcare leave. Participants work within this project for a limited time period to bring their perspectives as working mothers to product and store development.

As a part of our support for younger employees in their 20s to 40s, especially those raising children, we made special efforts to raise their salaries in fiscal 2013.

Childcare support policies

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

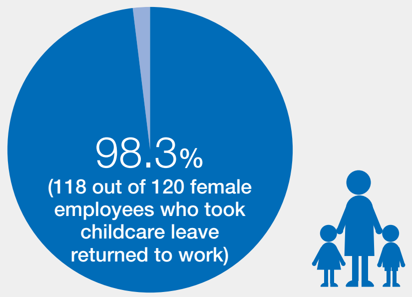
* Until the child finishes third grade


Launched Happy Lawson Nursery in July 2014

Reinstatement ratio from childcare

On a cumulative basis, since fiscal 2000, 98.3%, or almost all employees who took childcare leave returned to their former positions. The ratio of working mothers to all female employees has marked more than a four-fold increase since fiscal 2001.

Fiscal 2000–2013 cumulative total

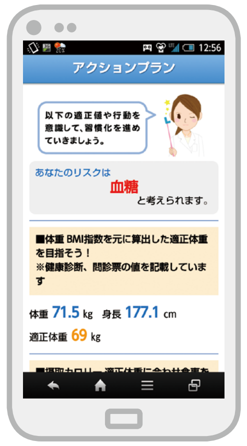


Efforts related to Employee and Franchise Owner Health

Health-oriented management helps first improve the health of employees and owners

As a company that supports the healthy lifestyles of its customers, Lawson is engaged in efforts to promote the health of its employees and has been conducting an Employee Health Promotion Program since October 2012. In the past, employees were responsible for identifying personal health risks and taking all appropriate remedial measures. The decision was then made for the organization as a whole to attend to the care of employees' health. Disincentives were directed toward employees, including their superiors, who, for example, did not want to undergo a medical checkup, giving the measures new teeth. The Company then determined which employees faced high risk, distributed Individualized Action Plans, and took measures that included having targeted employees receive guidance from health nurses. In January 2013, we sent the Neighborhood Health Station smartphone app to targeted employees and since then have been building a framework to enable easy participation in the Health Action Plan. The app is used by 90% of targeted employees, and we are proactively working on improvements.

At Lawson, we also have the Lawson Owner Welfare Association, an organization run in the spirit of mutual assistance among franchised stores. The Company provides a range of welfare programs, resourced from monthly fees, directed at franchise owners and their families as well as store crews. The Owner Welfare Association has enabled a subsidy system for health checkups for franchised stores and access to a range of health support options. As the company behind the Neighborhood Health Station app, Lawson is advancing these health management initiatives so that employees and franchised store owners first become accustomed to maintaining their own health.



Neighborhood Health Station app

While collaborating with local municipalities on these initiatives, the Company is preparing more extensive business developments involving community health.

The Lawson Owner Welfare Association

Based on the three principles of comfort, health, and peace of mind, the Lawson Owner Welfare Association is an organization that provides welfare systems directed at franchised stores. Besides a system that supports health, the association offers a range of services:

- Use of sports club membership rates
- System enabling convenient travel and accommodation use
- Seminars that support exchanges between franchised stores and headquarters
- Subsidy systems for distance learning, health management, etc.
- Discounts and benefit programs for lifestyle-related facility use, such as fine dining and leisure
- Congratulatory and condolence payment system
- Voluntary insurance plan for franchised stores, etc.


Lawson Owner Welfare Association booklet


A seminar at the Owner Welfare Association in support of health promotion

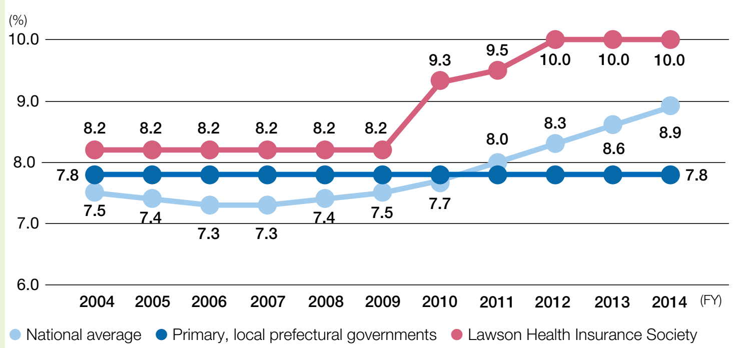
Financial health of Lawson Health Insurance Society

In recent years, impacted by such factors as the graying of society and the protracted sluggishness of the economy, health insurance associations have faced financial difficulties. This has led to numerous cases of insurance premium hikes, and companies regarding the financial situation of health insurance associations as another financial risk.

Under these circumstances, the Lawson Health Insurance Society has, in collaboration with Lawson, raised health awareness among its overall membership and focused its efforts as a group entity on initiatives that can limit risk. The Society has also been selected for the Excellence Award at the Second Smart Life Project Awards, which have as their banner "Let's extend healthy life expectancy!"*

To maintain the association's finances, we will continue such independent efforts in the years to come.

Insurance premium rate of the Japan Health Insurance Association



* Excellent education and other activities that contribute to health promotion and the prevention of lifestyle-related diseases are honored by the Smart Life Project, a national movement under the Ministry of Health, Labour and Welfare.

The Lawson Group's Corporate Governance

(As of September 1, 2014)

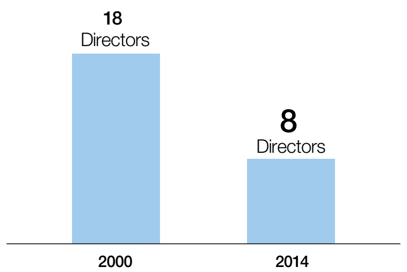
Characteristics of Lawson's corporate governance

Ahead of our competitors, Lawson has established a corporate governance system with agility and transparency. We have separated the execution and administrative functions according to the executive officer system in order to clarify executive officers' responsibilities. We have also reduced the number of directors drastically, making business judgments more prompt. Out of twelve directors and corporate auditors, we appointed eight from outside, of whom six are independent officers.* Also we appointed four female directors and auditors to the Boards.

This change in composition reinforces our corporate governance system with diverse viewpoints. Seeking to further enhance management transparency, we have changed the structure of the Compensation Committee, newly establishing the Nomination and Compensation Advisory Committee based on the resolution of the Board of Directors held after the ordinary general meeting of shareholders on May 27, 2014. This four-member committee is comprised of two outside directors and two outside corporate auditors. As a Company with a Board of Corporate Auditors, Lawson has double-checking mechanisms, with the Board of Directors overseeing business execution and corporate auditors supervising the execution of the duties of the directors.

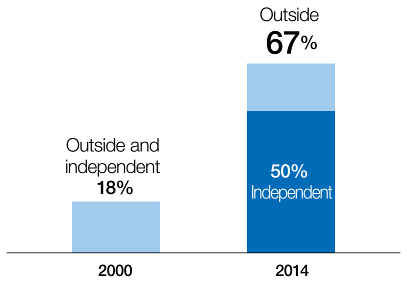
* Lawson implemented an independent officer system in fiscal 2010

(1) Reduced the number of directors by more than half



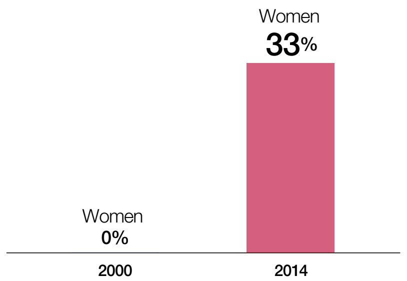
Since 2002, we have maintained the number of directors at less than 10 and kept administration separate from business execution, in order to make more agile business judgments.

(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 women on the Boards

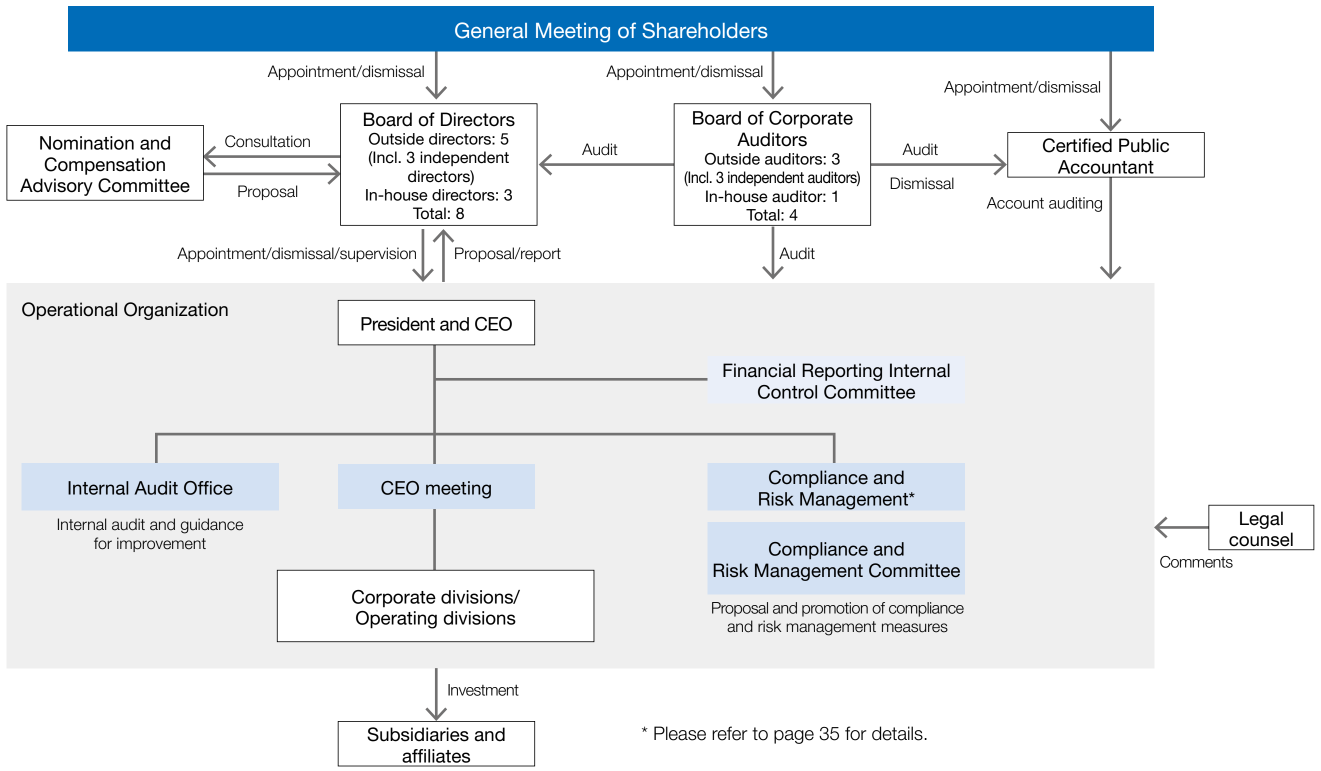


We focused on diversity and took action to significantly increase the ratio of female officers on the Boards. The viewpoints of women are essential for expanding our customer base. We will proactively involve women in future business development.

Evolution of Lawson's corporate governance

	2000	2001	2002	2003	2010	2011	2012	2013	2014	Aug. 1, 2014
Separation of management from execution	18 directors*	20	The number of directors was reduced to less than half in 2002 8	9	Since 2007 7 directors →				9 →	8 directors
			The executive officer system was introduced in 2002							
Secure transparency and diversity of management	4 outside directors →		6	8	6 →			7 →		8 outside directors
					2 independent directors	4	5 →			6 independent directors
			1 female director →			2 female auditors joined in 2011	3 →			4 female officers on the Boards
Secure transparency in directors' compensation			Established Compensation Committee in 2002		Established Nomination and Compensation Advisory Committee in 2014					
					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 auditors shown above is as of the shareholders' meeting unless otherwise specified.



* Please refer to page 35 for details.

Evolution of Lawson's internal control system

We regard the internal control system as the key component of sustainable and robust business growth. We revise the Basic Policy on Internal Control System yearly in accordance with the provisions of the Companies Act, the Ordinance for Enforcement of the Companies Act and Financial Instruments and Exchange Act (refer to page 34).

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

Special factors with an important bearing on corporate governance

Mitsubishi Corporation (Mitsubishi) holds 32.5% 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, 2014). 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 Corporate Auditors (FY2013)*

		Board of Directors	Board of Corporate Auditors
Meetings		15 (Including 3 extraordinary meetings)	16 (Including 3 extraordinary meetings)
Attendance	Outside directors	Approx. 91%	—
	Outside corporate auditors	Approx. 96%	100%

* 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 promoting corporate value and sustainable growth and profitability, we compensate the execution of duties at a sufficient and reasonable level. 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 to the compensation system so that directors' contributions to maximizing shareholder value are clearly reflected. Moreover, by incorporating stock options as a part of compensation, directors' and shareholders' interests are now more closely related.

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

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 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 (cannot be executed while in the office)

The five non-executive directors—Reiko Okutani, Takehiko Kakiuchi, Emi Osono, Yutaka Kyoya and Sakie Akiyama—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 Nomination and Compensation Advisory Committee, comprising only outside officers, submits a compensation package to the Board of Directors for approval.

Nomination and Compensation Advisory Committee members

Nomination and Compensation Advisory Committee

Outside directors	Takehiko Kakiuchi
	Reiko Okutani
	Emi Osono (Vice-Chairman)
	Sakie Akiyama
Outside corporate auditors	Tetsuo Ozawa (Chairman)
	Eiko Tsujiyama

Submit → Board of Directors → Fix directors' compensation

(Three meetings in FY2013)

Fee for corporate auditors

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

Compensation disclosure

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

Compensation for directors and corporate auditors (FY2013)

Category	Number	Total Compensation
Directors (outside directors)	8 (4)	¥217 million (¥28 million)
Corporate auditors (outside corporate auditors)	4 (3)	¥70 million (¥46 million)
Total	12	¥287 million

Reference: In addition to the above, in a meeting held on March 24, 2014, the Board of Directors resolved to pay seven directors (including 4 outside directors) an additional 148 million yen in total (including 8 million for outside directors) in stock options.

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

Independent officers

Directors	Reiko Okutani	Ms. Okutani poses questions and offers opinions based on her abundant experience and knowledge as a business manager. She is also a member of the Nomination and Compensation Advisory Committee.
	Emi Osono	As an academic with in-depth expertise in global corporate management, business strategy and organizational behavior, Ms. Osono provides questions and ideas. She is also a member of the Nomination and Compensation Advisory Committee.
	Sakie Akiyama	Ms. Akiyama poses questions and offers opinions based on her abundant experience and knowledge as a business manager. She is also a member of the Nomination and Compensation Advisory Committee.
Corporate auditors	Shinichi Hokari	As a full-time corporate auditor, Mr. Hokari oversees execution of the duties of directors and inspects operational and asset management. With his experience at the Board of Audit of Japan, he provides questions and views based on his expertise in finance and accounting.
	Tetsuo Ozawa	With his diverse experience and technical expertise as a lawyer, Mr. Ozawa provides questions and opinions. He is also a member of the Nomination and Compensation Advisory Committee.
	Eiko Tsujiyama	Based on her deep insight as an academic in management, especially accounting, Ms. Tsujiyama provides questions and opinions. She is also a member of the Nomination and Compensation Advisory Committee.

Criteria for independence

To improve our corporate governance, we appoint those outside directors or outside corporate auditors as Independent Officers who fulfill the requirements described in the Guidelines Concerning Listed Company Compliance, etc. established by the 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 interest with general shareholders.

Required qualifications 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 principal business partner or an executive person of such a party
(4) A principal business partner 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 a significant amount of money or other property from Lawson, other than as compensation for being a director or a corporate auditor.
(6) A major 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 five million yen 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.

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

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

In 2009, we computerized voting, adopting the Tokyo Stock Exchange's electronic voting platform. 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 it as our key business index, we provided ROE trends over time as an agenda aid for proposals on the appropriation of surplus. Additionally, we distributed a questionnaire on voting to shareholders who attended, disclosing the results 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 • 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 results in an extraordinary report on the web.
2013	• Started posting invitations on the web (6 days prior to postal dispatch)

Enhancing investor relations

Lawson established the IR department, which is exclusively dedicated to dialogue with investors and shareholders. We help these parties deepen their understanding of our goals for sustainable growth and greater corporate value and our roadmap to these, with information on business strategies as well as our performance. Exclusively for analysts and institutional investors, we implement semiannual results meetings, as well as quarterly results briefings through a teleconference presided over by the CFO. With management's leadership, we work hard to ensure timely disclosure. Fair disclosure is also a focus. For foreign investors, we proactively work to promptly post information on our website 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 stance on disclosure aimed at creating and enhancing shareholders' value. It is also appreciated as message of our focus in business strategies on sustainability and capital efficiency. In fiscal 2013, we were given the 18th annual IR Grand Prix Award in the 2013 Annual IR Grand Prix by Japan Investor Relations Association, as well as the 2013 Award for Excellence in Corporate Disclosure by the Securities Analysts Association of Japan, ranked the highest among retailers (the seventh time we received the award). We also received the best integrated reporting award from the World Intellectual Capital Initiative Japan (WICI-J) and an Honorable Mention at the Nikkei Annual Report Awards 2013 hosted by Nikkei Inc.

Directors, corporate auditors, and executive officers

(As of September 1, 2014*)

Genichi Tamatsuka
Representative Director, President and CEO
Years as a director: 2
Number of Lawson shares held: 3,300

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.
2014 Member of the Board, Representative Executive Officer, COO, and President of CVS Company, Lawson, Inc.
Representative Director, President and CEO, and President of CVS Company, Lawson, Inc.
Representative Director, President and CEO, Lawson, Inc. (Current position)

Sadanobu Takemasu
Senior Executive Vice President, Representative Director and Division Director of Corporate Sales and Store Development Division
Years as a director: Assumed position May 27, 2014
Number of Lawson shares held: 0

1993 Joined Mitsubishi Corporation
2002 Transferred to Indiana Packers Corporation Indiana, U.S.A.
2005 Corporate Communications Department, Mitsubishi Corporation
2010 Executive Assistant to Senior Executive Vice President, Corporate Administration Department and Corporate Strategy & Planning Department, Mitsubishi Corporation
Executive Assistant to President & Chief Executive Officer, Corporate Administration Department and Corporate Strategy & Planning Department, Mitsubishi Corporation
2014 Senior Executive Vice President, Representative Director, and Division Director of Corporate Sales Division, Lawson, Inc.
Senior Executive Vice President, Representative Director, and Division Director of Corporate Sales and Store Development Division, Lawson, Inc. (Current position)

Masakatsu Gonai
Executive Vice President, Member of the Board—Compliance & Risk Management and Human Resources
Years as a director: Assumed position May 27, 2014
Number of Lawson shares held: 1,100

1980 Joined Lawson, Inc.
1998 General Manager, Third Kanto Dept., Operations Div., Lawson, Inc.
2001 General Manager, Sales Support Section, Operations Div., Lawson, Inc.
2002 General Manager, Sales Planning Dept., Marketing Div., Lawson, Inc.
2005 Division Director of Marketing Div., Lawson, Inc.
2007 Region Director, Kanto LAWSON Office, Deputy Senior Vice President, Lawson, Inc.
2010 Division Director, Natural Health Care Business Div., Deputy Senior Vice President, Lawson, Inc.
2012 Executive Officer, Assistant to Chief Compliance Officer (CCO), Lawson, Inc.
Executive Officer, CCO in charge of CSR Division, Director of Compliance & Risk Management Office, Lawson, Inc.
2014 Executive Officer, Compliance and Risk, Lawson, Inc.
Senior Vice President, Compliance and Risk, Lawson, Inc.
Senior Vice President, Member of the Board—Compliance & Risk Management, Lawson, Inc.
Executive Vice President, Member of the Board—Compliance & Risk Management and Human Resources, Lawson, Inc. (Current position)

Reiko Okutani
Member of the Board (Outside)
Years as a director: 12
Number of Lawson shares held: 0

1974 Joined Japan Airlines International Co., Ltd.
1982 President, The R Co., Ltd. (Current position)
2002 Member of the Board (Outside), Lawson, Inc. (Current position)

Takehiko Kakiuchi
Member of the Board (Outside)
Years as a director: 9
Number of Lawson shares held: 200

1979 Joined Mitsubishi Corporation
2001 Unit Manager, Foods (Commodity) Division, Mitsubishi Corporation
2005 Member of the Board (Outside), Lawson, Inc. (Current position)
2006 General Manager, Living Essentials Group CEO Office, Mitsubishi Corporation
2008 Division COO, Foods (Commodity) Division, Mitsubishi Corporation
2010 Senior Vice President, Division COO, Foods (Commodity) Division, Mitsubishi Corporation
2013 Executive Vice President, Group CEO, Living Essentials Group, Mitsubishi Corporation (Current position)
2014 Member of the Board (Outside), Mitsubishi Shokuhin Co., Ltd. (Current position)

Emi Osono
Member of the Board (Outside)
Years as a director: 2
Number of Lawson shares held: 100

1988 Joined Sumitomo Bank (Currently Sumitomo Mitsui Banking Corporation)
1998 Assistant Professor, Institute of Asia-Pacific Studies, Waseda University
2000 Assistant Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
2002 Associate Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
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)

Yutaka Kyoya
Member of the Board (Outside)
Years as a director: 1
Number of Lawson shares held: 0

1984 Joined Mitsubishi Corporation
2008 General Manager, Grain Unit, Foods (Commodity) Div., Mitsubishi Corporation
2011 Deputy General Manager, Living Essentials Group CEO Office, Mitsubishi Corporation
2012 General Manager, Global Consumer Business Development Unit, Mitsubishi Corporation
2013 Division COO, Foods (Commodity) Div., Mitsubishi Corporation
Member of the Board (Outside), Lawson, Inc. (Current position)
2014 Senior Vice President, Division COO, Living Essential Resources Div., Mitsubishi Corporation (Current position)

Sakie Akiyama
Member of the Board (Outside)
Years as a director: Assumed position May 27, 2014
Number of Lawson shares held: 0

1987 Joined Arthur Andersen & Co.
1994 Founded Saki Corporation and assumed the position of Representative Director and CEO (Current position)
2013 Member of the Fiscal System Committee, Fiscal System Council, Ministry of Finance (Current position)
2013 Private-sector Member of the Industrial Competitiveness Council, Headquarters for Japan's Economic Revitalization
2014 Member of the Board (Outside), Lawson, Inc. (Current position)

Atsuhiko Seki
Standing Corporate Auditor
Years as a corporate auditor: 4
Number of Lawson shares held: 1,200

1977 Joined The Daiei, Inc.
1999 Joined Lawson, Inc.
2000 General Manager, General Affairs Dept., Office of Business Planning, Lawson, Inc.
2002 Deputy General Manager, General Affairs Office, Lawson, Inc.
2007 Deputy Senior Vice President, Division Director, Franchisee Support Office, Lawson, Inc.
2010 Assistant to Standing Corporate Auditor, Lawson, Inc.
Standing Corporate Auditor, Lawson, Inc. (Current position)

Shinichi Hokari
Standing Corporate Auditor (Outside)
Years as a corporate auditor: 2
Number of Lawson shares held: 0

1975 Joined the Board of Audit of Japan
1990 Supervisory Manager of 2nd Bureau, Board of Audit of Japan
2002 Deputy Secretary General (in charge of 4th 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)

Tetsuo Ozawa
Corporate Auditor (Outside)
Years as a corporate auditor: 11
Number of Lawson shares held: 200

1973 Registered as Lawyer and joined Tokyo Fuji Law Office (Current position)
2003 Corporate Auditor (Outside), Lawson, Inc. (Current position)
2007 Outside Corporate Auditor, CEMEDINE CO., LTD. (Current position)
2014 Outside Corporate Auditor, Sekisui Chemical Co., Ltd. (Current position)

Eiko Tsujiyama
Corporate Auditor (Outside)
Years as a corporate auditor: 3
Number of Lawson shares held: 200

1974 Registered as a Certified Public Accountant
1980 Assistant Professor, College of Humanities, Ibaraki University
1985 Assistant Professor, Faculty of Economics, Musashi 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, 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)
2012 External Corporate Auditor, Shiseido Company, Limited (Current position)

*Number of the Company's shares held is as of February 28, 2014.

Executive officers

Senior Executive Vice President	Masahiro Oyama	Merchandising and Group Innovation Officer, Merchandising Management Group
Senior Executive Vice President	Masaharu Kamo	Information Systems and Home CVS Business, Division Director of Entertainment & Consumer Service Division, Division Director of BPR & Information Systems Division, Deputy Division Director of Corporate Planning Office, and President of Lawson HMV Entertainment, Inc.
Executive Vice President	Yutaka Yoshitake	CFO, and Division Director of Corporate Management Office
Executive Vice President	Katsuyuki Imada	Division Director of Corporate Planning Office
Executive Vice President	Jun Miyazaki	Division Director of Corporate Communications Office
Senior Vice President	Masayuki Sawada	Division Director of Marketing Division
Senior Vice President	Norikazu Nishiguchi	Division Director of Healthcare Business Division, and Deputy Division Director of BPR & Information Systems Division
Senior Vice President	Yuichi Wada	Division Director of Merchandising Division
Senior Vice President	Tetsu Yamada	Division Director of International Business Division
Senior Vice President	Kenji Goto	Assistant to Human Resources, Assistant to President of Lawson University, and President of Lawson Will, Inc.
Senior Vice President	Shuichi Imagawa	Region Director of Minami-Kanto LAWSON Branch
Senior Vice President	Takaki Mizuno	Region Director of Kinki LAWSON Branch
Senior Vice President	Masaki Yamamoto	Division Director of Store Operations Division, Deputy Division Director of BPR & Information Systems Division, and Deputy Division Director of CVS Business Management Office
Senior Vice President	Hisashi Yasuhira	Division Director of Lawson Mart and Lawson Store100 Business Division, and President of Lawson Mart, Inc.
Senior Vice President	Kei Murayama	Division Director of Franchisee Support Office
Senior Vice President	Hajime Kawamura	Division Director of Quality Control Office
Senior Vice President	Akira Ushijima	COO of Lawson (China) Holdings, Inc., and Chief Representative and General Manager of Beijing Lawson, Inc.
Senior Vice President	Yasuhiko Hirokane	Deputy Division Director of Store Operations Division, and Deputy Division Director of Management Owner Promotion Division
Senior Vice President	Kazuya Nobe	Division Director of Home CVS Business Division
Senior Vice President	Tatsushi Sato	Deputy Division Director of BPR & Information Systems Division
Senior Vice President	Hajime Nakai	Deputy Division Director of International Business Division
Senior Vice President	Motonobu Miyake	Deputy Division Director of International Business Division, and Chief Representative and General Manager of Lawson (China) Holdings, Inc.
Senior Vice President	Kazuo Togasa	Deputy Division Director of Corporate Sales and Store Development Division (in charge of store development training)
Senior Vice President	Shigeaki Kawahara	Deputy Division Director of Marketing Division
Senior Vice President	Atsushi Maeda	Deputy Division Director of Merchandising Division (in change of agriculture promotion)
Senior Vice President	Akihito Watanabe	Deputy Division Director of Entertainment & Consumer Service Division, and Deputy Division Director of Marketing Division
Senior Vice President	Yasuhiro Iseki	Deputy Division Director of Corporate Sales and Store Development Division (in charge of store development)

Messages from outside directors

With its new president and new corporate structure, Lawson needs to show its future vision

Reiko Okutani
President, The R Co., Ltd.
With abundant experience and knowledge as a business manager, Ms. Okutani also has customer service expertise based on her work experience as a Japan Airlines flight attendant servicing international routes. Ms. Okutani has served as an outside director since 2002.

Lawson has to respond to external and internal expectations with regard to the new face of the Company and needs to continue sending out information, considering how best to convey it inside and outside the Company. This information needs to include Lawson's management policies and ways of thinking under its new president, who is forming a new corporate structure. Key issues include: what will follow the same route as before, what will be revamped, and the organizational and operational concepts to be employed to those ends. It will also be necessary to have ways of disseminating information and styles of communication that are different from before, and to combine these when building a fresh, new Lawson, for the Company to communicate its vision for the future.

In addition to above-mentioned points, I also feel that there is an urgent need for the Company to respond to the labor shortage, as has been discussed previously. This response includes securing and training human capital at the store frontline and addressing store operating concepts. Other changes in the social environment include the importance of making improvements to workplace environments to employ women, training global human capital for overseas development, strengthening management, and promoting e-commerce, which will further require strategy going forward.

Taking on the creation of new value, Lawson's readiness to blaze the trail in Japan is its core value

Sakie Akiyama
Chief Executive Officer, Saki Corporation
Ms. Akiyama possesses a wealth of experience and knowledge as the founder and top executive of a company that manufactures industrial inspection robots. She has served as an outside director since 2014.

It is my belief that Lawson's core value is its unwavering commitment to creating new value. Lawson, on the basis of its senior management's strong leadership, is advancing to the next stage in its new management structure. This structure has realized growth by confronting new business categories, new services, and new business models as a convenience store. Being newly involved in Lawson management as an independent outside director at such a time has been an eye-opening experience for me.

In aiming to create value in such growth areas as agriculture and health, Lawson is taking the lead in implementing the government's growth strategies. In terms of corporate governance, these strategies include having the majority of its directors come from outside the Company and the appointment of women as directors, who now account for more than 30% of Lawson's Board members. Lawson is also a company that is expected to maintain its readiness to blaze the trail forward in Japan.

As an outside director, I would like to continue contributing to the further improvement of corporate value for Lawson's multi-stakeholders.

Messages from outside corporate auditors

In the Board of Directors' lively meetings, I expect leadership from the new president, Genichi Tamatsuka, and further enhancements in governance

Tetsuo Ozawa
Lawyer (Tokyo Fuji Law Office)
As a lawyer specializing in lawsuits, including representative suits related to the Companies Act, Mr. Ozawa is in charge of internal investigations into director misconduct, corporate compliance, and risk management. Mr. Ozawa also plays a leading role in establishing corporate governance, while overseeing compliance and internal control. He has served as an outside corporate auditor since 2003.

Recently, there have been a greater number of projects directed at such difficult management decisions as M&A, and it has become increasingly important that the Board of Directors carefully consider these decisions. Compared with the time when I was first appointed as an auditor and from a lawyer's perspective, the materials brought into Board of Directors' meetings have been greatly enhanced. These materials always form the basis of very lively discussions. While maintaining strong leadership, former CEO Takeshi Niinami placed considerable emphasis on the discussions at Board of Directors' meetings and used them effectively in management.

Now, outside directors are in the majority, and the number of directors who are women has increased to three. I hope to see President Tamatsuka exercise strong leadership as well, and, even under the new corporate structure, I expect us to extend our existing advantages, having even livelier discussions and making further enhancements to the corporate governance system.

In these efforts, I hope to be of assistance in my capacity as a corporate auditor.

Amid a competitive environment of increasing intensity, I commend the Company's anticipation of society's needs and stance of continuing boldness

Eiko Tsujiyama
Professor, School of Commerce and Graduate School of Commerce, Waseda University
In addition to being qualified as an accountant, Ms. Tsujiyama possesses a wealth of knowledge as a finance/accounting expert accumulated during her many years as a university professor and outside director at other companies. She has served as an outside corporate auditor since 2011.

Three years have passed since I was appointed an outside corporate auditor. In that time, Lawson has launched a series of measures to survive among the increasingly intense competition in the convenience store industry, and has always anticipated changes in society and the needs of the people living in it. With the convenience store business as its core, Lawson has promoted diversity to respond to those needs. Lawson has been particularly highly rated by society for its efforts in food safety and security. I would like to continue these kinds of initiatives under the new management structure.

In boldly taking on challenges, however, in some cases there remains a danger of inhibiting the company's healthy and sustainable growth. On behalf of all the shareholders who have little direct access to Lawson's day-to-day internal operations, outside auditors fulfill the role of monitoring management from an independent standpoint to safeguard the Company's healthy and sustainable growth. Through a variety of opportunities that include frank discussions with Board members, I hope to utilize my expertise in finance and accounting while monitoring management and continuing efforts to help Lawson secure sustainable growth.

Lawson at a Glance

Corporate data

As of February 28, 2014/Consolidated (Chief Executive Officer as of May 1, 2014)

Company name	Lawson, Inc.
Head Office Address	East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan
President and CEO Representative Director	Genichi Tamatsuka
Established	April 15, 1975
Capital	¥58,506.644 million
Number of employees	6,336

Business activities	Franchise chain development of LAWSON, NATURAL LAWSON, LAWSON STORE100, and LAWSON MART
Net sales of all stores	¥1,945.4 billion
Number of stores	11,606 (Stores in Japan)
Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing), Indonesia, Hawaii, Thailand

Note: The total number of stores in Japan is the total of LAWSON, NATURAL LAWSON and LAWSON MART/ LAWSON STORE100 operated under Lawson, Inc., and LAWSON operated under Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., and Lawson Kumamoto, Inc.

Shareholder information

As of February 28, 2014/Non-consolidated

Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	30,527

Stock exchange listings	Tokyo Stock 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

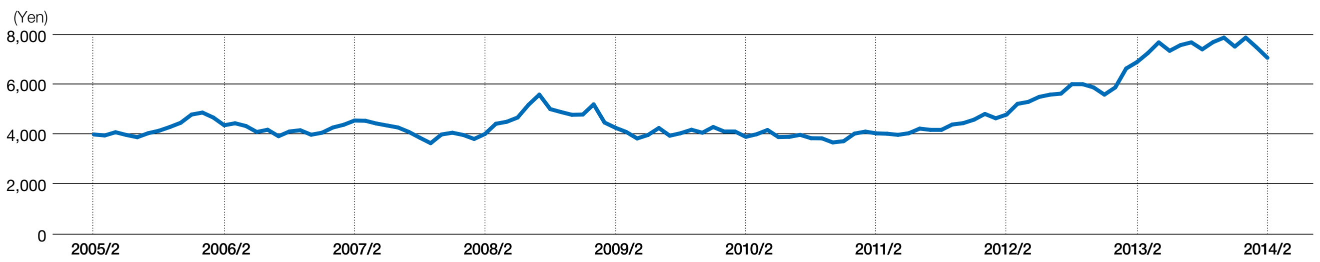
	Number of shareholders	Number of shares (Thousands)	Percentages of total shares (%)
Financial institutions	132	17,277	17.2
Securities companies	31	3,035	3.0
Other domestic entities	429	35,638	35.6
Foreign entities	477	36,004	35.9
Individuals, Others	29,456	7,946	7.9
JASDEC	1	0	0.0
Treasury stock	1	395	0.4
Total	30,527	100,300	100.0

Major shareholders

	Number of shares held (Thousands)	Percentages of total shares held*
1. Mitsubishi Corporation	32,089	32.1
2. The Master Trust Bank of Japan, Ltd. (Trust account)	3,105	3.1
3. STATE STREET BANK AND TRUST COMPANY 505223	2,964	3.0
4. Japan Trustee Services Bank, Ltd. (Trust account)	2,746	2.7
5. NTT DOCOMO, INC.	2,092	2.1
6. National Mutual Insurance Federation of Agricultural Cooperatives	1,646	1.6
7. STATE STREET BANK AND TRUST COMPANY	1,573	1.6
8. Nomura Securities Co., Ltd.	1,471	1.5
9. BBH FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	1,333	1.3
10. MELLON BANK N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1,276	1.3

* The above shareholding ratios exclude 395,953 shares of treasury stock

Stock price on the Tokyo Stock Exchange



(Yen)

	2006/2	2007/2	2008/2	2009/2	2010/2	2011/2	2012/2	2013/2	2014/2
Interim dividend	45	50	55	80	80	85	87	100	110
Year-end dividend	45	50	55	80	80	85	93	100	110
Annual dividend	90	100	110	160	160	170	180	200	220
Stock price as of February 28 or 29	4,350	4,540	4,000	4,250	3,885	4,025	4,780	6,890	7,060

Store network expansion area

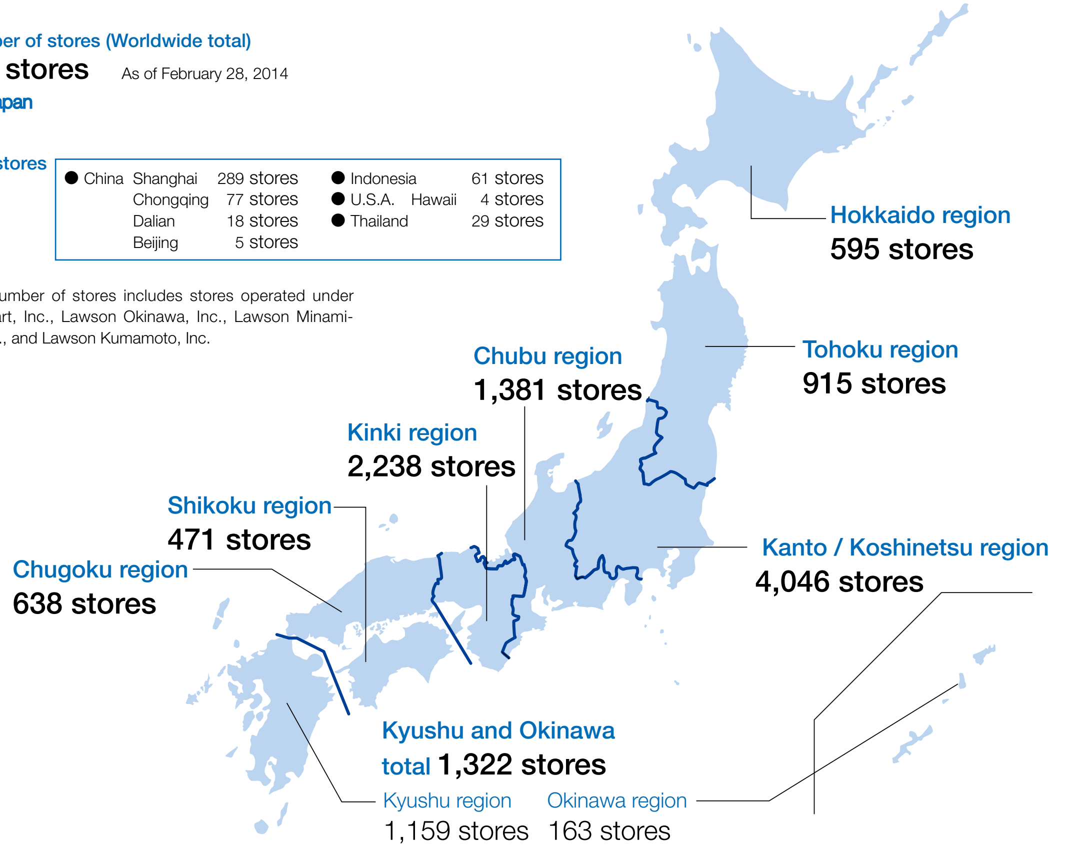
Total number of stores (Worldwide total)
12,089 stores As of February 28, 2014

Stores in Japan
11,606*

Overseas stores
483

● China	Shanghai	289 stores	● Indonesia	61 stores
	Chongqing	77 stores	● U.S.A. Hawaii	4 stores
	Dalian	18 stores	● Thailand	29 stores
	Beijing	5 stores		

* The total number of stores includes stores operated under Lawson Mart, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., and Lawson Kumamoto, Inc.

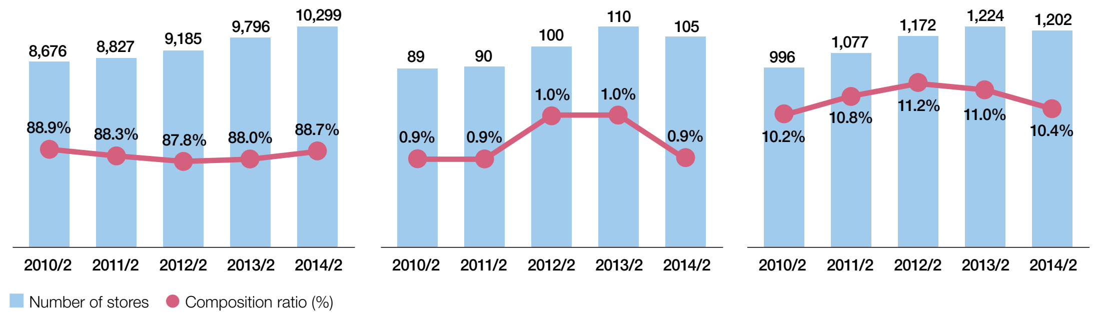


Lawson store formats

As of February 28, 2014

	LAWSON	NATURAL LAWSON	LAWSON STORE100 / LAWSON MART
Operations begun	April 1975	July 2001	May 2005 / February 2014
Features	Lawson is transitioning from a conventional convenience store format targeting mainly men in their 20s and 30s, to a neighborhood store with a merchandise assortment attuned to the particular customer demographics of each store's commercial area. In fiscal 2013, Lawson launched efforts to promote health and wellness in communities to promote long, healthy lives for Japan's graying population.	Launched as a health-oriented convenience store that offers support for lifestyles that embrace beauty, health, and comfort through an assortment of merchandise geared toward working women in their 20s to 40s as well as health-conscious customers. Responding to the growth in health consciousness throughout society, this format is now being developed to meet the needs of a wider range of customers.	LAWSON STORE100 offers an assortment of merchandise assembled with housewives and senior citizens in mind and centered on perishable foods. This fresh food-type convenience store is characterized by small, convenient portion sizes and uniform pricing. Building on this format, LAWSON MART is a next-generation convenience store that combines the convenience of a convenience store with the merchandise assortment of a supermarket.
Percentage of female Ponta customers	Approx. 45%	Approx. 60%	Approx. 45%–50%
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 / Approx. 5,500 items
Total stores in Japan	10,299 stores	105 stores	1,202 stores

Number of stores



INDUSTRY TRENDS

In fiscal 2013, the fiscal year ended February 28, 2014, Japan enjoyed a period of overall recovery. This was largely attributable to the underlying strength of the economy, supported by the positive flow-on effects of pump-priming measures implemented by the government. Against the backdrop of firm commodity prices, domestic demand exhibited a favorable turnaround, particularly in such areas as personal consumption and housing investment. At the same time, exports experienced a modest pickup due mainly to the weak yen.

Looking back on the performance of the convenience store industry during calendar 2013 (January 2013 to December 2013), industry-wide sales came within sight of 10 trillion yen, reaching 9,872.4 billion yen, up 4.2% year on year. Against this backdrop, the share of major convenience store chains continues to expand, with the top four industry players accounting for 85.4% of the market as a whole in 2013. Reflecting newly opened stores, the total number of stores hit the 50,000 mark as of the end of 2012. Buffeted by fierce competition within the industry, sales of existing stores were down 1.2% year on year.

Retail industry market size and convenience store share[1] (Billions of yen)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004[2]	2003
Total retail industry annual sales	138,897	137,585	135,157	136,479	132,961	136,019	135,417	134,911	134,828	133,649	132,446
Convenience store sector annual sales	9,872	9,477	8,775	8,114	7,981	7,943	7,490	7,399	7,360	7,289	7,096
Convenience store share	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%	5.5%	5.5%	5.5%	5.5%	5.4%

Source: "Current Survey of Commerce," Ministry of Economy, Trade and Industry
Notes: 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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Lawson	1,945	1,907	1,826	1,683	1,666	1,559	1,415	1,387	1,362	1,329	1,288
Seven-Eleven Japan	3,781	3,508	3,281	2,948	2,785	2,763	2,574	2,534	2,499	2,441	2,343
FamilyMart	1,722	1,585	1,535	1,440	1,274	1,246	1,122	1,069	1,032	998	954
Circle K Sunkus*[1]	980	947	980	923	902	940	902	911	920	934	902
Total	8,428	7,947	7,622	6,994	6,627	6,508	6,013	5,901	5,813	5,702	5,487
Total market share of top 4 chains	85.4%	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%	78.2%	77.3%

Source: Data published by each company
Notes: 1. Consolidated under C&S Co., Ltd. for fiscal 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 convenience store sector annual sales on a calendar-year basis.

Convenience store numbers (Stores)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Convenience store numbers	50,206	47,593	45,769	45,006	44,391	43,228	43,087	42,643	41,340	41,114	40,644

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

Non-consolidated operating results (Millions of yen)

	2014/2		2013/2		2012/2		2011/2		2010/2	
Net sales of all convenience stores	1,758,656	100.0%	1,693,435	100.0%	1,621,328	100.0%	1,502,754	100.0%	1,472,415	100.0%
Gross operating revenue	298,779	17.0%	282,752	16.7%	272,498	16.8%	263,209	17.5%	271,513	18.4%
Gross operating profit	275,442	15.7%	258,061	15.2%	244,462	15.1%	230,156	15.3%	224,467	15.2%
Selling, general and administrative expenses	213,999	12.2%	198,730	11.7%	188,199	11.6%	179,945	12.0%	179,469	12.2%
Advertising and promotional expenses	9,023	0.5%	10,691	0.6%	11,144	0.7%	9,033	0.6%	11,209	0.8%
Personnel expenses	35,852	2.0%	34,931	2.1%	35,891	2.2%	35,736	2.4%	36,947	2.5%
Facility expenses	123,444	7.0%	113,321	6.7%	104,215	6.4%	100,111	6.7%	96,736	6.6%
Other SG&A expenses	45,680	2.6%	39,784	2.3%	36,948	2.3%	35,137	2.3%	36,671	2.5%
Operating income	61,443	3.5%	59,331	3.5%	56,263	3.5%	50,210	3.3%	44,997	3.1%
Recurring profit	62,171	3.5%	59,459	3.5%	56,110	3.5%	49,312	3.3%	44,577	3.0%
Net income	33,625	1.9%	30,314	1.8%	22,462	1.4%	24,643	1.6%	20,665	1.4%

MANAGEMENT POLICIES FOR FISCAL 2013

Positioned efforts to promote Health and Wellness in Our Communities at the heart of our medium-term business strategy

During the fiscal year under review, Lawson pledged its commitment to provide Health and Wellness in Communities to society at large. In this manner, the Company has positioned efforts to promote long, healthy lives at the heart of its medium-term business strategy. Throughout fiscal 2013, Lawson continued to focus on the development of products that are not only pleasing to the palate, but also help to improve health. Among a host of new offerings, the Company's series of bran products have been well-received by customers who seek to limit their intake of carbohydrates. Under these circumstances, we are expanding our lineup of products that use rare sugar in a bid to control blood glucose levels after meals. By showcasing the health-consciousness of our products and increasing awareness through in-store presentations, we have worked diligently to strengthen the Company's brand image as a convenience store that promotes customer health.

Bolstered the MACHI café and over-the-counter fast food initiatives

We continued to introduce MACHI cafés, a driving force behind efforts to expand our customer base, throughout our network of stores. Under the MACHI café initiative, freshly ground and brewed coffee is served in person by store staff, helping to set us apart from our competitors. The number of stores that offer MACHI café climbed to 7,776 as of the end of February 2014. In addition to increasing profitability while deepening communication with customers and improving customer service, this initiative is helping to cultivate demand in the dessert category, where products are often purchased in combination with such beverages as coffee.

In the over-the-counter fast foods category, new products such as Genkotsumenchi (fried minced meat balls) and Ohgon-Chicken (tender and juicy fried chicken with a golden crispy breading) were well received by customers. Throughout the fiscal year under review, we also installed Machikado Chubo, an in-store kitchen facility, with the intention of offering freshly cooked dishes including Atsugirikatsusand (a thickly sliced pork cutlet sandwich) at more stores. The number of Machikado Chubo stores climbed to 2,076 as of the end of February 2014. Moving forward, we will continue to develop and expand sales of products with high gross profit margins, including over-the-counter fast foods and prepared foods.

Initiated the roll-out of LAWSON MART, the next level of store format development

In fiscal 2013, we took steps to promote the next level of store development by opening the first LAWSON MART store in February 2014. Building on the LAWSON STORE100 format, LAWSON MART looks to further enhance management functions across a wide range of areas, including store operations and product development. By providing a host of functions commonly found at convenience stores, including ATM and public utility bill payment services, LAWSON MART delivers value that cannot be found at supermarkets. Looking ahead, we will maintain our focus on store development that emphasizes profitability. We will continue to follow our established proprietary store opening standards that are based on return on investment (ROI) while maximizing the strengths of the LAWSON, NATURAL LAWSON, and LAWSON MART formats.

Placed additional weight on CRM and particularly on promoting the Ponta Card program

We took steps to apply store-by-store analysis reports based on the purchasing data of Ponta members, which we began distributing to franchised stores in March 2013. While encouraging stores to share details of their individual initiatives and successes, we used this data and analysis to provide an assortment of merchandise and features tailored to each store. Moreover, we initiated measures aimed at applying Ponta member data to create a layout of merchandise that best fits each store as well as an assortment of merchandise that accurately matches the needs of the visitors to each store. As of the end of February 2014, more than 60 million Ponta Cards had been issued, with Ponta Card sales accounting for around 50% of total sales.

OVERVIEW OF MERCHANDISE AND SERVICES

Looking at merchandise and services, every effort has been made to strengthen the appeal of our products, including over-the-counter fast foods and perishables, in a bid to expand our entire customer base, which encompasses the elderly and females. Representing a unique initiative within the industry, we have established a department that specializes in the procurement of high-quality raw materials as a part of efforts to ensure high-value-added product development. In addition to setting ourselves apart from competitors by delivering a product lineup focused on customers' health, we have also continued to promote synergy with our entertainment business in such areas as ticket sales while taking a more direct approach toward loyal customers based on an analysis of Ponta Card purchasing data.

- In our mainstay rice category, our lineup of high-value-added Furusato-no-umai! (Delicious local specialties) lunch boxes and rice balls, which use ingredients specific to different regions across Japan, was tremendously popular.
- We strengthened our evening and nighttime assortment of merchandise throughout the year by expanding our lineup of ready-made meals, including main dishes such as lunch boxes, rice balls, and sandwiches, as well as

over-the-counter fast foods, in order to enhance customer satisfaction.
- In the dessert category, we launched pancakes and waffle-cone ice cream products under our UCHI café SWEETS brand, as well as the Frozen Sweets series of frozen cupped desserts served by thawing in a microwave oven.
- In addition to strengthening our assortment of perishable foods, centered on pre-cut vegetables, we took steps to upgrade and expand our lineup of products that address customers' needs related to home-cooked meals, including seasonings, which are often purchased together with fresh foods. Moreover, we are expanding our affiliated farms with the aim of ensuring the stable supply of vegetables and fruits to Group-wide stores and to secure a source of raw materials for use in original Lawson products. As of the end of February 2014, there were 15 Lawson Farm locations.
- Lawson HMV Entertainment, Inc., a subsidiary, saw steady progress in the volume of concert, event, and leisure activity tickets handled. Lawson maintained its top-class position within the ticketing industry in terms of its revenue from Group-wide ticketing services.
- In our sales promotion activities, we implemented a point-reward campaign targeting Ponta Card members, focusing on measures with the potential to generate a high return on investment. Among a host of measures, we carried out Point Collection Campaigns where members could receive such items as mugs in exchange for points collected by purchasing certain products.
- In the area of services, we handled 196 million third party bill settlement service transactions for public utilities, up 3.0% year on year. The total amount of these transactions also climbed 5.3% to 1,979,383 million yen.

OVERVIEW OF STORE MANAGEMENT

In store operations, we continued to adhere strictly to the Three Essential Practices, which emphasize (1) serving customers courteously; (2) providing a merchandise assortment that meets community needs; and (3) keeping our stores and communities clean. At the same time, we worked diligently to expand our lineup of health-conscious products that are safe, reliable, and delicious. Notably, with the growing number of stores offering MACHI café, employees are becoming increasingly well-versed at offering products and services in a caring manner through better communication with customers. During the fiscal year under review, we endeavored to further improve the quality of stores by clarifying customer service goals and fostering staff who can take a leading role in raising the level of customer service.

By using store-by-store analysis reports based on Ponta Card members' purchasing data, which we began distributing to franchised stores in March 2013, we encouraged our network of stores to share details of individual initiatives as well as examples of success in a bid to ensure an assortment of merchandise and features that match each store.

Furthermore, we also continued to streamline our order placement procedures and to reduce opportunity loss. Looking ahead, we will further push forward efforts aimed at achieving an assortment of merchandise that best suits the customers visiting each store by leveraging Ponta Card member data and arranging shelves to match the locational characteristics of each store.

STORE DEVELOPMENT AND OVERVIEW BY STORE FORMAT

Store development by the Group

In opening new stores, the Group prioritized profitability based on its proprietary ROI-focused store development standard. As a result, the total number of stores in Japan operated by the Group reached 11,337 as of the end of the fiscal year under review.

In order to avoid like-kind competition with other convenience stores, we are taking steps to promote multiple formats, including LAWSON, NATURAL LAWSON, and LAWSON STORE100, while at the same time advancing the fresh food-type LAWSON format, which we believe is capable of enduring the challenges posed by residential areas. In this manner, we are adopting a flexible approach toward opening new stores in a bid to address the unique demographic conditions of each given neighborhood and customer attributes. In February 2014, we launched our first LAWSON MART store, a next-generation convenience store that combines the benefits of a convenience store with the assortment of merchandise provided by a supermarket. Our ability to open stores in areas where conventional convenience stores are considered inappropriate stems from our variety of formats. Making the most of this inherent strength, we will provide a format strategy that takes into consideration the needs of customers and each particular neighborhood. A brief description of our efforts by format is presented as follows.

Fresh food-type convenience stores

Fresh food-type LAWSON

Aiming to reorient conventional convenience stores more toward the needs of customers and in an effort to promote their evolution into a neighborhood store, we are rolling out fresh food-type LAWSON, a remodeled format that places additional emphasis on perishable and daily delivered foods. Moving forward, we are looking to tailor these stores to the needs of female and elderly customers in a bid to expand our customer base. Accordingly, we have made the decision to open fresh food-type LAWSON stores predominantly in residential areas.

As of the end of February 2014, the number of fresh food-type LAWSON stores was 6,515, an increase of 1,228 stores compared with the end of the previous fiscal year.

LAWSON STORE100 and LAWSON MART

To meet the needs of housewives and senior citizens, who have not been catered to by conventional convenience stores, we are rolling out LAWSON STORE100 and LAWSON MART stores in addition to the aforementioned fresh food-type LAWSON stores. The LAWSON STORE100 format is a fresh food-type convenience store that was first launched in 2005. In addition to a lineup of fresh foods, stores under this format offer smaller-volume packages of perishable and other foods predominantly at the uniform price of 100 yen before tax. LAWSON MART stores build on the LAWSON STORE100 format, but, in addition to sales areas that are between 1.5 and two times the size of LAWSON STORE100 stores, LAWSON MART stores offer an assortment of merchandise with a broader range of prices. By providing additional ATM, third party bill settlement, and other service functions, LAWSON MART stores also deliver value that cannot be found at conventional supermarkets. As of the end of February 2014, the combined number of LAWSON MART and LAWSON STORE100 stores stood at 1,202.

Convenience stores with reinforced health care features

Launched in 2001, the NATURAL LAWSON health-oriented convenience store format offers support for lifestyles that embrace beauty, health, and comfort to working women and health-conscious customers. Currently, we are placing greater emphasis on health care functions and reorienting the format to better meet the needs of health-conscious customers. In addition, we are actively developing products for women as well as health-oriented products for sale through the Group's other store formats and the e-commerce business. As of the end of February 2014, the number of NATURAL LAWSON stores stood at 105.

Initiatives aimed at reinforcing the health care business

The deregulation of drug sales has continued since the revision of the Pharmaceutical Affairs Law in June 2009. Against this backdrop, we anticipate that opportunities for the sale of pharmaceutical products through convenience stores will expand even further.

In order to handle ethical pharmaceuticals, we opened Pharmacy LAWSON in 2003. This particular format is a hybrid that combines the function of a dispensing pharmacy with NATURAL LAWSON stores. Thereafter, we created a capital alliance by acquiring 5% of the total outstanding shares of Qol Co., Ltd., a company that operates a pharmacy chain, in 2012. As of the end of February 2014, the number of Pharmacy LAWSON stores stood at 36.

As for over-the-counter (OTC) drugs, our number of registered pharmacists (sellers) increased to 120 and our number of stores selling OTC drugs reached 87 as of the end of the fiscal year under review.

The introduction of a new FC contract package

Beginning in March 2012, we revisited the Group's system of FC contracts, which was first put into practice in December 1998, and introduced a new FC-Cn contract system. In addition to reviewing the charge rate scheme, we also agreed to bear part of the disposal loss and utility bills that had been borne by FC owners. The decision to make these changes was aimed at motivating owners to more actively engage in efforts that would help expand the customer base by selling more perishable foods and over-the-counter fast foods, thereby accelerating an improvement in top line revenues. Major changes from conventional FC-C and FC-G contracts include: (1) the payment of a portion of expenses related to waste disposal by headquarters with the aim of thoroughly reducing opportunity loss and the provision of assistance with order placing to FC stores; (2) the payment of 50% of utility costs by headquarters, which had previously been borne entirely by FC owners (this was largely attributable to the introduction of new fixtures for the sale of perishable foods, over-the-counter fast foods, and prepared food, as well as the projected increase in utility costs); and (3) changes in charge rates, presented on the next page, reflecting the enhanced role played by headquarters in promoting and strengthening sales. In the fiscal year ended February 28, 2014, this revised system was mainly applied to new contracts. In the fiscal year ending February 28, 2015, the revised system will be extended in earnest to include the rollover of existing contracts.

Number of stores in Japan (Group total) (Number of stores)

	2014/2[1]	2013/2[2]	2012/2[2]	2011/2[2]	2010/2[2]
Number of stores	**11,606**	11,130	10,457	9,994	9,761
Openings	**869**	938[3]	766	550	607
Closings	**393**	265	303	317	373
Net increase	**476**	673	463	233	234

Notes: 1. The total number of stores in Japan is the total of stores operated under Lawson, Inc., Lawson Mart, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc. and Lawson Kumamoto, Inc.
2. The stores managed by Lawson Okinawa, Inc. are included; these are 154 stores in FY2012, 147 stores in FY2011, 141 stores in FY2010, 136 stores in FY2009.
3. New store openings in FY2012 include the stores of CVS Bay Area Inc. that were converted into Lawson brand stores.

Number of stores by FC contract type (Group total, Stores in Japan)

(Number of stores)

	2014/2		2013/2		2012/2		2011/2		2010/2	
	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
Franchise stores										
B	1,207	10.4%	1,292	11.6%	1,176	11.2%	1,216	12.2%	1,258	12.9%
G	2,081	17.9%	2,236	20.1%	2,223	21.3%	2,057	20.6%	2,001	20.5%
C	6,630	57.1%	6,008	54.0%	5,455	52.2%	5,284	52.9%	5,074	52.0%
NATURAL LAWSON	73	0.6%	69	0.6%	41	0.4%	35	0.4%	27	0.3%
LAWSON STORE100	1,202[1]	10.4%	495	4.4%	356	3.4%	268	2.7%	167	1.7%
Lawson Toyama[2]	—	—	—	—	61	0.6%	—	—	—	—
Subtotal	11,193	96.4%	10,100	90.7%	9,312	89.1%	8,860	88.7%	8,527	87.4%
Company-operated stores	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
LAWSON	112	1.0%	106	1.0%	111	1.0%	129	1.3%	207	2.1%
NATURAL LAWSON	32	0.3%	41	0.4%	59	0.6%	55	0.6%	62	0.6%
LAWSON STORE100	—[1]	—	729	6.5%	816	7.8%	809	8.1%	829	8.5%
Lawson Toyama[2]	—	—	—	—	12	0.1%	—	—	—	—
Subtotal	144	1.3%	876	7.9%	998	9.5%	993	9.9%	1,098	11.2%
Lawson Okinawa	163	1.4%	154	1.4%	147	1.4%	141	1.4%	136	1.4%
Lawson	82	0.7%	—	—	—	—	—	—	—	—
Lawson	24	0.2%	—	—	—	—	—	—	—	—
Total	11,606	100.0%	11,130	100.0%	10,457	100.0%	9,994	100.0%	9,761	100.0%

Notes: 1. Change due to the absorption-type merger of Ninety-nine Plus with Lawson
2. Lawson Toyama, Inc. was merged into Lawson, Inc. in FY2012.

Types of Lawson's contracts

(Previous contracts)

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

Notes: 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 monthly amount borne by headquarters is ¥250,000.

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[2]		Headquarters' percentage of 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 multiplied by the prescribed headquarters' burden rate determined by applying the percentages of the sales price of those goods against the total monthly sales shown below. • Above 1.5% up to 2.0%: 30% • Above 2.0%: 60% The headquarters pays a maximum of 100,000 yen a month.	—

Notes: 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.

OVERVIEW OF PERFORMANCE FIGURES

Sales figures

Net sales of all stores (consolidated basis)

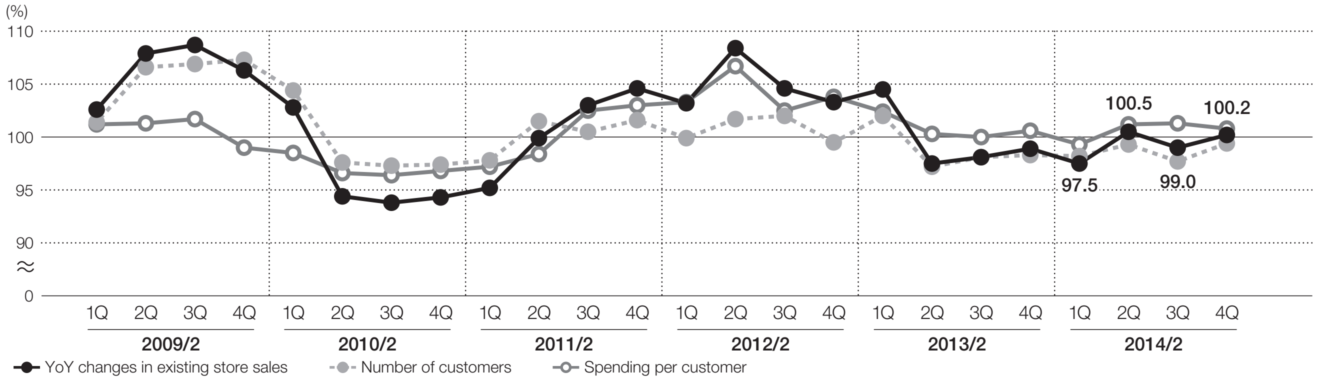
In the fiscal year ended February 28, 2014, consolidated net sales of all Lawson stores amounted to 1,945,394 million yen, 42,606 million yen below the plan* of 1,988,000 million yen. The main reasons for not achieving the planned level of sales included a drop in sales of cigarettes and the downturn in sales attributable to poor weather conditions during the first half of the fiscal year. On a non-consolidated basis, net sales totaled 1,758,656 million yen, an increase of 3.9% compared with the previous fiscal year.

*The figure for planned net sales is the revised figure announced in October 2013.

Sales of existing stores (consolidated basis)

Sales of existing stores on a consolidated basis for the fiscal year under review declined 0.6% compared with the previous fiscal year. On a non-consolidated basis, net sales of existing stores (excluding the LAWSON MART format) were 0.2 of a percentage point below those of previous fiscal year and the plan.

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)

	2014/2	2013/2	2012/2	2011/2	2010/2
Growth rate of existing store sales	99.8%	100.0%	105.4%	100.8%	95.9%
Growth rate of average number of customers and average spending per customer at existing stores					
Number of customers	99.0%	99.4%	101.0%	100.4%	99.0%
Average spending per customer	100.8%	100.6%	104.3%	100.4%	96.9%

Net sales by product category (all stores, consolidated basis)

Looking at consolidated results by product category, sales of fast foods increased substantially, climbing 9.6% year on year. Sales of daily delivered foods also contributed to the Group's overall performance, improving 1.3% compared with the previous fiscal year.

In the fast food category, new over-the-counter items were particularly popular. Such items included the freshly ground and brewed MACHI café coffee brand, which we continued to aggressively expand across our network of stores, as well as a host of original prepared foods, including Genkotsumenchi and Ohgon-Chicken. At the same time, sales in the fast food category were led by delicatessen items including prepared foods and salads together with such desserts as UCHI café SWEETS.

Results in the daily delivered food category were bolstered by substantial contributions from perishable food sales. This largely reflected the increase in fresh food-type LAWSON outlets as well as successful efforts to upgrade and expand the Group's assortment of pre-cut vegetables that employ produce harvested using the Nakashima Farming Method.

Turning to the Group's processed food category activities, overall sales increased. Despite a drop in cigarette sales, this was mainly attributable to initiatives aimed at bolstering our lineup of processed foods, which led to higher sales of seasoning as well as bottled and canned foods purchased together with perishable foods.

As far as the non-food category is concerned, sales of books and magazines continued to decline as a result of the slump across the industry as a whole.

Sales by product category (Consolidated, total net sales) (Millions of yen, %)

	2014/2	2013/2	2012/2	2011/2	2010/2
Fast foods	408,672	373,385	345,424	321,866	324,198
Share	21.1%	19.6%	18.9%	19.1%	19.5%
Daily delivered foods	275,437	272,312	263,180	264,169	239,088
Share	14.2%	14.3%	14.4%	15.7%	14.3%
Processed foods	1,060,455	1,064,133	1,022,619	897,427	902,306
Share	54.7%	55.8%	56.0%	53.3%	54.2%
Cigarettes	459,100	496,971	470,666	382,167	358,600
Share	23.7%	26.1%	25.8%	22.7%	21.5%
Total food sales	1,744,564	1,709,830	1,631,223	1,483,462	1,465,592
Share	90.1%	89.7%	89.3%	88.2%	88.0%
Non-food products	192,726	196,716	194,587	199,350	200,544
Share	9.9%	10.3%	10.7%	11.9%	12.0%
Net sales of all stores	1,937,292	1,906,547	1,825,810	1,682,812	1,666,137
Share	100.0%	100.0%	100.0%	100.0%	100.0%

Sales by product category (Consolidated, total net sales) (Millions of yen)

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) [1]

The gross profit margin was 31.0%, up 0.5 of a percentage point compared with the previous fiscal year. Excluding cigarettes, the gross profit margin improved 0.4 of a percentage point year on year. This was mainly thanks to improvements in the gross profit margins of such categories as fast foods and processed foods as well as the increased proportion of fast foods with typically high profit margins as a percentage of total product category sales. Taking each of these factors into consideration, the gross profit of existing stores, which is directly linked to the profit of franchised stores, climbed 1.5 percentage points compared with the previous fiscal year.

In the fast food category, the gross profit margin improved 0.5 of a percentage point year on year. This result reflected contributions most notably from improvements in over-the-counter fast foods and, in particular, new products, which were extremely well received, as well as the increase in the number of stores offering MACHI café.

Gross profit margins in the daily delivered foods category declined 0.3 of a percentage point compared with the previous fiscal year, owing mainly to the introduction of low gross profit margin perishable foods that were used to attract more customers to stores.

The processed food category saw a slight year-on-year upswing of 0.1 of a percentage point in its gross profit margin. This was mainly due to the downturn in the share of cigarette sales to total category sales.

In the non-food category, the gross profit margin grew substantially, rising 2.1 percentage points year on year. In addition to contributions from ticket and gift card sales, this largely reflected growth in the commission business, including third party bill settlement services.

Gross profit margin by product segment (Non-consolidated)

	2014/2	2013/2	2012/2	2011/2	2010/2
Fast foods	38.9%	38.4%	38.2%	37.8%	37.3%
Daily delivered foods	34.1%	34.4%	34.5%	34.6%	34.3%
Processed foods [1]	24.0%	23.9%	23.8%	24.5%	24.6%
Non-food products [2]	47.7%	45.6%	43.4%	42.2%	40.8%
Gross profit margin	31.0%	30.5%	30.1%	30.6%	30.4%

Notes: 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)

	2014/2	2013/2	2012/2	2011/2	2010/2
Bill settlements (millions of yen)	1,979,383	1,879,679	1,725,788	1,639,203	1,553,832
Number of transactions (millions)	196.1	190.4	177.7	169.8	162.2
Commission revenues (millions of yen)	10,584	10,191	9,487	9,027	8,651

STATEMENT OF INCOME BY LINE ITEM (CONSOLIDATED BASIS)

Gross operating revenues

Gross operating revenues, which are made up of sales from Company-operated stores, franchise commissions from FC stores, and others, came to 485,248 million yen. This result was 15,753 million yen below plans and 2,198 million yen, or 0.5%, lower than the previous fiscal year. The primary reason for this decline was the drop in net sales from Company-operated stores, owing mainly to the continued transition of Ninety-nine Plus, Inc. company-operated stores to FC stores.

In specific terms, Company-operated store sales were 133,976 million yen, while commissions from FC stores came to 242,079 million yen, and others amounted to 109,193 million yen.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses climbed 14,169 million yen, or 5.1%, compared with the previous fiscal year to 290,483 million yen on a consolidated basis. This was approximately 1,400 million yen lower than plans. While the Company took steps to thoroughly scrutinize advertising and promotional expense from an ROI perspective, expenditure in this area grew 1,127 million yen, or 6.8%, year on year due mainly to aggressive sales promotion initiatives and efforts to support FC owners. Personnel expenses declined 1,023 million yen, or 1.7%, compared with the previous fiscal year. This was primarily attributable to successful cost reduction endeavors and efforts to enhance personnel efficiency. The significant increase in mainly Cn-type FC stores pushed up rents by 4,906 million yen, or 5.8%, year on year.

Non-consolidated IT-related expenses (the total of equipment lease fees, depreciation of property and store equipment, and a portion of other items) decreased 300 million yen compared with the previous fiscal year to 14,700 million yen on the back of efforts to reduce costs, including a review of system maintenance fees.

Breakdown of main SG&A expenses

(Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Personnel expenses	58,990	60,013	60,887	58,020	60,834
Share	20.3%	21.7%	23.3%	23.9%	25.0%
Advertising and promotional expenses	17,734	16,607	14,146	10,977	12,166
Share	6.1%	6.0%	5.4%	4.5%	5.0%
Rents	89,485	84,578	78,483	73,231	70,571
Share	30.8%	30.6%	30.1%	30.2%	29.0%
Equipment leasing charges	4,494	5,914	8,205	10,230	13,444
Share	1.5%	2.1%	3.1%	4.2%	5.5%
Depreciation and amortization	47,889	43,886	37,846	33,084	27,468
Share	16.5%	15.9%	14.5%	13.6%	11.3%
Depreciation expenses*	37,872	34,030	28,999	24,529	21,053
Share	13.0%	12.3%	11.1%	10.1%	8.7%
Amortization expenses	10,017	9,856	8,847	8,555	6,414
Share	3.5%	3.6%	3.4%	3.5%	2.6%
Other	71,892	65,315	61,375	57,093	58,711
Share	24.8%	23.7%	23.5%	23.5%	24.1%
Total	290,483	276,314	260,942	242,636	243,194
Share	100.0%	100.0%	100.0%	100.0%	100.0%

* With the application of new lease accounting standards, effective from the fiscal year ended February 28, 2011, the depreciation of property, facility and equipment has included the depreciation of lease assets purchased and sold.

Operating income

Against the backdrop of a harsh operating environment, we accelerated the pace of MACHI café and Machikado Chubo roll-out in a bid to enhance the competitiveness of individual stores. Despite efforts aimed at sustaining the amount of inventory and other operating expenditure, operating income increased 1,881 million yen, or 2.8%, compared with the previous fiscal year to 68,127 million yen due mainly to the aforementioned substantial improvement in the gross profit margin. The ratio of operating income to net sales across all stores was 3.5%, unchanged from the previous fiscal year.

Income before income taxes and minority interests

Income before income taxes and minority interests came to 59,786 million yen on a consolidated basis, a slight increase of 197 million yen, or 0.3%, year on year. In the fiscal year under review, Lawson incurred expenses of 8,392 million yen under other income and expenses attributable to the impairment of long-lived assets and loss on disposal of property and store equipment, largely due to losses incurred as a result of the closure of non-performing stores. These expenses exceeded levels recorded in the previous fiscal year by 3,821 million yen, owing mainly to business restructuring at consolidated subsidiary Ninety-nine Plus, Inc. As a result, net other expenses increased 1,684 million yen year on year to 8,341 million yen.

Net income

Lawson reported an income tax effect on subsidiary shares in connection with the absorption-type merger of Ninety-nine Plus, Inc. As a result, income taxes declined 5,136 million yen. Accounting for this and other factors, consolidated net income climbed 4,783 million yen, or 14.4%, compared with the previous fiscal year to 37,966 million yen. Net income per share was 380.04 yen.

BALANCE SHEET BY LINE ITEM (CONSOLIDATED BASIS)

Balance sheet

Current assets

As of February 28, 2014, current assets stood at 195,784 million yen, up 15,487 million yen compared with the end of the previous fiscal year. The principal factors in this upswing were year-on-year increases in accounts receivable—other of 8,184 million yen, or 17.8%, to 54,193 million yen, and prepaid expenses and other current assets of 9,152 million yen, or 77.5%, to 20,957 million yen.

Property and store equipment, investments and other assets

Property and store equipment amounted to 233,437 million yen, 24,298 million yen, or 11.6%, higher than the previous fiscal year-end. This was largely attributable to the increase in lease assets reflecting the opening of new stores as well as aggressive renovations to existing stores, including the continued roll-out of MACHI café.

Investments and other assets stood at 191,772 million yen, up 1,398 million yen, or 0.7%, year on year. This was primarily due to the increase in deferred tax assets as a result of the income tax effect on subsidiary shares.

Current liabilities

As of the end of February 2014, current liabilities stood at 246,707 million yen, 6,913 million yen, or 2.9%, higher than the balance as of February 28, 2013. The major movements comprised year-on-year increases in accounts payable for franchised stores included in accounts payable—trade of 3,426 million yen, or 4.5%, to 79,444 million yen, accounts payable—other of 3,238 million yen, or 12.4%, to 29,344 million yen, and lease obligations included in the current portion of long-term debt of 2,097 million yen, or 14.5%, to 16,586 million yen.

Long-term liabilities

Long-term liabilities amounted to 123,788 million yen as of the end of February 2014. This was 13,954 million yen, or 12.7%, higher than the balance as of the end of the previous fiscal year. The major component was long-term lease obligations, which climbed 14,460 million yen, or 30.6%, year on year.

Total equity

As of February 28, 2014, total equity stood at 250,498 million yen, an increase of 20,316 million yen, or 8.8%, compared with the end of the previous fiscal year. Accounting for net income of 37,966 million yen and the payment of dividends totaling 20,978 million yen, retained earnings came to 138,142 million yen, up 16,988 million yen compared with the previous fiscal year-end.

Balance sheet by accounting line items of a distinctive nature

The following are balance sheet accounting line items that are unique to the Company.

Accounts receivable—due from franchised stores

Lawson purchases all products that are ordered by each FC store, calculates the payment amount to each supplier and undertakes payment. The headquarters collects this money as accounts receivable—due from franchised stores. This accounting line item encompasses the obligation of FC stores to the headquarters. As of the end of February 2013, the balance of accounts receivable—due from franchised stores was 32,186 million yen, up 6,812 million yen compared with the previous fiscal year-end.

Accounts receivable—other

Accounts receivable from customers are included in accounts receivable—other. This also includes the accounts receivable of FC stores (such as credit card sales at FC stores). Accounts payable are classified into (1) accounts payable for company-operated stores and (2) accounts payable—due to franchised stores. In contrast, all accounts receivable on credit card sales due from credit card companies are posted under accounts receivable—other, as the Company is a party to the contracts with credit card companies on credit card sales and is entitled to any accounts receivable.

The balance of accounts receivable—other was 54,193 million yen as of the end of February 2014, up 8,185 million yen year on year.

Long-term loans receivable

Long-term loans receivable are primarily made up of construction aid loans to owners (of the land or the building of a store) and loans from the headquarters to FC stores. Previously, capital deposited for owners for the opening of stores (land and buildings) was recorded as lease deposits. It is now recorded as long-term loans receivable. As of the end of February 2014, the balance of long-term loans receivable stood at 33,728 million yen, down 853 million yen compared with the end of the previous fiscal year.

Lease deposits

Based on rental agreements with stores, Lawson provides the owners of land and buildings with a deposit that is equivalent to several months' rent. The balance of lease deposits stood at 86,150 million yen as the end of February 2014, up 41 million yen year on year.

Accounts payable—due to franchised stores

This accounting line item reflects the obligation of the headquarters to FC stores. Each store remits its daily sales to the headquarters and there are times when the amount exceeds the balance of accounts receivable—due from franchised stores. When this happens, the outstanding obligation is posted under accounts payable—due to franchised stores. As of February 28, 2014, the balance of accounts payable—due to franchised stores was 1,405 million yen, 1 million yen higher than the balance as of the previous fiscal year-end.

Money held as agent

Money held as agent is mainly comprised of amounts received on behalf of public utility companies and ticket money for concerts and the like. Buoyed by an increase in the number of transactions as well as the number of companies to whom we provide services, the transaction amount continues to grow. As a result, the transaction amount amounted to 1,979,383 million yen, an increase of 5.3% year on year. As of the end of February 2014, the balance of money held as agent was 87,586 million yen, up 57 million yen year on year.

Guarantee deposits received from franchised stores and other

This accounting line item is comprised of guarantee deposits that were received by Lawson from G-type contract FC owners. With the introduction of the new Cn-type FC contract package in March 2012, we no longer conclude new G-type contracts. Owing mainly to repayments to FC stores upon the execution of new contracts or the expiration of existing contracts, the balance of guarantee deposits received from franchised stores and other as the end of February 2014 stood at 32,253 million yen, down 2,552 million yen compared with the end of the previous fiscal year.

CAPITAL EXPENDITURE

Total capital expenditure (including investments and advances as well as leased asset acquisition costs) amounted to 84,032 million yen on a consolidated basis. This was 6,671 million yen higher than the previous fiscal year.

Turning to new stores, the amount of capital expenditure declined 903 million yen year on year to 32,230 million yen. This reflected corrections in investment following investment undertaken to convert stores owned by CVS Bay Area Inc. to Lawson brand stores during fiscal 2012. Investments in existing stores also fell 1,691 million yen compared with the previous fiscal year to 7,078 million yen. From an IT-related investment perspective, we cut back expenditure by 546 million yen to 5,362 million yen. In connection with our leasing activities, capital expenditures climbed 7,343 million yen year on year to 32,107 million yen, owing mainly to the continued roll-out of MACHI café and Machikado Chubo.

A breakdown of the Company's principal capital expenditure activities is presented as follows.

Breakdown of capital expenditures (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
New store investments	32,230	33,133	21,596	13,675	19,887
Existing store investments	7,078	8,769	10,241	8,934	8,101
IT-related investments	5,362	5,907	7,744	7,479	9,409
Other	2,067	3,238	630	1,003	629
Investments subtotal	46,736	51,047	40,211	31,091	38,026
Investments and advances	5,189	1,550	12,401	2,544	(3,004)
Leases*	32,107	24,765	21,960	16,691	36,376
Total	84,032	77,361	74,572	50,326	71,399

* The amount equivalent to the acquisition cost of lease assets acquired during each fiscal year. The amount of lease obligation repayment was 13,769 million yen for the fiscal year ended February 28, 2014.

Breakdown of depreciation and amortization (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Depreciation expenses*	37,872	34,030	28,999	24,529	21,053
Amortization expenses	10,017	9,856	8,847	8,555	6,414
Total depreciation and amortization	47,889	43,886	37,846	33,084	27,468

* Effective from the fiscal year ended February 28, 2011, Lawson adopted the new lease accounting standards. Accordingly, depreciation of property and store equipment has included depreciation of lease assets purchased and sold.

CASH FLOW

Net cash provided by operating activities amounted to 81,503 million yen for the fiscal year ended February 28, 2014, down 3,686 million yen compared with the previous fiscal year. This was mainly attributable to the decline of 12,474 million yen in increase in money held as agent and the 1,624 million yen greater decrease in guarantee deposits received from franchised stores and other.

Net cash used in investing activities totaled 47,924 million yen, down 6,272 million yen year on year. The major component was purchases of property and store equipment, which declined 2,406 million yen.

Looking at net cash provided by operating activities after deducting net cash used in investing activities, free cash flow amounted to 33,579 million yen, an increase of 2,586 million yen compared with the previous fiscal year.

Net cash used in financing activities came to 39,650 million yen, up 7,670 million yen year on year. The main cash outflow was repayments of lease obligations, which fell 3,708 million yen, impacted by the expenditures related to the opening of new stores and the repayment of lease obligations.

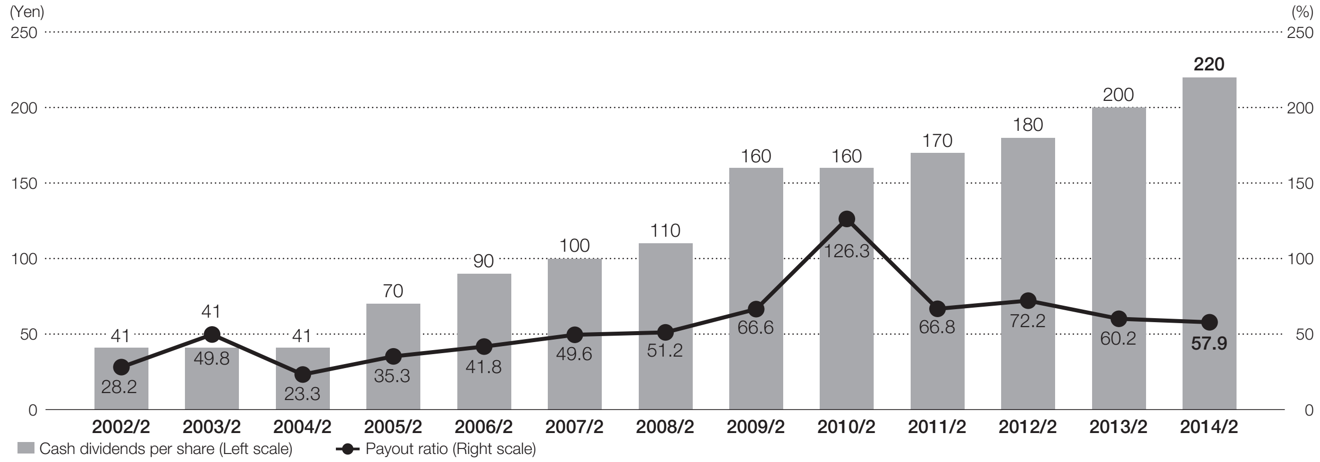
As a result of all these factors, cash and cash equivalents at the end of year stood at 68,760 million yen. This was 4,006 million yen lower than the balance as of the previous fiscal year-end.

CAPITAL POLICIES: DIVIDENDS AS WELL AS SHARE BUYBACK AND CANCELLATION

Lawson has positioned the return of profits to shareholders as one of its most important policies. In managing its businesses, the Company is therefore always conscious of the need to maintain the cost of capital at a level that reflects the expectations of investors toward return on their investments. In order to ensure that we properly select businesses that have the potential to realize a return on investment (ROI) that exceeds capital costs, we employ return on equity (ROE) as one of our most important management benchmarks and an indicator of capital efficiency. We work to secure retained earnings as a platform for medium-to-long term sustainable corporate growth and to ensure our financial health. We scrutinize and screen those investment plans that are likely to generate high profitability. We look to increase net cash provided by operating activities in a sustainable manner and create free cash flow. We also pay dividends and undertake the buyback and cancellation of our own shares based on a capital structure that we deem appropriate. By endeavoring to promote capital efficiency that exceeds the cost of capital, we target an ROE of 20% in the medium term.

We do not have any specific target dividend payout ratio. We will first undertake sufficient investment to allow us to secure sustainable future growth and then look to generate sizable free cash flows so that we can continuously increase dividends. Our basic policy directs us to make the best use

Cash dividends per share and payout ratio



of retained earnings, to refrain from retaining unnecessary surplus, and improve capital efficiency. We plan to pay a dividend of 240 yen per share, up 20 yen per share, for the fiscal year ending February 28, 2015.

We acquired and cancelled approximately 43 billion yen of our own shares during the four-year period from fiscal 2001 to fiscal 2004. Between October 2007 and January 2008, we purchased approximately 21 billion yen's worth, or around 5.3 million shares, of treasury stock. In February 2008, we then cancelled a total of five million of our own shares. Looking ahead, we will continue to consider the possible purchase and cancellation of our own shares as a way to improve ROE.

OVERVIEW OF MAJOR CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

Consolidated operating results of the Lawson Group for the fiscal year ended February 28, 2014 include the performance of 12 consolidated subsidiaries and two equity-method affiliated companies, for a total of 14 subsidiaries and affiliated companies. The Company's subsidiaries and affiliated companies are categorized into three broad business categories: the convenience store business, the entertainment- and home convenience-related business, and overseas businesses. Major changes in the scope of consolidation during the fiscal year under review comprised the inclusion of Lawson Mart, Inc., a newly established company. Moreover, Ninety-nine Plus, Inc. was excluded from the scope of consolidation effective February 1, 2014, due to its liquidation following the company's absorption and merger with Lawson, Inc. (the surviving company).

Details of the business activities and performance of major companies that fell within the scope of consolidation are presented as follows.

Ninety-nine Plus, Inc. (consolidated subsidiary)

Ninety-nine Plus operated fresh food convenience stores under the "LAWSON STORE100" brand. Established in October 2000, Ninety-nine Plus adopted a business model entailing the sale of a wide range of products that consumers buy on a day-to-day basis, including perishable foods and sundry items, at a single price. As a pioneer of the fresh food convenience store format, the company's activities enjoyed rapid growth and attracted the patronage of housewives and elderly customers. In 2007, Lawson decided to enter into a capital and business alliance with Ninety-nine Plus. Ninety-nine Plus then took steps to increase its capital through a third-party allotment of its shares. Later, in January 2008, Ninety-nine Plus again undertook a third-party allotment of its shares to the Company as a part of efforts to strengthen the business alliance and procure the necessary funds to open new stores. As a result, Lawson became the company's largest shareholder, with an equity interest of 34.2%. In September of the same year, we took steps to secure a majority share of Ninety-nine Plus, lifting our equity interest to 76.8%.

Moving forward, we worked diligently through a subsidiary company to develop the LAWSON STORE100 format. At the same time, Value Lawson, Inc., a subsidiary engaged in the operation of fresh food convenience stores, decided to work with Ninety-nine Plus to secure a dominant share of the fresh food convenience store market. Building on this collaboration, the two companies merged on May 1, 2009, with Ninety-nine Plus remaining as the surviving company.

Ninety-nine Plus was listed on the Osaka Securities Exchange JASDAQ market, but its shares were delisted in June 2010. Ninety-nine Plus then became a wholly owned subsidiary of Lawson through an exchange of shares in July 2010. Consequently, Lawson's cumulative contribution to the company totals around 16.7 billion yen since fiscal 2007.

While Ninety-nine Plus was included in the Company's scope of consolidation until January 31, 2014, the company was dissolved after an absorption-type merger with Lawson on February 1, 2014. As a result, the Company acquired all of Ninety-nine Plus' store-related assets, including its franchise agreements with LAWSON STORE100 fresh food convenience stores. Through this initiative, the Group has centralized all Lawson chain store administrative functions, including store asset management and franchise promotion, thus enabling it to further advance efficient area-targeted strategies that are tailored more closely to the needs of local customers.

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

	2014/2	2013/2	2012/2	2011/2	2010/2*
Total operating revenues	100,226	131,869	141,801	142,228	135,410
Operating income	1,704	2,086	1,883	1,772	1,793
Net income (loss)	2,696	557	(747)	(840)	1,673
Number of stores	1,202	1,224	1,172	1,077	996

Note: 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.

Lawson Mart, Inc. (consolidated subsidiary)

Lawson Mart, Inc. was established on November 14, 2013, taking over the operational functions of Ninety-nine Plus after that company was dissolved in line with its absorption and merger with the Company. Lawson Mart is responsible for the product development and store management functions of the LAWSON STORE100 and LAWSON MART formats.

SCI (consolidated subsidiary)

Aspiring to become a small commercial area manufacturing retailer, we established SCI, a subsidiary that specializes in supply chain management (SCM) innovation and enhancement, in July 2012 in order to improve the efficiency of manufacturing and distribution throughout the supply chain. We aim to develop a coherent manufacturing retail model that eliminates waste as well as redundant work at all stages of the supply chain, from the procurement of raw materials through manufacturing, distribution and store operations. We will harness the additional value created through SCM structural reform and this comprehensive upstream–to-downstream manufacturing retail business model to improve the competitiveness of products and provide sales promotion support to FC owners. By making the most of this expertise and know-how over the medium term, we will expand sales of raw materials and products to customers outside the Group.

Lawson Okinawa, Inc. (equity-method affiliate)

In January 2009, we signed a business alliance agreement with San-A, Inc., the largest retailer in Okinawa, to conduct business within the prefecture. By building on the experience that San-A has nurtured over many years and the overwhelming support that it receives from local customers, it was our belief that this alliance would help us to adapt our services and operations to the distinctive lifestyles and food preferences of the people in Okinawa. With the aim of creating products and stores that fit local customers' needs and wants, we established Lawson Okinawa, Inc. as a wholly owned subsidiary in October 2009.

Later, in December 2009, we transferred 51% of the outstanding stock of Lawson Okinawa to San-A with a view to conducting business on a joint-venture basis.

As of February 28, 2014, the number of stores stood at 163. Turning to performance, operating income in the fiscal year ended February 28, 2014 was 1,051 million yen, up 13.9% year on year.

Through Lawson Okinawa, we will continue to fine-tune our stores to match local needs, thereby working to further develop the Lawson chain in Okinawa Prefecture.

Lawson Okinawa, Inc. (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	4,199	3,954	3,659	3,347	733
Operating income	1,051	924	780	601	109
Net income	792	799	1,049	612	101
Number of stores	163	154	147	141	136

Lawson HMV Entertainment, Inc. (consolidated subsidiary)

Established in 1992 as RIZA JAPAN, the company's principal activity was the sale of tickets. RIZA JAPAN changed its name to Lawson Ticket in 1996, and was included in Lawson's scope of consolidation as a subsidiary company in 1997.

In the fiscal year ended February 28, 2014, the company posted solid performance led by an increase in ticket sales for concerts, events, and leisure activities. Based on revenues from the entire Group's ticketing services, Lawson continues to hold a top-class position in the ticketing industry. Tickets for concerts, sporting events as well as theaters and cinemas are sold primarily at Loppi multimedia terminals or LAWSON Net Shopping Loppi, an online comprehensive entertainment mall. The company is particularly strong in the area of J-pop[1] and sporting event tickets sales.

To make the most of the customer interface that Lawson Ticket provides as well as the expertise and e-commerce business mechanism developed by i-convenience, formerly a Lawson wholly owned subsidiary, these two companies merged in March 2009, with Lawson Ticket as the surviving company. In July 2009, the company changed its name to Lawson Entermedia. It was listed on the Osaka Securities Exchange JASDAQ Market but was delisted in June 2010. The company then became a wholly owned subsidiary in July 2010 through an exchange of shares.

In September 2011, Lawson Entermedia and our subsidiary HMV Japan[2] merged to form a new company, Lawson HMV Entertainment. The goal of the merger was to realize synergies in the entertainment e-commerce business going forward. Leveraging our solid base in the e-commerce business, we can now offer enhanced convenience through a one-stop shopping experience. Customers, who used to buy concert tickets and CDs for a particular artist separately, can now make purchases simultaneously. Combining the competitive edge of the HMV brand in the CD music industry and Lawson Ticket's status within the ticket industry, we anticipate significant additional synergies.

Looking at the company's revenue structure, the major source of income is commissions from ticket sales. Gross operating revenue, mainly comprising commissions, is posted as "operating revenues: other" in the consolidated statement of income.

Results in the fiscal year ended February 28, 2014 were strong thanks to robust ticket sales mainly for large-scale concerts. Operating income for the period under review was 2,818 million yen, an increase of 15.3% compared with the previous fiscal year.

Notes: 1. A popular music genre in the Japanese language that mainly attracts the younger generation.
2. HMV Japan (which was a consolidated subsidiary until the end of August 2011) sells CDs and DVDs under the HMV brand. The company was established and opened its first store in Shibuya, Tokyo, in 1990. The company launched HMV Online and commenced its current e-commerce business in 1999. In 2007, Limited Company HMV Japan Holdings, a wholly owned subsidiary of Daiwa Securities SMBC Principal Investments including indirect ownership, acquired all of the company's shares. We acquired all of the shares from HMV Japan Holdings in December 2010 in a bid to reinforce our entertainment business by realizing increased synergies with Lawson Entermedia.

Lawson HMV Entertainment, Inc. (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	45,313	45,481	25,545	9,864	10,022
Operating income	2,818	2,446	1,650	1,111	1,099
Net income (loss)	2,450	2,450	2,073	1,870	(11,887)

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

In 2001, Mitsubishi Corporation, associated banks, and the Company provided the capital necessary to set up LANs to operate automated teller machines (ATMs) at Lawson stores. In the ensuing period, ATM machines were installed at certain stores, and LANs commenced ATM services. In carrying out these ATM services, LANs is responsible for installing multibank ATMs at Lawson stores throughout local communities that have been agreed upon with each associated bank. A major source of income is the commission paid by the banks to the company for operating ATMs. This revenue is posted as "operating revenues: other" in the consolidated statement of income. Principal expenses mainly comprise operation center commission as well as ATM line and lease costs.

In the fiscal year ended February 28, 2014, operating income saw a substantial increase of 28.1% compared with the previous fiscal year to 6,089 million yen. This was largely attributable to the steady increase in the number of ATMs installed as well as usage and successful efforts to reduce operating expenses, which included a review of ATM operating costs.

In the year ending February 28, 2015, an additional seven banks have initiated similar services. As of February 28, 2014, the number of financial institutions providing services throughout Japan, including leading city bank groups, local banks and Internet banks, stood at 65, with 10,118 ATMs installed, a year-on-year increase of 446, across 47 prefectures.

Lawson ATM Networks, Inc. (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	24,188	23,975	23,063	20,826	18,570
Operating income	6,089	4,753	3,640	3,159	2,444
Net income	3,689	2,712	1,993	1,788	1,412
Number of ATM machines installed (Units)	10,118	9,672	9,002	8,526	6,978

Shanghai Hualian Lawson, Inc. (consolidated subsidiary)

We were the first Japanese convenience store company to gain a foothold in China, our first store opening in 1996. We established Shanghai Hualian Lawson in Shanghai, with the Company taking a 70.0% equity stake and Hualian Group, a Shanghai city government-related company, the remaining 30.0%. With the aim of acquiring land and buildings in good locations and motivating local employees, we transferred 21.0% of our 70.0% interest to Hualian Group, reducing our ownership to 49.0%. Due to changes in China's (Shanghai's) economic environment, we recognized the need to reinforce the Japanese-style convenience store concept. Accordingly, we began to again acquire incremental shares in September 2011 to regain management control of the company. After we brought our interest in Shanghai Hualian Lawson to 85.0%, the company was included in our scope of consolidation as a subsidiary. Meanwhile, through a restructuring of the retail industry in China driven by the national government, Hualian Group was merged into Bailian Group. In the course of this restructuring, 100% of the shares of Hualian Group were transferred to Bailian Group in December 2008. To strengthen and expand our business in China, we concluded an agreement with Bailian Group, which was looking to restructure its retail division. The agreement called for us to accelerate the pace of business development and to actively push forward the Japanese-style convenience store concept that places considerable emphasis on product development, customer interaction, and cleanliness. Looking ahead, we will pay close attention to changes in economic conditions as well as the Shanghai market. At the same time, we will upgrade the quality of stores in Shanghai, the economic center of China, thereby improving store brand equity while also focusing on ROI as a criterion for the opening of new stores.

As of the end of February 2014, we maintained a total of 289 stores, of which 192 are FC stores.

Shanghai Hualian Lawson, Inc. (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	1,289	903	4,917	5,402	6,313
Operating income (loss)	(404)	(574)	(283)	15	2
Net income (loss)	(1,568)	(2,034)	(443)	25	5
Number of stores	289	305	314	317	300

Chongqing Lawson, Inc. (consolidated subsidiary)

Chongqing is China's fourth largest city, with a population of over 33 million, following Beijing, Shanghai, and Tianjin. The city has continued to enjoy double-digit economic growth for 10 consecutive years. This double-digit economic growth rate exceeds the national average and that of coastal cities such as Shanghai. Against this backdrop, potential demand for convenience stores in inland cities in China is increasing.

Lawson was invited by the city to operate stores. To gain a foothold as the first Japanese convenience store in inland China, we established Chongqing Lawson, Inc. in April 2010, and opened the first store, equipped with a training facility, in July 2010. As of the end of February 2014, the company maintained a network of 77 stores.

Chongqing Lawson, Inc. (Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	1,843	977	258	30	Established in April 2010
Operating income (loss)	(840)	(671)	(243)	(47)	
Net income (loss)	(832)	(775)	(249)	(59)	
Number of stores	77	49	38	4	

Dalian Lawson, Inc. (consolidated subsidiary)

Dalian is a leading port city in northeastern China, with a population of over six million. Following an invitation by the city of Dalian to commence convenience store operations, we established Dalian Lawson together with the local enterprise Dalian Acasia Fast Foods Co. in September 2011. The first store then opened in November 2011. Our equity stake in the company is 95%. Dalian Lawson maintained a network of 18 stores as of the end of February 2014.

In the city of Beijing, we established Beijing Lawson, Inc., a non-consolidated company, in May 2013. The company opened its second store in August 2013 and maintained a network of five stores as of the end of February 2014.

Dalian Lawson, Inc.

(Millions of yen)

	2014/2	2013/2	2012/2	2011/2	2010/2
Total operating revenues	515	176	4	Established in September 2011	
Operating income (loss)	(226)	(163)	(21)		
Net income (loss)	(210)	(196)	(27)		
Number of stores	18	8	3		

Lawson Asia Pacific Holdings Pte. Ltd. (consolidated subsidiary)

In May 2011, we established Lawson Asia Pacific Holdings, a wholly owned consolidated subsidiary, in Singapore to manage all overseas operations excluding China. We signed a license agreement in June 2011 with PT MIDI UTAMA INDONESIA Tbk (MIDI), which is a member of the Alfa Group, a major player in the distribution and retail market in Indonesia. Lawson Asia Pacific Holdings acquired a 30% equity stake in MIDI in July 2011. As of the end of February 2014, MIDI operated 574 stores under the proprietary small format Alfamidi and two stores under the Alfaexpress brand. At the same time, the company operates 61 Lawson stores, mainly in Greater Jakarta. MIDI is an equity-method affiliate of the Lawson Group.

In Thailand, Lawson Asia Pacific Holdings, together with the SAHA Group, Thailand's leading distributor of consumer goods, established Saha Lawson Co., Ltd. in November 2012. The company then began opening convenience stores under the LAWSON 108 brand. As of the end of February 2014, Saha Lawson maintained a network of 29 stores.

OUTLOOK FOR FISCAL 2014

Looking at the Japanese economy throughout the fiscal year ending February 28, 2015, we recognize the need to factor in the downside risk that any improvement in economic conditions will fall short of expectations. While we have not seen a major downturn in consumer sentiment following the consumption tax rate hike on April 1, 2014, this need to factor in downside risk is largely attributable to a host of issues including uncertainties surrounding any increase in disposable incomes.

Turning to the convenience store industry, the scale of the overall market is expected to expand on the back of customer base growth. Meanwhile, the large-scale roll-out of new stores by competitors is projected to have a significant impact, prompting fears of intense competition throughout the industry.

Against this backdrop, we will adopt a strategy that differs from our competitors, who are more inclined to focus on the large-scale opening of stores. In contrast, we will channel our energies toward beefing up existing stores while continuing to cement our position as a provider of Health and Wellness in Our Communities. To this end, we will work to enhance the competitiveness of individual stores. Getting the jump on the competition, we will redouble our efforts to expand our customer base. We will expand profits for both the Company and FC owners by fortifying the competitive advantage of existing stores. In addition to realizing our corporate philosophy of "Creating Happiness and Harmony in Our Communities," we will work to enhance our corporate value. As far as the opening of new stores is concerned, we will look to increase the number of new stores on a scale commensurate with our store development and store operation capabilities, maintaining our basic focus on profitability.

Taking each of the aforementioned factors into consideration, we project that consolidated operating income will reach 75 billion yen in the fiscal year ending February 28, 2015. On this basis, profit is expected to improve for the 12th consecutive year, climbing 10.1% compared with the previous fiscal year. Effective from the current fiscal year, Lawson has changed its method of depreciation for property and store equipment excluding lease assets from the declining-balance method to the straight-line method. As a result, operating income is anticipated to increase by 5 billion yen compared with the previous method. Excluding this factor from our forecasts, consolidated operating income is forecast to increase 2.7% year on year.

Developing products with high gross profit margins

Serving as a driving force to expand our customer base, our MACHI café initiative, where freshly brewed coffee is served in person by store staff, is setting us apart from competitors. The number of stores that have introduced MACHI café stood at 7,776 as of the end of February 2014. Our plan is to ensure that MACHI café is available at 10,000 stores by the end of February 2015. We will also bolster our Machikado Chubo (in-store kitchen) initiative. Measures will include developing a variety of menu options and extending Machikado Chubo to a growing number of stores. Every effort will be made to strengthen the competitiveness of existing stores and to maximize FC owner profits by developing and increasing sales of products with high gross profit margins, such as over-the-counter fast and prepared foods.

Promoting the fresh foods convenience store business

The Company continues to record steady growth, with 6,515 fresh food-type LAWSON stores as of the end of February 2014. Moving forward, we will maintain our focus on providing high quality fresh foods produced at Lawson Farm utilizing the Nakashima Farming Method. Building on our LAWSON STORE100 platform, we will also promote the next level of development by advancing the LAWSON MART store format. The Lawson Group is working to seamlessly combine the benefits of convenience stores with an assortment of merchandise that is comparable to a supermarket. Accordingly, we anticipate an upswing in demand as we provide store formats that are tailored more closely to each locality.

Promoting CRM through the use of Ponta Card holder data

As of the end of February 2014, more than 60 million Ponta Cards have been issued. Accounting for around 50% of total sales, contributions from Ponta Card holders continue to show steady progress. By enhancing the precision of customer data analysis, we will pursue the development of high-value-added products and further increase gross profit margins. We will also ensure that the opening of new stores is undertaken in an efficient manner while reinforcing the efficacy of our advertising and promotions.

Increasing operating efficiency and improving profitability through supply chain structural reform

In line with advances in the technologies used to analyze Ponta data, we will follow SCI's lead in promoting unique structural reforms throughout the supply chain. Looking ahead, we will push forward a variety of initiatives including efforts to optimize the supply chain while making processes at each stage more visible. We will also strengthen the competitiveness of products and provide sales promotion support to FC owners by procuring value-added raw materials and reducing costs, thereby achieving highly efficient operations and improved profitability.

Full-scale roll-out of home convenience-related businesses

In the area of home convenience-related businesses, we will take advantage of our network of over 10,000 brick-and-mortar stores to address a wide range of customer needs through the online sales of such items as entertainment-related products including tickets, CDs, and DVDs as well as perishable foods in cooperation with Group companies. In the "Smart Kitchen" business, we purchased shares held by Yahoo Japan Corporation in order to bolster collaboration with our network of convenience stores. Smart Kitchen became a full-fledged member of the Group through a process of corporate separation and absorption effective July 1, 2014. Looking ahead, the Lawson Group will work in unison to strengthen its home convenience store business.

Overseas business development

We will explore more store opening opportunities not only in the countries in which we already have operations, but those countries and regions that we deem have the potential to grow economically based on a careful assessment of their political and economic landscape. If we identify opportunities in Europe or the United States in which we are able to implement a Japanese-style convenience store business model as a part of efforts, for example, to harness our strengths in such areas as the development of a FC system, infrastructure, or high value added products of a unique and original design, we will proactively explore those paths.

Consolidated Balance Sheet

Lawson, Inc. and Consolidated Subsidiaries
February 28, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2014	2013	2014
CURRENT ASSETS:			
Cash and cash equivalents	¥ 68,760	¥ 72,766	$ 674,514
Time deposits	8,004	12,004	78,517
Accounts receivable:			
Due from franchised stores (Notes 3 and 8)	32,186	25,374	315,735
Other	54,193	46,009	531,617
Allowance for doubtful accounts	(2,393)	(1,281)	(23,475)
Inventories	9,596	8,964	94,134
Deferred tax assets (Note 14)	4,481	4,656	43,957
Prepaid expenses and other current assets	20,957	11,805	205,582
Total current assets	195,784	180,297	1,920,581
PROPERTY AND STORE EQUIPMENT (Note 5):			
Land (Note 6)	8,774	8,295	86,070
Buildings	268,930	244,845	2,638,120
Furniture, fixtures, and equipment	65,945	67,399	646,900
Lease assets (Notes 2.p and 16)	126,056	96,252	1,236,571
Total	469,705	416,791	4,607,661
Accumulated depreciation	(236,268)	(207,652)	(2,317,716)
Net property and store equipment	233,437	209,139	2,289,945
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	2,276	2,691	22,327
Investments in associated companies	10,982	7,446	107,730
Long-term loans receivable	33,728	34,581	330,861
Goodwill	9,719	9,683	95,340
Software	18,263	23,915	179,154
Lease deposits	86,150	86,109	845,105
Deferred tax assets (Note 14)	21,628	16,216	212,164
Other assets	9,992	10,951	98,019
Allowance for doubtful accounts	(966)	(1,218)	(9,476)
Total investments and other assets	191,772	190,374	1,881,224
TOTAL	¥620,993	¥579,810	$6,091,750

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2014	2013	2014
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 7 and 19)	¥ 89,171	¥ 87,188	$ 874,740
Due to franchised stores (Note 8)	1,405	1,404	13,783
Other	31,214	27,082	306,200
Short-term bank loans (Note 9)	680	1,431	6,670
Current portion of long-term debt (Note 9)	16,586	14,496	162,704
Income taxes payable	14,330	14,475	140,572
Money held as agent	87,586	87,529	859,192
Accrued expenses and other current liabilities	5,735	6,189	56,259
Total current liabilities	246,707	239,794	2,420,120
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	11,083	9,899	108,721
Allowance for retirement benefits to executive officers and audit & supervisory board members	408	332	4,002
Guarantee deposits received from franchised stores and other	32,253	34,805	316,392
Long-term debt (Note 9)	61,667	47,356	604,934
Asset retirement obligations (Notes 2.n and 11)	17,875	16,683	175,348
Other	502	759	4,925
Total long-term liabilities	123,788	109,834	1,214,322
EQUITY (Note 12):			
Common stock—authorized, 409,300,000 shares in 2014 and 2013; issued, 100,300,000 shares in 2014 and 2013	58,507	58,507	573,936
Capital surplus	47,741	47,718	468,325
Stock acquisition rights	557	427	5,464
Retained earnings	138,142	121,154	1,355,130
Treasury stock—at cost, 395,953 shares in 2014 and 406,853 shares in 2013	(1,556)	(1,594)	(15,264)
Accumulated other comprehensive income:			
Net unrealized (loss) gain on available-for-sale securities	(94)	78	(922)
Land revaluation difference (Note 6)	(567)	(567)	(5,562)
Foreign currency translation adjustments	3,118	1,180	30,586
Total	245,848	226,903	2,411,693
Minority interests	4,650	3,279	45,615
Total equity	250,498	230,182	2,457,308
TOTAL	¥620,993	¥579,810	$6,091,750

Consolidated Statement of Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥242,079	¥230,003	$2,374,720
Net sales from Company-operated stores	133,976	157,627	1,314,263
Other	109,193	99,815	1,071,150
Total operating revenues	485,248	487,445	4,760,133
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 19)	126,638	144,885	1,242,280
Selling, general, and administrative expenses	290,483	276,314	2,849,548
Total costs and operating expenses	417,121	421,199	4,091,828
Operating income	68,127	66,246	668,305
OTHER (EXPENSES) INCOME:			
Interest expense—net	(405)	(462)	(3,973)
Compensation income (Note 2.u)	795	162	7,799
Equity in earnings of associated companies	394	394	3,865
Gain on sales of noncurrent assets (Note 2.u)	51	1	500
Loss on disposal of property and store equipment	(2,648)	(1,641)	(25,976)
Impairment of long-lived assets (Note 5)	(5,744)	(2,930)	(56,347)
Other—net (Note 2.u)	(784)	(2,181)	(7,691)
Other expenses—net	(8,341)	(6,657)	(81,823)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	59,786	59,589	586,482
INCOME TAXES (Note 14):			
Current	26,759	25,346	262,498
Deferred	(5,136)	749	(50,383)
Total income taxes	21,623	26,095	212,115
NET INCOME BEFORE MINORITY INTERESTS	38,163	33,494	374,367
MINORITY INTERESTS IN NET INCOME	(197)	(311)	(1,932)
NET INCOME	¥ 37,966	¥ 33,183	$ 372,435

	Yen		U.S. Dollars
	2014	2013	2014
PER SHARE OF COMMON STOCK (Notes 2.s and 21):			
Net income—basic	¥380.04	¥332.20	$3.73
Net income—diluted	379.35	331.69	3.72
Cash dividends applicable to the year	220.00	200.00	2.16

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥38,163	¥33,494	$374,367
OTHER COMPREHENSIVE INCOME:			
Unrealized (loss) gain on available-for-sale securities	(172)	90	(1,687)
Foreign currency translation adjustments	2,655	1,926	26,045
Share of other comprehensive income in associates	(839)	(639)	(8,230)
Total other comprehensive income	1,644	1,377	16,128
COMPREHENSIVE INCOME	¥39,807	¥34,871	$390,495
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥39,733	¥34,553	$389,769
Minority interests	74	318	726

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Thousands of Shares/Millions of Yen						
	Common Stock					Treasury Stock	
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount
BALANCE, MARCH 1, 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)
Net income					37,966		
Year-end cash dividends, ¥100 per share					(9,989)		
Interim cash dividends, ¥110 per share					(10,989)		
Purchase of treasury stock						(1)	(11)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			22			12	48
Disposal of treasury stock			1			0	1
Others—net				130			
BALANCE, FEBRUARY 28, 2014	100,300	¥58,507	¥47,741	¥557	¥138,142	(396)	¥(1,556)

	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, 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
Net income				37,966		37,966
Year-end cash dividends, ¥100 per share				(9,989)		(9,989)
Interim cash dividends, ¥110 per share				(10,989)		(10,989)
Purchase of treasury stock				(11)		(11)
Exercise of stock acquisition rights to shares (delivery of treasury stock)				70		70
Disposal of treasury stock				2		2
Others—net	(172)		1,938	1,896	1,371	3,267
BALANCE, FEBRUARY 28, 2014	¥ (94)	¥(567)	¥3,118	¥245,848	¥4,650	¥250,498

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, FEBRUARY 28, 2013	$573,936	$468,099	$4,189	$1,188,483	$(15,637)
Net income				372,435	
Year-end cash dividends, $0.98 per share				(97,989)	
Interim cash dividends, $1.08 per share				(107,799)	
Purchase of treasury stock					(108)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		216			471
Disposal of treasury stock		10			10
Others—net			1,275		
BALANCE, FEBRUARY 28, 2014	$573,936	$468,325	$5,464	$1,355,130	$(15,264)

	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 28, 2013	$ 765	$(5,562)	$11,575	$2,225,848	$32,166	$2,258,014
Net income				372,435		372,435
Year-end cash dividends, $0.98 per share				(97,989)		(97,989)
Interim cash dividends, $1.08 per share				(107,799)		(107,799)
Purchase of treasury stock				(108)		(108)
Exercise of stock acquisition rights to shares (delivery of treasury stock)				687		687
Disposal of treasury stock				20		20
Others—net	(1,687)		19,011	18,599	13,449	32,048
BALANCE, FEBRUARY 28, 2014	$ (922)	$(5,562)	$30,586	$2,411,693	$45,615	$2,457,308

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥59,786	¥59,589	$586,482
Adjustments for:			
Income taxes paid	(26,956)	(26,225)	(264,430)
Depreciation and amortization	47,889	43,886	469,776
Impairment of long-lived assets	5,744	2,930	56,347
Provision for (reversal of) allowance for doubtful accounts	565	(13,511)	5,542
Loss on disposal of property and store equipment	2,648	1,642	25,976
Gain on sales of investment securities (Note 2.u)	(404)	(145)	(3,963)
Equity in earnings of associated companies	(119)	(9)	(1,167)
Other—net (Note 2.u)	1,821	863	17,864
Changes in assets and liabilities:			
Decrease in claims in bankruptcy and reorganization	123	14,547	1,207
Increase in accounts receivable	(14,256)	(19,104)	(139,847)
Increase in prepaid expenses and other current assets	(424)	(453)	(4,159)
Increase in inventories	(211)	(861)	(2,070)
Increase in accounts payable	5,569	8,498	54,630
Increase in money held as agent	50	12,524	490
Increase in accrued expenses and other liabilities	977	775	9,584
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	1,260	1,178	12,360
Decrease in guarantee deposits received from franchised stores and other	(2,559)	(935)	(25,103)
Total adjustments	21,717	25,600	213,037
Net cash provided by operating activities	81,503	85,189	799,519
INVESTING ACTIVITIES:			
Payments into time deposits	(22,000)	(23,900)	(215,813)
Proceeds from withdrawal of time deposits	26,000	22,300	255,052
Purchases of property and store equipment	(34,857)	(37,263)	(341,937)
Purchases of software and other intangible assets	(5,499)	(5,659)	(53,943)
Purchase of long-term prepaid expenses (Note 2.u)	(2,373)	(2,706)	(23,278)
Increase in short-term loans receivable (Note 2.u)	(4,145)	(37)	(40,661)
Increase in long-term loans	(2,000)	(2,442)	(19,619)
Acquisition of a subsidiary, net of cash acquired (Note 2.u)	1,733	480	17,000
Acquisition of associated companies	(4,052)	(1,327)	(39,749)
Other—net (Note 2.u)	(731)	(3,642)	(7,172)
Net cash used in investing activities	(47,924)	(54,196)	(470,120)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(17,663)	(14,298)	(173,269)
Cash dividends paid	(20,978)	(19,278)	(205,788)
Other—net	(1,009)	1,596	(9,897)
Net cash used in financing activities	(39,650)	(31,980)	(388,954)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	2,065	83	20,257
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,006)	(904)	(39,298)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	72,766	73,670	713,812
CASH AND CASH EQUIVALENTS, END OF YEAR	¥68,760	¥72,766	$674,514

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2014

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 2013 financial statements to conform to the classifications used in 2014.

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 ¥101.94 to $1, the approximate rate of exchange at February 28, 2014. 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, 2014, 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 twelve (eleven in 2013) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, 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 (two in 2013) 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 Subsidiaries for the Consolidated Financial Statements—** In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process 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 equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—**In March 2008, 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 of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained.

d. **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.

e. **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.

f. **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.

g. **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 gross-average method, or net selling value.

h. **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.

i. **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.

j. **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.

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

l. **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.

m. **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.

n. **Asset Retirement Obligations—**In March 2008, the ASBJ issued 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.

o. **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.

p. **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 that 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 that 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.

q. **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 income tax rates to the temporary differences.

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 99,898 thousand shares for 2014 and 99,887 thousand shares for 2013.

Diluted net income per share for the years ended February 28, 2014 and 2013, 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 the 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 the revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes 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.

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, 2014. In order to conform with the presentation for the year ended February 28, 2014, 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 28, 2013, respectively, as stated below.

The Company has reclassified the "Compensation income" and "Gain on sales of noncurrent assets" in the Other (Expenses) Income section of the consolidated income statements for the year ended February 28, 2014. The amounts included in the other—net as of February 28, 2013, were ¥162 million and ¥1 million, respectively.

The Company has reclassified the "Provision of allowance for doubtful accounts" in the Other (Expenses) Income section of the consolidated income statements for the year ended February 28, 2013, to "Other—net" among the Other (Expenses) Income section of the consolidated income statements for the year ended February 28, 2014. The amount included in the other—net as of February 28, 2013, was ¥(1,128) million.

The Company has reclassified the "Gain on sales of investment securities" in the Operating Activities section of the consolidated cash flows statements for the year ended February 28, 2014. The amount included in the other—net as of February 28, 2013, was ¥(145) million.

The Company has reclassified the "Increase in lease deposits-net" in the Investing Activities section of the consolidated cash flows statements for the year ended February 28, 2013, to "Other—net" among the Investing Activities section of the consolidated cash flows statements for the year ended February 28, 2014. The amount included in the other—net as of February 28, 2013, was ¥(2,430) million.

The Company has reclassified the "Increase in short-term loans receivable", "Acquisition of a subsidiary, net of cash acquired", and "Purchase of long-term prepaid expenses" in the Investing Activities section of the consolidated cash flows statements for the year ended February 28, 2014. The amounts included in the other—net as of February 28, 2013, were ¥(37) million, ¥480 million, and ¥2,706 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 guidances, 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, are 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 would 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 yet to be 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.

Accounting Standards for Business Combinations and Consolidated Financial Statements—On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

Transactions with noncontrolling interest
A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

Presentation of the consolidated balance sheet
In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

Presentation of the consolidated statement of income
In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

Provisional accounting treatments for a business combination
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

Acquisition-related costs
Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for “transactions with noncontrolling interest,” “acquisition-related costs” and “presentation changes in the consolidated financial statements” are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” is permitted. In retrospective application of the revised standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs,” accumulated effects of retrospective adjustments for all “transactions with noncontrolling interest” and “acquisition-related costs” which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for “provisional accounting treatments for a business combination” is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on March 1, 2016, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

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, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Non-current—Marketable and other equity securities	¥2,276	¥2,691	$22,327

The costs and aggregate fair values of marketable and investment securities at February 28, 2014 and 2013, were as follows:

	Millions of Yen			
February 28, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	¥1,128		¥211	¥917

	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

	Thousands of U.S. Dollars			
February 28, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	$11,065		$2,070	$8,995

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended February 28, 2014 and 2013, were as follows:

	Millions of Yen		
February 28, 2014	Proceeds	Realized Gain	Realized Loss
Available-for-sale:			
Equity securities	¥494	¥403	

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

	Thousands of U.S. Dollars		
February 28, 2014	Proceeds	Realized Gain	Realized Loss
Available-for-sale:			
Equity securities	$4,846	$3,953	

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 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, 2014 and 2013:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	2014	2013	2014
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	¥ 729	¥ 421	$ 7,151
		Osaka	598	472	5,866
		Others	2,566	2,010	25,172
Other	Buildings and Furniture, fixtures, and equipment		608		5,964
	Software		1,236	26	12,125
	Others		7	1	69
Total			¥5,744	¥2,930	$56,347

The above-noted assets, which incurred impairment losses for the years ended February 28, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Fixed assets and lease assets:			
Buildings	¥2,868	¥1,923	$28,134
Furniture, fixtures, and equipment	359	204	3,522
Lease assets	1,251	759	12,272
Software	1,236	26	12,125
Others	30	18	294
Total	¥5,744	¥2,930	$56,347

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 4.3% and 4.0% for the years ended February 28, 2014 and 2013, 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, 2014, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥319 million ($3,129 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, 2014 and 2013, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts payable—trade for franchised stores	¥79,444	¥76,018	$779,321
Accounts payable—trade for Company-operated stores	9,727	11,170	95,419
Total	¥89,171	¥87,188	$874,740

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, 2014 and 2013, consisted of notes to banks.

The annual interest rates applicable to the short-term bank loans were 0.05% and 4.90% at February 28, 2014 and 2013, respectively.

Long-term debt at February 28, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loans from banks and leasing companies, due serially through 2020 with interest rates ranging from 1.69% to 2.06% (2014) and from 1.59% to 6.44% (2013)—Unsecured	¥78,253	¥61,852	$767,638
Less current portion	(16,586)	(14,496)	(162,704)
Long-term debt, less current portion	¥61,667	¥47,356	$604,934

Annual maturities of long-term debt as of February 28, 2014, for the following five years (and thereafter) are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2015	¥16,586	$162,704
2016	14,741	144,605
2017	13,400	131,450
2018	11,810	115,852
2019 and thereafter	21,716	213,027
Total	¥78,253	$767,638

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, 2014 and 2013, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Projected benefit obligation	¥17,417	¥16,659	$170,855
Fair value of plan assets	(5,589)	(5,578)	(54,826)
Unrecognized prior service cost		(175)	
Unrecognized actuarial loss	(745)	(1,007)	(7,308)
Net liability	¥11,083	¥ 9,899	$108,721

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, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Service cost	¥1,383	¥1,274	$13,567
Interest cost	200	290	1,962
Amortization of prior service cost	179	171	1,756
Recognized actuarial loss	136	54	1,334
Contribution to defined contribution plan	295	289	2,894
Net periodic benefit costs	¥2,193	¥2,078	$21,513

Assumptions used for the years ended February 28, 2014 and 2013, were as follows:

	2014	2013
Discount rate	1.2%	1.2%
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, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Balance at beginning of year	¥16,791	¥15,263	$164,715
Additional provisions associated with the acquisition of property, plant, and equipment	1,373	1,667	13,469
Reconciliation associated with passage of time	321	306	3,149
Reduction associated with settlement of asset retirement obligations	(600)	(445)	(5,887)
Total	17,885	16,791	175,446
Less current portion	(10)	(108)	(98)
Asset retirement obligations, less current portion	¥17,875	¥16,683	$175,348

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 a Board of Directors, (2) having independent auditors, (3) having an 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 (noncash 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 a 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, 2014, 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
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 ($50.76)	From January 18, 2011 to December 15, 2014
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	2013.2.17	¥1 ($0.01)	From February 18, 2013 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 ($0.01)	From April 12, 2013 to March 26, 2033

The stock option activity is as follows:

	5th Stock Option	6th (a) 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	12th Stock Option
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	
Year Ended February 28, 2014										
Non-vested										
February 28, 2013—Outstanding										
Granted										26,900
Canceled										
Vested										26,900
February 28, 2014—Outstanding										
Vested										
February 28, 2013—Outstanding	15,000	21,300	18,000		26,400	31,400	21,500	18,900	27,000	
Vested										26,900
Exercised						(12,300)				
Canceled						(19,100)				
February 28, 2014—Outstanding	15,000	21,300	18,000		26,400		21,500	18,900	27,000	26,900
Exercise price	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)	¥3,949 ($42.69)	¥ 1 ($0.01)	¥5,174 ($50.76)	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)
Average stock price at exercise						¥7,690 ($75.44)				
Fair value price at grant date		¥3,178 ($31.18)	¥2,852 ($27.98)		¥3,477 ($34.11)	¥ 582 ($5.71)	¥2,652 ($26.02)	¥2,689 ($26.38)	¥3,339 ($32.76)	¥5,516 ($54.11)

The assumptions used to measure the fair value of the 12th stock option (2014) were as follows:

	12th Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	25.22%
Estimated remaining outstanding period	10 years
Estimated dividend	¥193 per share
Risk-free interest rate	0.62%

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 38.0% and 40.7% for the years ended February 28, 2014, and 2013.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Accrued enterprise taxes	¥ 1,254	¥ 1,132	$ 12,301
Accrued employees' bonuses	880	968	8,633
Excess of depreciation	12,164	10,022	119,325
Excess of amortization of software	808	567	7,926
Employees' retirement benefits	6,018	5,602	59,035
Allowance for doubtful accounts	1,055	674	10,349
Impairment loss	3,072	3,123	30,135
Tax loss carryforwards	7,261	7,096	71,228
Other	3,190	2,782	31,293
Less valuation allowance	(9,593)	(9,044)	(94,104)
Total	26,109	22,922	256,121
Deferred tax liabilities—Affiliates' stock (paid-in capital decrease)		2,050	
Net deferred tax assets	¥26,109	¥20,872	$256,121

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014. As a result, the normal effective statutory tax rate to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences in the fiscal years beginning on or after March 1, 2015, changed from 38.01% to 35.64%. The effect of this change is immaterial.

At February 28, 2014, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥14,878 million ($145,949 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
2020	¥ 7,878	$ 77,281
2021		
2022	5,500	53,953
2023	1,500	14,715
Total	¥14,878	$145,949

15. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

(1) Finance lease assets and finance lease obligations regarded as noncash transactions incurred for the year ended February 28, 2014, amounted to ¥32,291 million ($316,765 thousand).

(2) Breakdown of assets and liabilities of a newly consolidated subsidiary acquired through purchase of shares in this consolidated fiscal year.

The following is a breakdown of assets and liabilities at the time Saha Lawson Co., Ltd. was newly consolidated through purchase of shares, and the difference between the cost of purchase of Saha Lawson shares and proceeds from the purchase.

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Current assets	¥3,225	$31,636
Non-current assets	699	6,857
Goodwill	8	78
Current liabilities	1,526	14,969
Minority interests	1,223	11,997
Acquired price of stock	1,183	11,605
Acquisition cost of shares prior to acquisition	112	1,099
Cash and cash equivalents of acquired company	2,804	27,506
Difference: Acquisition of a subsidiary, net of cash acquired	¥1,733	$17,000

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, 2014 and 2013, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2014		2013		2014	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥16,586	¥ 914	¥14,489	¥ 976	$162,704	$ 8,966
Due after one year	61,667	1,295	47,207	1,688	604,934	12,704
Total	¥78,253	¥2,209	¥61,696	¥2,664	$767,638	$21,670

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, 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 notes 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	2014	2013	2014
Acquisition cost	¥13,773	¥21,035	$135,109
Accumulated depreciation	11,490	16,007	112,713
Accumulated impairment loss	673	662	6,602
Net leased property	¥ 1,610	¥ 4,366	$ 15,794

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥1,793	¥2,950	$17,589
Due after one year	629	2,475	6,170
Total	¥2,422	¥5,425	$23,759

Allowance for impairment loss on leased property of ¥375 million ($3,679 thousand) and ¥533 million as of February 28, 2014 and 2013, 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
	2014	2013	2014
Depreciation expense	¥2,662	¥4,077	$26,113
Interest expense	103	215	1,010
Lease payments	3,016	4,374	29,586
Reversal of allowance for impairment loss on leased property	178	187	1,746
Impairment loss	32	69	314

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 years ended February 28, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities			
(Losses) gains arising during the year	¥ (263)	¥ 143	$ (2,580)
Reclassification adjustments to profit or loss	(9)	(1)	(88)
Amount before income tax effect	(272)	142	(2,668)
Income tax effect	100	(52)	981
Total	¥ (172)	¥ 90	$ (1,687)
Foreign currency translation adjustments			
Adjustments arising during the year	¥2,655	¥1,926	$26,045
Share of other comprehensive loss in associates			
Losses arising during the year	¥ (839)	¥ (639)	$ (8,230)
Total other comprehensive income	¥1,644	¥1,377	$16,128

The corresponding information for the year ended February 28, 2013, 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 domestic convenience stores, which is undertaken by the incorporation of related businesses.

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

Lawson, Inc. and Lawson Mart, Inc. running the LAWSON, NATURAL LAWSON, LAWSON STORE 100, and other chains—The domestic convenience store unit operates a franchise system as well as undertaking the direct management of stores in Japan. SCI, Inc. performs 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.

(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 with 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				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥408,018	¥77,230	¥485,248		¥485,248
Intersegment sales or transfers	2,305	2,505	4,810	¥ (4,810)	
Total	¥410,323	¥79,735	¥490,058	¥ (4,810)	¥485,248
Segment profit	¥ 63,299	¥ 4,782	¥ 68,081	¥ 46	¥ 68,127
Segment assets	601,710	81,047	682,757	(61,764)	620,993
Other:					
Depreciation	44,008	2,954	46,962		46,962
Amortization of goodwill	419	542	961	(34)	927
Payment for associated companies	2,295	3,876	6,171		6,171
Increase in property, plant, and equipment and intangible assets	37,171	3,186	40,357		40,357

	Millions of Yen				
	2013				
	Reportable Segments				
	Domestic 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

	Thousands of U.S. Dollars				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$4,002,531	$757,602	$4,760,133		$4,760,133
Intersegment sales or transfers	22,611	24,574	47,185	$ (47,185)	
Total	$4,025,142	$782,176	$4,807,318	$ (47,185)	$4,760,133
Segment profit	$ 620,944	$ 46,910	$ 667,854	$ 451	$ 668,305
Segment assets	5,902,590	795,046	6,697,636	(605,886)	6,091,750
Other:					
Depreciation	431,705	28,978	460,683		460,683
Amortization of goodwill	4,110	5,318	9,428	(334)	9,094
Payment for associated companies	22,513	38,023	60,536		60,536
Increase in property, plant, and equipment and intangible assets	364,636	31,254	395,890		395,890

Notes: 1. "Other" is operating segments that are not included in reportable segments, consisting of entertainment/home convenience 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 intersegment transactions.

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

	Millions of Yen				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥5,838	¥457	¥6,295	¥(551)	¥5,744

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

	Thousands of U.S. Dollars				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	$57,269	$4,483	$61,752	$(5,405)	$56,347

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

	Millions of Yen				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2014	¥6,027	¥3,692	¥9,719		¥9,719

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

	Thousands of U.S. Dollars				
	2014				
	Reportable Segments				
	Domestic Convenience Store	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2014	$59,123	$36,217	$95,340		$95,340

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, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥ 43,961	¥ 36,370	$ 431,244
Purchases	502,344	428,342	4,927,840

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, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade		¥ 6,173	
Purchases	¥61,217	80,324	$600,520

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

Balances and transactions of SCI, Inc., a consolidated subsidiary of the Company, with subsidiaries of Mitsubishi as of and for the year ended February 28, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
FINELIFE Corporation:		
Accounts payable—trade	¥ 8,161	$ 80,057
Purchases	54,213	531,813

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 accounts receivable due from franchised stores and 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 the funds required for capital investments, and their maximum redemption dates are fifteen 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 a quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were used.

	Millions of Yen		
February 28, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 68,760	¥ 68,760	
Time deposits	8,004	8,004	
Accounts receivable	84,025	84,025	
Investments securities	917	917	
Investments in associated companies	3,876	3,881	¥ 5
Long-term loans receivable	33,660	33,702	42
Lease deposits	85,699	81,026	(4,673)
Total	¥284,941	¥280,315	¥(4,626)
Accounts payable	¥121,790	¥121,790	
Money held as agent	87,586	87,586	
Long-term debt (include current portion of long-term debt)	78,253	78,580	¥ 327
Guarantee deposits received from franchised stores and other	32,253	30,436	(1,817)
Total	¥319,882	¥318,392	¥(1,490)

February 28, 2013	Millions of Yen 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	
Investments 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)

February 28, 2014	Thousands of U.S. Dollars Carrying Amount	 Fair Value	 Unrealized Gain/Loss
Cash and cash equivalents	$ 674,514	$ 674,514	
Time deposits	78,517	78,517	
Accounts receivable	824,259	824,259	
Investments securities	8,995	8,995	
Investments in associated companies	38,022	38,071	$ 49
Long-term loans receivable	330,194	330,607	413
Lease deposits	840,682	794,841	(45,841)
Total	$2,795,183	$2,749,804	$(45,379)
Accounts payable	$1,194,723	$1,194,723	
Money held as agent	859,192	859,192	
Long-term debt (include current portion of long-term debt)	767,638	770,845	$ 3,207
Guarantee deposits received from franchised stores and other	316,392	298,567	(17,825)
Total	$3,137,945	$3,123,327	$(14,618)

Cash and cash equivalents, time deposits, and accounts receivable

The carrying values of cash and cash equivalents, time deposits, and accounts receivable (including 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 (including 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 (including 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 (including 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 2014	 2013	 Thousands of U.S. Dollars 2014
Investments in equity instruments that do not have a quoted market price in an active market	¥ 971	¥1,038	$ 9,525
Investments in unconsolidated subsidiaries and affiliated companies	7,106	3,218	69,709
Others	388	462	3,807

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

	Millions of Yen 2014 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	¥ 68,760			
Time deposits	8,004			
Accounts receivable	86,379			
Long-term loans receivable	295	¥14,941	¥10,165	¥ 8,327
Lease deposits	4,902	19,361	20,717	41,170
Total	¥168,340	¥34,302	¥30,882	¥49,497

	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

	Thousands of U.S. Dollars 2014 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	$ 674,514			
Time deposits	78,517			
Accounts receivable	847,352			
Long-term loans receivable	2,894	$146,567	$ 99,716	$ 81,684
Lease deposits	48,087	189,925	203,227	403,866
Total	$1,651,364	$336,492	$302,943	$485,550

21. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2014 and 2013, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2014	Net Income	Weighted-Average Shares	EPS	
Basic EPS— Net income available to common shareholders	¥37,965	99,898	¥380.04	$3.73
Effect of dilutive securities— Stock options		181		
Diluted EPS— Net income for computation	¥37,965	100,079	¥379.35	$3.72

	Millions of Yen	Thousands of Shares	Yen
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
Effect of dilutive securities— Stock options		152	
Diluted EPS— Net income for computation	¥33,182	100,039	¥331.69

22. BUSINESS COMBINATIONS

Transactions under common control for the year ended February 28, 2014

(1) Absorption-type company split of Ninety-nine Plus, Inc. with Lawson Mart, Inc. as the successor company

a. Outline of transaction

(i) Name of the absorbed business and its outline

Name of business: A part of fresh foods convenience store business

Business outline: Store operation, merchandising function, product supply, etc. of "LAWSON MART" and "LAWSON STORE 100"

(ii) Date of business combination

February 1, 2014

(iii) Legal form of business combination

Absorption-type company split with Ninety-nine Plus, Inc. as the split company and Lawson Mart, Inc. as the successor company (spin-off type)

(iv) Name of company after the business combination

Lawson Mart, Inc.

(v) Other matters concerning the transaction

The operational functions of Ninety-nine Plus, Inc., including store management and product development, were succeeded by Lawson Mart, Inc., and will be further enhanced to lead the Group's fresh foods business.

b. Outline of the accounting process applied

The business combination was processed as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No. 21 of December 26, 2008) and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 of December 26, 2008).

(2) Absorption-type merger between Ninety-nine Plus, Inc. and the Company

a. Outline of transaction

(i) Name of the merged company and its line of business

Name of the business combination: Lawson, Inc.

Business outline: Convenience store business

Name of combined company: Ninety-nine Plus, Inc.

Business outline: Fresh foods convenience store business

(ii) Date of business combination

February 1, 2014

(iii) Legal form of business combination

Absorption-type merger with Lawson, Inc. as the surviving company

(iv) Name of the company after the business combination

Lawson, Inc.

(v) Other matters concerning the transaction

By allowing the Company to acquire store-related assets, including the franchise agreements of LAWSON STORE 100 and centralizing all Lawson chain store administrative functions, including store asset management and franchise promotion, the business combination aims to enable the Group to implement efficient area-targeted strategies.

b. Outline of the accounting process applied

The business combination was processed as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No. 21 of December 26, 2008) and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 of December 26, 2008).

23. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 27, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥110 ($1.08) per share	¥10,989	$107,799

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
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, 2014, 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, 2014, 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 27, 2014

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 November 2014

Printed in Japan