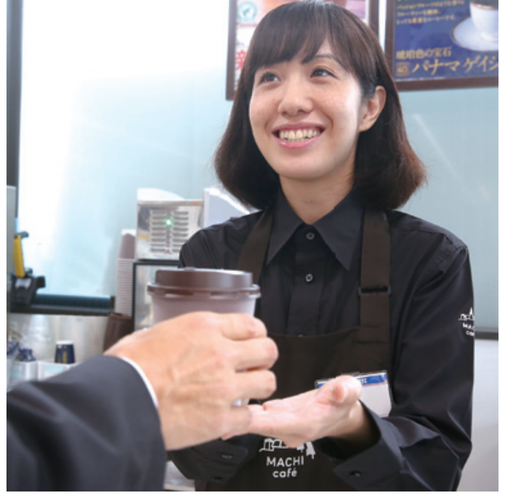
INTEGRATED REPORT 2015



2 trillion yen
▶ Net sales for all stores

12,000 stores
▶ No. of stores in Japan

10 million
▶ No. of customers (all stores, per day)

Creating Happiness and Harmony in Our Communities

LAWSON INTEGRATED REPORT 2015—Introduction

This is the third consecutive year the Lawson Group has prepared an integrated report incorporating both financial and non-financial information. The purpose of this Lawson Integrated Report 2015 is to present our medium to long-term stakeholders with an overview of the Group's current situation and directions for the future. Besides outlining our aspirations for business growth centered on our mainstay convenience store operations, we hope to provide every stakeholder with a better understanding of our ongoing efforts to become an essential lifeline for the community.

Lawson Group's Core Stakeholders

The Lawson Group conducts its business in cooperation with society (local communities) as a whole, including seven core stakeholders. Moving forward, we will continue to provide unique value in addressing a variety of challenges facing society and our customers by leveraging our stores' accessibility within local communities.

200,000
▶ No. of store crew

2,800
▶ No. of items

120 m^2
▶ Store size

13.0%
▶ ROE

6,000
▶ No. of franchise owners

33%
▶ Female director ratio

7.5 billion yen
▶ Customer donations to date

Lawson communication media

Community-Citizens Harmony Project Report
A simple, clearly written report on our responses to social and environmental challenges

INTEGRATED REPORT
An overview of the Lawson Group's business activities in local communities and the outlook for sustainable growth

Financial section
Report on industry trends and the Group's business initiatives and financial position in relevant years, as well as projected earnings assessment/analysis and outlook for next fiscal year

Lawson website Presents information and data not covered by Lawson publications.

CONTENTS

■Report Coverage
The information in this report concerns primarily business activities conducted by Lawson, Inc. and some of its affiliates as well as its franchise stores. It also extends to operations of the Lawson Group's business partners in the logistics, food manufacturing and waste-processing fields for which the partners have consented to disclosure.

■Reporting period
This report covers the fiscal year from March 1, 2014 to February 28, 2015, with some reporting on activities before and after this period. For further details, please visit our website:
http://lawson.jp/en/

■Future forecasts, projections and plans
This report's coverage extends beyond current information and data for the Lawson Group to future forecasts based on its plans and perspectives at the time of publication. These forecasts represent assumptions and viewpoints arrived at based on information available as of the report's writing. The actual results may differ from the forecasts due to various circumstances and external environmental factors.

■Financial section
The data in the financial section of this English-language report constitute official information. The Japanese-language version does not contain notes to the financial statements. Please consult the Japanese-language Lawson, Inc. Securities Report for these materials.

■Net sales for all stores and other numerical data shown on this page are approximations as of February 28, 2015.

Lawson contributes to the local communities by creating added value through its customer-oriented business model.

Lawson will continue to increase corporate value by leveraging its unique customer-oriented business model as a "manufacturing retailer based on a small commercial area model," through "R&D in pursuit of innovation" and by "deploying an advanced franchise system." The Company will optimize its business strategies to ensure this model's appropriate implementation.

Lawson seeks to increase both its "visible capital," such as resources and funds specified in the financial statements, and its "invisible, but tangible capital" such as human capital and information, by investing appropriately in these business strategies.

Lawson will continue to contribute to society as a company indispensable to local communities by adhering to its "Corporate Value Creation Cycle."

"Corporate Value Creation Cycle"

Inputs

Financial capital (funds)

Capital raised as funds for conducting business activities

Manufacturing capital (IT and infrastructure)

Necessary tangible assets for conducting business activities, generally referred to as "infrastructure" including land, buildings, machinery and IT

Human capital (human resources)

Employees' collective skills and capabilities, personal motivation and organizational experience that contribute to sustainable corporate growth

Intellectual capital (technologies and brands)

General intangible assets including brands, reputation, intellectual property and software

Social capital (resources and social norms)

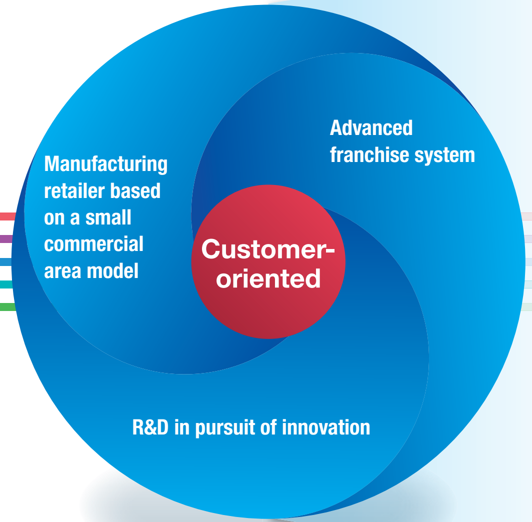
Natural resources, social norms and relationships of trust established with stakeholders

Corporate governance

ROI-based capital allocation

Business strategies

Lawson's business model



Vision

What you want, when and where you need it

Outputs

Investment determined according to capital discipline to meet the expectations of the equity market.
- Creating sufficient cash flow
- Establishing a firm financial standing

Leveraging the full supply chain to develop products that meet local community needs.
- Optimization of the supply chain with integrated production and sales
- Manufacture of original products with high added value

Nurturing of human resources who are "self-motivated and innovative" to satisfy local community needs appropriately.
- Nurturing of next-generation management candidates and leaders
- Development of human resources under supportive personnel management systems
- Success of franchise owners

Cultivation of innovation based on prompt perception of changes in local communities.
- Lawson brand enhancement
- Store development responding to community needs
- Ponta data analysis

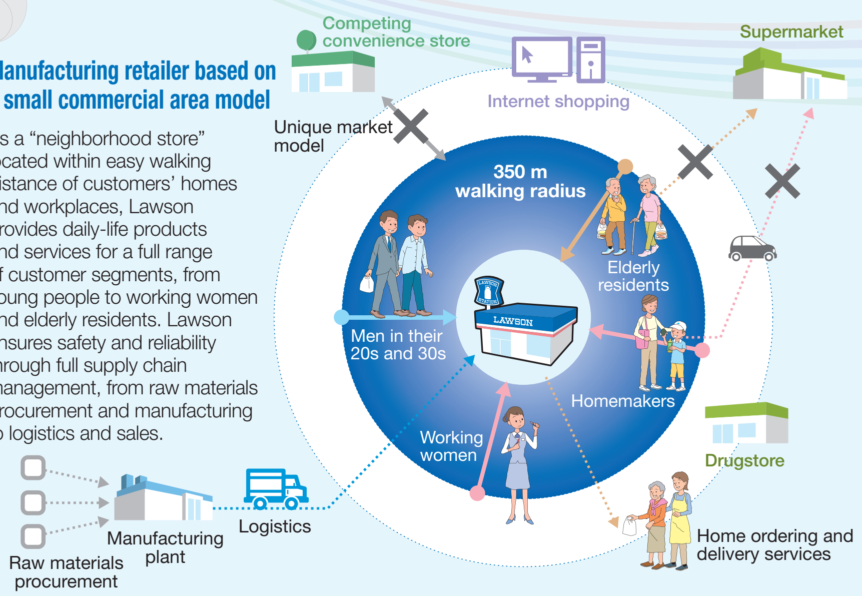
Contributing to communities as social infrastructure with careful consideration of society and the environment.
- Consideration of the environment throughout the supply chain
- Revitalization of communities through enhanced social infrastructure functions

Outcomes

Value provision for Lawson's multiple stakeholders

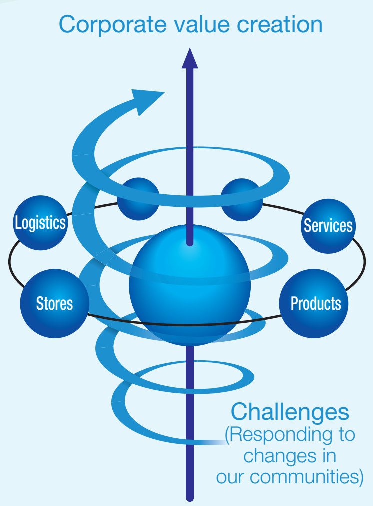
Manufacturing retailer based on a small commercial area model

As a "neighborhood store" located within easy walking distance of customers' homes and workplaces, Lawson provides daily-life products and services for a full range of customer segments, from young people to working women and elderly residents. Lawson ensures safety and reliability through full supply chain management, from raw materials procurement and manufacturing to logistics and sales.



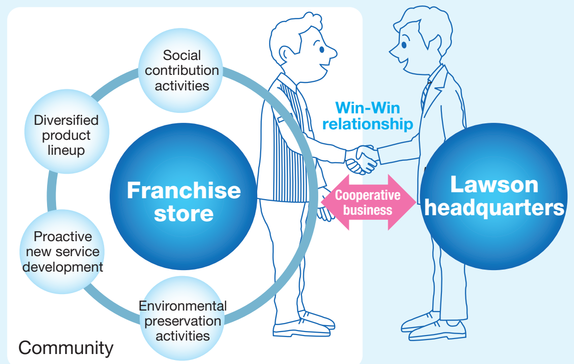
R&D in pursuit of innovation

Lawson respend to social changes, makes advanced investments and conducts experimental activities. These activities include development of new-style health-oriented and fresh food convenience stores. Know-how acquired through these experiments is then introduced to regular LAWSON stores in an approach unique to Lawson. Lawson is already introducing home delivery services to explore potential needs as well as to satisfy the needs of store customers. Lawson expects the market for these services to expand in the context of the aging society.



Advanced franchise system

Lawson is reinforcing its partnerships with franchise stores to promote progress toward harmony in a spirit of "cooperative business," while sharing its corporate philosophy and business strategies with the franchise owners, who have extensive knowledge of their local communities. Lawson promotes the Management Owner (MO) system among entrepreneurial franchise owners by supporting their multi-store operations with know-how and seminars. Lawson is also establishing Win-Win relationships between headquarters and the franchise stores by introducing a new franchise contract under which headquarters assumes a portion of their electricity expenses and disposal losses.



Celebrating its 40 years as the store closest to its customers. Lawson is integrated into the lives in each community.

In 2015, Lawson commemorated the 40th anniversary of its foundation in 1975. People were just beginning to prioritize convenience in every aspect of their lives.
In the years since, Japanese society has evolved and changed dramatically in the face of various issues and challenges. Lawson has been developing its capabilities and tackling the challenges each community faces through its convenience store business.
Lawson will continue to pursue “Happiness and Harmony in Our Communities” as the closest store to community residents.

The first LAWSON store in Japan was opened in Osaka Prefecture.

Parcel delivery service | Photocopy | Third-party bill settlement | Automated teller machine | Mailbox

24 Hours
Growth of conventional convenience stores

Lawson began business in 1975 with the opening of its first store as a “store that stays open 24 hours a day, every day of the year.” The small sales floor of approximately 100 to 132 m² was packed with a variety of food and daily necessities, such as bread, cigarettes, alcohol, stationery and miscellaneous goods, arranged by category. In subsequent years, LAWSON stores have improved their offering with additions such as parcel delivery, public utility payment and concert ticket sales services as well as mailboxes for posting mail and ATMs for conducting various banking activities. Making these services convenient helped LAWSON take root in its communities. At a time when large retail stores were being opened along highways to serve growing numbers of drivers while the role of the shopping mall was diminishing, LAWSON, which served small commercial areas with diameters of some 300 to 500 m, gained popularity as a “neighborhood store,” especially among single men in their 20s and 30s.

Innovation
Evolution as a manufacturing retailer based on a small commercial area model

As the convenience store industry grew, Lawson introduced NATURAL LAWSON as a “health-oriented” convenience store in 2001 and LAWSON STORE100 as a fresh food convenience store in 2005 in response to social changes such as the aging of population and the growing role of women in the workforce. The introduction of these new-style stores led to the expansion of its customer base by meeting the needs of women and elderly residents that differed from those of its young male customers. Through repeated experimental activities of this kind, Lawson’s business model has evolved into that of a “manufacturing retailer based on a small commercial area model” that conducts customer-driven R&D of products and services. The many good-selling products it has created include rice balls made with Koshihikari rice from Niigata and premium Swiss rolls using top-quality ingredients. Lawson has leveraged the franchise system to increase the number of stores in its nationwide network by cultivating franchise owners who fully understand their communities.

The “Next Infrastructure”
Further contributions to communities as a neighborhood store

After the Great East Japan Earthquake, the convenience store came to be regarded as the “fourth infrastructure” following electricity, gas and water supply services. As a store indispensable to communities, Lawson is seeking to realize its Corporate Philosophy of “Creating Happiness and Harmony in Our Communities.” Lawson declared the objective of establishing its stores as community health hubs in response to a rise in health consciousness and followed up by introducing healthcare-oriented stores and developing original products based on data gathered through the Ponta loyalty card systems. Lawson has created many products that respond to customer needs by analyzing the purchasing behavior of over 68 million Ponta members (as of February 28, 2015), who account for approximately 50% of sales. In addition, LAWSON stores have introduced such original services as the Machikado Chubo in-store kitchen and MACHI café fresh-brewed coffee services. Thus, LAWSON stores are promoting communication with customers by providing new value its competitors cannot match. In the field of entertainment as well, Lawson has added unique services such as ticket and CD and DVD sales and movie theater operation to enrich customers’ lives. Following the acquisition of the SEIJO ISHII food-lifestyle supermarket chain, LAWSON stores will continue to contribute to local communities by serving customers in their own neighborhood.

- Joint delivery system for daily foods introduced.
- Experimental store for environmental and welfare measures opened.
- Lawson Green Community Fund (current Lawson Green Fund) initiated.
- Clean aid activities begun.
- ISO14001 environmental management system certification obtained.
- Donor cards placed at all stores.
- Agreement on Cooperation in Supplying Daily Necessities in Case of Disasters, Etc.*2 concluded.
- Full-scale food recycling begun.
- Comprehensive agreements with governments concluded.
- Childcare support stores opened.
- Bag carrying and CO_2 offset activities initiated.
- Sales of OTC drugs begun.*1
- Agreement on Support for Commuters Stranded by Disasters*2 concluded.
- Freezers and refrigerators using CO_2 refrigerants introduced.
- Dream Support Fund scholarship program for children impacted by the Great East Japan Earthquake established.
- Wagon retailing and order delivery service for marginalized villages introduced.*1
- Solar power system installation initiated.
- “Happiness and Harmony in Our Communities” fundraising begun.
- Health promotion agreements concluded with governments.*2

*1 At some stores
*2 Local governments in various areas and some public organizations

Social Changes: Equal Employment Opportunity Act for Men and Women | Growth in double-income households Expanding role of women in the workforce | Adoption of Kyoto Protocol at COP3 | Emergence of the declining birth rate issue | Rapidly aging society | Increasing consumption of renewable energy | Increasing frequency of extreme weather events

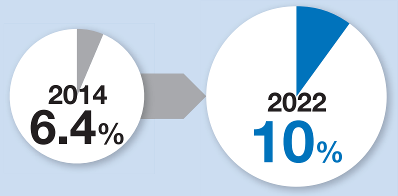
1975/6 | 2000/2 | 2010/2 | 2015/2

Consolidated net sales for all stores
1,961.9 billion yen

No. of stores in Japan
12,383

TARGET
ROE
20%

Consolidated operating profit
100 billion yen



Growth in market share
Expansion of the convenience store’s share of the Japanese retail industry (including the food service business)*

$$\frac{\text{Annual sales by convenience store industry: 10,423}}{\text{Annual sales by retail industry: 141,219 + Food service industry: 21,029}}$$
(Billion yen)

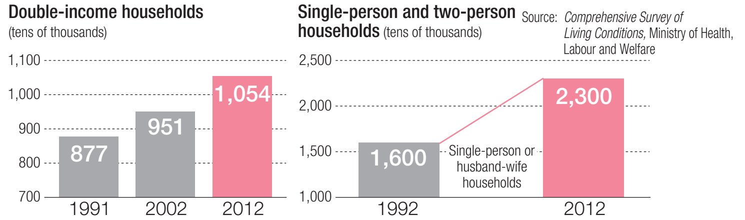
*Source: “Current Survey of Commerce,” Ministry of Economy, Trade and Industry
“Estimated Market Scale of the Food Service Industry,” Japan Food Service Association
*Excluding school lunches, etc.

LAWSON stores bring happy smiles to the communities every day

In Japan, people have various causes for concern in their lives, including such increasingly serious issues as global environmental problems, a declining birth rate and an aging population. Lawson considers these issues and challenges in depth and strives to bring prosperity and happiness to its customers in their local communities through operation of its core businesses.

Lawson Initiatives (Output) / Lawson's Impact (Outcome)

Increases in double-income, one-person and two-person households

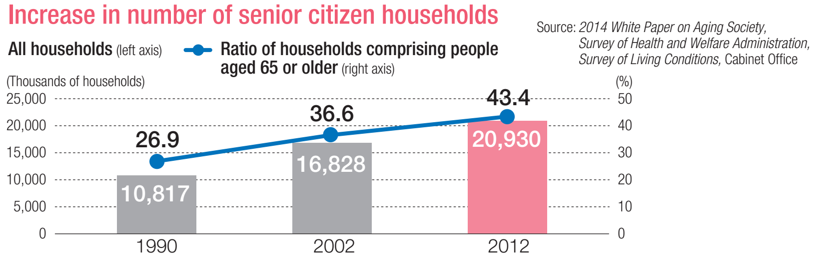


Responses to diversification of lifestyles

With customers' lifestyles diversifying increasingly as growing numbers of women remain in the workforce after marriage and childbirth, Lawson continuously identifies the changing trends and emerging needs and supplies products and services accordingly. LAWSON stores provide convenience for single-person households and working women by operating neighborhood stores stocked with daily-life essentials. The Company leverages its female employees' experience and knowledge of childbearing and child rearing in its store operation and product development activities.

- Revitalizing society by enabling female employees to flourish in the workplace
- Helping customers to use time efficiently by reducing time and labor spent on housework
- Promoting a workplace environment with a good balance between work and childbirth/ child rearing

Increase in number of senior citizen households

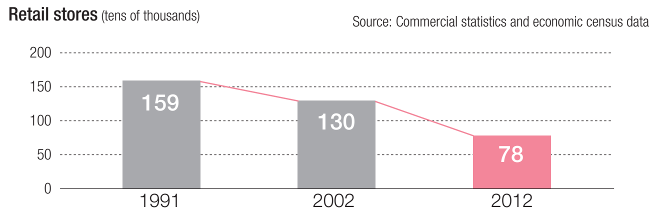


Support for senior citizens

To meet the needs of elderly customers for "small but healthful meals," Lawson is devoting more resources to sales of nutritionally balanced pre-cut vegetables and prepared food products in small packages. It has also launched an initiative to expand the number of stores selling pharmaceutical products and providing informal health consultation services. We are continuing our efforts to keep personnel employed past the age of 60 as a means of contributing to creation of a social environment in which senior citizens are not isolated.

- Encouraging healthy eating habits among elderly customers
- Contributing to extension of a healthy life expectancy
- Increasing the number of healthy elderly citizens

Decrease in number of retail stores

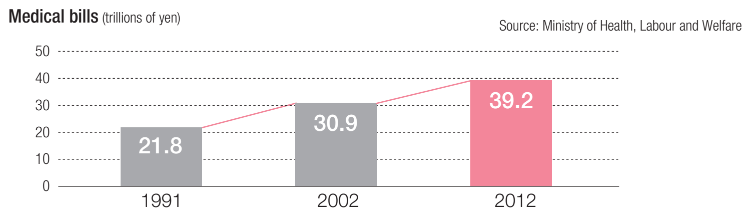


Contributions to the local community as a neighborhood store

We are engaged in building a "neighborhood store" service structure offering food and daily necessities that respond to the needs of senior customers who lack the means to travel long distances to shop as well as those of busy customers with time constraints. To provide easily accessed customer convenience, LAWSON stores have introduced home delivery services for fresh food items and boxed lunches. Designed to serve as emergency evacuation sites in times of disaster, the stores support their communities as components of the social infrastructure.

- Providing greater convenience for elderly and disadvantaged shoppers
- Serving as part of the community infrastructure to revitalize local society
- Contributing as a component of social infrastructure in times of disaster

Rising medical bills

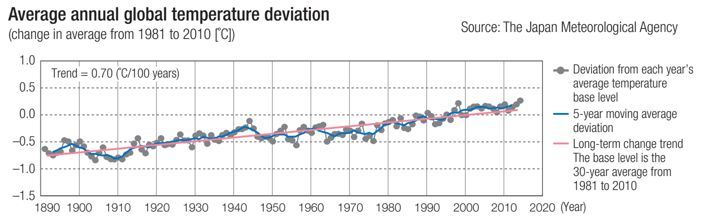


Product and store development to enhance customers' health

Placing the highest priority on helping customers maintain their health through the food products it provides, Lawson continues to develop stores and products with a focus on customer health enhancement. These efforts include offering food products that enable customers to make health-conscious meal selections and developing stores with a healthcare orientation. We are working earnestly to further promote customers' health by offering pharmaceutical products, opening stores with dispensing pharmacies on the premises and deepening our cooperation with local municipalities.

- Helping to raise health awareness to encourage self-health management
- Promoting preventive and advanced medical care services
- Contributing to curbing the nation's medical costs

Deteriorating environmental problems



Addressing environmental issues from every perspective

We seek to address environmental issues by all available means, including adoption of energy-efficient store equipment, use of innovative, lightweight packaging materials, construction of a waste-minimizing manufacturing platform, introduction of highly efficient delivery methods and expansion of our offering of eco-friendly products. We will continue to adopt new environmental and energy technologies such as solar power-generation systems to contribute to creation of a sustainable society.

- Helping to reduce the challenges posed by climate change
- Disseminating environmentally friendly lifestyles
- Promoting the diffusion and expansion of leading-edge environmental technologies

Note: While the sources of the numerical data employed for the above graphs vary, certain government data are based on the Population Census of Japan. Since the census is conducted once every five years and 2012 is the latest year for which figures are available, the graphs were created to conform.

Pursuit of sustainable growth through new value creation

Lawson seeks to realize its Corporate Philosophy of "Creating Happiness and Harmony in Our Communities" by operating neighborhood stores centered on its chain-store development and operation in Japan.

Since opening its first store 40 years ago in June 1975, Lawson has evolved in response to changes in lifestyles and the social environment, resolving inconveniences that arise in its communities. We feel that the role of Lawson has become increasingly vital with such changes as the aging population and increasing participation of women in the workforce.

We intend to strengthen our convenience store operations in fiscal 2015, the fiscal year ending February 2016, to achieve sustainable growth in a severe market environment by treating this as a "year for consolidating our foundation." Our efforts will involve implementing structural reforms based on three strategies: "strengthening our store capabilities," "improving our product offering," and "providing better support for franchise owners." We are also upgrading our product offering to meet proliferating healthcare needs and introducing home ordering and delivery services for customers who find it inconvenient to go out for shopping. In these and other ways, Lawson will establish a framework, in cooperation with our franchise owners, that earns the appreciation of customers in our communities.

Lawson and its Group companies will increase their corporate value further while continuing to maintain a harmonious relationship with society as essential social infrastructure for our communities.

Genichi Tamatsuka
President and CEO
Representative Director

Responding proactively to changes in our communities

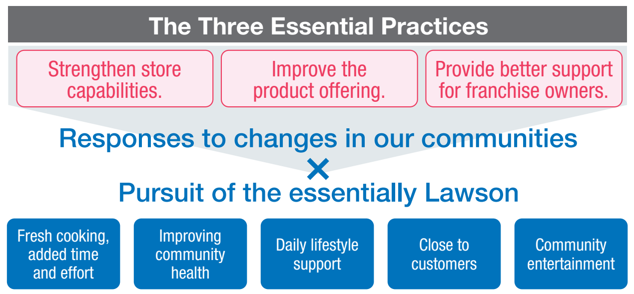
Please begin by reviewing Lawson's fiscal 2014 business performance.

We faced a severe operating environment in fiscal 2014, the fiscal year ended February 2015, with competition intensifying in the convenience store industry and polarization of consumer trends following the consumption tax hike. We nevertheless succeeded in improving our consolidated operating profit from the previous year. We continued efforts to expand our customer base by maintaining a product offering matched to customer needs, while increasing our offering of over-the-counter fast-food services such as fried foods and fresh-brewed coffee to improve our gross profit margin. We also opened 1,010 LAWSON stores, acquired the SEIJO ISHII CO., LTD. food-lifestyle supermarket chain and purchased United Cinemas Co., Ltd. to reinforce our entertainment-related operations. A change in the depreciation method also impacted our results by leading to a consolidated operating profit of 70.4 billion yen, an improvement over the previous year. Appropriation of an extraordinary loss associated with the LAWSON STORE100 restructuring plan resulted, however, in consolidated net profit of 32.6 billion yen, a year-on-year decline, and an ROE of 13.0%.

What business strategies are you pursuing this year?

The convenience store market is expanding in response to demographic and other social changes, and the role of the neighborhood store in small service areas is increasing. The accelerated rate of new convenience store openings is intensifying competition among companies in the industry.

These circumstances make this year particularly significant. We are laying a firm foundation for continued growth by pursuing three structural reform strategies: "strengthening our store capabilities," "improving our product offering," and "providing better support for franchise owners." Building on this foundation, we will strengthen our activities to ensure a unique, "only at Lawson" experience.



What role do convenience stores play in our changing society?

We expect to serve primarily as a neighborhood store. As stores that operate 24 hours a day in people's neighborhoods, convenience stores represent a business model for providing customers with a high degree of convenience in terms of both time and distance. Traditional shops selling fruits and vegetables, books and daily necessities have receded from the landscape in Japanese communities in recent years. The number of small retailers in the country, including privately owned stores, has fallen from 1.5 million or more in the 1980s to fewer than one million today. The role of convenience stores is expanding year after year, meanwhile, since they appeal to customers such as busy working women who have little time for shopping and elderly people who want to shop within walking distance of home.

As a manufacturing retailer based on a small commercial area model, Lawson tailors its product offering to individual communities by leveraging collaboration between its raw materials procurement departments and the marketing departments responsible for analyzing Ponta card data. This enables us to develop original products that provide added value from the customer's perspective. Going forward, we will continue responding to our communities' changing needs in such ways as assuming more supermarket functions by providing a wider product offering, introducing more healthcare-focused LAWSON stores that contribute to health and wellness by handling over-the-counter medicines (non-prescription drugs), and offering home ordering and delivery services.

What are some specific undertakings strategies you plan to execute for fiscal 2015?

We will be reinforcing our foundation as a convenience store business through structural reforms aimed at "strengthening our store capabilities," "improving our product offering," and "providing better support for franchise owners."

Specifically, we are accelerating implementation of a new franchise contract introduced in 2012 in accordance with the basic policy of "strengthening relationships with franchise owners to grow and evolve together," under which headquarters covers a portion of franchise stores' electricity bills and disposal losses. The new contract is also being implemented for existing stores that have not yet renewed their franchise contracts with us. Thus, headquarters is sharing more risk with franchise stores in an effort to establish a framework for increasing earnings further. A semi-automatic ordering system taking Ponta card membership data for individual stores into consideration will be introduced to match the product offering to their customer demand. As concerns products, we will respond to the diversifying needs arising from the trend toward polarized consumption by providing a balanced offering of standard convenience store items, such as reasonably priced boxed lunches, and high added-value products prepared with strict attention to raw materials.

Please tell us more about your product planning.

We are upgrading the standard items we carry to meet frequent demand, centered on such fundamental categories for our business as boxed lunches and rice balls, pasta and salads. We will also reinforce our ability to compete with supermarkets by developing cut vegetables that can be eaten without washing, renewing our private Lawson Select brand and expanding our range of daily delivered and frozen foods. We will continue our efforts to enhance our selection of over-the-counter fast foods prepared with strict attention to high value-added raw materials, as well as our MACHI café and Machikado Chubo (in-store kitchen) food offerings. We will also enrich our lineup of health-oriented merchandise, such as low-carbohydrate bran breads and healthful confectioneries with reduced calories and greater nutritional value. As concerns advertising and sales promotion activities, meanwhile, we will increase their budgets compared with the previous term and seek ways of explaining our enhanced product offering to customers.

We celebrated our 40-year anniversary by initiating the "Passionate and Delicious" project aimed at reexamining our Companywide product manufacturing starting from the fundamentals. In June, the month marking 40 years since our establishment, we introduced commemorative products prepared with strict attention to raw materials and recipes, which were warmly received. With today's customers expecting convenience stores to serve as neighborhood specialty food shops offering more than convenience, Lawson will continue its efforts to satisfy them through this kind of product development.

The "Passionate and Delicious" project

Are you planning any further capital investment in your existing stores?

Yes. We will begin with investment in about 2,000 stores, mainly in residential areas, by installing more refrigerator and freezer cases and raising the heights of the product display shelves. We will strengthen our product offering in categories such as milk and yogurt, prepared meal products in the Lawson Select series featuring dishes such as boiled fish packaged in small portions, and frozen food items that make convenient side dishes in boxed lunches. We consider it important to support customers in their daily lives by providing an appropriate selection of "foods people eat every day and items people use every day."

For the past two years, we have been increasing the number of stores offering MACHI café services. Now that they are available in nearly all the stores, we are following up by introducing Machikado Chubo in-store kitchens, which we expect to be operating in 3,600 stores by the current fiscal year-end. Expanding the kitchen facilities at existing stores has equipped us to serve such customer favorites as freshly made pork cutlet sandwiches, pork cutlet curry, and rice balls, a service that has proved popular with customers across a broad range of age groups.

Our investment in energy conservation will also continue. We will proceed with the introduction of advanced energy-efficient "freezing and refrigeration systems employing clorofInorocarbon (CFC)-free CO_2 refrigerants" to lower electric power consumption by the stores. Annual CO_2 emissions by stores using these systems are reduced by about half compared with stores using conventional equipment, and electric power consumption by individual stores can be cut by about 12%. Our medium-term target is to achieve a per-store reduction in electric power consumption of 20% in fiscal 2020 compared with fiscal 2010 through activities of this kind.

What issues do your stores face, and what solutions can you offer?

One question we ask is whether customers find what they are looking for when they come to a store. We have found that LAWSON stores still do not meet all our customers' expectations. We need to improve the skills of our supervisors who provide individual support for franchise owners at their stores. We will also review the mechanism employed by stores for product order placement. The planned order-placement system for soft drinks and processed foods will be renewed, and a semi-automatic ordering system will be introduced for such products as boxed lunches, rice balls and sandwiches in the ready-made food category.

Semi-automatic ordering is a mechanism for providing recommendations on product and order quantities based on the purchasing behavior of Ponta members, who account for about 50% of sales, with a variety of other data taken into account. This might include, for example, data on recent sales trends at individual stores and purchasing by frequent customers, for example, as well as information from other stores with similar customer bases, weather forecasts and sales campaign information. In addition to these highly accurate recommendations, franchise owners may consider such special factors as upcoming community events in determining ordering quantities.

After experimenting with semi-automatic ordering for about three years at several hundred stores, we have determined that the accuracy of its demand forecasting has improved sufficiently to justify extending it to all the stores within the current fiscal year. Introducing the system not only results in improved ordering accuracy, moreover, but it also contributes to more efficient store operation. By dramatically reducing the time required for order placement, it will free up time for store managers to focus greater attention on such matters as sales floor enhancement and staff training. The significance of shortening the time spent on ordering is evident from the trend toward an increase in time required for such other tasks as preparation of Kara-age Kun fried chicken and other over-the-counter fast foods and provision of MACHI café and Machikado Chubo in-store kitchen services.

What are your differentiation strategies for the future?

First, we are pursuing health-related activities. We are forming strategic business partnerships with various regional drugstores and pharmacies, especially, to respond to the health and wellness needs of our communities. Since 2013, we have been opening stores with a health and wellness focus that carry some 5,000 over-the-counter medicine and cosmetic products and daily necessities, or about twice the number LAWSON stores normally handle. We plan to expand these efforts in the future. We are also stocking such products as low-carbohydrate bran bread and nutritious confectioneries in LAWSON stores nationwide. Another example of the ways in which Lawson will remain a step ahead in the next generation is the "Care-focused LAWSON for Senior Citizens," a program offering nursing care consultation windows, salons and other services we introduced in 2015.

A second new direction we intend to pursue is home convenience operations. We will evolve a step beyond our identity as a neighborhood store and move closer to our customers by going the final mile. We concluded a business partnership contract with SG HOLDINGS CO., LTD. in April 2015 and announced our plan to establish a joint venture. We will leverage our nationwide network of over 12,000 stores and the high-volume distribution capabilities of such home delivery services as SAGAWA EXPRESS CO., LTD. and other companies in the SG Holdings Group to introduce home ordering and delivery services centered on LAWSON stores. These activities will contribute to establishing a firm foundation for a next-generation home convenience business, both by employing the electronic commerce business operations of Lawson Fresh and other Group members and by implementing an open platform strategy to invite participation by other Internet shopping services.

How does Lawson approach corporate governance and shareholders' returns?

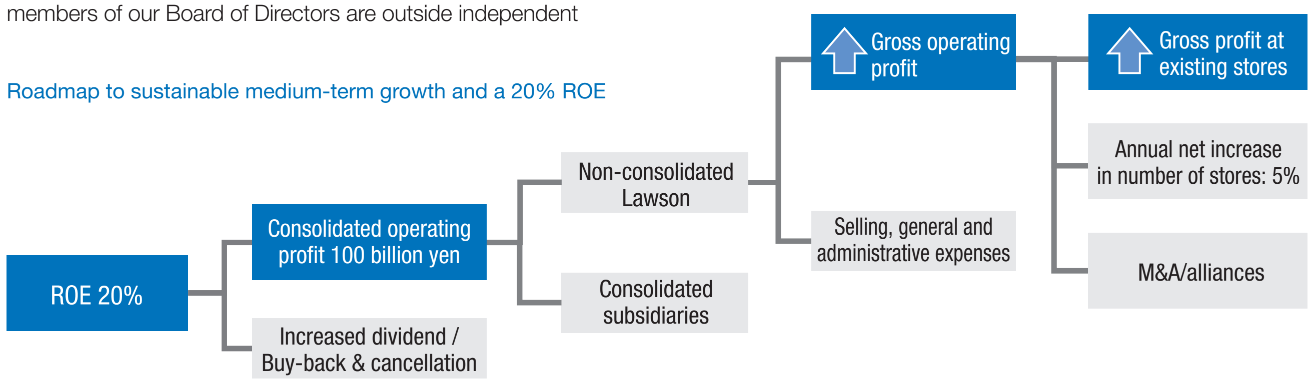
We have been quick to establish a dynamic, highly transparent corporate governance framework. Over one-third of the members of our Board of Directors are outside independent officers, for example, who have formed a Nomination and Compensation Committee comprising only outside directors to report on issues related to candidate selection and directors' compensation. The six outside officers, some of whom are outside corporate auditors, have experience in a wide range of fields, including business management, academics, accounting, law and the public sector. Four of the outside officers are women, whose selection reflects our efforts to diversify management.

As concerns shareholders' returns, we consider maintaining sustainable stable dividend increases to be a fundamental responsibility of management. We will pay a dividend of 245 yen per share in fiscal 2015, an increase of 5 yen from the previous year.

Finally, please say a few words about your human capital development.

Lawson promotes development of self-motivated, innovative employees as requisite human capital for achieving sustainable growth through value creation. We are recruiting more female employees and foreign nationals to enhance diversity and increase the receptiveness and flexibility of our organization. We will continue to value employees who take on work outside their sphere of responsibility and undertake initiatives proactively in accordance with our objective of creating an organization of disciplined, self-motivated people.

Roadmap to sustainable medium-term growth and a 20% ROE



Targeting improved capital efficiency and a 20% ROE

Yutaka Yoshitake
Executive Vice President,
Chief Financial Officer

Review of fiscal 2014

Lawson's consolidated operating profit grew by 2.3 billion yen from the previous year to 70.4 billion yen in fiscal 2014, the fiscal year ended February 2015. Existing store sales in our mainstay domestic convenience store business declined by 1% compared with the year before, but operating profit turned upward, boosted by attainment of a gross profit margin of 31.3% on a store basis — an improvement of 0.3 percentage point. This improvement reflected the influence of a 9.4 billion yen gain from a change in our method of depreciation from the declining-balance method to the straight-line method. Net profit for the year nevertheless fell by 5.2 billion yen from the previous year to 32.6 billion yen due largely to appropriation of an extraordinary loss in the amount of 4.2 billion yen associated with the LAWSON STORE100 restructuring plan. ROE registered 13.0% as a result. We opened a total of 1,010 domestic LAWSON stores (a net increase of 588 stores after closures are factored in), boosting the total to 12,276 stores as of end February 2015.

Plans for fiscal 2015

As concerns fiscal 2015, we are targeting 71.0 billion yen in operating profit and 35.2 billion yen in net profit. Viewing this as a year for consolidating our foundation for sustainable future growth, we plan to implement concentrated strategic investments and assume additional costs to improve the profitability of the franchise stores. We anticipate a resulting reduction in operating profit in our non-consolidated business operations. Our consolidated operating profit is projected to rise, however, as the business performance of the SEIJO ISHII CO., LTD. food-lifestyle supermarket chain we acquired in October 2014 and other new businesses is consolidated over the full fiscal year. We expect to gain 4.9 billion yen in operating profit from Seijo Ishii and an additional 1.1 billion yen from United Cinemas Co., Ltd.

In our non-consolidated business operations, existing store sales should recover to their previous-year level. We aim to achieve this through structural reforms implemented in pursuit of our three structural reform strategies: "strengthening our store capabilities," "improving our product offering," and "providing better support for franchise owners." We plan to open 1,200 stores, moreover, a number of which will be conversions of stores obtained through new business alliances, while maintaining our priority on store profitability. This will be partially offset by 450 closures of LAWSON stores, a reflection largely of proactive removal of stores to more promising locations, and 300 closures of LAWSON STORE100 stores under the LAWSON STORE100 restructuring plan. The result will be a net increase of 450 stores.

As concerns gross profit, we are targeting 31.5%, an improvement of 0.2 percentage point compared with the previous year. Measures to deal with the ongoing depreciation of the yen since last year and rising raw materials prices will center on optimal deployment of our subsidiary SCI, Inc., a specialist in supply chain management. It will implement dynamic raw materials procurement and transition to domestically produced raw materials in an effort to curtail increases in the cost rate. We will also expand our profitable over-the-counter fast-food services with the aim of improving our gross profit margin.

At the same time, however, we expect to see a strategic year-on-year increase in selling, general and administrative expenses of 5 to 10%. Factors contributing to this rise include a significant increase in franchise store support costs stemming from our accelerated extension of our new franchise contract to some 2,000 additional stores. Under the new contract, headquarters provides greater support for franchise stores by assuming part of the cost of their electricity consumption and disposal losses. Other factors include a planned increase in advertising and promotional expenses in excess of 2 billion yen from the previous year. Media exposure will be raised to pull more customers to the stores by publicizing our improved product offering.

Fiscal 2014 (consolidated)

(Millions of yen)

		Feb. 2015	Feb. 2014
Gross operating revenues	+2.6%	497,913	485,248
Operating profit	+3.5%	70,482	68,127
Recurring profit	+4.1%	71,714	68,880
Net profit	–13.9%	32,687	37,966

Cash flow planning

We plan to attain operating cash flows of about 100 billion yen, investment cash flows of about 80 billion yen and free cash flows of about 20 billion yen in fiscal 2015. We expect our investment cash flows other than that portion intended for investments and advances to increase by about 20 billion yen from the previous year due to the new store openings in Japan as well as facility and equipment upgrading at existing stores.

In the longer term, if we maintain our current rate of store openings, we can expect annual operating cash flows to surpass 100 billion yen, supported by stable domestic convenience store operations, and our investment cash flows to transition in the range of approximately 60 billion yen to 70 billion yen. Free cash flows will rise to the 30 billion to 40 billion yen level, which we believe will cover our financial cash flows comprising mainly dividends.

ROE and capital discipline

As a public company, we must make an appropriate allocation of capital to implement our management strategies and to continue creating value through our neighborhood store business model. We intend to increase our earnings ratio to a level exceeding our capital costs and to continue providing appropriate returns to shareholders. We have set an ROE of 20% as a medium-term target for our management benchmark to optimize our use of shareholders' equity. Improving capital efficiency by implementing financial strategies is one approach to achieving a high ROE, but we consider increasing profitability by augmenting the operating cash flows from our main business operations most vital. We have identified earnings growth from our main business operations as our first priority, and we are conducting a balanced allocation of cash flows that provides for optimal reinvestment over the medium term while achieving shareholders' returns primarily through distribution of dividends.

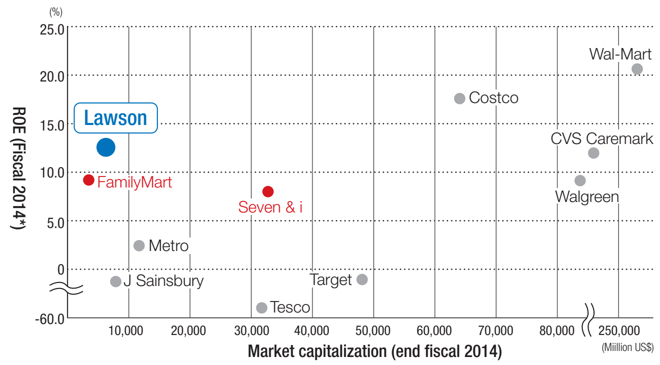
In order to maximize corporate value for our shareholders, we have implemented strong discipline to ensure a reasonable return from our investment when considering store openings and other business plans. We will not simply pursue expansion of scale but will strictly review the return on investment (ROI) of each. Our corporate management is also clarifying its grasp of the ROI from individual investments to facilitate objective determination of the potential for appropriate returns from domestic store openings and other future projects. Our acquisition of Seijo Ishii last year, for example, was conducted following exhaustive discussions involving outside directors. These concentrated on determining whether future cash flows from operating the business would provide a proper balance with the enterprise value, including not only the cost of stock acquisition but interest-bearing debt as well.

Improvement of enterprise value and shareholders' returns

As concerns shareholders' returns, our intention of achieving sustainable increases in dividends over the medium and long term remains unchanged. As a result of a comprehensive review of our business plan, which includes concentrating investment in our main business operations to improve our franchise owners' profits, we plan to distribute 245 yen per share as an annual dividend for fiscal 2015, an increase of 5 yen from the 240 yen per share dividend paid in fiscal 2014.

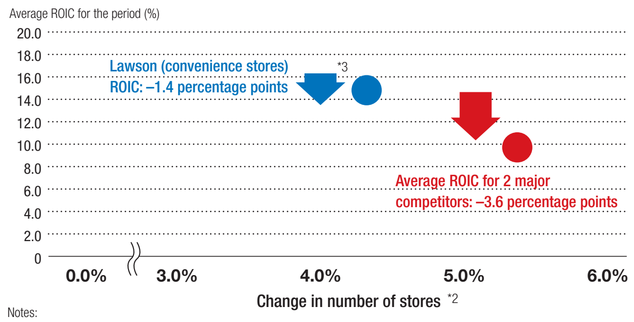
We will maintain lasting relationships with our franchise stores through continued unified efforts to improve our customer satisfaction rating by "strengthening store capabilities," "improving the product offering" and "providing better support for franchise owners." We expect to pay stable, attractive dividends to our shareholders while ensuring maintenance of the Company's financial health.

ROE comparisons



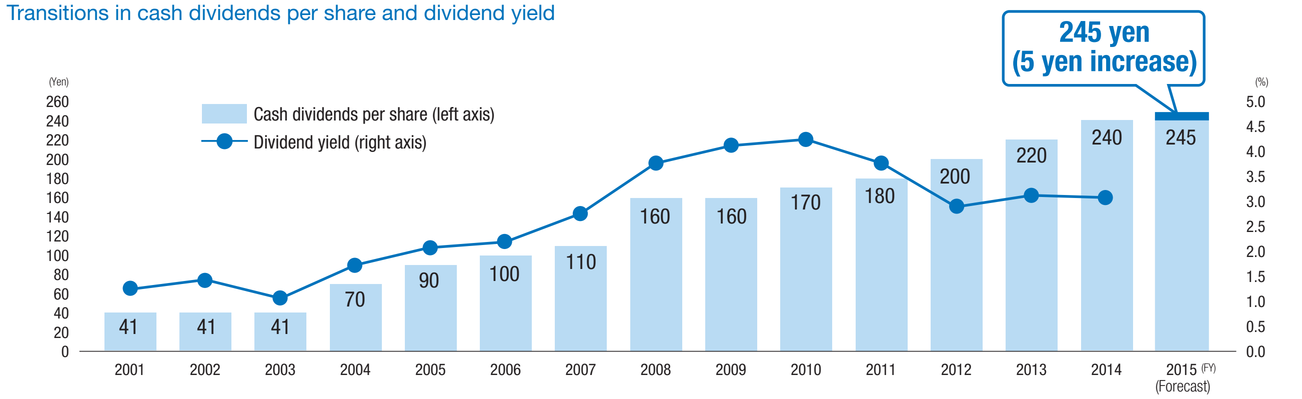
*Based on data for Aug. 2014 - Feb. 2015.

Changes in ROIC*1 over 10 years compared with competitors



Notes:
1: ROIC = Operating profit after taxes (assuming a 40% tax rate) ÷ Average interim capital investment (total equity + interest-bearing debt)
2: Rate of increase in number of stores (average annual rate of increase from fiscal 2004 to fiscal 2013)
3: Arrows indicate direction of change in ROIC between fiscal 2005 and fiscal 2014.

Transitions in cash dividends per share and dividend yield



"I expect Lawson will not limit its operations to Japan in the future, but will establish a global presence based on a solid organizational structure."

Lawson's essential nature is a confident attitude toward taking on challenges

One of my fields of specialization is the study of companies and businesses that adopt unique competitive strategies. Viewing Lawson from this perspective, I find it interesting that this second company in the industry in Japan keeps seeking ways to differentiate itself from the industry leader. How can we reveal our *raison d'etre*, and how can we encourage customers to choose our stores? These objectives are among the bases for our discussions.

To achieve these goals, Lawson has taken up the challenges of establishing new types of stores with the NATURAL LAWSON, LAWSON STORE100 and healthcare-oriented LAWSON stores. Lawson implements new approaches and management experiments in an easily understandable manner, while trying to discover what customers really want a neighborhood store to be. It is Lawson's nature to continually take up challenges, however difficult, and move forward for its customers.

Clearly evident improvements in governance and good organizational management

As concerns governance, the composition of the Board of Directors is well balanced, discussions have become more active, and significant improvements have been made over the past several years. With respect to decision-making at Board meetings, the reasoning, decision-making process and prospects are clarified in a manner that makes verification and objective assessment relatively easy. Lawson discloses information proactively and develops factors such as business models, mid- to long-term plans and personnel data in considerable detail.

Organizational theory is another focus of my research. I find that Lawson is a thinking organization. President Tamatsuka is a corporate executive who values organization-based management and who involves himself in inspiring the exercise of individual and organizational abilities. It is his custom to identify the roots of problems in the organizational structure and to solve them by altering the mechanism. This means he does not rely on a personal, individualized approach to solving problems.

Lawson to become competitive in the global marketplace

As I mentioned, Lawson does face issues that require solution. First, it is essential that it maintain conditions in which the franchise owners can conduct and develop their business without worries. Moreover, I hope to see Lawson remain a reliable company from both the internal and external perspectives so that everyone concerned, including store crew, suppliers and headquarters employees, can feel that they are participating in creating value.

In terms of diversity, the ratio of women who return to work after their maternity and childcare leaves and the ratio of men who take childcare leaves is quite high at Lawson, and the company has set a target of having female personnel fill 30% of its managerial positions in 2020. This reflects a high awareness of the value of human capital. At present, the female directors, including myself, are all external officers. I hope many female Lawson employees will seek higher positions and raise the ratio of female officers. Lawson is also actively hiring foreign nationals, creating the kind of organizational diversity that is essential for a company to gain a competitive advantage, both at home and abroad.

I look forward to seeing the number of Lawson fans increase as the Company takes on a progressively more global character.

"I am impressed by Lawson's focus on each individual store, with its close evaluation of the *genba, genbutsu* and *genjitsu* (actual site, actual objects and actual facts)."

Deriving confidence from active discussions and effective governance

Under a new system implemented by President Tamatsuka, meetings of the Board of Directors are forums for active discussion. Corporate management must not only develop strategies but also identify risks and determine the effectiveness of policies. It is essential to execute decisions and show the results in figures. The flexible atmosphere of Lawson's Board of Directors invites members to speak without hesitation. I share Lawson's Corporate Philosophy and objectives with the other Board members, while also offering frank opinions from the standpoint of an external company's CEO.

Lawson has always been forward-looking in its governance. Japan's Corporate Governance Code was instituted in June 2015, and many companies are still in the trial-and-error stage. Lawson, on the other hand, is already at the stage of conducting truly effective governance. The appointment of external board members is not simply a matter of number juggling. It is prerequisite that they participate actively in Lawson's Board meetings, offering opinions and enhancing its functionality.

Detailed personal responses revealing Lawson's true nature

Lawson operates as a manufacturing retailer based on a small commercial areas model. This means handling production and logistics as well as operating stores. As a person engaged in manufacturing or, more specifically, the automation of manufacturing, I perceive many issues related to efficiency. At the same time, however, the business involves product development and services from the customers' perspective, which require the presence of people at the center of the operations. I hope Lawson will retain its special nature by continuing to offer attentive personal responses while upgrading its efficiencies through automation.

As an officer of a manufacturing company, I focus on the actual site, actual objects and actual facts, as I said, but President Tamatsuka goes back to basics and focuses on the stores, which are the contact points with customers. This may not be special, but it is certainly meaningful. For individual customers, the LAWSON store where they shop is all they know about Lawson. So we must ask how we can improve the individual stores. I support Lawson's policy of focusing on its stores, which serve as the basis for the retail business.

Becoming a genuine top brand by "Creating Happiness and Harmony in Our Communities"

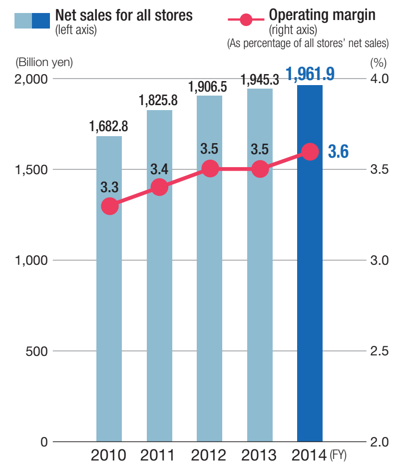
Ways of doing business will change in the face of social issues such as the aging of society and declining population. The simple concept of expanding the number of stores to raise the competitive advantage does not always work in an environment with a contracting workforce. As consumer behavior changes, it will become increasingly necessary to satisfy local community needs, rather than offering the same products nationwide.

Will Lawson be able to continue offering new value as an essential part of the lives of community residents in times of increasingly diversifying needs? It will be important for the Board of Directors to discuss both the major strategies and the means of satisfying them. I believe that Lawson will become a genuine top brand by developing as a company in which every member considers what he or she can contribute to community happiness and harmony.

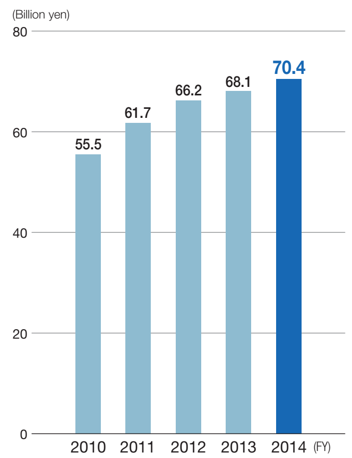
Financial Highlights

Net Sales for all stores / Operating profit ratio

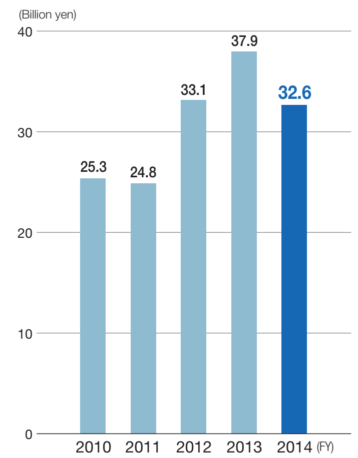
(As percentage of all stores' net sales)



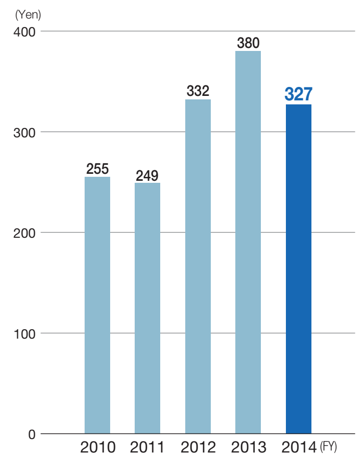
Operating profit



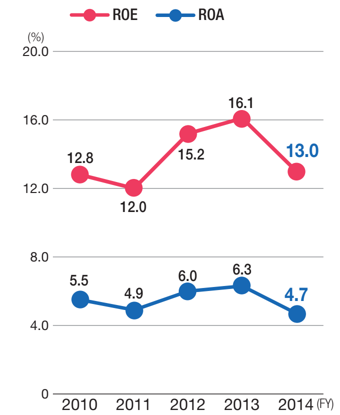
Net profit



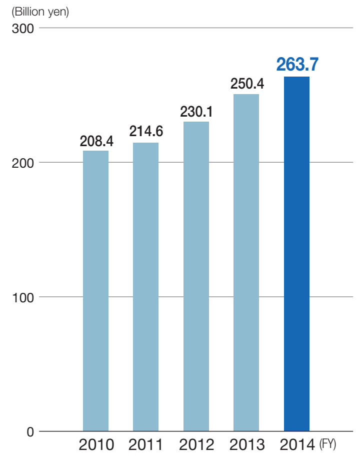
Net profit per share



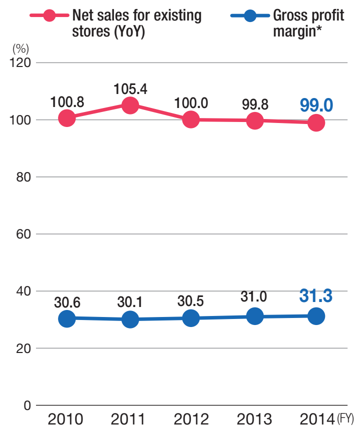
Return on equity (ROE) Return on assets (ROA)



Net assets

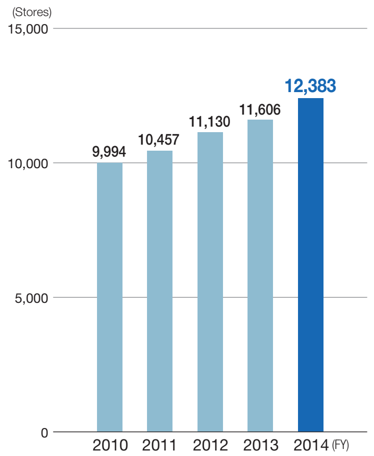


Existing store sales / Gross profit margin



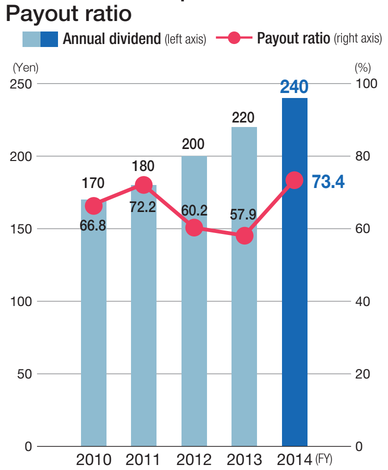
*Gross profit margin represents margin at store level.

No. of stores in Japan

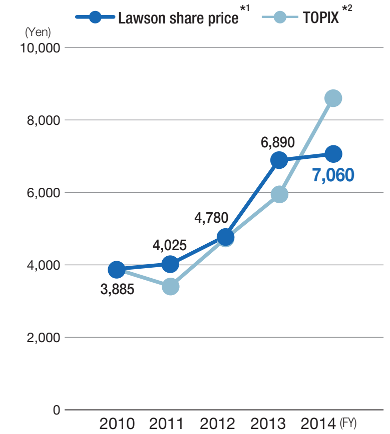


*Combined total of domestic convenience stores (including Group company stores) and Seijo Ishii stores (directly-operated Seijo Ishii stores only)

Annual dividend per share / Payout ratio



Share price



*1 The Lawson share price is the closing price on February 28, 2015, the last day of fiscal 2014.
*2 Figures in the graph of the Tokyo Stock Price Index (TOPIX) indicate percentage changes from 951.27, the closing level on February 28, 2011.

Guide

Operating profit

Operating profit for the fiscal year ended February 28, 2015 amounted to 70.4 billion yen, registering year-on-year growth for the second consecutive year. The operating margin improved further (as a percentage of all the stores' net sales) as Lawson continued to reinforce its existing domestic stores in a highly competitive operating environment. The Company is targeting consolidated operating profit of 100 billion yen in the medium to long term.

Gross profit margin

The gross profit margin for the year under review was 31.3%, an increase of 0.3 percentage point compared with the previous year, as the Company expanded sales of over-the-counter fast foods, a strong product category with a high gross profit margin, and leveraged the contributions of its specialized subsidiary SCI, Inc. in promoting overall visualization and streamlining of the supply chain.

ROE

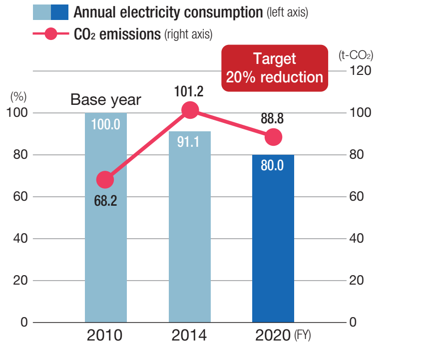
ROE stood at 13.0%, which was lower than it had been but still a high level, as the Company incurred an extraordinary loss resulting from its LAWSON STORE100 restructuring plan. We are targeting a medium-to-long-term ROE of 20% through earnings growth by our core businesses.

Dividend

The Company distributed a dividend of 240 yen per share, an increase of 20 yen compared with the previous fiscal year, raising the payout ratio to 73.4%. Management plans to pay a per-share dividend of 245 yen, an increase of 5 yen, for the current fiscal year. It intends to maintain strict capital discipline and return profits to shareholders in a stable, sustainable manner through dividend distribution and share price performance.

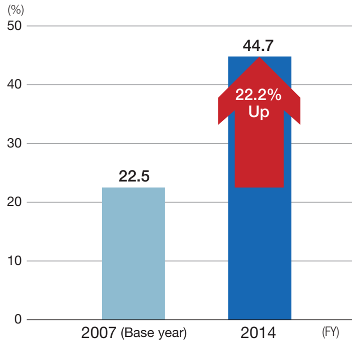
Non-financial Highlights

Per-store electricity consumption (index) and carbon dioxide (CO_2) emissions



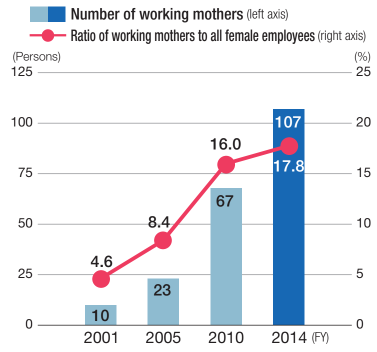
Determined to reduce electricity consumption, we set a medium-term energy-efficiency goal of "reducing per-store electricity consumption by 20% by fiscal 2020 as compared to fiscal 2010." In fiscal 2014, the Company's electricity consumption was down 8.9% from fiscal 2010, an achievement made possible by installation of energy-efficient equipment and replacement of existing stores' facilities.

Food-recycling ratio



Seeking to make effective use of surplus food and respond to the Food Recycling Law, we have worked to improve our food-recycling ratio by 2 percentage points or more each year (using 22.5 percent for fiscal 2007 as the base). As a result, we achieved a ratio of 44.7% in fiscal 2014, well above the statutory target of 36.5%.

Ratio of working mothers to all female employees

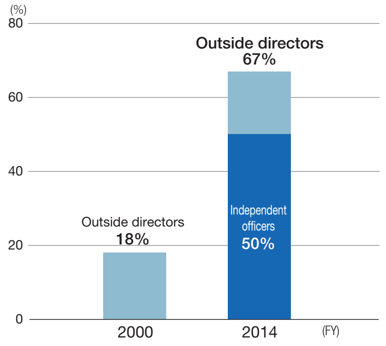


Our childcare support policies have contributed to raising the ratio of working mothers to all female employees by 13.2% over the past 13 years. The ratio of employees returning to work after childcare leave is also a high 97.1 percent (cumulative basis since fiscal 2000).

Numbers of new male and female employees and ratio of newly hired foreign nationals

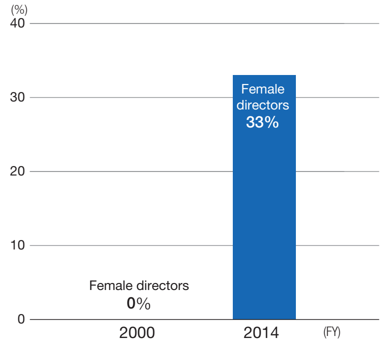
Among new hires, half are women and 20% to 30% are of non-Japanese nationality. We promote diversity by consciously maintaining these ratios.

Ratio of outside directors to all directors



The number of outside directors has been increased as a percentage of all directors to acquire the benefit of their extensive specialized knowledge and diverse backgrounds. Their presence enables the Board of Directors to examine the reasonableness of the Company's business execution and oversee its lawfulness from an independent, objective standpoint.

Ratio of female directors to all directors



We have directed earnest efforts to raising the ratio of female directors on our Board of Directors in accordance with our priority on diversity in our operations. We will continue to leverage the woman's perspective in our operations based on an awareness of its necessity to expansion of our customer base as a foundation for future growth.

Toward a community full of smiles

Lawson's Corporate Philosophy, "Creating Happiness and Harmony in Our Communities," is an ideal shared by everyone everywhere. Lawson will continue contributing to community happiness and harmony by providing "what you want, when and where you need it."

Decreasing number of nearby stores
Decrease in retail stores: Compared with 1996
30% ↓

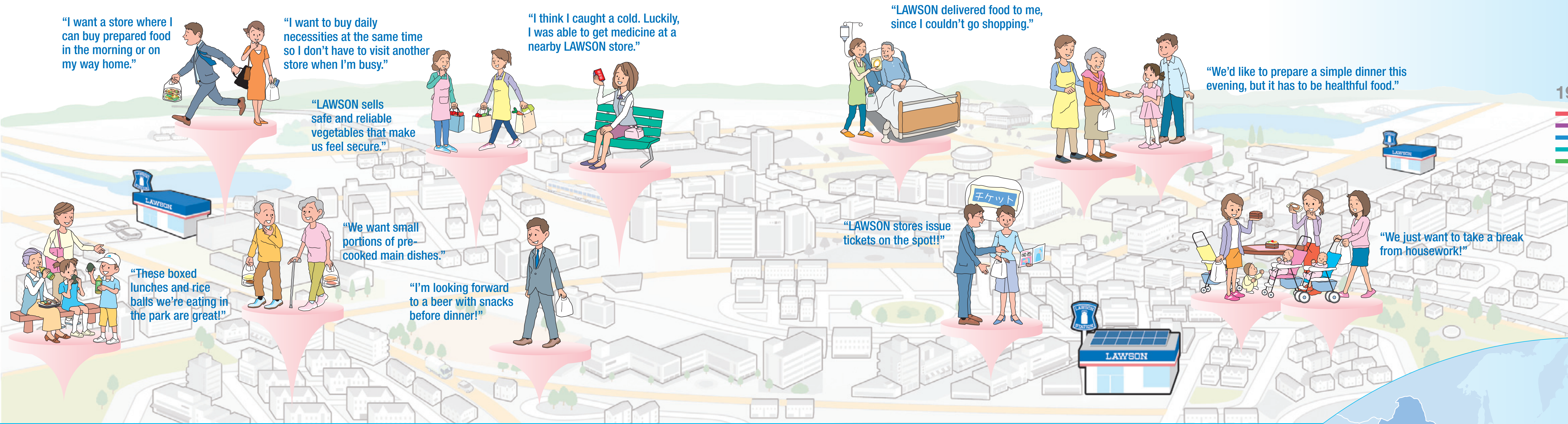
Empowerment of women
Increase in double-income households: Compared with 1996
115% ↑

Rapidly aging society
Increase in population aged 75 or above: Compared with 1996 Expected increase rate in 2025
374% ↑

Rise in health consciousness
Medical costs: Compared with 1996 Expected increase rate in 2025
272% ↑

Refer to page 6 for details.

Diversification of community needs



Fundamentals of store operation is the key

Lawson seeks to create happiness and harmony in communities by following "The Three Essential Practices" as the fundamentals of store operation for enhanced customer satisfaction.

Keeping the store clean inside and out creates a store environment that attracts repeat customers while contributing to a clean community. Lawson believes that efforts of this kind at every store will accumulate to contribute to environmental conservation throughout society.

The Three Essential Practices

Lawson wants to realize stores that help communities by serving customers courteously, including serving coffee personally to promote communication.

Lawson develops products that meet customer needs by analyzing purchasing data for over 68 million Ponta members (as of February 28, 2015). It also realizes a product offering tailored to the needs of specific communities by allowing individual stores to order products matched to their customer base.

Lawson will create happiness and harmony across borders in communities worldwide.

Growing Asian nations are experiencing an increasing need for convenience to save time in the context of changing lifestyles. We are certain the Japanese-style convenience store will play a significant role in these emerging nations as well as in Europe and the United States.

Lawson will design stores to win the hearts of customers in every local community by grasping the needs of small areas, despite differences in cultures and challenges depending on the country and region. We will put smiles on the faces of people in every community in which we operate across borders.

A warmhearted MACHI café brew

"Anywhere can be your café."
The MACHI café fresh-brewed coffee service provided by LAWSON stores began with our desire to offer customers a coffee break in their community. We have established two conditions for realizing this desire: high-quality coffee and warm LAWSON hospitality.

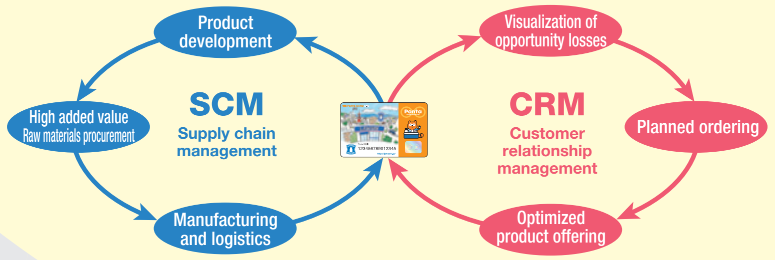
Social capital | Intellectual capital | Human capital | Manufacturing capital | Financial capital

Product development

Female customer ratio
MACHI café: Approx. 60%
(Companywide: Approx. 40%)

Data-based product development

MACHI café operates according to the unique "LAWSON SCM-CRM Model." Lawson employs repeat rates and other data from Ponta members' purchasing histories in its product development. As concerns raw materials procurement, our subsidiary SCI and a specialized headquarters division negotiate directly with high-quality coffee bean producers. Professional servers we call "Fantasistas" hand customers a cup of coffee warmheartedly.



LAWSON SCM-CRM Model

Original aroma and taste produced by quality beans

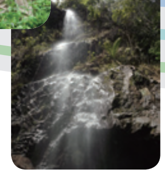
MACHI café pursues an original coffee aroma and taste suited to a familiar store in the local community.

MACHI café serves high-quality coffee combining sweetness, fruity acidity and deep richness by using coffee beans from selected farms and production areas in five countries*, where strict control is maintained over every bean up to the time of shipment. The farms have all earned Rainforest Alliance certification, which is awarded to farms that satisfy strict criteria for environmental conservation and farm worker living standards. Only beans from Rainforest Alliance Certified™ farms have been used for the coffee and caffè latte served at MACHI café since March 2015.

*Five countries: In the case of blended coffee

Raw materials procurement

Ipanema farm, Brazil



Farms/
Production areas
100% designated

Grand Fantasista* members

Warmhearted service by Fantasistas

Store crew with a certified rich knowledge of MACHI café and an ability to convey its special character and the enjoyment of coffee to customers are called "Fantasista." This qualification system, under which store crew who have passed an accreditation test conducted twice a year are certified, is unique to LAWSON. Approximately 6,000 store crew were certified as Fantasista as of February 28, 2015. Each Fantasista member contributes to the store by providing customers in the community with satisfaction.

I feel rewarded under the Fantasista system

My Fantasista certification with extensive knowledge of coffee enables me to serve customers with confidence. I have always liked working in the hospitality industry, and the owner has given me the freedom to provide a tasting service I created myself. This has made my job even more rewarding. I am fond of the MACHI café concept, which goes beyond targeting sales to nurturing human resources to raise the overall service level.

*Grand Fantasista:
A qualification awarded to Fantasistas who satisfy strict criteria, including a store review and a screening at the branch. Fantasistas at each branch who attain an especially high level are nominated for this honor. As of February 28, 2015, fifty store crew in Japan were qualified as Grand Fantasistas.

Nishi-ku Hanahara-cho Store, Aichi West Branch
Grand Fantasista*
Ms. Yuri Kondo

Further customized Italian machines

Fully automated espresso machines manufactured in Italy are customized for MACHI café operation. As many as 16 different beverages are available, and menu items such as caffè latte and matcha latte (green tea latte) are especially popular with female customers. Lawson makes a proactive investment in stores that achieve good coffee sales by supplying them with a second machine.

Sales

No. of stores
As of February 28, 2015
Approx. 10,000

No. of Fantasista crew
Approx. 6,000

Special roasting method that brings out originality

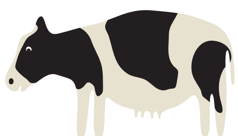
LAWSON stores have adopted a post-mixing method in which different varieties of beans are blended after roasting according to five methods suitable for each variety. This method is time and labor intensive, but it draws out the original taste and aroma of each variety. The result is a rich taste that satisfies customers.

LAWSON uses only raw milk* for caffè latte to assure naturally good taste. Hot caffè latte is brewed at a slightly reduced temperature to maximize the essential richness and sweetness of milk, moreover, while iced caffè latte employs chilled milk.

*"Raw" milk is pasteurized.

Production

Caffè Latte
Five different roasting methods & use of 100% raw milk



"Bring your own tumbler" system for discounts and environmental protection

LAWSON stores offer a 10 yen discount on most beverages to customers who bring their own coffee tumblers and reduce waste. MACHI café also considers society and the environment in every process of its product development. The thin skins of the beans removed in the roasting process and waste from coffee processing are recycled as fertilizer and cow bedding, for example.

We put the health of our communities first and contribute to convenient, healthy living.

The lifestyles of our communities are changing, and the roles played by convenience stores are changing with them.
LAWSON stores serve as community health hubs that offer two pillars of support for customers in their communities: delicious meal solutions to support "health through eating" and self-medication solutions to support "health through exercise."

Meal Solutions

In 2000, the first LAWSON stores were opened inside hospitals. In 2001, we launched NATURAL LAWSON stores to support beauty and health. In the years since, we have continued to make health-oriented investments in new store openings, product development and enhancement of the product offering.

People in every generation are increasingly health-conscious today, a trend that is expected to extend into the future. We are drawing on our accumulated expertise in this field to propose meal solutions that can help customers stay healthy through the foods they eat every day. We want them to stay physically and mentally healthy by eating safe, reliable foods without forgoing the pleasure of delicious taste.

Lawson has established 10 themes for its healthful product development, including "Let's eat veggies" and "Delicious low carb." We are developing original health-oriented products such as salads and vegetables for everyday consumption, low-carb bran bread developed jointly with a manufacturer, healthful drinks and snacks marketed under the NATURAL LAWSON brand, and nutritionally balanced boxed lunches. Sales of such health-oriented products continue to grow after exceeding 120 billion yen in fiscal 2014.

● Let's eat vegetables


Shakit! Corn salad


Tomato pasta salad

● Delicious low-carb foods


Bran bread

● NATURAL LAWSON Healthy Series


Healthy snack series


Green smoothie

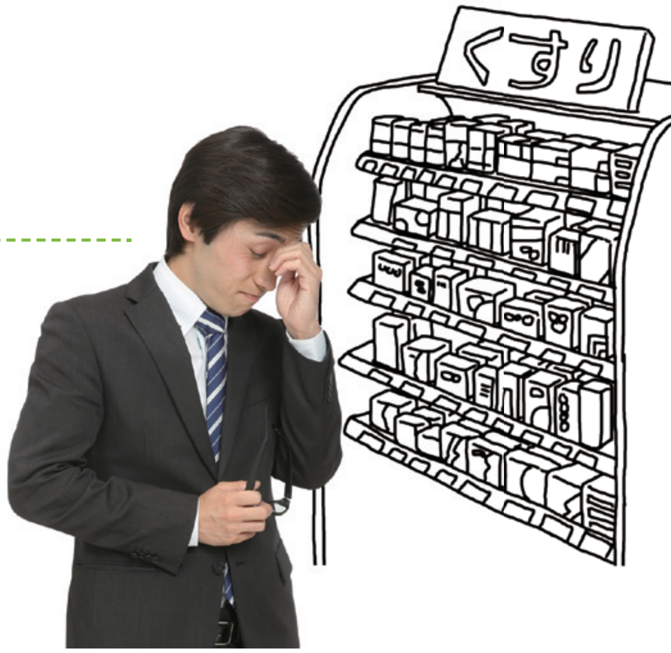
● Nutritionally balanced boxed lunches


Nutritionally balanced grilled mackerel boxed lunch

Healthful product development: 10 themes

1. Let's eat vegetables.
2. Delicious low-carb foods
3. Enjoying the taste of quality ingredients
4. Low sodium
5. Saving calories with a smile
6. Let's eat high-quality protein (fish & soybeans).
7. For better intestinal health (lactic acid bacteria)
8. Use of only high-quality fats!
9. Measures to reduce additives (preservatives and coloring) and prevent allergies
10. Easy access to functional ingredients

Self-medication Solutions



Besides contributing to health through food, Lawson is developing a wide range of "self-medication solutions." These include selling medicine, opening new stores with long-term care providers as franchise owners, collaborating with municipalities, and organizing sports events to help community residents control and maintain their own health.

In the area of medicine sales, we have been developing Pharmacy LAWSON stores since 2003 to serve our customers as family pharmacies. As of the end of May 2015, there were approximately 40 Pharmacy LAWSONs in operation. Stores dispensing over-the-counter (OTC) medicines now number 100 due to reinforced collaboration with a number of dispensing pharmacies and pharmacy chains nationwide. In April 2015, we opened a LAWSON store with a nursing care center in Kawaguchi, Saitama Prefecture. We will continue to collaborate with local nursing care providers and develop a store model for supporting the lives and health of senior citizens (from active seniors to seniors requiring care) and their families by easing concerns about caregiving.

As a company with stores located close to customers in their communities, we are also strengthening our collaboration with local municipalities to support health improvement programs that provide opportunities for customers to actively improve their own health. We also organize health promotion events such as the ENTERUN program integrating entertainment with running. Lawson is also working with the nationwide Renaissance Inc. sports club chain under a health-related tie-up agreement on joint development of Convenience Store Food Education Tools combining Renaissance's expertise in exercise with Lawson's expertise in food.

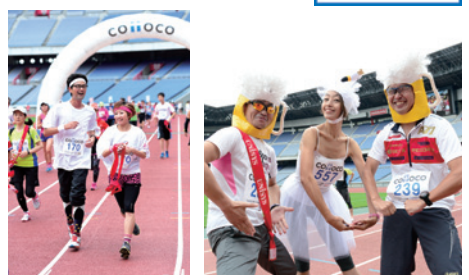
● OTC medicine available any time


900 OTC medicine products

● A LAWSON with a nursing care center

● LAWSON ENTERUN

LAWSON ENTERUN



● Examples of municipalities with health-promotion agreements with Lawson:

Continually taking up challenges to promote health in body and spirit

Everyone has different views and needs with respect to health. We can provide convenience through our products and services, including good-tasting, healthful breads and snacks as well as medicines that customers can purchase any time of day or night. Still, we are always looking for new ways of leveraging our stores' close proximity to customers to promote health in our communities. We are creating an environment that enables community residents to exercise easily, for example, and constructing an internal system to contribute to healthcare for our personnel. We will continue to take up new challenges in our efforts to become community health hubs that serve as a fourth component of infrastructure to enable everyone with a connection to Lawson to participate in health promotion at will.

Hitomi Suzuki
Director, Health and Wellness Promotion Committee

Lawson seeks to provide better support for the communities.

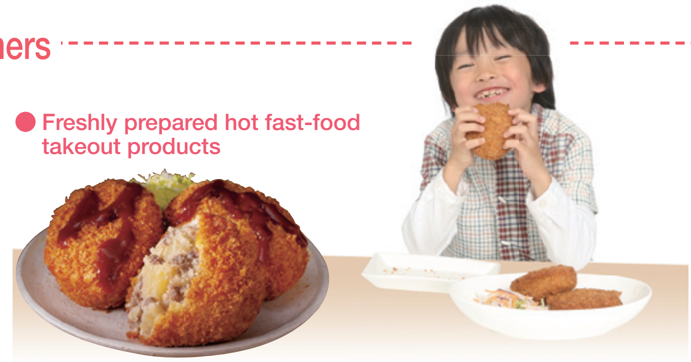
People today are too busy with work, childcare, nursing care, hobbies and learning and other activities to find much time for household duties. The number of traditional neighborhood shops has decreased, and the large commercial facilities and supermarkets that have replaced them are not often located in residential areas, forcing people to travel some distance for their daily shopping.
LAWSON serves as a new kind of neighborhood store, where everyone from senior citizens to working people on their way home can stop by easily and shop for an attractive variety of food products, including boxed lunches, prepared food items, safe vegetables and everything they need for breakfast.
Nor is our selection of products limited to food. We are enhancing our product offering to match customers' daily life needs.

We do everything we can to help customers meet their "daily dietary needs."

LAWSON offers a wide variety of products and services to ensure community residents' ability to eat well at all times. Prepared fast food items are available for people who live alone, including small packages of boiled fish for elderly single-household residents who want to buy standardized products in small quantities (Lawson Select side dish packs). Lawson is also responding to the needs of customers with little time for cooking who want to take out prepared food items by establishing Machikado Chubo in-store kitchens in 3,600 LAWSON stores nationwide (fiscal 2015 target), thus providing the added value of fresh cooking they cannot find at other convenience stores.

At the same time, pre-cut vegetables grown on farms that carefully maintain a proper mineral balance using the Nakashima method and safe, fresh vegetables from Lawson farms are popular among homemakers who buy ingredients and cook themselves. We are also directing concerted efforts to daily delivered foods, such as milk, yogurt, *natto* (fermented soybeans) and *tofu* (bean curd), to contribute to more nutritious, better-tasting breakfasts.

● Freshly prepared hot fast-food takeout products



Genkotsu croquette (fist-shaped croquette)

● Prepared food items in small packages to serve as side dishes with meals

Hamburger in red wine demi-glace sauce

Simmered sardines with ginger

Colorful green salad

Healthful vegetables from healthy soil

Agricultural products grown using the Nakashima-method are adopted as pre-cut vegetables for sale in LAWSON stores (some products in some areas). This farming method grows nutritious vegetables by maintaining a proper mineral balance in the soil. We are starting to introduce the method to the Lawson farms operating under exclusive contracts.

● Enjoying breakfast with daily delivered foods from LAWSON

We provide customers with items for "daily use and daily delight."

Imagine remembering while returning from work that you are running out of shampoo or detergent. You would also like to pick up a bottle of wine, a can of beer, a side dish and snack or two to go with your beer, and some bread and milk for the next morning. . . Your LAWSON store is the place to pick up all these items. Then, during dinner, you suddenly notice that you are out of soy sauce. What to do? The LAWSON store located right in your neighborhood is open 24 hours a day to help you out in just such emergencies. We consider this the role we should play.

When it comes to daily necessities, you need to be able to purchase them any time. LAWSON is responding by raising the height of its store shelves in order to increase the inventory of daily necessities and diversify the product offering in stores in residential neighborhoods. We will improve our products and facilities to meet a variety of needs and manage our stores to offer quality services in every aspect of daily life.

● A wide selection of daily necessities

● A neighborhood store that helps customers relax with a drink at home

LAWSON pursues delightful convenience as a neighborhood store to community residents' daily lives

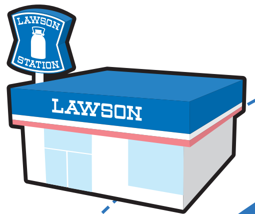
A convenience store is always prepared to replace a supermarket by offering an assortment of easy-to-use pre-cooked products packaged in appropriate servings and a suitable supply of fresh food products and daily necessities. We believe this ability is an indispensable prerequisite for serving customers as a reliable convenience store. We are in the process of changing our product offering to match customer needs and investing in installation of larger refrigeration and freezer cases and taller display shelves in 2,300 stores located primarily in residential areas, positioning them as community-centered stores.

Hisashi Yasuhira
Senior Vice President, Executive Assistant to CEO (responsible for enhancing Lawson's lifestyle support services)

Every day
Health
Time & distance
Enjoyment
Special preference
Home delivery

Lawson delivers enjoyment to the community from the neighborhood LAWSON store.

Since the 1990s, Lawson has responded to customers' emerging need for "events and services" as well as "products" by directing active efforts toward entertainment-related services.
Today, our consolidated subsidiary Lawson HMV Entertainment, Inc., a leading company in Japan's entertainment distribution industry, is playing the leading role in our unique general entertainment business.
Lawson has acquired a major share of Japan's ticketing market, selling concert, sports, theater and other entertainment tickets. With HMV as the core organization for these operations, Lawson also sells CDs, DVDs and other music and video software, another business in which it enjoys a leading share.
Various other entertainment services provided to enrich and brighten customers' lives include the movie business operated by United Cinemas Co., Ltd. as well as online music distribution and event planning and management.



Tickets
CDs DVDs
Books Magazines
Games
Goods
Movies
Travel
Other Store products

Entertainment 360°

The Lawson Group provides a full 360° response to customers' entertainment needs

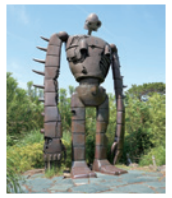
The Group offers high value-added products and services that respond to customer demand for entertainment from every direction, and engages in development, planning and operation to satisfy it. An enhanced ability to make proposals to contents holders for maximizing their contents' appeal has contributed to creation of unique Lawson products and services, pulling more visitors to the stores.

© 2013 Nibariki•GNDHDDTK

A Studio Ghibli film: *The Wind Rises*
Advance ticket sales with limited-edition goods

Lawson is an Official Marketing Partner of Universal Studios Japan®.
© & ® Universal Studios. All rights reserved. CR15-2297

Universal Studios Japan®



© Museo d'Arte Ghibli

Ghibli Museum, Mitaka

© Fujiko-Pro

Fujiko F Fujio Museum, Kawasaki

- **LAWSON is the only convenience store that serves as an official ticket sales agent for the Ghibli Museum, Mitaka, and Fujiko F Fujio Museum, Kawasaki.**
- **LAWSON is an official marketing partner of Universal Studios Japan®**

Lawson is now the only convenience store with the exclusive right to sell tickets for the Ghibli Museum and Fujiko F Fujio Museum through the ticket reservation system.
Lawson is also an Official Marketing Partner of Universal Studios Japan®. Not only can customers purchase tickets for Universal Studios Japan® at LAWSON stores, but they were also given a chance to win an invitation to participate in a Reserve Universal Studios Japan® event by collecting raffle tickets dispensed with each 700 yen (incl. tax) spent on purchases at LAWSON stores through a campaign on the occasion of Lawson's 40th anniversary in June 2015. The event stimulated excitement and added to the fun of the 40th-anniversary festival.
Thus, Lawson not only handles ticket sales but also takes advantage of its entertainment business to conduct activities and develop products that help increase sales at the stores.

ローチケ.com LAWSON TICKET

Lawson Ticket <l-tike.com>

Accessing live events through Lawson to enjoy extraordinary experiences

Lawson Ticket sells concert, sports, theater, movie and other event tickets through Loppi multimedia terminals in LAWSON stores and the l-tike.com e-commerce website. The Company also organizes its own music, sports and other events.

Loppi LAWSON Online Shopping

Gateway to richer, more enjoyable living and daily convenience

Customers use Loppi multimedia terminals installed in LAWSON stores to buy tickets, CDs, DVDs and books; pay for mail-order and online purchases and credit card bills; and apply for campaigns and certification tests. Large numbers of customers (a total of 98 million people annually) use the Loppi terminals to take advantage of their "pay, play, purchase, benefit and live" features.

HMV the music & movie master HMV ONLINE

Lawson HMV Entertainment <CDs, DVDs>

Dispensing entertainment contents to customers throughout Japan

HMV, one of Japan's top-ranking providers of music and video software in terms of sales, entered the Japanese market in 1990 and joined the Lawson Group in 2011. This year marks the 25th anniversary of its business in Japan.
Lawson HMV Entertainment sells music and video CDs and DVDs, books and related products through its 54 stores in locations throughout Japan (as of end June 2015) as well as on its e-commerce website.

UNITED CINEMAS

United Cinemas <movie theaters>

Providing thrills for moviegoers nationwide!

Japan's third-ranked cinema complex operator, United Cinemas joined the Lawson Group in 2014. The company operates 37 movie theaters with 333 screens nationwide (as of end March 2015), including a complex that was selected for a Good Design Award*1 (Personal Service Systems category). It draws on the synergies of the Lawson Group to satisfy demand for new ways of enjoying leisure hours, such as watching movies in a theater and then relaxing in a comfortable lounge on the site. It meets various other customer needs as well by offering contents other than movies, as exemplified by its positive introduction of 4DX®, a hands-on attraction, along with ODS*2 and various events.

*1 Good Design Award: The Good Design Award is a comprehensive design-promotion system that selects good designs from among a variety of unfolding phenomena with the aim of enriching people's lives, industries and society as a whole by highlighting and celebrating these works. The program is sponsored by the Japan Institute for Design Promotion, a public interest incorporated foundation.
*2 ODS: An acronym for "other digital stuff," ODS refers to digital image works other than movies that are shown in movie theaters.

Entertainment products and services adding Enjoyment to community life

Akihito Watanabe
Senior Vice President,
Deputy Division Director, Entertainment and Consumer Service Business Division, and President, United Cinemas Co., Ltd.

The Lawson Group has a history of engaging in a variety of cinema-related activities. It conducts various large-scale campaigns, including tie-ups with movie production companies.
The recent addition to the Lawson Group of an extremely high-profile movie-related business specializing in entertainment contents will enable us to leverage the synergies to enhance Lawson's uniquely attractive products, campaigns and services through collaboration among Lawson, Lawson HMV Entertainment and United Cinemas. We will pursue further expansion of our existing businesses by promoting the services of Lawson and Lawson HMV Entertainment among the 13 million theatergoers visiting United Cinemas theaters each year and its 1.4 million members.

Developing Stores and Business Approaches to Better Meet Customers' Specific Needs

Lawson responds to changes in communities and the particular needs of customers.

Since its beginning as a retailer of party foods and other such items, Lawson has evolved in tandem with changes in the times and its communities. The most popular goods and services today are those that have been created in response to community needs. "I want quality products, even if they cost a little more"; "I want to improve my health and appearance"; and "I want to buy in the right amounts and in small packages to avoid waste." —We respond to increasingly specific community needs of this kind beyond the established LAWSON framework.

As it celebrates the 40th anniversary of its establishment, Lawson continues to evolve with its communities.

Communities evolve continuously with changes in consumer lifestyles and modes of shopping. LAWSON has contributed to its communities by continuously identifying and responding to new needs. It now offers "foods people eat every day and items people use every day." Special examples include fast foods and MACHI café and Machikado Chubo in-store kitchen products with a focus on the added value of freshly prepared food that requires a little extra time and effort. Motivated by a desire to make its communities more lively and active, LAWSON sells good-tasting, healthful products, such as bran bread and vegetables grown according to the Nakashima method, as well as pharmaceutical products. We also offer many entertainment products. And we are pursuing efforts to construct an open platform with the aim of positioning ourselves closer to customers and bringing happiness and harmony to our communities.

The essential Lawson nature will continue to evolve and change in response to changes in our communities.

Offering products in the right amounts, in small packages and at the same set price of 100 yen LAWSON STORE100 — a friendly contributor to communities

LAWSON STORE100 is clearly different from conventional convenience stores. It responds to customers' need to save and concentrates on providing value for money. Almost all the 4,000 or so products stocked, including fresh food products and daily necessities, are sold in the right amounts, in small packages and at the same set price of 100 yen. Not only are the products inexpensive, but their quality is also appropriately managed, a distinctive characteristic of the Lawson Group. The stores cooperate with producers in various regions of Japan to sell fruits and vegetables of assured freshness and high quality. They develop products jointly with reliable suppliers in order to offer safe products with good value.


Kotsubu natto (fermented soybeans made with smaller beans)


Shredded cabbage grown by the Nakashima method


Fried chicken


Large-serving cooked rice

Clean ice


Honjozo soy sauce

NATURAL LAWSON supports "beautiful, healthy, and comfortable" community lifestyles

NATURAL LAWSON, whose business model is now celebrating its 15th anniversary, offers safe seasonal, beauty and health products for customers' use in daily life through stores with pleasant atmospheres. Salads that meet all people's daily nutritional requirements, smoothies that let customers enjoy 100% of the delicious flavor of fruits, and skincare products containing essential natural oils are some of its especially popular products.

NATURAL LAWSON's product offering has always resembled that of the SEIJO ISHII CO., LTD. food-lifestyle supermarket chain, which has a similar product concept. Now that Seijo Ishii has joined the Lawson Group, the two will work closely in the areas of raw materials purchasing and product development to broaden their customer bases.


Ecover


Leaf & Botanics


Sesshu salad Dietary fiber


Comfiture yoghurt


Starfruit & yuzu froosh


Strawberry banana & guava froosh

SEIJO ISHII A food lifestyle supermarket with a food-conscious customer base

In 2014, Lawson purchased the shares of SEIJO ISHII CO., LTD., a specialty supermarket that is extremely particular about the food products it sells. Established in 1927, Seijo Ishii has always insisted on offering delicious food products. Its personnel travel extensively in Japan and around the world to seek out and develop safe food products. The company promotes the true benefits of the products its personnel gather and offers its customers the pleasures of food, selectivity, conversation and time spent together.

Seijo Ishii maintains centralized kitchen facilities, where it prepares a variety of side dishes and other prepared food products internally. It also operates an import company. Its business model is to act as a manufacturing retailer based on a small commercial area model, a model Lawson shares. Going forward, we will make the most of our positive synergies with Seijo Ishii in the areas of product procurement, distribution and management, and benefit from its expertise in product development and sales approaches in the sphere of chain-store development and operation.


Château La Verrière rouge


SEIJO ISHII homemade Vienna pork sausages


SEIJO ISHII homemade premium cheesecake


SEIJO ISHII organic extra virgin olive oil produced in Italy

Establishing close ties to customers and offering greater convenience. We "go the final mile" in support of community life.

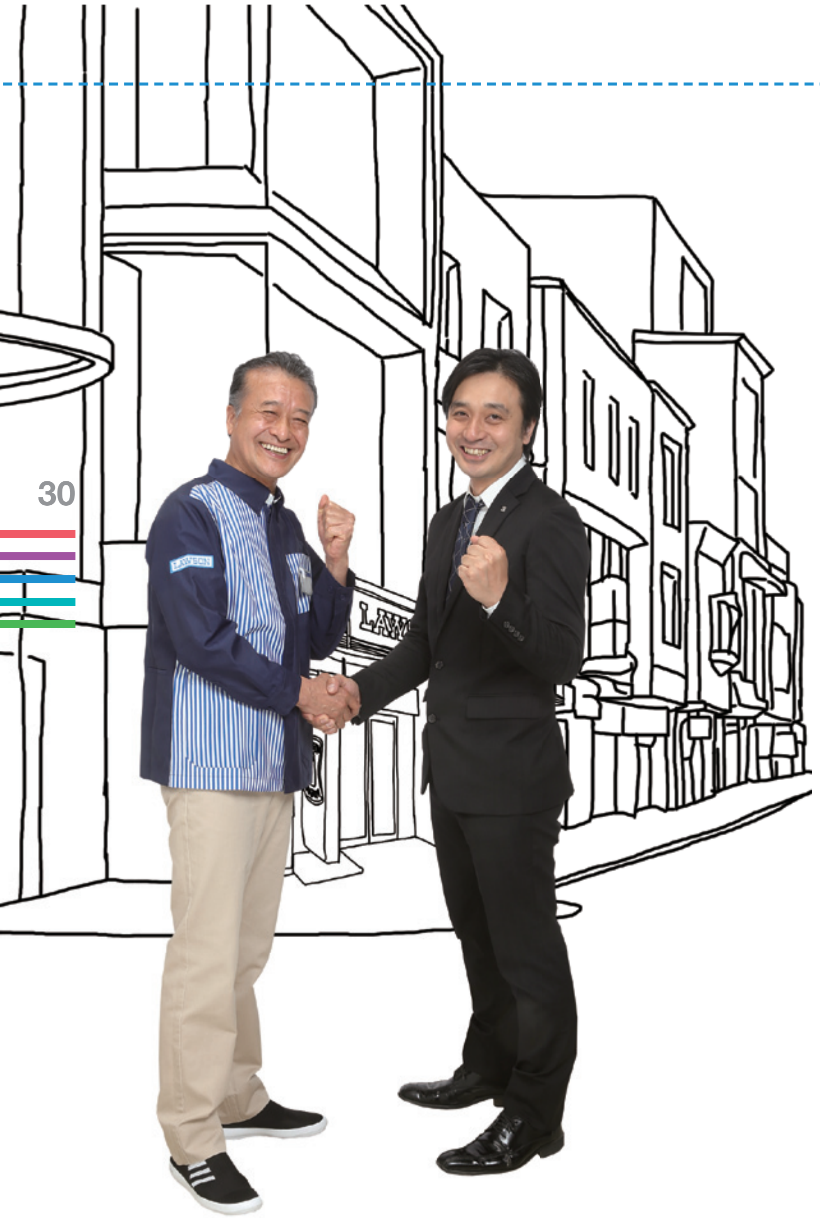
マチの暮らしサポート

The number of "shopping refugees" in Japan is growing due to the declining birth rate and aging population. With the contraction of the workforce, we need to create mechanisms to maintain and develop a social infrastructure that promotes women's participation in society and makes positive use of human resources of more advanced ages. In an era of weakening connections among people in communities, Lawson has strengthened its resolve to "go the final mile" in support of community life. In April 2015, the Company signed a business collaboration agreement with SG HOLDINGS CO., LTD., a major logistics company of which SAGAWA EXPRESS CO., LTD., a leading home delivery service, is a core group member. Lawson and SG Holdings jointly established SG Lawson to provide home ordering and delivery services in small commercial areas. We will be offering new services that integrate delivery and convenience store services to contribute to the development of communities in which residents support each other and enjoy their lives. SG Lawson delivers boxed lunches sold at LAWSON stores and other products from Lawson Fresh, NATURAL LAWSON, Daichi wo Mamoru Kai and Radish Boya. It also relays and delivers the products of e-commerce and mail-order companies and life-support services to promote Lawson's original Open Platform Strategy for increased customer convenience.

Kazuya Nobe
Senior Vice President, Division Director, Home CVS Business Division

The smiles of franchise owners energize the community.

Lawson's franchise (FC) system can be characterized as a "joint business system" in which the relationship between franchise owners and headquarters is an equal partnership of business associates who share Lawson's Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."
While strengthening these partnerships, Lawson is working to achieve further development of the franchise stores and their staff and to reform the stores to contribute to their surrounding communities.



The franchise stores and headquarters contribute to their communities in a Win-Win relationship.

Lawson respects the independence of franchise owners in its store management, and the franchise stores and headquarters communicate closely with each other.

Lawson seminars for clarification of Company policies and directions and franchise owners' meetings for opinion exchanges are held to share Lawson's Corporate Philosophy and strengthen the Company's relationship with the franchise stores. Executives and management personnel attend these events to support these objectives. In this way, a number of opportunities are provided to bring the partners together to conduct frank discussions of store-related issues with the aim of building positive mutual relationships.

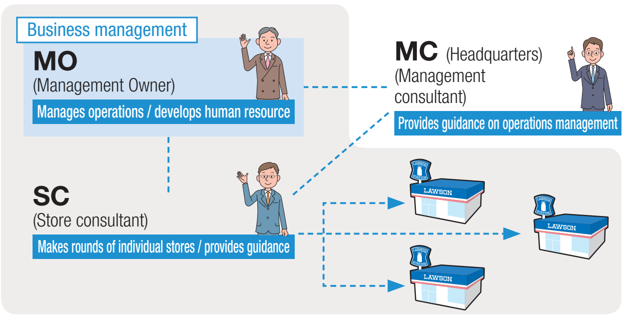
Lawson introduced the Management Owner (MO) system in 2010 as a unique approach to supporting the business expansion of entrepreneurial franchise owners. The system seeks to develop highly competent owners by providing them with the management knowledge and skills they need to manage multiple stores.

Lawson provides support to strengthen the franchise stores' management and, at the same time, ensures that the opinions and ideas of franchise owners and store crew who know their communities best are conveyed to Lawson management. The aim is to enable the partners to grow and develop together.

Lawson Seminar

Franchise Owners' Meeting

Management Owner (MO) system



Management Owner system support mechanism

Unique guidance system	Support for system upgrading
Prompt provision of opportunities for expansion	Provision of opportunities for participation in management

Promotion of transfer to the new FC contract for stronger support of franchise stores

Lawson is working to introduce the new FC contract ahead of schedule to facilitate mutual growth and development of headquarters and the franchise stores' business. Headquarters will assume part of the franchise stores' electricity expenses and disposal losses and increase its investment, together with the franchise stores, to increase the profits of franchise owners. Introduction of the new FC contract was initiated in 2012, but it was available only to newly opening stores and current franchise owners at the time of contract renewal. Lawson is now accelerating the introduction of the new contract to all the stores by inviting existing stores to transfer to the new FC contract before their scheduled contract renewal, provided that they transfer within a limited period which began April 2015.

Fiscal 2015 is positioned as the year for reinforcing Lawson's foundation. As part of this effort, we will begin implementing a semi-automatic ordering system, an unconventional system based in part on analyses of Ponta members' purchasing behavior, to increase efficiency and improve accuracy in order placement. A review of the fundamentals will be conducted across a wide range encompassing the FC contract, which serves as the basis for the franchise system, and order placement, which provides the basis for store operation.

The franchise stores and headquarters will work together to realize a situation in which LAWSON stores offer "what you want, when and where you need it."

Features of the new FC contract

- Headquarters will pay half a store's electricity expenses and assume a portion of its disposal costs, depending on the ratio of disposal losses.
- The franchise commission ratio will also be revised such that commission income will increase with increases in sales.

Lawson Staff, Inc., a temporary staffing agency, is taking the worry out of job hunting.

Lawson established the temporary staffing agency Lawson Staff jointly with the Fusion'z, a management owner, in March 2014 as part of efforts to eliminate staff shortages in the stores.

While Japan's workforce is contracting due to a low birthrate and aging population, the number of job seekers who are unable to find jobs is growing. These include international students who are confronted with language and cultural differences, elderly people who feel challenged by such complicated tasks as operating a cash register, and homemakers who can work only during certain limited hours. Lawson Staff conducts various activities to mitigate these worries, such as organizing events to enable international students to experience Japanese culture and providing training for applicants in LAWSON stores prior to conducting job interviews or offering employment.

Lawson Staff has been operating a call center for temporary staff since December 2014. As a licensed employment agency, it does not stop at simply contacting stores about potential temporary employees, but it also conducts follow-ups. If the conditions set by the parties are not in agreement, for instance, the agency may refer the worker to another nearby store. Even workers who have been successfully placed in a job can request further training if they are concerned about their preparation for positions to which they are assigned.

Another characteristic of Lawson's hiring practices is a proactive approach to employing international students as a means of securing human resources from a long-term perspective. Many prospective employees state such clear objectives as, "I want to learn Japanese hospitality," or, "I want to be a corporate manager when I return to my country." Over 350 international students, including students from Vietnam, Taiwan and China, have registered for employment with Lawson Staff. (As of end June 2015)

Lawson Staff continues to take up new challenges and think creatively to ensure that people who want to work but feel restricted can work "smiling and free of worries for a long time," irrespective of their age, sex or nationality.

Respond responsibly to risks, while creating business opportunities

Masakatsu Gonai
Executive Vice President, Member of the Board—Compliance & Risk Management and Human Resources, Division Director, Franchisee Business Support Division

Main risks recognized by Lawson

1. **Risks related to changes in the business environment**
Risks arising from changes in domestic or international economic conditions, economic trends and social structures, changes in consumer behavior in response to abnormal weather, and changes in competitive conditions with respect to other companies in the convenience store industry and retailers in other business categories.

2. **Risks related to food safety, hygiene management and labeling**
Risks of the unlikely occurrence of such serious causes for concern as food poisoning, contamination or erroneous representations of food products.

3. **Risks related to the handling of personal information**
Risks of personal information leaks as well as unauthorized access to personal information.

4. **Legal and regulatory risks**
Risks of changes in various laws and regulations governing communities where stores are opened as well as changes in administrative guidelines.

5. **Risks related to franchise operations**
Risks of franchise contract cancellations due to deterioration of the relationship of trust between the Company and its franchise owners.

6. **Risks related to disasters**
Risks of physical damage to Group stores, manufacturing plants, distribution centers and other facilities as well as disruptions occurring due to natural disasters such as earthquakes, tsunami, typhoons or blizzards.

7. **Risks related to problems with IT systems**
Risks of disruption of merchandise delivery or suspension of store operations due to IT system failures resulting from earthquakes or other natural disasters or from events such as infection by computer viruses.

8. **Risks related to sharp rises in raw materials prices**
Risks of rising raw materials prices due to such occurrences as surges in the price of crude oil, abnormal weather associated with climate change or other unpredictable events.

The Lawson Group is introducing a wide variety of services, from ticket sales and financial services to e-commerce transactions, with the convenience store business as our core business. Offering a diverse range of products and services through our stores in Japan and overseas requires us to deal with wide-ranging risks as well. Operating under these circumstances, it is essential that we respond responsibly to business risks by implementing more comprehensive internal control Groupwide to achieve sustainable management. The Company has responded by appointing officers responsible for strengthening the compliance and risk management framework, and I have been assigned to handle the responsibilities of the CR executive officer*1. We have also developed a framework for rapid risk information assessment and countermeasure implementation, with an emphasis on attaining the requisite sensitivity to assure awareness of even the most minute details, by establishing a Compliance & Risk Management Office and an Information Security Management Office as well as assigning CROs*2 to each headquarters division and area to assist me in performing my duties.

Among the wide-ranging risks facing us, we place particular emphasis on three areas: "food safety and hygiene management," "information security" and "disaster relief." The importance of these areas stems from the facts that safe, reliable food provision is the core competence of our business operations, that the data we employ in our innovative activities include vital customer information, and that our mission is to support our nationwide network of stores and to provide customers in local communities with a continuous supply of products and services. The CROs play a central role in dealing with various other risks, of course, and each division takes responsibility for formulating and implementing measures to prevent and respond to emergencies.

Actions taken to respond responsibly to risks create business opportunities at the same time. We have established specialist departments and a specialized subsidiary to take responsibility for securing stable procurement, for example, in preparation for such risks as supply shortages or soaring raw materials prices due to abnormal climatic or economic trends. This has provided us with the ability to supply safe, high-quality raw materials efficiently, an advantage that contributes to our development of high added-value merchandise.

The Lawson Group is striving to realize its corporate philosophy, "Creating Happiness and Harmony in Our Communities," by dealing with wide-ranging risks while also responding to and resolving social issues, implementing environmental preservation activities and taking on challenges for creating new business opportunities to achieve sustainable business operations.

*1: CR executive officer: The executive with overall responsibility for the development and implementation of a framework for identifying misconduct and problems concerning legal compliance and preventing risks from arising
*2: CROs (compliance and risk management officers): Persons responsible for compliance in the various divisions who support the CR executive officer and assume overall responsibility for the development and execution of a frameworks for identifying misconduct and problems concerning legal compliance and preventing risks from arising

Internal Control

Basic policy regarding the internal control system

The Lawson Group has established the "Basic Policy for Maintaining the Internal Control System" to support its efforts to achieve healthy, sustainable growth as an entity with business characteristics that require observation of a diverse range of laws and regulations and responses to wide-ranging risks.

We are promoting maintenance of our internal control system based on this policy, while responding to changes in our management environment, conducting periodical reviews of the policy itself, and endeavoring to maintain and enhance an effective, practical internal control system.

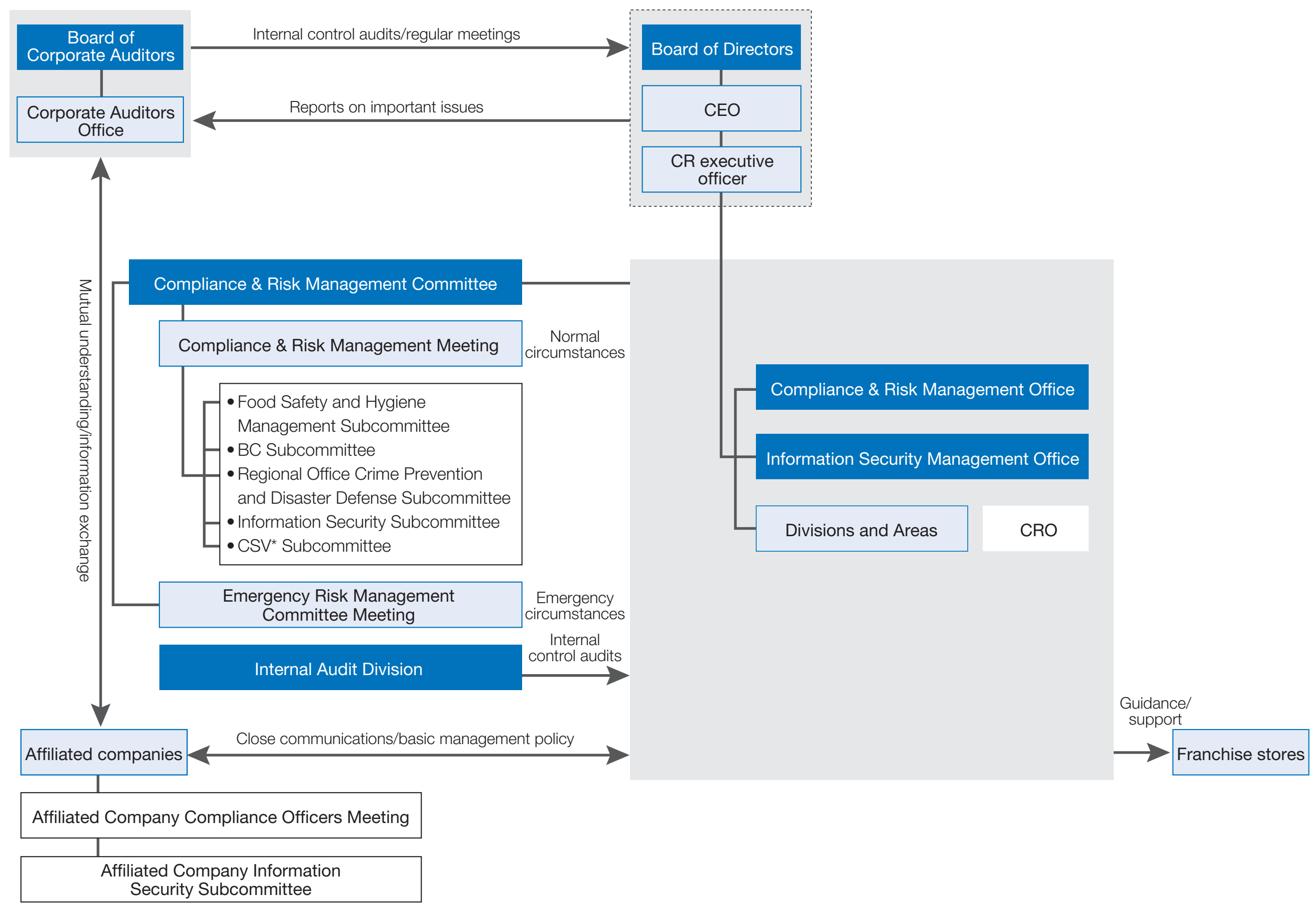
The main points of the revisions of the "Basic Policy for Maintaining the Internal Control System" implemented in fiscal 2015 are described at below.

Thorough dissemination of information concerning important laws and regulations
Among the wide-ranging laws and regulations requiring observation, the Antimonopoly Act, Subcontract Proceeds Act and Act against Unjustifiable Premiums and Misleading Representations are accorded particular emphasis for thorough dissemination.

Enhancement of framework for Group information security governance
Appropriate personnel are assigned to the Information Security Management Office to enhance the framework for improving the effectiveness of the Group's information security governance.

Clarification of items related to the affiliated company management framework and the effectiveness of audits conducted by auditors
The framework for gathering information on issues related to the execution of duties at the Company's main affiliated companies, the framework for reporting to the Company on risk issues encountered at affiliated companies, and the framework for timely reporting to the Company's auditors regarding the contents of consultations and reports handled by the Lawson Group's outside consulting and reporting contact personnel have been clarified.

●Lawson's internal control system (as of March 1, 2015)



*CSV: Creating Shared Value

Lawson's Compliance and Risk Management System

Lawson has established a compliance and risk management framework based on its Corporate Conduct Charter and Code of Ethics. We seek to conduct business as a good corporate citizen, acting honestly and considerately according to high ethical standards, implementing the PDCA (Plan-Do-Check-Action) cycle, and organically linking our behavioral standards with our education and training programs, communication functions and monitoring activities.

Corporate Conduct Charter

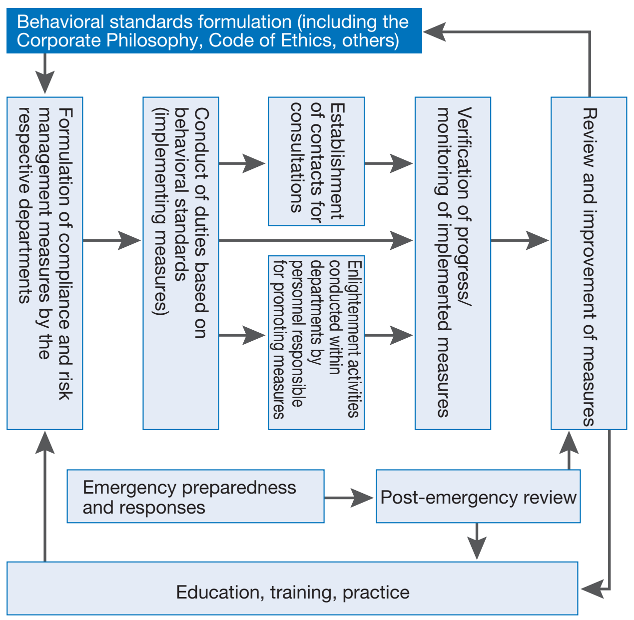
Basic declaration

We believe that fulfilling our corporate social responsibility while responding to the requests of our stakeholders will contribute to enhancing the corporate value of the Lawson Group. Based on a clear understanding of the Charter's contents and observing all relevant laws, we pledge to act honestly and sincerely at all times according to high ethical standards.

Basic disciplines

1. We shall act with consideration toward all our customers.
2. We shall support our franchise stores, which are our closest partners.
3. We shall conduct fair, transparent transactions with all our business partners.
4. We shall create a pleasant workplace environment for all our employees.
5. We shall disclose requisite information to all our shareholders and investors.
6. We shall take a proactive approach to environmental preservation and conduct positive social contribution activities as a member of the local community.
7. We shall have no relationship with any anti-social organization and shall maintain healthy, appropriate relationships with elected officials and public employees.
8. We shall observe internal rules and regulations in conducting our daily work to avoid loss of any valuable assets of the Lawson Group.

●Management organization



Formulation of action guidelines and standards

In addition to the Code of Ethics and various internal rules with respect to compliance and risk management issues, we have established the Lawson Group Privacy Policy and the Lawson Group Purchasing Policy to ensure proper conduct of business throughout the Group. We have compiled these in the "Lawson Group C&R Handbook" and distributed it to all our employees to attain their understanding of the policies.

Lawson Group CR handbook

Appointment of CR promotion officers

We have appointed an Officer in Charge of CR (compliance and risk) with responsibility for promoting compliance and risk management. Compliance and risk management officers (CROs) assigned to each department at headquarters and the regional offices are tasked with establishing and raising awareness of compliance measures and risk countermeasures in their respective departments and with contributing to creation of a culture that emphasizes compliance with social norms.

Education and training enhancement

Lawson seeks to improve its employees' ethical awareness and risk response capabilities by providing compliance and risk management training each year. It has developed a training system to support structured, systematic learning that begins with training of newly recruited employee and extends to training of newly appointed management personnel and specialized occupational training as well as biannual compliance training for management members provided by outside instructors. Our ongoing implementation of these training programs is designed to encourage personnel in every position and with every job description to share in the problem-solving process leading to business enhancement.

Consultation and notification system establishment

In addition to human resources department personnel who specialize in consulting concerning sexual harassment and abuse of power and legal department personnel who provide consultations on legal matters, Lawson has established consultation contacts for providing consultations and receiving internal notifications with respect to compliance and risk management issues. In addition to establishing the Lawson Group Outside Consultation/Whistleblower Hotline involving law firms and other external organizations, the Company has created a framework for providing business partners' employees with consultations anonymously.

Reinforced operational management and monitoring

Lawson has established the Compliance and Risk Management Office and the Information Security Management Office and staffed them with specialized personnel under the direction of the officer in charge of CR. As the entities responsible for promoting and assuring compliance as well as for conducting risk management, these offices serve as cross-departmental secretariats for the compliance and risk management committees and manage the progress of measures implemented by the individual departments throughout the Group. Five separate subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and the Accident Prevention and BCP Subcommittee, the Information Security Subcommittee, and the CSV Subcommittee) have been established under the Compliance and Risk Management Committees and tasked with managing the progress of important measures while preventing the emergence of risks.

The subcommittees collaborate with the auditing department, moreover, and receive reports on the results of compliance audits as needed while also providing detailed guidance for implementation of measures and offering proposals for improvements.

Besides awareness surveys involving all the employees, the monitoring activities extend to circulation of questionnaires among business partners concerning such matters as delivery of merchandise to stores and store construction as part of efforts to review the compliance systems from a broad perspective.

Enhanced cooperation among Group companies

Officers responsible for compliance and risk management have also been appointed at the Group companies, and Lawson holds meetings of affiliated company compliance officers. Besides formulating the Code of Ethics and providing training regarding it to improve employee awareness, we conduct the same employee awareness surveys and questionnaires we use for business partners at the Group companies as well. In addition, the Lawson auditing department conducts audits of operational duties at Group companies, and the companies' boards of auditors convene meetings to provide guidance and assistance in establishing and improving their compliance and risk management frameworks.

A meeting of affiliated company compliance officers

Risk preparedness and responses

Responses to emergencies

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

Meetings of the Compliance and Risk Management Committee as well as of the five subcommittees are convened under ordinary circumstances to assess risks and formulate and promote measures to avoid them in an effort to prevent their occurrence.

Should a serious risk situation arise, an Emergency Risk Management Committee is organized to resolve issues swiftly and minimize damage. Once the problems have been resolved, the Company analyzes the factors contributing to the occurrence and reviews and improves the relevant measures to prevent any recurrence.

Improvement of the information security framework

The "Lawson Group Privacy Policy" has been formulated to promote protection of personal information. To ensure that the relevant personnel understand specific details of the contents and are prepared to implement them, the Company publishes potential mistakes and complaints that may arise at the stores, accompanied by practical responses to them, in various manuals produced for the stores in an effort to raise awareness. Headquarters employees are tested periodically to ensure that they are all acting reliably based on the "Lawson Office Security Rules," in which matters to be observed are compiled.

We have established a system for specifying methods of gathering and storing information as well as information storage periods and for designating persons responsible for handling customers' valuable information in each instance after advance checking by specialist departments.

When consigning responsibility for storing personal information to outside organizations, we require that a detailed investigation of the organization's security framework be conducted in advance and that consignment of the responsibility be made only to organizations that satisfy Lawson's conditions. An onsite or documented inspection is conducted annually, moreover, to ensure that the conditions are maintained.

We are also evaluating our information security framework from a variety of other perspectives to ensure that it remains robust by implementing information security audits by our internal audit departments and employing specialized outside companies to carry out unannounced surveys of office security and diagnose any vulnerabilities in our information systems.

Crime prevention at stores

We conduct education to ensure that store personnel act with the highest priority placed on personal safety and with crime prevention in mind, in ways such as greeting customers in a cheerful and spirited manner. We are cooperating with the police and the Japan Franchise Association in efforts to prevent crimes against the convenience store industry as a whole.

Actions taken as crime prevention measures

1. Promotion of security camera installation
Security cameras are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur. The security cameras are being replaced by digital models to obtain better image and audio quality.

2. Creation of an environment for store crew education
Reminders pertaining to crime prevention are distributed for display on POS registers and store computers, and manuals and useful tools for crew education such as crime prevention self-check lists have been prepared as well.

3. Enhancing guidance provision during patrols
Crime prevention guidance is also provided during store patrols to raise awareness at franchise stores.

A DVD on measures to prevent robberies and other crimes

A crime prevention self-check list

Assuring continuity of business operations

Fundamental policies and objectives for maintaining business continuity (BC)

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

<Three main goals for maintaining business continuity (BC)>

●Fulfilling Lawson's mission as a "community lifeline"

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

●Continuation of the franchise (FC) business

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

●Securing appropriate earnings

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

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

Formulation of BCP guidelines

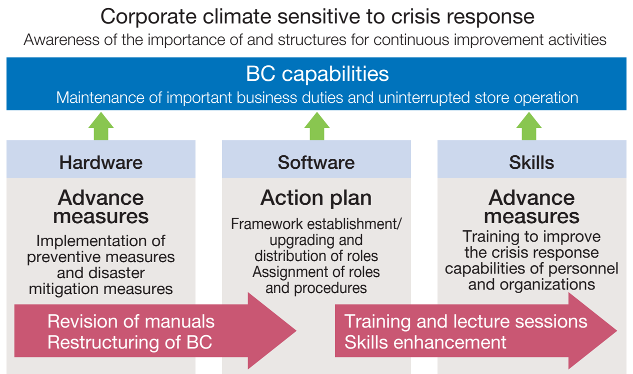
Lawson has formulated the "BCP Guidelines" as a practical action manual describing responses to emergency situations based on the Business Continuity Plan. The current guidelines summarize in an easy-to-understand manner appropriate responses by the responsible personnel to such hypothetical emergency situations as the occurrence of an earthquake under the Tokyo Metropolitan Area, the appearance of a new strain of influenza, and such events as deep offshore earthquakes, nuclear power plant accidents, volcanic eruptions and heavy flooding.

BCP Guidelines

Mechanism for enhancing BC capabilities

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

●Mechanism for enhancing BC capabilities



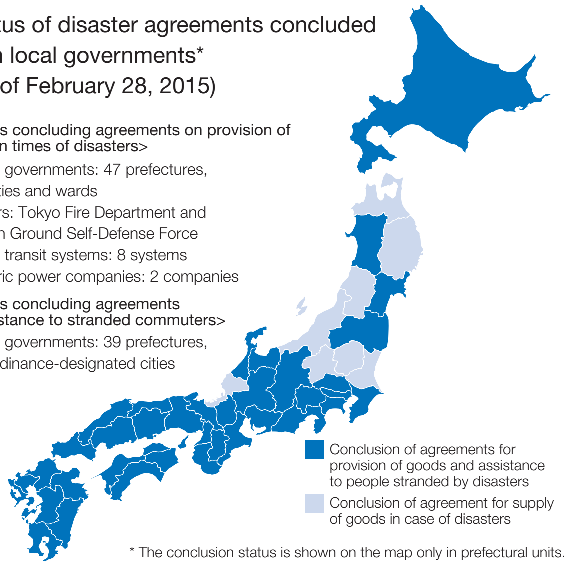
Cooperation with local governments at times of disaster

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

●Status of disaster agreements concluded with local governments*
(As of February 28, 2015)

<Entities concluding agreements on provision of goods in times of disasters>
- Local governments: 47 prefectures, 15 cities and wards
- Others: Tokyo Fire Department and Japan Ground Self-Defense Force
- Mass transit systems: 8 systems
- Electric power companies: 2 companies

<Entities concluding agreements on assistance to stranded commuters>
- Local governments: 39 prefectures, 10 ordinance-designated cities



* The conclusion status is shown on the map only in prefectural units.

Mission as social infrastructure: Continued recovery assistance

More than four years have passed since the Great East Japan Earthquake, but the communities in the disaster area will require a great deal more assistance before they achieve a complete recovery. The Lawson Group continues to provide them with recovery assistance by opening stores, providing employment, developing products using foodstuffs from the Tohoku Region and conducting fund-raising activities to support school attendance by students whose lives have been impacted. We are leveraging our network of some 12,000 stores in 47 prefectures nationwide in an effort to fulfill our role as social infrastructure.

The LAWSON store in front of the town office of Namie-machi, Fukushima Prefecture, reopened for business in August 2014 to serve people who have returned home temporarily or who are engaged in community recovery work.

Lawson Group's Social and Environmental Activities

Lawson Group Environmental Policy

Contributing to society and the environment through our core business

In accordance with its corporate philosophy, the Lawson Group conducts vigorous business activities aimed at "Creating Happiness and Harmony in Our Communities" (sustainable growth) with consideration given to society and the environment at all times. Our Environmental Policy serves as the foundation for these activities as well as their driving force. Based on this policy, we are seeking to pass on the blessings of our abundant Earth to future generations through efforts aimed at realizing a sustainable society and through social contribution activities as a local community member. In pursuing these activities, we share our philosophy with all our Group companies and business partners with the aim of enhancing our corporate value.

Lawson Group Environmental Policy

Our basic principles

Committed to sustaining the blessings of Earth for future generations, the Lawson Group will not only pursue business activities in an environmentally sound manner at all times, but it will act energetically to achieve sustainable development and harmonious interaction with local communities.

Our principles

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

Two approaches to social and environmental activities

Contributing to achieving a sustainable society from two perspectives.

The Lawson Group seeks to contribute to achievement of a sustainable society from the following two main perspectives.

First, we pursue activities that make proactive contributions to society and the environment. In particular, we are endeavoring to determine the volume of CO_2 emissions released from our supply chains and installing the latest energy-efficient equipment in our stores as part of efforts to reduce CO_2 emissions from our operations. Second, we provide proactive support for our customers' social and environmental activities by delivering eco-friendly products and services.

We are employing the ISO 14001 environmental management system to promote business activities that are considerate of society and the environment and implementing the PDCA (Plan-Do-Check-Action) cycle to promote a harmonious relationship with society and reduce the environmental burden. In addition to internal audits conducted several times a year, the Company is subject to third-party audits by the Japan Quality Assurance Organization.

We are continuously verifying the status of our activities through such means and working to improve them.

●Lawson Group's Target Image

Applications for ISO14001 certification as of March 1, 2015
19 headquarters, 8 areas, 2 Group companies and 11,125 stores.

Promotion of social and environmental education

Groupwide training to raise awareness and deepen knowledge

High levels of awareness, knowledge and information are essential for contributing to society and the environment. The Lawson Group provides social and environmental education for headquarters employees as well as for franchise owners and store managers and crew. Education of headquarters employees begins with new employee training and extends to annual general environmental training of all employees via e-learning. Franchise owners and store managers and crew receive training at the time of store openings and a continuous flow of information through in-house magazines and our Environmental Report.

Since 2012 we have been urging the representatives responsible for promoting CSV* activities in the various departments to take the Certification Test for Environmental Specialists (Eco Test) to encourage their acquisition of broader knowledge.

* CSV (Creating Shared Value)

CSV Subcommittee

With the CSR Promotion Department of the Business Operations Support Division acting as a secretariat, the CSV Subcommittee convenes meetings every other month attended by representatives of headquarters, the various areas and the Group companies responsible for CSV promotion. Its principal activities include managing progress and sharing information with respect to social and environmental goals, providing guidance and assistance for stores, responding to internal and third-party audits, and promoting social and environmental education.

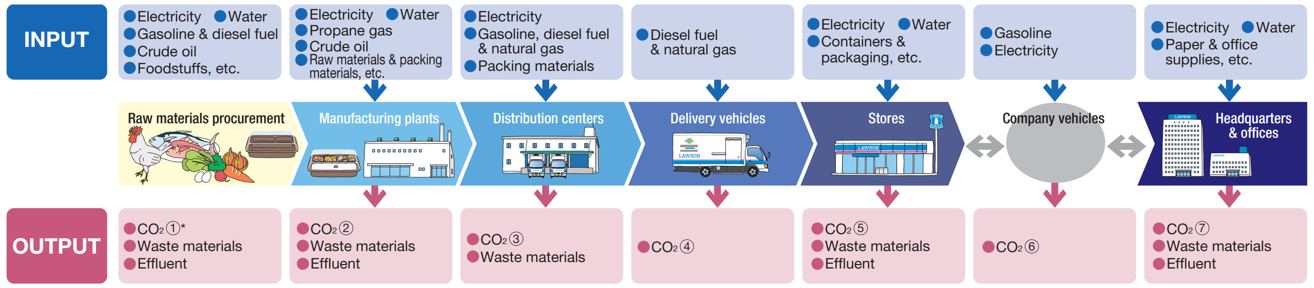
Materials flow and CO_2 emissions in Lawson's supply chain

Efforts to reduce the environmental burden throughout our operations, from raw materials procurement to product disposal

Energy and resources such as electricity, gasoline and water are consumed and CO_2 and waste are discharged in the provision of products and services by the stores. We are working to acquire an understanding of the environmental impact exerted in each stage of our supply chain, as well as to conserve energy and reduce the volume of resources used and waste discharged in order to reduce the burden we place on the environment.

Since fiscal 2011, we have been submitting to inspections for emissions certification in our efforts to measure CO_2 emissions from our supply chain more precisely. CO_2 emissions from electricity consumption by our stores (Company-operated stores: Scope 2; franchise stores: Scope 3), From gasoline consumption by headquarters' Company vehicles (Scope 1), and from stocked raw materials (Scope 3) were assessed for fiscal 2014. We also invited the Japan Quality Assurance Organization (JQA) to perform onsite and document assessments based on ISO 14064-3, which led to issuance of a Greenhouse Gas Emission Verification Statement.

Materials flow in our supply chain

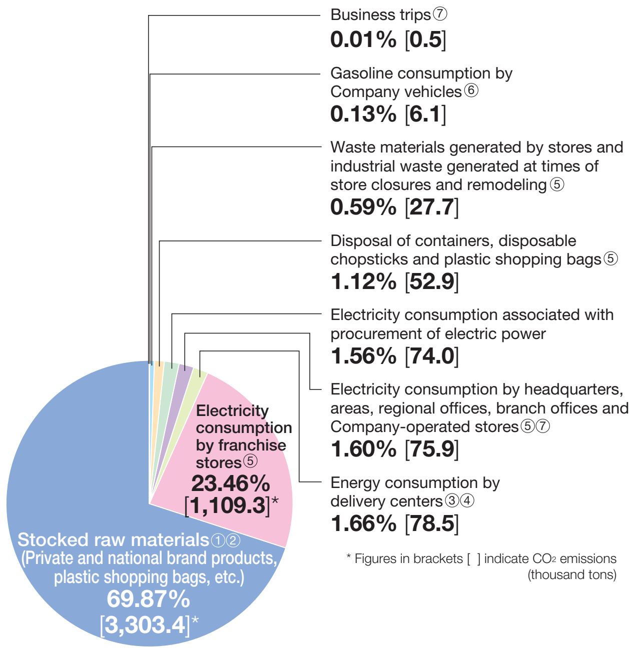


* The numbers placed after CO_2 correspond to those in the pie chart below.

CO_2 emissions from our supply chain in fiscal 2014

Total CO_2 emissions

Approximately 4,728.3 thousand tons



* Figures in brackets [ ] indicate CO_2 emissions (thousand tons)

Method of calculating greenhouse gas emissions in supply chain
Calculations based on "Explanations by Industry (Retail Industry) for the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain," Ver. 1.0.

Category		Description	CO_2 emissions (tons)
Scope 1 (direct emissions)		Gasoline consumption by Company vehicles. ⑥	6.1
Scope 2 (indirect emissions of energy resources)		Electricity consumption by corporate headquarters, areas, regional offices, branch offices and Company-operated stores ⑤⑦	75.9
Scope 3 (other indirect emissions)	Category 1 (Purchased products and services)	Stocked raw materials ①②	3,303.4
	Category 3 (Fuel- and energy-related activities not included in Scopes 1 and 2)	Energy consumption associated with electric power procurement	74.0
	Category 4 (Upstream transportation and delivery)	Energy consumption by delivery centers ③④	78.5
	Category 5 (Waste generated by business operations)	Waste generated by stores & industrial waste generated at times of store closures and remodeling ⑤	27.7
	Category 6 (Business trips)	Business trips by headquarters employees ⑦	0.5
	Category 12 (Disposal of products)	Disposal of containers, disposable chopsticks and plastic shopping bags ⑤	52.9
	Category 14 (Franchise stores)	Electricity consumption by franchise stores ⑤	1,109.3

CO_2 emissions calculation rules

Scope of inspection	Use of Company vehicles, LAWSON, NATURAL LAWSON, LAWSON STORE100 and LAWSON MART (12,723 stores), purchased goods and services for store sales
Target period	From April 1, 2014 to March 31, 2015 (administrative year)
Target items	Gasoline consumption by Company vehicles, electricity consumption by stores and CO_2 emissions from purchased goods and services

Greenhouse Gas Emission Verification Statement

Social and environmental preservation costs

Activities related to environmental preservation involve costs. Lawson is investigating the amounts of its investments and expenses for environmental preservation for each phase of its business operations to compare them with the effects to determine the most appropriate methods.

Test period: March 1, 2014 to April 28, 2015 Scope of compilation: Lawson headquarters and franchise stores*1 (Thousand yen)

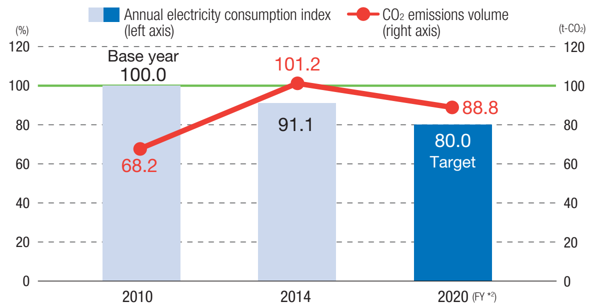
Classification		Descriptions of principal activities	Investment amount	Expense amount	Effects
(1) Business area costs	(1)-1 Pollution prevention costs	Maintenance and management of septic tanks at new stores	0	3,056	Prevention of water contamination
	(1)-2 Global environmental preservation costs	Implementation of energy-efficient equipment, CO_2 offsetting activities	9,314,703	50,390	CO_2 reduction
	(1)-3 Resources recycling costs	Waste materials-related expenses*2	0	5,789,735	Compliance with laws and regulations
(2) Upstream and downstream costs		Containers and Packaging Recycling Law-related expenses	0	616,730	Compliance with laws and regulations
(3) Management operations costs		Preparation of environmental reports, ISO 14001 assessment expenses	0	6,270	Promotion, dissemination and education related to environmental activities
(4) Research and development costs		Energy-conserving stores' research expenses	0	7,344	CO_2 reduction
(5) Social activity costs		Afforestation activities, cleaning activities, donations to non-profit organizations	0	54,904	Biodiversity preservation, regional beautification
Total			9,314,703	6,528,429	

*1 Including domestic franchise stores and LAWSON STORE100 stores.
*2 Expenses for waste disposal and recycling at stores are estimated based on values for standard stores employed as sample figures.

Building energy-efficient stores

Lawson is working to reduce electricity consumption in order to conserve energy and reduce CO_2 emissions by the stores. A reduction of per-store electricity consumption by 20% in fiscal 2020 compared with fiscal 2010 has been set as a medium-term target, and the installation of facilities such as energy-efficient air-conditioning equipment and LED lighting is underway in the stores. Of particular note, we are installing freezing and refrigeration systems that use CFC-free refrigerants (CO_2 refrigerants) boasting a global warming coefficient about 1/4,000 that of chlorofluorocarbons (CFCs). We have adopted these in many newly opened stores since August 2014 to benefit from their superior energy efficiency as well. CFC-free equipment had been installed in about 580 stores as of end February 2015.

Per-store electricity consumption (index) and CO_2 emissions*1



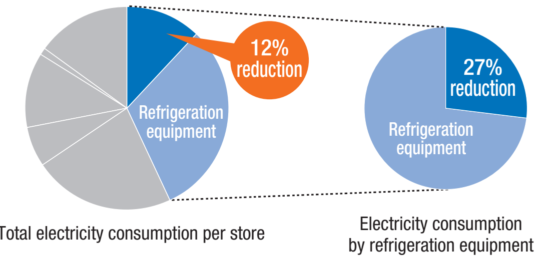
Medium-term targets to fiscal 2020
Reduction of per-store electricity consumption by 20% compared with fiscal 2010.

*1: CO_2 emissions derived using adjusted coefficients for receiving-end terminals published by the Federation of Electric Power Companies of Japan. The figures for fiscal 2020 are estimated based on coefficients for fiscal 2013.
*2: Calculated for the year from April 1 to March 31 to coincide with the administrative fiscal year.

This type of leading-edge energy-efficient equipment is verified through experimental use at selected energy-conservation stores, and the equipment that proves especially effective is then installed in regular stores. New experimental stores are being established each year, moreover, to verify new equipment with the aim of achieving further energy conservation and CO_2 emissions reductions.

We comply with the Ten Energy-saving Rules, meanwhile, cleaning the filters and maintaining recommended heating and cooling temperature settings and improving the operating efficiency of our main cooling and climate-control equipment to reduce wasteful overall electricity consumption by stores.

Per-store electricity consumption by conventional equipment



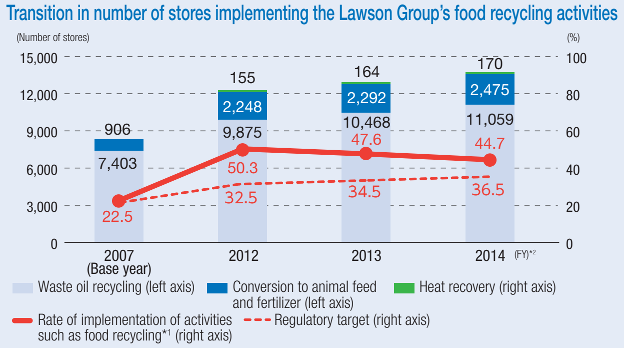
CO_2 coolant freezing and refrigeration system
Potential per-store CO_2 emissions reduction of 50% and electricity consumption reduction of 12% compared to emissions from conventional equipment.

Reduction and recycling of food waste

Food waste discarded daily by individual LAWSON stores includes 7.9 kg of boxed lunches with expired sell-by dates*1 (surplus food) and 2.1 kg of cooking oil (waste oil) used in fast-food preparation, a total of 10.0 kg*2. Lawson's activities are intended primarily to suppress waste generation and encourage recycling (recycling of waste oil, conversion of surplus food into animal feed and fertilizer) to reduce the volume of waste foods. These efforts led to a food-recycling ratio of 44.7% in fiscal 2014, well above the regulatory target of 36.5%.

*1 Sell-by date: A date determined voluntarily in advance on which products are removed from the shelves to ensure that customers purchase them while they are still assured safe.
*2 The weights for food waste are the actual results of food-recycling efforts conducted by approximately 2,400 stores.

Transition in number of stores implementing the Lawson Group's food recycling activities



*1: Figures for the implementation rate of food recycling activities exclude figures for Lawson Okinawa, Inc. and Lawson Minami-Kyushu, Inc.
*2: Calculated for April 1 to March 31 to coincide with the administrative fiscal year.

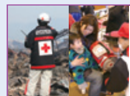
Substantiating fund-raising activities at stores. Donations for fund-raising activities can be made using store terminals.

Organizations receiving donations*

Lawson Green Fund
Recipient: The National Land Afforestation Promotion Organization

Support Dreams Fund
(Scholarship program for young victims of the Great East Japan Earthquake)
Recipient: Civic Force (public interest incorporated association)

TOMODACHI Fund
(Support for students in Japan's Tohoku region through U.S.-Japan educational and cultural activities)
Recipient: U.S.-Japan Council (Japan)



Support for Japanese Red Cross Society Activities
Collection of donations for the Great East Japan Earthquake Contribution Fund
(Two types of donations possible)
Recipient: Japanese Red Cross Society

*A limited-period disaster contribution fund may be established when large-scale disasters strike.
*Among the recipient organizations, the Japanese Red Cross Society is permitted to receive only disaster relief funds and donations made through Loppi terminals.

Fund-raising activities intended to contribute to a sustainable society are conducted through the Lawson Group "Happiness in Communities" fund-raising activity at about 12,000 Group stores, a program supporting children, who will bear the responsibilities of the next generation, as well as through our Greening Contribution Projects. In addition to support activities conducted by placing fund-raising donation boxes at stores, we also introduced a donation acceptance service using the "Loppi" in-store multimedia terminal on February 2, 2015. Our customers can use this service to donate easily to a charitable organization of their choice.

Lawson's human capital concept

Development of human capital that contributes to corporate growth through self-motivation and innovation

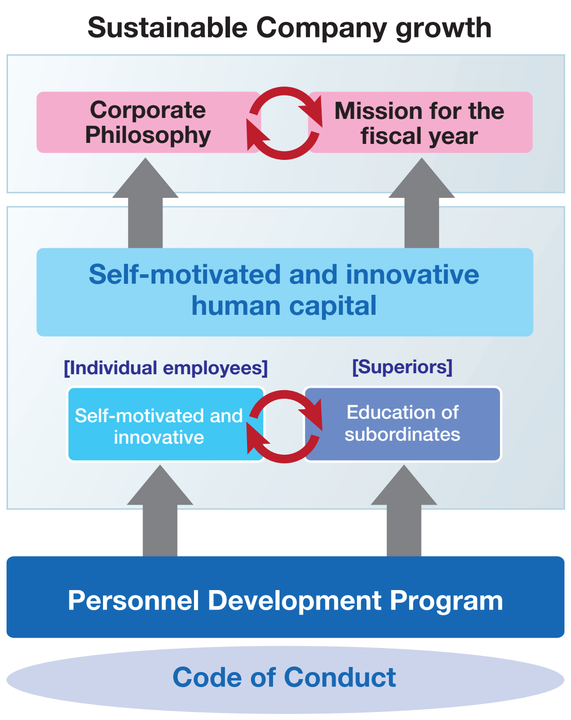
Both our Corporate Philosophy and our Code of Conduct formulated to contribute to its achievement have been implemented positively and systematically, with accompanying efforts to develop human capital to become core participants in activities to this end.

The image of human capital Lawson seeks to realize is of personnel capable of manifesting the Company's values through teamwork, continuous innovation to create value and determined action to achieve goals. The key behavioral characteristics of these personnel are self-motivation and innovation.

We have introduced a personnel development program to train all our employees to become more self-motivated and innovative. This equips them to identify appropriate employee behavior for achieving the Corporate Philosophy and for fulfilling their individual duties in order to complete their objectives for the year.

We have also developed an employee behavior and skill level evaluation program under our personnel management system with the aim of creating a culture that encourages self-motivation and innovation among employees. The program also seeks to clarify the scope of their responsibilities and the roles they must play to fulfill the duties of their respective posts. The manner of fostering employees as human capital is determined based on two evaluations: an evaluation of their behavior on the job and an evaluation of the business results they achieve.

We employ a Career Development Sheet to ensure employees' ability to determine their own career paths, and individual employees are also asked to specify their goals for the future in light of their personal histories and current positions. Interviews are conducted to support their growth as individuals.

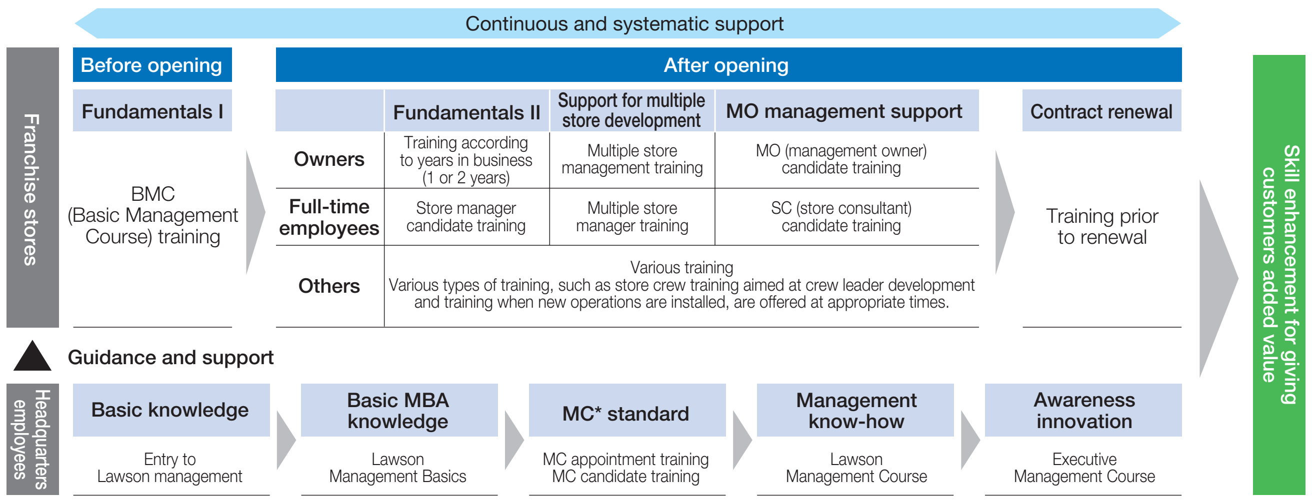


The franchise store and headquarters employee education programs have been integrated to establish Lawson University, a resource that enables personnel to acquire specialized skills

As a Lawson division specializing in education, Lawson University integrates education for franchise store and headquarters employees to facilitate their acquisition of the highly specialized skills necessary to personnel in their respective positions in accordance with Lawson's corporate and business strategies. Lawson University's ultimate goal is to ensure that all franchise store and corporate headquarters employees develop into self-reliant individuals who think independently and act on their own initiative to help structure a business model as a next-generation convenience store.

For this reason, continuous, systematic support is provided for all our human capital based on a long-term vision.

●Overview of Lawson University (Genichi Tamatsuka, President)



*MC: Management consultant

Promoting diversity

Employing a diverse range of human capital, including women and foreign nationals

Lawson promotes diversity in its human capital to create an organization in which individuals with various characters and values can make full use of their abilities. An officer in charge of diversity promotion reporting to the CEO cooperates with the Human Resources Division in promoting the design, operation and arrangement of necessary programs. Besides proactively recruiting female and foreign national employees, we have established a special subsidiary to promote wide-ranging diversification of our human capital. We have also established avenues for conducting labor-management consultations on ways of improving work efficiency and the working environment. Dialog meetings have been conducted nationwide to raise awareness of diversity, moreover, as part of efforts to create an environment in which widely diversified employees can work comfortably.

We are promoting employment of women, for instance, by creating structures that make it easier for them to raise children while continuing to pursue careers in the Company. These efforts have included introducing leadership training and offering information about the Company to employees who are on child-rearing leave as well as conducting training on career formation after employees return to work. We have also been operating day-care facilities at our business establishments since 2014. Our target is to raise the ratio of female managers to 30% by fiscal 2020 through initiatives of this kind.

Declaration of promoting active participation by women

Declaration of intent

Lawson declares its intention of promoting active participation by women in its commitment to human capital diversity.

Lawson shall strive to cultivate personnel who exhibit self-motivation and innovation. Lawson shall continue to recruit a diverse range of employees, beginning with women and foreign nationals, and to maintain an environment in which they can all participate actively while guiding their development. We shall continue our proactive promotion of active participation by women as a means of improving our corporate value.

Genichi Tamatsuka,
President and CEO, Lawson, Inc.

Two years consecutive selection as a Nadeshiko Brand and first selection for Diversity Management Selection 100

For the second year in a row, Lawson has been chosen as a Nadeshiko Brand, a program that recommends publicly listed companies that make superior efforts to promote active participation by women to investors.

We were the first convenience store to be selected by Diversity Management Selection 100, a project that honors companies that make full use of a diversified range of human capital.

Activities contributing to the health of employees and franchise owners

Groupwide organizational health and productivity management

Acting from a conviction that becoming a business that contributes to the health of its customers begins by promoting health internally, we are implementing actions to promote employee health. The completion of agreements between labor and management to enhance work efficiency and eliminate excessive working hours and the establishment of a cooperative health union have created a mechanism for sustaining the long-term health of our employees.

Since October 2012, these efforts have included enhancing our employee health promotion measures to create an environment in which employees find it easier to participate in health checkups. Those for whom further testing is recommended according to the relevant guidelines (those in the consultation recommended category) are directed to check into a hospital to undergo a complete medical examination. We also began issuing Lawson Healthcare Points in April 2015. These activities represent collaborative efforts by the Company, the labor union and the health union to raise awareness of health and motivate employees to protect and improve their health.

Lawson also considers promoting the health of franchise owners important. It provides an assistance program for medical examinations and health support through the Lawson Owner Welfare Association, which is operated in a spirit of mutual aid by franchise owners.

Designation as a Health & Productivity Stock Selection

健康経営銘柄
Health and Productivity

Lawson was listed as a Health & Productivity Stock Selection for fiscal 2014, an honor that introduces investors to a select group of businesses that are engaged in strategic actions toward employee health management from the management perspective.

The Lawson Owner Welfare Association

The Lawson Owner Welfare Association provides franchise stores with a range of welfare benefits based on the three principles of "comfort," "health" and "peace of mind." The association offers a variety of benefits in addition to its program for supporting health.

- Use of sports clubs at member prices
- Convenient travel and accommodation services
- Assistance programs for child-rearing and nursing care
- Seminars supporting interaction among franchise stores and with headquarters
- Assistance program for correspondence education and health management
- Discount and priority programs for facilities providing such lifestyle-related services as gourmet meals and leisure activities
- Celebration and condolence allowance programs
- Insurance programs for franchise stores (insurance to compensate store crew for incidents occurring at work or while commuting)
- Establishment of a hotline for psychological care, others

A Lawson Owner Welfare Association pamphlet (left) and a seminar convened by the Welfare Association to promote health (right)

Lawson's corporate governance

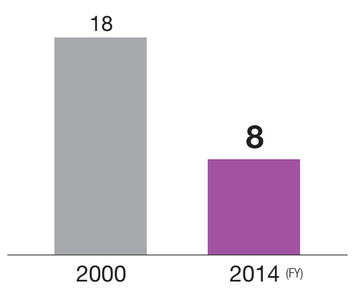
Characteristic features of corporate governance

Lawson has built an agile, highly transparent corporate governance system ahead of other companies.

First, we have clarified the responsibilities of management by adopting the executive officer system to separate the business execution and management functions and introduced a system employing only a small number of directors to facilitate speedy decision-making on management matters. Eight of the 12 directors and auditors are from outside the Company, moreover, and six of these are independent officers.* We have considered the composition of the independent officers from the perspective of diversity, moreover, by appointing a total of four women as directors and auditors in an effort to reinforce the corporate governance system from various perspectives. To enhance management transparency further, the Compensation Committee was reorganized into the Nomination and Compensation Committee in accordance with a resolution passed at a meeting of the Board of Directors following the General Meeting of Shareholders on May 27, 2014. The Committee comprises four outside directors and two outside auditors. As a company with a board of auditors, Lawson has a dual checking function involving supervision of business execution by the Board of Directors and auditing of the directors' business execution by the auditors.

*The introduction of independent directors began in 2010.

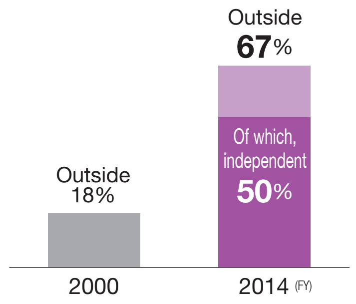
●Number of directors



(1) Reduction of number of directors to less than half

In order to separate management from business execution and achieve agile managerial decision-making by a Board of Directors with a small membership, the number of directors has been limited to fewer than 10 since 2002.

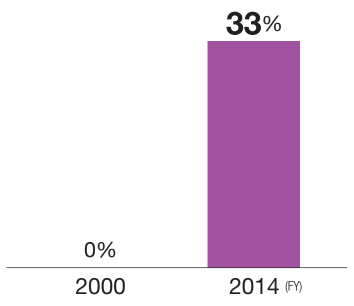
●Composition of outside officers



(2) Reinforced independence through an increased ratio of outside officers

Increasing the ratio of outside officers with diverse backgrounds who bring a high level of expertise to their office has produced a system capable of verifying the appropriateness of business execution and supervising the observance of laws from an independent, objective viewpoint.

●Ratio of female officers



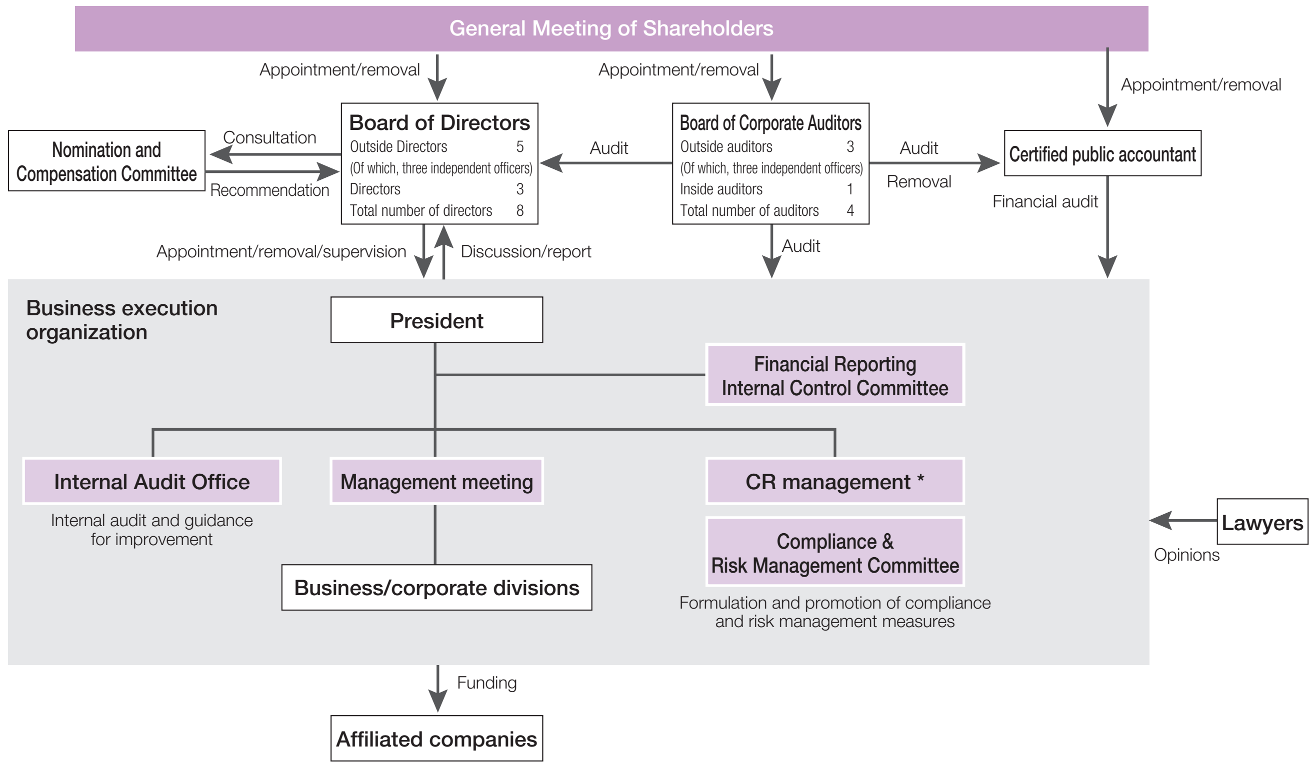
(3) Active appointment of female officers

Stressing diversity in its management, the Company is proactive in its appointment of female officers. We also make ongoing efforts to promote other female employees' career advancement, increasing the ratio of women in managerial positions.

●Corporate governance measures in place before implementation of the industry-wide Corporate Governance Code (measures as of end February 2015)

Basic rules	Individual cases and actions by the Company
1. Rights and equality of shareholders	Notices of shareholders' meeting are sent three weeks prior to the Ordinary General Meeting of Shareholders and published on the website in both Japanese and English one week before the mailing. The Company employs an electronic voting system to facilitate voting, moreover, adopting the platform employed by the Tokyo Stock Exchange. Exit polls are conducted at the meeting venue, and voting results for proposals, including the results for all shareholders attending the meeting, are disclosed in an extraordinary report as information for reference purposes. A proposal concerning appropriation of retained earnings clearly states the dividend policy as well as showing data such as transitions in dividends and the ROE in an easily understandable manner supported by graphs.
2. Appropriate collaboration with stakeholders other than shareholders	We seek to instill our corporate philosophy, "Creating Happiness and Harmony in Our Communities" with its emphasis on value creation with various stakeholders, in the minds of all our employees by having them recite it in chorus at morning assemblies. We have also introduced a whistle-blower system that permits consultation with both in-house and outside attorneys and presents reports to the Board of Directors. (See page 33 for details.)
3. Ensuring appropriate information disclosure and transparency	To fulfill our corporate social responsibility (CSR) and achieve corporate governance, we have developed our Basic Principles Concerning Information Disclosure ("the Principles" hereinafter) based on the Basic Rules on Information Disclosure. The Principles are posted on the website to disseminate the Company's perspective on information disclosure. (See the website for details.)
4. Board of Directors' responsibilities	The Nomination and Compensation Committee makes recommendations to the Board of Directors concerning directors' compensation. (See page 44.) Five outside directors (including three independent officers) supervise management from various perspectives. Three of the four auditors are independent officers who conduct highly independent audits of the execution of management. The outside officers, who include a CPA and a former member of the Board of Audit of Japan, are selected for their specialized knowledge in fields from business management to academics. In consideration of diversity, we have appointed three women to the position of director and one to the position of auditor. The Board of Directors' executive office, which serves as a contact office for the outside officers, is equipped with a system for providing necessary information on matters other than agenda items discussed by the the Board of Directors. The auditors are supported by two staff members who provide them with necessary information and coordinate their activities. Candidates for appointment as officers receive explanations concerning the Company's situation and other requisite information from the Board of Directors' executive office, which allows candidates to participate in outside seminars as necessary.
5. Dialog with shareholders	The President himself engages actively in dialogs with domestic and overseas institutional investors, and the Company has earned a good reputation in the business community, as exemplified by its receipt of the IR Grand Prix Award from the Japan Investor Relations Association. We support the effectiveness of our IR activities by conducting an annual shareholder identification survey to determine the composition of shareholders. We also explain our management strategy at a financial results briefing and publish the information presented on our website.

●Corporate governance system



State of internal control system development

Recognizing the importance of an internal control system to effecting sound and continuous business growth, we established the Basic Policy for Maintaining Internal Control Systems for each fiscal year in accordance with stipulations of the Companies Act, Ordinance for Enforcement of the Companies Act and the Financial Instruments and Exchange Act. (See page 33.)

To ensure the effectiveness, efficiency and appropriateness of our operations, we conduct ongoing reviews of the Policy in response to changes in the management environment and strive to maintain/increase our corporate value through efforts to create an effective and rational internal control system.

Special circumstance with the potential to seriously impact corporate governance

Mitsubishi Corporation holds 32.4% of Lawson's total voting rights (including indirectly held shares), which makes Lawson an equity-method affiliate of Mitsubishi Corporation (as of February 28, 2015). Based on its comprehensive business alliance with Lawson, Mitsubishi cooperates with the Company in human resources exchanges and raw materials procurement as well as through information-sharing. As a listed company, however, Lawson makes management decisions independently.

●Board of Directors and Board of Auditors meetings held and attendance rates (fiscal 2014)

		Board of Directors	Board of Auditors
Number of meetings held (of which, extraordinary meetings)		13 times (of which, 3)	16 times (of which, 3)
Attendance rate*	Outside directors	87%	—
	Outside auditors	97%	100%

*Attendance rates include extraordinary meetings.

Basic policy for determining directors' compensation

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

Details of directors' compensation

Directors' compensation paid by Lawson consists of (A) base compensation through cash payments and (B) share price-linked compensation through stock option allocation.

A + B = Directors' compensation

A Base compensation

Fixed compensation (about 60%) + Variable compensation (about 40%)

Fixed compensation: A fixed amount commensurate with the position determined based on internal rules
Variable compensation: Performance-based remuneration linked to the Company's performance in each fiscal period, including EPS, etc. (to ensure linkage between directors' compensation and shareholder returns)

B Share price-linked compensation

Stock options offered through allocation of shares
(Recognized as compensation linked to medium- and long-term improvement in corporate value)

- Stock option exercise price per share: ¥1
- Number of shares allocated: Determined according to the director's position
- Exercise period: Options can be exercised only during a designated period after retirement. (Options cannot be exercised during a director's term in office.)

Performance-linked variable compensation is not paid to five nonexecutive directors—Reiko Okutani, Takehiko Kakiuchi, Emi Osono, Yutaka Kyoya and Sakie Akiyama—who perform specialized functions involving supervising and advising the representative directors and Board of Directors.

Process of determining directors' compensation

To increase management transparency, directors' compensation is determined at a meeting of the Board of Directors based on recommendations by the Nomination and Compensation Committee composed exclusively of outside officers.

● Nomination and Compensation Committee members

Nomination and Compensation Committee

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

Recommendations → Board of Directors → Determination of directors' compensation

Details of auditor's compensation

It is our basic policy to allocate auditors an appropriate level of remuneration to reward them for their performance of duties. The remuneration is made in the form of base compensation (fixed compensation) through cash payments. Amounts are determined based on discussions among the auditors with such factors as the circumstances of their position (standing or part-time) and the allocation of auditing responsibilities, and is within the range of the remuneration determined by a resolution adopted at the general meeting of shareholders. As for retirement benefits, the program was abolished and the decision reached to make a termination payment covering past benefits in a resolution adopted at the 37th ordinary General Meeting of Shareholders held on May 29, 2012.

Means of disclosure of compensation

The total compensation paid to all officers is presented in the Company's securities report and business report.

● Details of directors' and auditors' compensation (fiscal 2014)

Category	Number of officers	Total compensation, etc.
Directors (of which, outside directors)	10 (5)	¥324 million (¥48 million)
Auditors (of which, outside auditors)	4 (3)	¥70 million (¥46 million)
Total	14	¥395 million

(Notes)
1. As of fiscal 2014 year-end, the numbers of directors and auditors were 8 and 4, respectively.
2. The above figures include 1 director who resigned at the conclusion of the 39th ordinary General Meeting of Shareholders held on May 27, 2014 and 1 director who resigned on July 31, 2014.

[Reference]
In addition to the above, the Board of Directors adopted a resolution at their meeting of March 25, 2015 to pay 8 directors (of which, 5 outside directors) ¥130 million (of which, ¥10 million to outside directors) as share price-linked compensation for fiscal 2014 in the form of stock options.

Contributions of independent officers to the Board of Directors and Board of Auditors

Independent officers

Directors	Reiko Okutani	Reiko Okutani draws on her extensive experience and knowledge as a business manager to raise questions and offer informed opinions. She also serves as a member of the Nomination and Compensation Committee.
	Emi Osono	As a scholar, Emi Osono draws on her in-depth knowledge of company management and global management strategy as well as of organizational behavior to raise questions and offer informed opinions. She also serves as vice-chairman of the Nomination and Compensation Committee.
	Sakie Akiyama	Sakie Akiyama draws on her extensive experience and knowledge as a business manager to raise questions and offer informed opinions. She also serves as a member of the Nomination and Compensation Committee.
Auditors	Shinichi Hokari	As the standing corporate auditor, Shinichi Hokari inspects documentation and visits business partners' offices to inspect the state of their business operations and assets in addition to supervising and verifying the directors' execution of duties, including improvement of the internal control system.
	Tetsuo Ozawa	Tetsuo Ozawa draws on his extensive experience and knowledge as an attorney to raise questions and offer informed opinions. He also serves as chairman of the Nomination and Compensation Committee.
	Eiko Tsujiyama	Eiko Tsujiyama draws on her extensive knowledge of finance and accounting as a university professor (accounting) to raise questions and offer informed opinions. She also serves as a member of the Nomination and Compensation Committee.

Judgment criteria regarding independence

We enhance corporate governance by appointing outside directors and auditors who meet the judgment criteria. Selections not only comply with the judgment criteria regarding independent officers specified by the Tokyo Stock Exchange's listing rules, but they also reflect rigorous vetting of the candidates to assure their freedom from any "potential conflict of interest with the general shareholders."

Judgment criteria (candidates with none of the below characteristics)

(1) Engaged in business operations of the Company's parent company
(2) Engaged in business operations of the Company's sister companies
(3) Transacting business with the Lawson Group as a main business partner or engaged in such business operations
(4) Transacting business with main business partners of the Lawson Group's or engaged in such business operations
(5) A consultant, accounting professional or legal professional who receives large payments or property [benefits] other than director's compensation from Lawson
(6) A major shareholder of the company (if the major shareholders is a corporation, a person engaged in the business operations of such corporation)
(7) A person with close family members who are engaged in the business operations of the Lawson Group
(8) A person with close family members who are non-executive directors or accounting advisors of the Lawson Group (if the independent officer is an outside auditor)

Of special note, Lawson's judgment criteria for independence adopt such stringent standards as 1) defining "major business partners" in criteria 3 and 4 above as "business partner groups whose total business transactions with the Lawson Group during the most recent fiscal year accounted for 2% or more of the consolidated net sales (gross operating revenues) of said business partner groups or the Lawson Group" and 2) defining "large payments" in criterion 5 as "receiving remuneration of ¥5 million or more per year during the past two years."

Outline of liability limitation agreement

Lawson has concluded a liability limitation agreement with its directors (excluding executive officers, etc.) and auditors as specified in Article 423, Paragraph 1, of the Companies Act. The limit on the amount of liability based on the agreement is the total sum of the amount set forth in all items of Article 425, Paragraph 1, of the Companies Act.

General Meeting of Shareholders

Recognizing the opportunity afforded by the General Meeting of Shareholders to raise shareholders' understanding of the Company, Lawson was a leader in promoting disclosure.

Since 2001, shortly after its public listing in 2000, Lawson has sought to conduct early mailings of notices of shareholders' meetings in both Japanese and English and has conducted voluntary disclosure on its website.

In 2002, we disclosed the total amounts paid as retirement benefits to executive officers and corporate auditors under a program in force at the time and introduced on-demand Internet distribution to provide shareholders who are unable to attend general meetings of shareholders with explanations of the meeting contents. This was also the year in which we received the Tokyo Stock Exchange's Disclosure Award.

In 2009, we introduced electronic voting using the Tokyo Stock Exchange's platform for the electronic exercise of voting rights.

We also voluntary disclosed the results of the execution of voting rights earlier than other companies before such disclosure was legally mandated.

In 2012, Lawson published its judgment criteria for determining the independence of independent directors in a notification of the General Meeting of Shareholders. It also presented transitions in ROE (return on equity) over time as reference information in its statement of appropriation of surpluses to communicate Lawson's recognition of ROE as an important indicator of management. The Company conducted a questionnaire survey of individuals attending shareholders' meetings, moreover, to confirm their voting on matters for resolution and began publishing the survey results on the website as part of an extraordinary report.

In 2013, we announced the contents of the notification of the General Meeting of Shareholders early by posting the notification on the website six days before mailing it.

Year	Content
2001	○ Early mailing of the shareholders' meeting notification, preparation of an English version, voluntary publication on the website
2002	○ Disclosure of the total amount paid as retirement benefits to executive officers and corporate auditors ○ Introduction of on-demand transmission of contents of the General Meeting of Shareholders; receipt of Tokyo Stock Exchange's Disclosure Award
2009	○ Introduction of electronic exercise of voting rights; adoption of the Tokyo Stock Exchange's platform (ICJ) ○ Disclosure of results of exercise of voting rights (voluntary disclosure)
2011	○ Change in the venue of the General Meeting of Shareholders (to Tokyo International Forum)
2012	○ Disclosure of judgment criteria for independence of independent directors; publishing of transitions in ROE over time ○ Questionnaire survey of General Meeting of Shareholders attendees and publishing of the survey results in an extraordinary report and on the website.
2013	○ Posting of shareholders' meeting notifications on the website (six days) before mailing

Promotion of IR activities

To promote understanding among investors and shareholders of the avenue to continuous growth and corporate value creation, Lawson has established an IR Department that engages in constant dialog with investors concerning Lawson's management strategies and financial performance. Management takes the lead in making appropriately timed information disclosures, not only by holding semiannual financial results briefings for analysts and institutional investors, but also through conference calls with the CFO at the times of quarterly settlements. Placing a priority on fairness in our disclosures, moreover, we post information disclosures and other important information and materials distributed at the financial results briefing promptly on the website, while working quickly to disclose information in English for foreign investors. These disclosure policies are also published on the website as "Basic Principles Concerning Information Disclosure."

Lawson's IR activities are highly acclaimed by the capital market, both for their expression of a management strategy stressing sustainability and capital efficiency and for their aggressive approach to disclosure in accordance with the basic principle of "creation and improvement of shareholders' value."

In fiscal 2013, Lawson was selected for the 18th Excellent Company Award from the Japan Investor Relations Association (JIRA) for the first time, and placed first in the retail sector among "companies selected by securities analysts for superior disclosure policies" published by the Securities Analysts Association of Japan for the third straight year (eighth time). The Company was also honored with the "2nd WICI Japan Award for Excellence in Integrated Reporting" for the second consecutive year and with an Honorable Mention in the "Nikkei Annual Report Awards 2012" sponsored by Nikkei Inc.

Directors, Corporate Auditors and Executive Officers

(As of June 1, 2015*)

Genichi Tamatsuka

President and CEO, Representative Director

Years as a director: 3
Number of Lawson shares held: 3,500

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, Division Director, Food Service Division, Lawson, Inc.
2012 Member of the Board, Senior Executive Vice President and COO, Group CEO, CVS Operating Group, Division Director, CRM Promotion Office and Marketing Office, Lawson, Inc.
2013 Member of the Board, Representative Executive Officer, COO, and President, CVS Company and Overseas Operations Company, Lawson, Inc.
2014 Member of the Board, President and CEO, Representative Director, and President of CVS Company, Lawson, Inc.
Member of the Board, President and CEO, Representative Director, and Division Director, Store Operations Division, Lawson, Inc.
2015 Member of the Board, President and CEO, Representative Director, Lawson, Inc. (Current position)

Sadanobu Takemasu

Senior Executive Vice President, Representative Director, Corporate Management and Lawson Store 100 Business, and Division Director, Corporate Sales and Store Development Division

Years as a director: 1
Number of Lawson shares held: 100

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, Corporate Sales Division, Lawson Mart, Lawson, Inc.
Senior Executive Vice President, Representative Director, and Division Director, Corporate Sales and Store Development Division, Lawson Mart and Lawson Store 100 Business, Lawson, Inc.
Senior Executive Vice President, Representative Director, Corporate Management, and Lawson Mart and Lawson Store 100 Business, and Division Director, Corporate Sales and Store Development Division, Lawson, Inc.
2015 Senior Executive Vice President, Representative Director, Corporate Management and Lawson Store 100 Business, and Division Director, Corporate Sales and Store Development Division, Lawson, Inc. (Current position)

Masakatsu Gonai

Executive Vice President, Member of the Board—Compliance and Risk Management and Human Resources, Division Director, Franchisee Business Support Division

Years as a director: 1
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, Compliance and 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 and Risk Management and Human Resources, Lawson, Inc.
2015 Executive Vice President, Member of the Board—Compliance and Risk Management and Human Resources, Division Director, Franchisee Business Support Division, Lawson, Inc. (Current position)

Reiko Okutani

Member of the Board (Outside)

Years as a director: 13
Number of Lawson shares held: 100

1974 Joined Japan Airlines International Co., Ltd.
1982 President, The R Co., Ltd.
2002 Member of the Board (Outside), Lawson, Inc. (Current position)
2014 Chairman, The R Co., Ltd. (Current position)

Takehiko Kakiuchi

Member of the Board (Outside)

Years as a director: 10
Number of Lawson shares held: 400

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: 3
Number of Lawson shares held: 200

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: 2
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)
2015 Member of the Board (Ouside), Rokko Butter Co., Ltd. (Current position)

Sakie Akiyama

Member of the Board (Outside)

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

1987 Joined Arthur Andersen & Co. (Currently Accenture Japan Ltd.)
1994 Founded Saki Corporation and assumed position of Representative Director and CEO (Current position)
2014 Member of the Board (Outside), Lawson, Inc. (Current position)

Atsuhiko Seki

Standing Corporate Auditor

Years as a corporate auditor: 5
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.
2004 Division Director, General Affairs Office
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: 3
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: 12
Number of Lawson shares held: 400

1973 Registered as Attornly at Law 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: 4
Number of Lawson shares held: 400

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)

*The number of the Company's shares held is as of February 28, 2015.

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, Entertainment & Consumer Service Business Division, Division Director, BPR & Information Systems Division, Deputy Division Director, Corporate Strategy and Planning Division, and President, Lawson HMV Entertainment, Inc.
Executive Vice President	**Yutaka Yoshitake**	CFO
Executive Vice President	**Katsuyuki Imada**	Division Director, Corporate Strategy and Planning Division
Executive Vice President	**Jun Miyazaki**	Division Director, Corporate Communications Division, and Deputy Division Director, Human Resources Division
Senior Vice President	**Norikazu Nishiguchi**	Division Director, Healthcare Business Division, and Deputy Division Director, BPR & Information Systems Division
Senior Vice President	**Yuichi Wada**	Division Director, Merchandising Division
Senior Vice President	**Tetsu Yamada**	Division Director of International Business Division
Senior Vice President	**Shuichi Imagawa**	Division Director, Sales Strategy and Marketing Division
Senior Vice President	**Takaki Mizuno**	Executive Assistant to CEO (responsible for Western Japan)
Senior Vice President	**Shigeaki Kawahara**	Division Director, Lawson Store 100 Business Division, Division Director, SEIJO ISHII Business Division, and President, Lawson Mart, Inc.
Senior Vice President	**Hisashi Yasuhira**	Excutive Assistant to CEO, and Deputy Division Director, Sales Strategy and Marketing Division
Senior Vice President	**Yasuhiko Hirokane**	Division Director, Store Operations Division, and Division Director, Management Owner Promotion Division
Senior Vice President	**Kazuya Nobe**	Division Director, Home CVS Business Division
Senior Vice President	**Tatsushi Sato**	Deputy Division Director, BPR and Information Systems Division
Senior Vice President	**Hajime Kawamura**	Deputy Division Director, Franchisee Business Support Division
Senior Vice President	**Motonobu Miyake**	Deputy Division Director, International Business Division, and Chief Representative and General Manager, Lawson (China) Holdings, Inc.
Senior Vice President	**Atsushi Maeda**	Deputy Division Director, Merchandising Division
Senior Vice President	**Akihito Watanabe**	Deputy Division Director, Entertainment and Consumer Service Business Division, and President, United Cinemas Co., Ltd.
Senior Vice President	**Yasuhiro Iseki**	Deputy Division Director of Corporate Sales and Store Development Division
Senior Vice President	**Taiki Hasegawa**	Deputy Division Director, Entertainment and Consumer Service Business Division, and Deputy Division Director, Sales Strategy and Marketing Division
Senior Vice President	**Akira Ushijima**	COO of Lawson (China) Holdings, Inc., and Chief Representative and General Manager, Beijing Lawson, Inc.

Lawson Group Overview

As of February 28, 2015/Consolidated

Company name	Lawson, Inc.
Headquarters	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	7,606
Business activities	Franchise chain development of LAWSON, NATURAL LAWSON and LAWSON STORE100
Net sales for all stores	¥1,961.9 billion
Number of stores	12,383 (stores in Japan)
Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing), Indonesia, Hawaii, Thailand

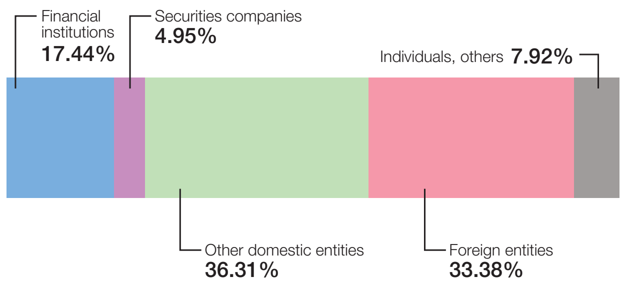
Note: Net sales for all stores is the sum of total sales by the domestic convenience store business, overseas business and Seijo Ishii stores (consolidated subsidiaries only). For the Seijo Ishii business, only the total for its company-operated stores is included.
The total number of stores in Japan is the total of LAWSON, NATURAL LAWSON and LAWSON MART/ LAWSON STORE100 stores operated by Lawson, Inc., and LAWSON stores operated by Lawson Okinawa, Inc. and Lawson Minami-Kyushu, Inc., and Seijo Ishii stores operated directly by SEIJO ISHII, CO., LTD.

Share information

As of February 28, 2015/Non-consolidated

Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	30,618
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



Major shareholders (Top 10)

	Shareholder name	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)	2,691	2.7
3	Japan Trustee Services Bank, Ltd. (Trust account)	2,635	2.6
4	NTT DOCOMO, INC.	2,092	2.1
5	Nomura Securities Co., Ltd.	1,867	1.9
6	JP MORGAN CHASE BANK 380055	1,474	1.5
7	MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1,381	1.4
8	BBH FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	1,275	1.3
9	National Mutual Insurance Federation of Agricultural Cooperatives	1,259	1.3
10	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1,056	1.1

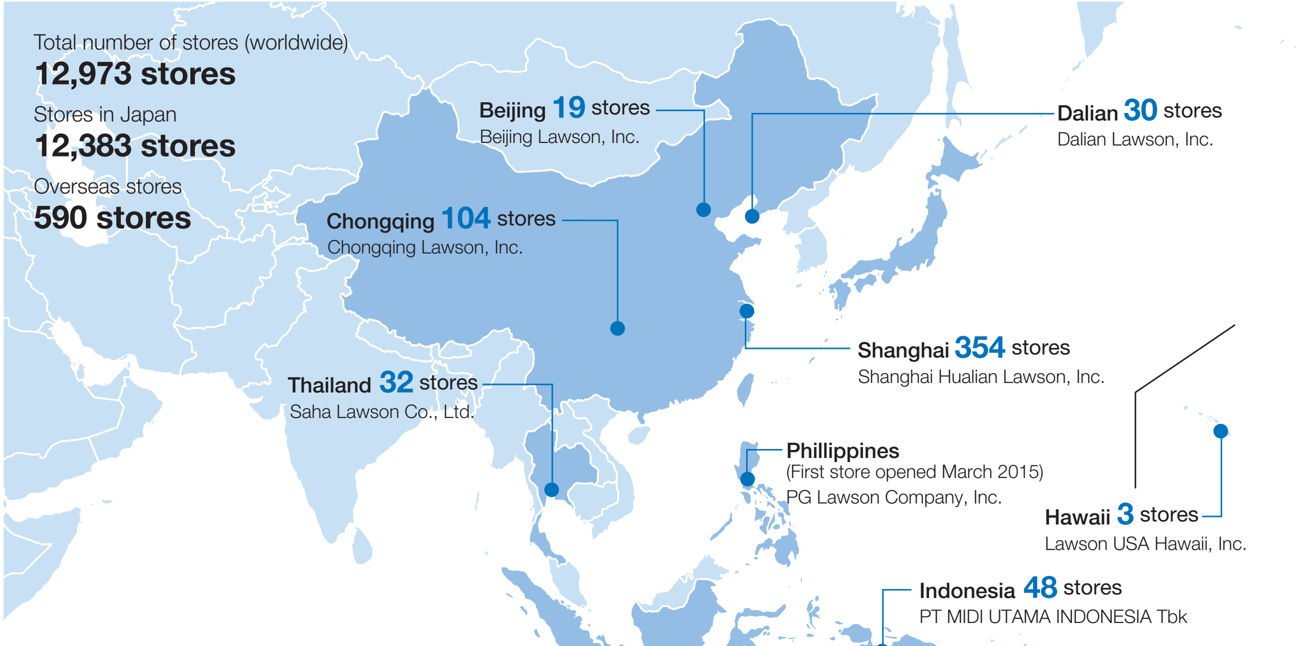
Main Lawson Group companies

As of February 28, 2015/Consolidated

Category	Name of company	
Domestic convenience store business	Lawson, Inc.	
	Lawson Mart, Inc.	Consolidated subsidiary
	SCI, Inc	Consolidated subsidiary
	Lawson Okinawa, Inc.	Equity-method affiliate
	Lawson Minami-Kyushu, Inc.	Equity-method affiliate
Entertainment- and home convenience-related business	Lawson HMV Entertainment, Inc.	Consolidated subsidiary
	United Cinemas Co., Ltd.	(Consolidated subsidiary of Lawson HMV Entertainment, Inc.)
Financial services business	Lawson ATM Networks, Inc.	Consolidated subsidiary
Consulting business	BestPractice, Inc.	Consolidated subsidiary
Overseas business	Lawson (China) Holdings, Inc.	Consolidated subsidiary
	Shanghai Hualian Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Chongqing Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Dalian Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Lawson Asia Pacific Holdings Pte. Ltd.	Consolidated subsidiary
	Saha Lawson Co., Ltd.	(Consolidated subsidiary of Lawson Asia Pacific Holdings Pte. Ltd.)
SEIJO ISHII business	SEIJO ISHII CO., LTD.	Consolidated subsidiary

Store network expansion area

As of February 28, 2015



*The total number of stores and stores in Japan includes stores operated under Lawson Mart, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., and SEIJO ISHII, CO., LTD. For SEIJO ISHII, CO., LTD., only its company-operated Seijo Ishii stores are included.

Main businesses and services

As of February 28, 2015

LAWSON
A nearby "neighborhood store" that seeks to realize its Corporate Philosophy of "Creating Happiness and Harmony in Our Communities" by conducting business as a manufacturing retailer based on a small commercial area model*
Operating companies
Lawson, Inc.
Lawson Okinawa, Inc.
Lawson Minami-Kyushu, Inc.

NATURAL LAWSON
A nearby store, observing a "daily and reliably" concept, that supports customer lifestyles embracing "beauty, health, and comfort"
Operating company
Lawson, Inc.

LAWSON STORE 100
A store that contributes to savings and an easy, convenient daily life by selling a range of products such as perishable foods, prepared foods and daily necessities at a uniform price of 100 yen (108 yen, including tax)
Operating company
Lawson Mart, Inc.

SUPERMARKET 成城石井
A food-lifestyle supermarket for people who care about food, providing food from around the world at affordable prices
Operating company
SEIJO ISHII CO., LTD.

HMV the music & movie master
Sales of music and film productions such as CDs/DVDs, related goods and books, both online and through a nationwide network of 53 stores
Operating company
Lawson HMV Entertainment, Inc.

ローチケ.com LAWSON TICKET
Sales of the full range of entertainment tickets, including tickets to concerts, sports events, plays and movies
Operating company
Lawson HMV Entertainment, Inc.

エルパカ BOOKS
One of Japan's largest online bookstores selling books, magazines and comics
Operating company
Lawson HMV Entertainment, Inc.

LAWSON STATION ATM
A business that provides installation, management and operation of ATMs installed at LAWSON stores in cooperation with banks
Operating company
Lawson ATM Networks, Inc.

UNITED CINEMAS
Operation of multiplex movie theaters offering not only film entertainment but also such enriching experiences as 4DX® (experiential viewing) and various contents other than movies
Operating company
United Cinemas Co., Ltd.

ローソン フレッシュ
A home-delivery service providing healthful and delicious food. An all-round home delivery site on which customers can purchase not only Lawson Fresh products but also food, daily necessities and other items handled by the Lawson Group.
Operating company
Lawson, Inc.

大地を守る会 DAICHI wo MAMORU KAI
A business that sells safe, delicious foodstuffs as ingredients for home cooking, such as organic vegetables and natural foods, as well as other items for the home through direct home delivery or shops
Operating company
DAICHI wo MAMORU KAI Co., Ltd.

Radish Boya らでぃっしゅぼーや
One of Japan's largest individual home-delivery services for organic and inexpensive agrochemical farm produce and other daily-life products
Operating company
Radishbo-ya Co., Ltd.

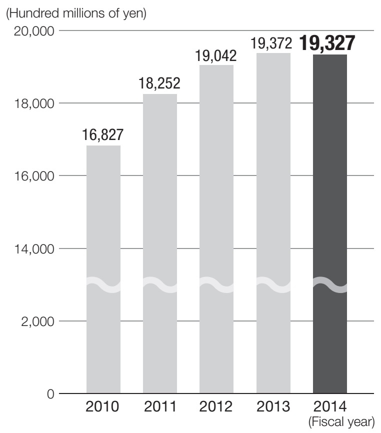
LAWSON farm ローソン農場
Twenty-two farms* nationwide producing fresh fruit and vegetables for Lawson Group stores
Operating company
Individual LAWSON farms

マチの暮らしサポート SGH × LAWSON
Delivery of products handled by the Lawson Group and home-delivery items handled by Sagawa Express Co., Ltd. and other services related to shopping and housing/living with Lawson stores as the starting point. (Services initiated in June 2015).
Operating company
SG Lawson Co., Ltd.

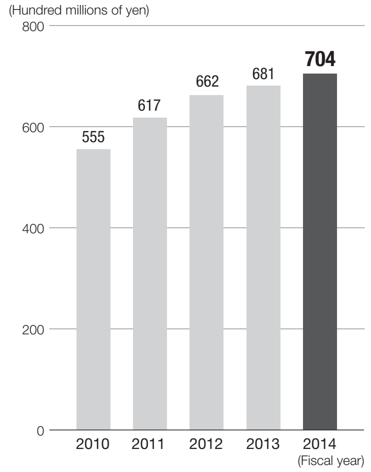
(Fiscal year)	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2014
	(Millions of yen)					(Millions of yen)						(Thousands of U.S. dollars [1])
For the year:												
Gross operating revenues												
Franchise commissions from franchise stores	¥ **247,681**	¥ 242,079	¥ 230,003	¥ 215,574	¥ 197,673	¥ 185,656	¥ 186,928	¥ 177,443	¥ 174,325	¥ 170,785	¥ 162,963	$ 2,076,641
Net sales	**174,044**	168,159	192,942	208,063	192,330	233,694	119,944	84,266	75,858	66,646	64,522	1,459,244
Other	**76,188**	75,010	64,500	55,320	51,275	47,842	42,604	39,468	32,870	30,627	26,910	638,786
Total operating revenues	**497,913**	485,248	487,445	478,957	441,278	467,192	349,476	301,177	283,053	268,058	254,395	4,174,671
Operating profit	**70,482**	68,127	66,246	61,769	55,541	50,276	49,186	46,610	44,513	43,867	42,941	590,945
Net profit	**32,687**	37,966	33,183	24,885	25,387	12,562	23,807	22,119	20,983	22,025	20,435	274,059
Net cash provided by operating activities	**110,568**	81,503	85,189	86,357	72,210	40,696	51,717	55,771	47,596	46,933	47,329	927,039
Net cash used in investing activities	**(100,434)**	(47,924)	(54,196)	(52,912)	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(55,282)	(33,297)	(842,073)
Net cash used in financing activities	**(3,289)**	(39,650)	(31,980)	(27,545)	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(7,795)	(13,836)	(27,575)
Capital expenditures [2]	**141,251**	84,032	77,361	74,572	50,326	71,399	42,907	64,413	49,822	54,417	46,873	1,184,296
Depreciation and amortization [3]	**41,826**	47,889	43,886	37,846	33,084	27,468	20,879	21,469	21,352	20,896	19,641	350,683
At year-end:												
Total assets	¥ **764,614**	¥ 620,993	¥ 579,810	¥ 531,454	¥ 476,037	¥ 448,132	¥ 436,096	¥ 397,108	¥ 398,258	¥ 375,107	¥ 356,310	$ 6,410,782
Net assets	**263,798**	250,498	230,182	214,663	208,467	198,136	201,167	188,574	199,493	175,184	160,282	2,211,772
Shareholders' equity ratio	**33.5%**	39.5%	39.1%	39.7%	42.7%	42.8%	44.8%	46.6%	49.0%	46.7%	45.0%	
Cash and cash equivalents	**76,755**	68,760	72,766	73,670	67,712	54,843	83,982	62,823	75,547	60,441	76,585	634,540
Total number of stores in Japan	**12,276**	11,606	11,130	10,457	9,994	9,761	9,527	8,587	8,564	8,366	8,077	
Number of employees (full-time)	**7,606**	6,336	6,404	6,475	5,703	5,236	5,186	3,735	3,614	3,585	3,391	
Per share data:												
Net profit (yen/ U.S. dollars [1])	¥ **327**	¥ 380	¥ 332	¥ 249	¥ 255	¥ 127	¥ 240	¥ 215	¥ 202	¥ 216	¥ 198	$ 2.74
Cash dividends (yen/ U.S. dollars [1])	**240**	220	200	180	170	160	160	110	100	90	70	2.01
Payout ratio	**73.4%**	57.9%	60.2%	72.2%	66.8%	126.3%	66.6%	51.2%	49.6%	41.8%	35.3%	
Financial data:												
Return on equity (ROE)	**13.0%**	16.1%	15.2%	12.0%	12.8%	6.5%	12.5%	11.6%	11.3%	13.1%	13.0%	
Return on assets (ROA)	**4.7%**	6.3%	6.0%	4.9%	5.5%	2.8%	5.7%	5.6%	5.4%	6.0%	5.7%	
Net sales of all stores (Domestic convenience store business):												
Net sales by store format												
Franchise stores [4]	¥ **1,827,779**	¥ 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	$ 15,324,717
Company-operated stores	**105,019**	126,873	156,339	173,820	183,205	232,459	124,614	83,321	75,151	66,027	63,802	880,515
Net sales by product category [4]												
Processed foods	**1,034,355**	1,060,455	1,063,120	1,022,378	897,415	902,306	844,324	726,750	705,155	682,006	665,687	8,672,382
Fast foods	**429,212**	408,672	372,706	345,226	321,851	324,197	332,894	327,501	324,993	312,289	297,369	3,598,659
Daily delivered foods	**277,210**	275,437	271,920	263,101	264,166	239,088	186,109	162,625	155,575	150,917	148,134	2,324,222
Non-food products	**192,020**	192,726	196,506	194,546	199,348	200,544	195,453	198,230	200,907	216,519	217,887	1,609,961
Net sales of all stores	¥ **1,932,798**	¥ 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	$ 16,205,232
Ratio of operating profit to net sales of all stores	**3.6%**	3.5%	3.5%	3.4%	3.3%	3.0%	3.2%	3.3%	3.2%	3.2%	3.2%	

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 28, 2015 ($1 = ¥119.27).
2. Effective from the annual report 2006, the composition of capital expenditures has changed to include leases, investments and advances, and construction assistance guarantees.
3. These figures include depreciation and amortization of intangible assets.
4. These figures include sales reported by franchise stores and are unaudited.

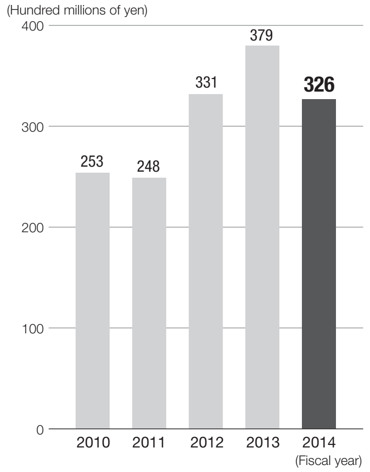
Net sales of all stores (Domestic convenience store business)



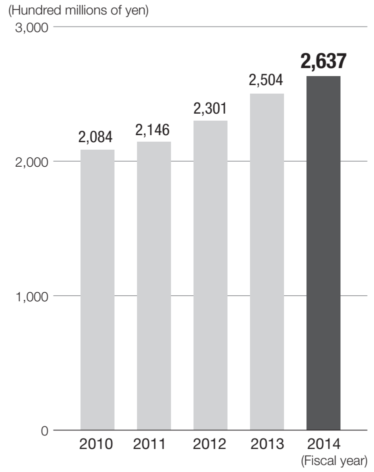
Operating profit



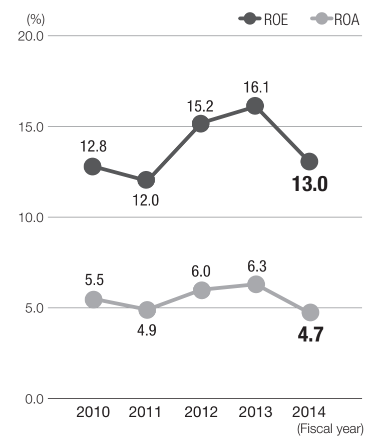
Net profit



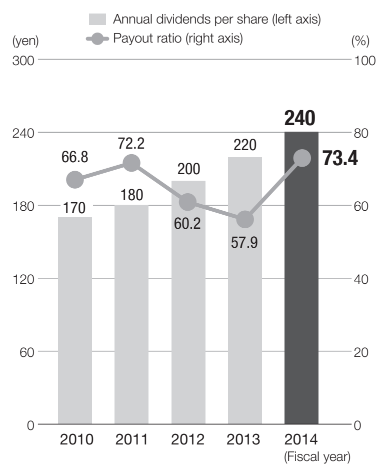
Total assets



Return on equity (ROE) Return on assets (ROA)



Payout ratio and dividends



Managements' Discussion and Analysis

Industry Trends

The Japanese economy enjoyed a gradual recovery in fiscal 2014 thanks to economic measures by the government and improved corporate performance due to the weaker yen. Meanwhile, the retail industry continued to face difficult situations, including the temporary drop in personal consumption after the consumption tax hike, bad weather during the summer and intensifying competition.

Against this backdrop, the convenience store industry performed well throughout the calendar year 2014 (January to December) by aggressively opening new stores: The industry-wide sales reached 10,423.2 billion yen, up 5.6% from the previous fiscal year.

The top four industry players account for 85% of the market share, with the total number of stores reaching 51,814, up 5.0% from the previous fiscal year as of the end of December. However, the net sales of existing stores declined by 0.8% from the previous fiscal year: While they had exceeded the previous fiscal year until March thanks to the last-minute demand before the consumption tax hike, they had fallen since April because of the rebound from that last-minute demand, bad weather and stagnant consumption.

■ Retail industry market size and convenience store share [1]

(Billions of yen)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004 [2]
Total retail industry annual sales	141,219	138,897	137,585	135,157	136,479	132,961	136,019	135,417	134,911	134,828	133,649
Convenience store sector annual sales	10,423	9,872	9,477	8,775	8,114	7,981	7,943	7,490	7,399	7,360	7,289
Convenience store share	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%	5.5%	5.5%	5.5%	5.5%

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 the Ministry of Economy, Trade and Industry compiled in March, 2013.

■ The net sales of all stores among the top four chains in the convenience store industry [1]

(Billions of yen)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Lawson	1,961	1,945	1,907	1,826	1,683	1,666	1,559	1,415	1,387	1,362	1,329
Seven-Eleven Japan	4,008	3,781	3,508	3,281	2,948	2,785	2,763	2,574	2,534	2,499	2,441
FamilyMart	1,860	1,722	1,585	1,535	1,440	1,274	1,246	1,122	1,069	1,032	998
Circle K Sunkus	988	980	947	980	923	902	940	902	911	920	934
Total of the top 4 chains	8,817	8,428	7,947	7,622	6,994	6,627	6,508	6,013	5,901	5,813	5,702
Total market share of the top 4 chains	84.6%	85.4%	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%	78.2%

Source: Data published by each company
Note: 1. 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 in convenience store sector annual sales on a calendar-year basis.

■ Number of convenience stores

(Stores)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Number of convenience stores	52,725	50,234	47,801	43,373	42,347	41,724	40,745	40,405	40,183	39,600	38,621

Source: "2015 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)

(Fiscal year)	2014	As a percentage of all stores	2013		2012		2011		2010	
Net sales of all stores	1,932,798	100.0%	1,758,656	100.0%	1,693,435	100.0%	1,621,328	100.0%	1,502,754	100.0%
Gross operating revenues	316,340	16.4%	298,779	17.0%	282,752	16.7%	272,498	16.8%	263,209	17.5%
Gross operating profit	293,938	15.2%	275,442	15.7%	258,061	15.2%	244,462	15.1%	230,156	15.3%
Selling, general and administrative expenses	232,972	12.1%	213,999	12.2%	198,730	11.7%	188,199	11.6%	179,945	12.0%
Advertising and promotional expenses	8,227	0.4%	9,023	0.5%	10,691	0.6%	11,144	0.7%	9,033	0.6%
Personnel expenses	36,691	1.9%	35,852	2.0%	34,931	2.1%	35,891	2.2%	35,736	2.4%
Facility expenses	132,941	6.9%	123,444	7.0%	113,321	6.7%	104,215	6.4%	100,111	6.7%
Other SG&A expenses	55,112	2.9%	45,680	2.6%	39,784	2.3%	36,948	2.3%	35,137	2.3%
Operating profit	60,966	3.2%	61,443	3.5%	59,331	3.5%	56,263	3.5%	50,210	3.3%
Recurring profit	61,649	3.2%	62,171	3.5%	59,459	3.5%	56,110	3.5%	49,312	3.3%
Net profit	26,200	1.4%	33,625	1.9%	30,314	1.8%	22,462	1.4%	24,643	1.6%

Management policies for fiscal 2014

Responding to social changes such as "more women in the workforce" and "population aging," we strived to enhance our merchandise assortment to meet customers' needs, including more meat products (both prepared and fresh foods) and health-oriented products.

Meanwhile, net sales of existing stores declined from the previous fiscal year due to a drop in sales of cigarettes, bad weather during the summer, continuing and intensifying competition in the industry, and the declining number of customers due to polarized consumption in the wake of the tax hike in April. Nevertheless, the gross profit margin was up 0.3% from the previous fiscal year through such efforts as development of products with additional value and high profit margins, which originated in the procurement of raw materials, as well as sales expansion of over-the-counter fast foods with high profit margins.

As for new stores, the Group as a whole opened 1,010 stores (the net increase: 588 stores) while maintaining the balance between quality and quantity.

Regarding polarized consumption due to such factors as the tax hike, SEIJO ISHII CO., LTD., which the Group acquired through share transfer this fiscal year, and NATURAL LAWSON responded to quality-focused needs. LAWSON STORE100 developed products at 100 yen with more value. While regular LAWSONs play a core role, these stores are also responding to customers' needs in a detailed manner.

Overview of merchandise and services

Regarding merchandise and services, we promoted a variety of initiatives to improve customer satisfaction. One example is the revision of sizes and prices in the MACHI Café menu. In response to high demand from customers, we newly introduced blended coffee and iced coffee in S size at 100 yen, including tax, while expanding menu options by adding café latte and other items. As a result, MACHI Café achieved robust sales. We also strengthened our merchandise assortment of prepared foods and daily delivered foods to attract female and senior customers who usually shop at supermarkets.

- Regarding ready-made meals, high-priced items such as Niigata-produced koshihikari rice balls stuffed with fatty pork, beef harami (skirt steak) and nakaochi kalbi (between-the-ribs) recorded strong sales. Chilled gyudon (beef bowl) boxed lunches launched in November 2014 were also popular. In addition, we strived to boost sales in the sandwich category by offering high-value-added fruit sandwiches (Mont Blanc chestnuts, shine Muscat grapes, etc.) on an ongoing basis.
- As for over-the-counter fast foods, "Ohgon Chicken Umashio," a tender and juicy fried chicken product flavored with a golden crispy breading, rock salt and black pepper, was well received. Moreover, as "Community Health Hubs," we also placed emphasis on selling health-oriented products. For example, we offered the "Bran Bread" series [1] on an ongoing basis for customers who watch their blood sugar levels. In some areas, we also promoted "Fiber enriched soba (buckwheat noodles)," which was approved as Food for Specified Health Uses (FOSHU, or "Tokuho" in Japanese), and "Pre-cut vegetables" made with vegetables produced based on the "Nakashima-method." [2] There are currently 22 Lawson Farms in which Lawson, Inc. holds equity stakes. The farms continue to play the role of a stable supplier of vegetables and fruits for our Group stores and factories producing Lawson's original products. Through these initiatives, we will further boost Lawson's corporate brand image as a "Health-promoting Company."
  In addition to the enhancement of these products, we are also expanding a merchandise assortment of "Gift cards," [3] and they continue to be well received.
- Regarding sales promotion activities, we implemented a point-reward campaign targeting Ponta Card members to encourage purchasing with the aim of increasing the rate of repeat visits. Total Ponta Card members reached over 68 million as of the end of February 2015, including members who joined through other participating companies, and they account for about 48% of the total sales.

Notes: 1. Bran: The external layers of wheat and rice, rich in nutrients such as dietary fiber, iron, calcium, magnesium, zinc and copper. The food is noted for its low level of carbohydrate.
2. Nakajima-method: A leading cultivating method in Japan, supplying appropriate nutrients to crops according to their growing conditions and the nutritional (mineral) balance of the soil. This method uses techniques for developing healthy soil based on the diagnosis of soil conditions in conjunction with techniques to control the growth process of crops to maintain healthy growth.
3. Gift cards: Collective term for prepaid cards that can be used for online transactions.

Overview of store operations

In store operations, we continued to promote the Three Essential Practices ((1) serving customers courteously, (2) providing a quality product offering that meets community needs, and (3) keeping our stores and communities clean). Notably, at stores with MACHI café, employees strived to improve customer satisfaction by offering products and services in a caring manner through better communication with customers. We will continue to further promote a customer-focused merchandise assortment for our communities through: store-by-store analysis reports based on Ponta Card members' purchasing data, arrangement of shelves tailored to the locational characteristics of each store and sharing of best practices at monthly area meetings with franchise store owners.

Overview of store development

Store development by the Group

In opening new stores, the Group prioritized profitability based on its proprietary ROI-focused store development standard.

In December, Lawson, Inc. concluded an absorption-type company split agreement with SUNNY MART Co., Ltd., the parent company of Three-F Chu-Shikoku Co., Ltd. Based on this agreement, we have taken a phased approach to transforming Three-F stores in Shikoku into LAWSON stores. Lawson Kochi, Inc. was established on April 1, 2015, with SUNNY MART Co., Ltd. and Lawson, Inc. holding 51% and 49% equity stakes, respectively. LAWSON stores in Kochi Prefecture will be operated by Lawson Kochi, Inc.

Furthermore, the Group has been striving to expand the stores offering non-prescription drugs, and the number of stores reached 104 as of the end of February 2015. Moreover, through partnerships with local drug store chains, we continue to expand healthcare-focused stores offering a merchandise assortment of around 5,000 items, twice as many as conventional LAWSON stores, by adding such items as non-prescription drugs, cosmetics and daily necessities. In total, the number of Pharmacy Lawson stores equipped with drug-dispensing pharmacies reached 39 as of the end of February 2015.

LAWSON MART, a store format the Group launched in February 2014, has endeavored to capture customer needs as an evolutionary fresh foods convenience store. We have decided to incorporate the expertise developed by LAWSON MART into LAWSON stores, including the function as an alternative to supermarkets and the knowhow on better support for the daily lives of customers in residential areas. Meanwhile, with regard to LAWSON STORE100, we intend to expand its merchandise assortment of fresh foods and 100-yen products with value in order to better support the daily lives of customers. The Group as a whole will thus address increasingly polarizing customer needs.

As a result, the total number of LAWSON, NATURAL LAWSON, and LAWSON STORE100 (including LAWSON MART) stores opened and closed during the fiscal year under review stood at 979 and 400 stores, respectively, with the total number of stores in Japan reaching 11,900 as of the end of February 2015. Furthermore, Lawson Minami-Kyushu, Inc., an affiliated company accounted for by the equity method, operates 202 LAWSON chain stores in Kagoshima Prefecture, and Lawson Okinawa, Inc. operates 174 LAWSON chain stores in Okinawa Prefecture as of the end of February 2015.

■ Number of stores in the convenience store business in Japan

(Stores)

(Fiscal year)	2014	2013	2012	2011	2010
Total number of stores	**12,276**	11,606	11,130	10,457	9,994
Openings	**1,010**	869	938	766	550
Closings	**422**	393	265	303	317
Net increase	**588**	476	673	463	233

Note: Including stores operated by Ninety-nine Plus, Inc., Lawson Mart, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc. and Lawson Kumamoto, Inc.

■ Number of convenience stores in Japan

(Stores)

(Fiscal year)	2014[4]		Net increase in the term[4]	2013[3]		2012[2]	
	Stores	Share	Stores	Stores	Share	Stores	Share
Lawson, Inc.							
Company-operated stores							
LAWSON	**123**	**1.0%**	—	112	1.0%	106	1.0%
NATURAL LAWSON	**32**	**0.3%**	-1	32	0.3%	41	0.4%
Franchise stores							
Type B	**1,286**	**10.5%**	57	1,207	10.4%	1,292	11.6%
Type G	**1,988**	**16.2%**	-114	2,081	17.9%	2,236	20.1%
Type C	**7,236**	**58.9%**	582	6,630	57.1%	6,008	54.0%
NATURAL LAWSON	**84**	**0.7%**	10	73	0.6%	69	0.6%
LAWSON STORE100[1]	**1,151**	**9.4%**	-51	1,202	10.4%	—	—
Subtotal	**11,900**	**96.9%**	483	11,337	97.7%	9,752	87.6%
Lawson Okinawa, Inc.							
Company-operated stores	**2**	**0.0%**	1	1	0.0%	1	0.0%
Franchise stores	**172**	**1.4%**	8	162	1.4%	153	1.4%
Subtotal	**174**	**1.4%**	9	163	1.4%	154	1.4%
Lawson Minami-Kyushu, Inc.							
Company-operated stores	**1**	**0.0%**	-2	3	0.0%	—	—
Franchise stores	**201**	**1.6%**	122	79	0.7%	—	—
Subtotal	**202**	**1.6%**	120	82	0.7%	—	—
Total number of convenience stores in Japan	**12,276**	**100.0%**	588	11,606	100.0%	11,130	100.0%

Notes: 1. LAWSON STORE100 includes "LAWSON STORE100" and "LAWSON MART."
2. The total number of stores includes stores operated by Ninety-nine Plus, Inc., which was absorbed into the parent company in February 2014.
3. The total number of stores includes stores operated by Lawson Kumamoto, Inc., which was absorbed into the parent company in March 2014.
4. Reflecting the change in the store counting standard from fiscal 2014, the 2014 data in this table also include small stores (82 stores as of March 1, 2014). Due to the above change, these 82 stores are excluded in the net increase (decrease) figure. Moreover, 24 stores operated by Lawson Kumamoto, Inc. were absorbed by Lawson, Inc., and 120 stores operated by Lawson, Inc. in Kagoshima Prefecture were transferred to Lawson Minami-Kyushu, Inc. in March 2014.

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 fresh foods and over-the-counter fast foods, thereby accelerating revenue growth. Major changes from conventional FC-C and FC-G contracts include: (1) the payment of a portion of expenses related to waste disposal by the headquarters with the aim of thoroughly reducing opportunity loss by assisting FC stores in placing orders; (2) the payment of 50% of utility costs by headquarters, which had previously been borne entirely by FC owners (in anticipation of the increasing utility costs due to the introduction of new fixtures in promoting sales of fresh foods, over-the-counter fast foods and prepared food); and (3) changes in charge rates, presented on the next page, reflecting the enhanced role played by the headquarters in promoting and strengthening sales.

While this revised system had been mainly introduced to new contracts, we have also fully extended this system to renewed contracts since fiscal 2013. Moreover, starting in fiscal 2015, we will also promote transfers to the FC-Cn contracts even during the contract period.

■ Types of Lawson 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 headquarters		Prepared by a franchise store
Investment in store construction and interior decoration expenses		Borne by headquarters		Borne by a franchise store
Signs and business fixtures		Provided by headquarters		
Payment by a franchise store 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 a franchise store		Not required	Average monthly sales x 2 months	Not required
Headquarters income [2]		Gross profit x 50%	Gross profit x 45%	Gross profit x 34%
Burden of utility expenses		A franchise store		
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 headquarters	Prepared by a franchise store
Investment in store construction and interior decoration expenses		Borne by headquarters	Borne by a franchise store
Signs and business fixtures		Provided by headquarters	
Payment by a franchise store 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 in merchandise sales: • Greater than 2.0% up to 3.0%: 20% • Greater than 3.0% up to 4.0%: 30% • Greater than 4.0%: 55%	—
Headquarters income [2]		The following percentage of gross profit: • ¥3.0 million or less: 45% • Greater than ¥3.0 million up to ¥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 headquarters	A franchise store
Minimum guarantee (annual) [2] (thousands of yen)		18,600	22,200

Notes: 1. The amount is paid by the franchise store to headquarters at the time of the franchising contract. In addition, the franchise store needs to separately provide a total of about ¥500,000, including the cash register float, at the time of store opening.
2. The headquarters 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 headquarters	A franchise store uses its own land and building
Contract stores		Stores already being operated by the company as LAWSON STORE100	Land and building owned by a franchise store
Contract term		10 years from the opening day	10 years from the opening day
Necessary expenses	Payment by a franchise store 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 preparation expenses: Approx. ¥500,000 (e.g., change, licensing fee for operation)	
Investment	Store construction and interior decoration	Borne by headquarters	Borne by a franchise store
	Business fixtures	Provided by headquarters	
Minimum guarantee [5]		¥20.4 million per year	¥22.2 million per year
Headquarters income [5]		[Sliding scale] The following 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% ¥4,500,001 or greater: Gross profit x 48%	Gross profit x 27%
Support to franchise stores (Operating expenses of a franchise store partially borne by headquarters)		Headquarters will bear the following percentage of clearance and disposal costs according to their proportion in monthly merchandise sales: • Greater than 1.5% up to 2.0%: 30% • Greater than 2.0%: 60% Headquarters will pay up to ¥100,000 a month.	—

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

Overview of performance figures

Sales figures

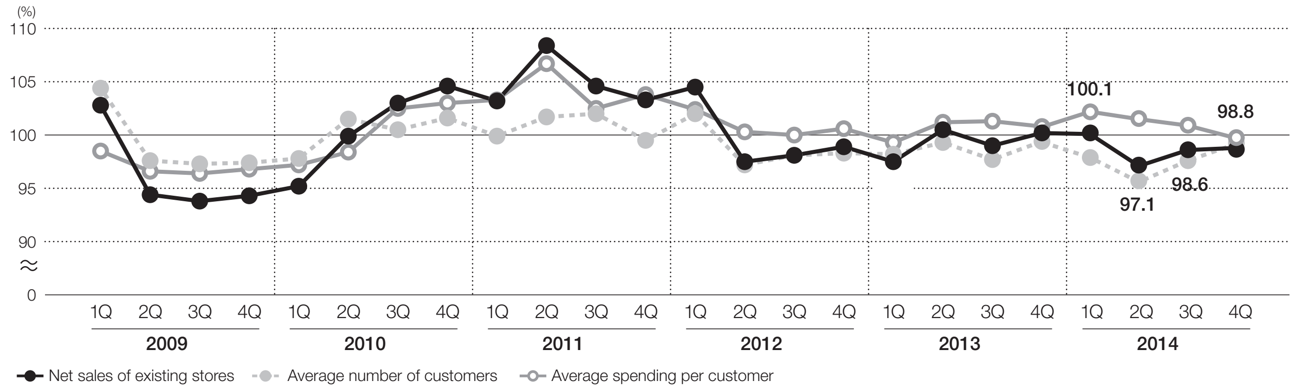
Net sales of all stores (consolidated basis)

In fiscal 2014, net sales of all LAWSON stores (consolidated) amounted to 1,961,900 million yen (up 0.9% from the previous fiscal year). Although there were negative effects, including a drop in sales of cigarettes and the downturn in sales attributable to bad weather, the net sales increased from the previous fiscal year, as the number of domestic convenience stores increased to 12,383 (including the stores of all Group companies and those of Seijo Ishii business), which is a 777 increase from the previous fiscal year.

Sales of existing stores (consolidated basis)

Sales of existing stores on a consolidated basis for the fiscal year under review declined by 1.4% compared with the previous fiscal year. In the first half of the fiscal year, the number of customers remained low particularly due to bad weather during the summer and polarized consumption after the consumption tax hike. The number of customers went up in the second half of the fiscal year through enhancement of TV commercials and strategic price changes. Nevertheless, net sales of existing stores (consolidated basis) remained at 98.6% from the previous fiscal year, and the total sales of existing LAWSON and NATURAL LAWSON stores remained at 99.0% from the previous fiscal year.

■ YoY changes in net sales of existing stores, average number of customers and average spending per customer (Consolidated)



■ Growth rate of net sales of existing stores, average number of customers, and average spending per customer (Non-consolidated) *

(Fiscal year)	2014	2013	2012	2011	2010
Net sales of existing stores (YoY)	99.0%	99.8%	100.0%	105.4%	100.8%
Average number of customers	98.0%	99.0%	99.4%	101.0%	100.4%
Average spending per customer	101.0%	100.8%	100.6%	104.3%	100.4%

* The total of LAWSON and NATURAL LAWSON.

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

Regarding consolidated results by product category, sales of fast foods increased by 5.2% from the previous fiscal year. Sales of daily delivered foods also contributed to the Group's overall performance, improving by 3.5% from the previous fiscal year.

As for the fast food category, sales of the over-the-counter fast foods improved from the previous fiscal year, thanks mainly to the increase in sales of MACHI Café products, whose sizes and volumes were revised in the second half of the fiscal year, and the strong sales of the new product "Ohgon Chicken Umashio." Sales of other sub-categories also improved from the previous fiscal year. For example, high-priced products, such as fruit sandwiches, sold well. Sales of delicatessen items also improved through coupons to promote sales in the evening and renewal of the salad menu.

Sales of ice cream, under the daily delivered food category, also increased substantially thanks to the strong sales of UCHI café frappe, which customers warm up and eat.

Sales of processed foods declined from the previous fiscal year due to a significant drop in cigarette and drink sales.

As for the non-food category, sales of books and magazines continued to decline due to the slump across the industry.

■ Sales by product category (Consolidated, total net sales in Japan)

(Millions of yen)

(Fiscal year)	2014		2013		2012		2011		2010	
Fast foods (share)	**429,212**	**22.2%**	408,672	21.1%	373,385	19.6%	345,424	18.9%	321,866	19.1%
Daily delivered foods (share)	**277,210**	**14.4%**	275,437	14.2%	272,312	14.3%	263,180	14.4%	264,169	15.7%
Processed foods (share)	**1,034,355**	**53.5%**	1,060,455	54.7%	1,064,133	55.8%	1,022,619	56.0%	897,427	53.3%
(Cigarettes) (share)	**482,750**	**25.0%**	459,100	23.7%	496,971	26.1%	470,666	25.8%	382,167	22.7%
Total food sales (share)	**1,740,778**	**90.1%**	1,744,564	90.1%	1,709,830	89.7%	1,631,223	89.3%	1,483,462	88.2%
Non-food products (share)	**192,020**	**9.9%**	192,726	9.9%	196,716	10.3%	194,587	10.7%	199,350	11.9%
Net sales of all stores (share)	**1,932,798**	**100.0%**	1,937,292	100.0%	1,906,547	100.0%	1,825,810	100.0%	1,682,812	100.0%

■ Product categories

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, fresh 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 31.3%, up 0.3% from the previous fiscal year.

There are several reasons for this growth. For example, sales of fast foods with the higher profit margin accounted for 23.5%, up 1.1% from the previous fiscal year, while the proportion of processed food sales, including cigarettes with the lower profit margin, was 53.6%, down 1.3%. The profit margin of non-food products, such as tickets and gift cards that have been selling well, also went up by 1.2% to 48.9%.

■ Gross profit margin by product category (Non-consolidated) [1]

(Fiscal year)	2014	2013	2012	2011	2010
Fast foods	**38.9%**	38.9%	38.4%	38.2%	37.8%
Daily delivered foods	**34.1%**	34.1%	34.4%	34.5%	34.6%
Processed foods [2]	**24.1%**	24.0%	23.9%	23.8%	24.5%
Non-food products [3]	**48.9%**	47.7%	45.6%	43.4%	42.2%
Gross profit margin	**31.3%**	31.0%	30.5%	30.1%	30.6%

Notes: 1. The total of LAWSON and NATURAL LAWSON.
2. Processed foods include cigarettes.
3. Commission revenues from third party bill settlement services are included when the gross profit margin of non-food products was calculated.

■ Third party bill settlement services (Non-consolidated) [1]

(Fiscal year)	2014	2013	2012	2011	2010
Bill settlements (millions of yen)	**2,073,049**	1,979,383	1,879,679	1,725,788	1,639,203
Number of transactions (millions)	**198.9**	196.1	190.4	177.7	169.8
Commission revenues (millions of yen)	**10,778**	10,584	10,191	9,487	9,027

Other businesses

In addition to the Domestic Convenience Store Business, the Group is also involved in other businesses, including: Overseas Business, Entertainment and Home Convenience Business, Financial Services-related Business and Seijo Ishii Business.

With regard to Overseas Business, the Group operates LAWSON stores in Shanghai, Chongqing, Dalian, and Beijing in the People's Republic of China. In Thailand, Saha Lawson Co., Ltd., a joint venture with such companies as the SAHA Group, a leading distributor of consumer goods in Thailand, operates stores under the store brand of LAWSON 108 and 108SHOP. In Hawaii in the United States, Lawson USA Hawaii, Inc. operates LAWSON stores. In Indonesia, PT MIDI UTAMA INDONESIA Tbk also operates LAWSON stores.

With regard to the Entertainment and Home Convenience Business, Lawson HMV Entertainment, which forms the core of the entertainment-related business, posted a solid performance led by an increase in ticket sales and continued to secure the top position in the ticketing industry. The number of HMV stores that sell music CDs and DVDs totaled 53 as of the end of February 2015. Furthermore, United Cinemas Co., Ltd., which became a consolidated subsidiary in August 2014, operates a total of 331 screens at its cinemas nationwide. We will strive to offer an even wider selection of products and services to better respond to customer needs, for example, by expanding our ticketing business. Moreover, we entered into a partnership with Amazon Japan K.K. in November 2014 and launched a new service in Shizuoka Prefecture, which enables customers to pick up items ordered online from Amazon at LAWSON stores. We will strive to enhance customer convenience by additionally partnering with other companies to establish an "Open Platform" based on the networks of LAWSON stores that offer a range of services encompassing ordering, collection, and home delivery.

Lawson ATM Networks, Inc., which operates the Financial Services-related Business, continued contributing to consolidated results owing to an increase in the number of ATMs installed. In this fiscal year, we strengthened partnerships with new financial institutions, bringing the total number of our financial institution partners to 71 nationwide (up 6 from the end of the last fiscal year), including online banks, and the number of ATMs installed nationwide to 10,767 (up 649 from the end of the last fiscal year) as of the end of February 2015.

Regarding Seijo Ishii Business, it is operated by SEIJO ISHII CO., LTD., of which Lawson, Inc. acquired all shares in October 2014. Seijo Ishii is a chain of small supermarkets that strives to develop and manufacture high-value-added products. The company-operated stores of Seijo Ishii totaled 107 as of the end of February 2015. By leveraging the business infrastructure of the Lawson Group, we aim to further reinforce Seijo Ishii's strengths and enhance its corporate value. Meanwhile, we will also strive to strengthen our Domestic Convenience Store Business by absorbing Seijo Ishii's knowhow as a manufacturing retailer, including its central kitchen.

Items of Consolidated Statement of Income

Gross Operating Revenues

For the year ended February 28, 2015, gross operating revenues consisting of net sales, franchise commissions from franchise stores and "Other" stood at 497.9 billion yen, an increase of 12.6 billion yen, or 2.6%, compared to a year-ago period, and 10.9 billion yen above the plan. This was attributable to the fact that, while the number of franchise stores grew during the year, revenues of United Cinema Co., Ltd. and SEIJO ISHII CO., LTD. were included in the consolidated statement of income of Lawson, Inc. as a result of its previous purchase of all shares in these two companies. Net sales totalled 174.0 billion yen, franchise commissions from franchise stores 247.6 billion yen and "Other" 76.1 billion yen.

Selling, General, and Administrative Expenses

For the year under review, consolidated selling, general, and administrative expenses stood at 299.3 billion yen, an increase of 8.8 billion yen compared to a year-ago period, and approx. 4.9 billion yen above the plan. This was attributable to the fact that selling, general, and administrative expenses of SEIJO ISHII CO., LTD. and United Cinema Co., Ltd. in which shares were purchased by Lawson, Inc. were newly included in its consolidated selling, general, and administrative expenses.

Non-consolidated selling, general, and administrative expenses amounted to 232.9 billion yen, an increase of 18.9 billion yen, or 8.9%, compared to a year- ago period, and approx. 2.8 billion yen above the plan. These expenses grew markedly year on year due to the fact that Ninety-nine Plus, Inc. was included in the non-consolidated statement of income, Lawson, Inc.'s stores grew in number due to new openings and it provided reinforced support to franchise stores.

Non-consolidated advertising and promotional expenses totalled 8.2 billion yen, a decrease of 0.7 billion yen compared to a year-ago period. Yet, the cost to support franchise stores to sustain the amount of inventory, a component of the Company's new franchise contract package, was not included in the above-mentioned expenses for accounting procedure reasons. An inclusion of such cost would have resulted in non-consolidated advertising expenses growing by 0.9 billion yen compared to a year-ago period. Separately, of the revenues of SCI, Inc., 5.3 billion yen was used by Lawson, Inc. as cooperation money for assisting franchise owners. During the year, the Company further bolstered its overall advertising and sales promotion activities through more than doubling television advertising spending in the second half of the year compared to a year-ago period, among other measures.

Non-consolidated personnel expenses came to 36.6 billion yen, an increase of 0.8 billion yen compared to a year-ago period, and 0.2 billion yen above the plan. Non-consolidated information technology (IT) costs stood at 12.7 billion yen, a decrease of 2.0 billion yen compared to a year-ago period, and 0.2 billion yen below the plan. The remainder of non-consolidated costs and expenses increased by 20.9 billion yen compared to a year-ago period, exceeding the plan by 4.9 billion yen, although partly affected by the change made in the depreciation and amortization methods. This increase was attributable to the fact that facilities costs rose due to a net increase in the number of stores, franchise store assistance payments grew due to a shift to new franchise agreements, and expenses arose due to revision made to the charge and fee structure arrangement with subsidiary Lawson Mart, Inc., among other factors.

■ Breakdown of Selling, General, and Administrative expenses (Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
Personnel expenses	**60,846**	58,990	60,013	60,887	58,020
Percentage composition	**20.3%**	20.3%	21.7%	23.3%	23.9%
Advertising and promotional expenses	**16,717**	17,734	16,607	14,146	10,977
Percentage composition	**5.6%**	6.1%	6.0%	5.4%	4.5%
Rent	**96,877**	89,485	84,578	78,483	73,231
Percentage composition	**32.3%**	30.8%	30.6%	30.1%	30.2%
Equipment lease	**3,578**	4,494	5,914	8,205	10,230
Percentage composition	**1.2%**	1.5%	2.1%	3.1%	4.2%
Depreciation and amortization	**41,788**	47,889	43,886	37,846	33,084
Percentage composition	**14.0%**	16.5%	15.9%	14.5%	13.6%
Depreciation of property and store equipment*	**32,958**	37,872	34,030	28,99	24,529
Percentage composition	**11.0%**	13.0%	12.3%	11.1%	10.1%
Amortization of intangible assets	**8,830**	10,017	9,856	8,847	8,555
Percentage composition	**3.0%**	3.5%	3.6%	3.4%	3.5%
Other	**79,506**	71,892	65,315	61,375	57,093
Percentage composition	**26.6%**	24.8%	23.7%	23.5%	23.5%
Total	**299,315**	290,483	276,314	260,942	242,636
Percentage composition	**100.0%**	100.0%	100.0%	100.0%	100.0%

*Due to the application of new lease accounting standards, the depreciation of property and store equipment for the year ended February 28, 2011 onwards includes depreciation of leased properties to be sold.

Operating Profit

Operating profit stood at 70.4 billion yen, an increase of 2.3 billion yen, or 3.5%, compared to a year-ago period, supported mainly by the improving gross profit margin and the depreciation method change, as mentioned earlier. This was despite the fact that the Company accelerated the introduction of the MACHI café service and the "Machikado Chubo" in-store kitchen feature while extending support to sustain the amount of inventory and other expenses, which were a set of measures aimed at bolstering the competitiveness of individual franchise stores amidst the challenging market environment. Operating profit margin for all Lawson chain stores was at 3.6%, flat compared to a year-ago period.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests amounted to 58.3 billion yen, a decrease of 1.4 billion yen, or 2.4%, compared to a year-ago period as the Company recorded 13.3 billion yen in extraordinary losses, including 4.2 billion yen relating to the resolution of its Board of Directors for the Lawson Mart and LAWSON STORE 100 business restructuring plan. This was despite the fact that non-operating income of 1.2 billion yen was posted through a foreign exchange gain resulting from a capital decrease conducted by LAP (Lawson Asia Pacific Holdings Pte. Ltd.), the holding company of Lawson, Inc.'s South East Asian operations.

Net Income

As a result, net income stood at 32.6 billion yen, a decrease of 5.2 billion yen, or 14.9%, compared to a year-ago period. Net income per share amounted to 327.08 yen.

Items of Consolidated Balance Sheet

● Consolidated Balance Sheet

Current Assets

Current assets as of February 28, 2015 stood at 223.6 billion yen, an increase of 27.8 billion yen, or 14.2%, compared to the end of previous fiscal year. This was attributable mainly to the fact that inventories rose by 7.4 billion yen, 77.6%, year on year to 17.0 billion yen as the Company acquired SEIJO ISHII Co., Ltd. and SCI, Inc. expanded its product line-up, that accounts receivable-other increased by 4.4 billion yen, or 8.2%, year on year to 58.6 billion yen, and that prepaid expenses and other current assets grew by10.4 billion yen, or 49.8%, year on year to 31.4 billion yen.

Property and Store Equipment & Investments and Other Assets

Property and store equipment as of February 28, 2015 amounted to 274.4 billion yen, an increase of 41.0 billion yen, or 17.6%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that lease assets grew as a result of new store openings and of aggressive renovation of existing stores involving the introduction of the MACHI café service.

Investments and other assets as of February 28, 2015 totalled 266.5 billion yen, an increase of 74.7 billion yen, or 39.0%, compared to the end of the previous fiscal year as goodwill grew by 38.4 billion yen in the year to February 28, 2015.

Current Liabilities

Current liabilities as of February 28, 2015 stood at 301.0 billion yen, an increase of 54.3 billion yen, or 22.0%, compared to the end of the previous fiscal year.

In the year to February 28, 2015, accounts payable-trade grew by 14.2 billion yen, or 16.0%, and accounts payable-other by 17.7 billion yen, or 56.9%, as the Company acquired SEIJO ISHII Co., Ltd. and SCI, Inc. expanded its product line-up. Money held as agent increased by 16.0 billion yen, or 18.3%, in the year to February 28, 2015 because the last day of the month fell on a weekend.

Long-term Liabilities

Long-term liabilities as of February 28, 2015 amounted to 199.7 billion yen, an increase of 75.9 billion yen, or 61.4%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that long-term debt grew by 72.9 billion yen compared to the previous fiscal year-end owing to a financing program to fund the Company's acquisition of shares in SEIJO ISHII Co., Ltd. and United Cinema Co., Ltd.

Net Assets

Net assets as of February 28, 2015 amounted to 263.7 billion yen, an increase of 13.3 billion yen, or 5.3%, compared to the end of the previous fiscal year. Retained earnings totalled 147.1 billion yen, an increase of 9.0 billion yen as the Company recorded 32.6 billion yen in net income and paid out 22.9 billion yen in dividends.

● Accounts Specific to the Company's Consolidated Balance Sheet

Shown below are accounts that are specific to the Company's balance sheet.

Accounts Receivable-Due from Franchise Stores

Merchandise ordered by individual franchise stores are procured by the Company in a centralized manner, which in turn calculates the amount of payments to individual suppliers on behalf of franchise stores before performing proxy payment service for them. This is followed by the franchise headquarters collecting the payment amount from each franchise store as "accounts receivable-due from franchise stores," which essentially constitutes their obligation to the franchise headquarters. As of February 28, 2015, accounts receivable-due from franchise stores stood at 37.0 billion yen, an increase of 4.8 billion yen compared to the end of the previous fiscal year.

Accounts Receivable-Other

"Accounts receivable-other" include accounts receivable from business partners, including certain accounts receivable from franchise stores (franchise store credit card-based sales proceeds). Accounts payable are composed of accounts payable-trade, an account for directly-operated stores, and accounts payable-due to franchise stores, an account for franchise stores. However, accounts receivable-other include all credit card-related accounts receivable relating to both directly-operated and franchise stores. This is because, being the party of agreements with credit card companies, Lawson, Inc. is the holder of all accounts receivable from them.

As of February 28, 2015, accounts receivable-other amounted to 58.6 billion yen, an increase of 4.4 billion yen compared to the end of the previous fiscal year.

Long-term Loans Receivable

Long-term loans receivable consist mainly of store construction cooperation money for landlords (store land and building owners) and of headquarters loans to franchise stores. Money deposited with the landlord at the time of a new store opening was previously recorded in lease deposits, yet it is currently recorded in long-term loans receivable. Long-term loans receivable as of February 28, 2015 stood at 37.2 billion yen, an increase of 3.5 billion yen compared to the end of the previous fiscal year.

Lease Deposits

When entering into a lease agreement with the landlord, the Company deposits with the former a security deposit worth several months' rent for the property. Lease deposits as of February 28, 2015 totalled 93.2 billion yen, an increase of 7.0 billion yen compared to the end of the previous fiscal year.

Accounts Payable-Due to Franchise Stores

Accounts payable-due to franchise stores refer to the headquarters' obligation to franchise stores. All franchise stores' daily sales proceeds are sent to the headquarters, and exceed, on occasion, "accounts receivable-due from franchise stores." In such event, the Company records the amount in "accounts receivable-due to franchise stores" on the consolidated balance sheet, as part of outstanding liabilities. Accounts receivable-due to franchise stores as of February 28, 2015 totalled 1.5 billion yen, an increase of 0.1 billion yen compared to the end of the previous fiscal year.

Money Held as Agent

Money held as agent is composed chiefly of money received for utility bill agent payment service and money received as the price of tickets for concerts and so on. The agency payment service handling amount stood at 2,073 billion yen, an increase of 4.7% compared to a year-ago period, supported by the rising number of transactions and payee companies, in continuation of the growth trend. Money held as agent as of February 28, 2015 amounted to 103.6 billion yen, an increase of 16.0 billion yen compared to the end of the previous fiscal year.

Guarantee Deposits Received from Franchise Stores and Other

Guarantee deposits received from franchise stores and other represent guarantee deposits deposited to the headquarters by franchise owners in the type G agreement with Lawson, Inc. On March 1, 2012, the Company's new franchise contract package type Cn agreement came into effect, causing it to cease to conclude any type G agreement anew. As of February 28, 2015, guarantee deposits received from franchise stores and other totalled 29.9 billion yen, a decrease of 2.2 billion yen compared to the end of the previous fiscal year, which was attributable to reimbursements made to franchise stores as a result of agreement renewals and terminations.

Capital Expenditures (Including Investments/Advances and Lease Asset Acquisition Costs)

Total capital expenditures for the year ended February 28, 2015 stood at 141.2 billion yen, an increase of 57.2 billion yen compared to a year-ago period.

Investments in new stores amounted to 49.0 billion yen, an increase of 16.7 billion yen compared to a year-ago period as the number of store openings grew year on year. Investments in existing stores totalled 5.8 billion yen, a decrease of 1.2 billion yen compared to a year-ago period. IT-related investments came to 8.2 billion yen, an increase of 2.8 billion yen compared to a year-ago period. Lease transactions stood at 32.8 billion yen, an increase of 0.7 billion yen compared to a year-ago period, mainly due to the introduction of the MACHI café service and the “Machikado Chubo” in-store kitchen feature as well as of energy efficient equipment. New investments and loans amounted to 42.6 billion yen, an increase of 37.4 billion yen compared to a year-ago period due primarily to the Company’s acquisition of shares in United Cinema Co., Ltd. and SEIJO ISHII CO., LTD.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures

(Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
New store investments	**49,014**	32,230	33,133	21,596	13,675
Existing store investments	**5,839**	7,078	8,769	10,241	8,934
IT-related investments	**8,217**	5,362	5,907	7,744	7,479
Other investments	**2,752**	2,067	3,238	630	1,003
Sub-total investments	**65,823**	46,736	51,047	40,211	31,091
Investments and advances	**42,610**	5,189	1,550	12,401	2,544
Leases*	**32,817**	32,107	24,765	21,960	16,691
Total	**141,251**	84,032	77,361	74,572	50,326

*Leases are shown in an amount equivalent to the acquisition costs for the lease assets acquired during each accounting period. For the year ended February 28, 2014, expenditures for repayment of lease obligations stood at 13,769 million yen.

■ Breakdown of depreciation and amortization

(Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
Depreciation of property and store equipment*	**32,977**	37,872	34,030	28,999	24,529
Amortization of intangible assets	**8,849**	10,017	9,856	8,847	8,555
Total depreciation and amortization	**41,826**	47,889	43,886	37,846	33,084

*Due to the application of new lease accounting standards, depreciation of property and store equipment for the year ended February 28, 2011 onwards include depreciation of lease assets to be subjected to a sale transaction.

Cash Flows

Net cash provided by operating activities for the year ended February 28, 2015 stood at a cash inflow of 110.5 billion yen, an increase of 29.0 billion yen compared to a year-ago period, as deposits payable grew by 15.5 billion yen year on year.

Net cash provided by investing activities for the year ended February 28, 2015 amounted to a cash outflow of 100.4 billion yen, an increase of 52.5 billion yen compared to a year-ago period, which was chiefly due to a cash outflow of 41.3 billion yen for the purchase of stock in subsidiaries resulting in the change in scope of consolidation.

The cash outflow from financing activities for the year ended February 28, 2015, amounted to 3.2 billion yen, a decrease of 36.3 billion yen compared to a year-ago period, which was due to a cash inflow of 59.0 billion yen from long-term loans.

As a result, the cash and cash equivalents as of February 28, 2015, stood at 76.7 billion yen, an increase of 7.9 billion yen compared to February 28, 2014.

Capital Policy: Dividend and Treasury Stock Retirement

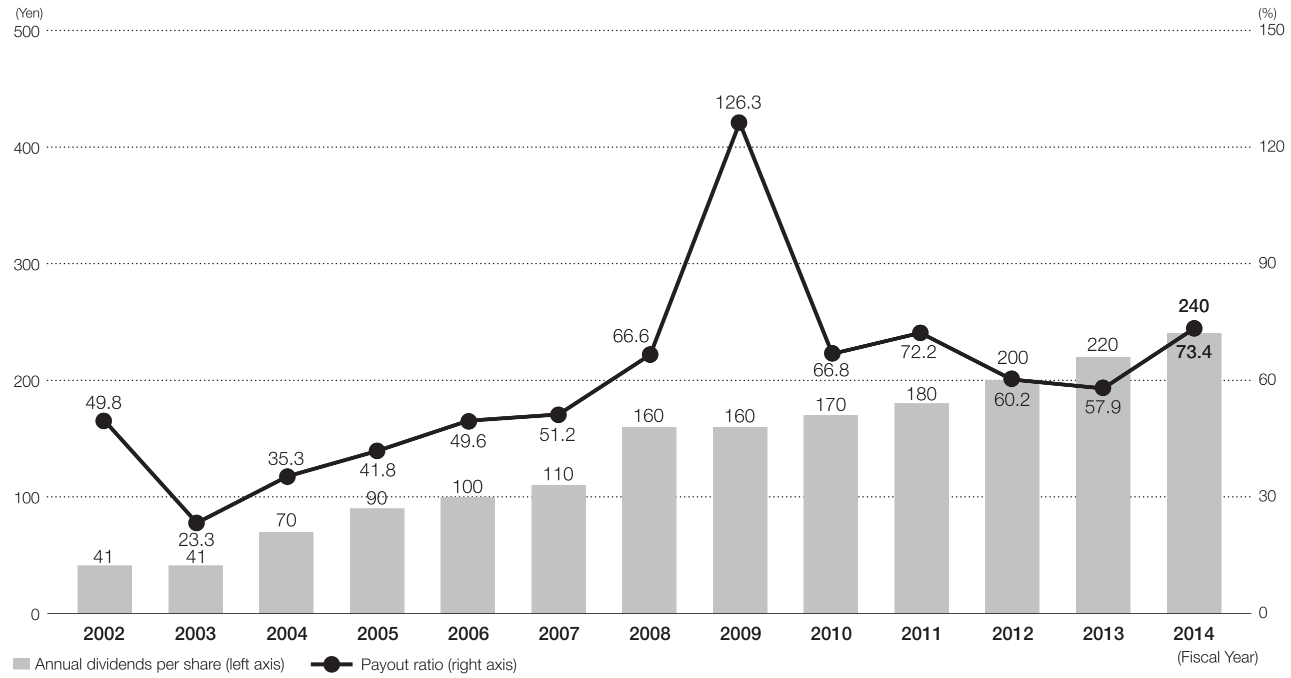
To return profits to shareholders is deemed by the Company to be one of its top priority business management policies.

Thus, management runs the organization with due regard to the levels of capital cost reflecting what investors expect from the Company in terms of investment returns. For this reason, we use ROE (Return on Equity), one of the return on capital metrics, as the Company’s top priority business management indicator in an effort to selectively pursue businesses offering ROI above the cost of capital. The Company holds internal reserves required to make investments towards achieving corporate growth that is sustainable in the medium- to long-term, and continues to preserve the stability of its financial position. Based on a rigorous selection process, we will make investments offering the prospect of superior investment returns, and strive to grow cash flows from operating activities in a sustainable manner while continuing to generate free cash flows. Moreover, based on a capital composition deemed appropriate by management, the Company will distribute dividends of surplus, purchase its own shares as treasury stock and retire them while striving to achieve return on capital above the cost of capital, thereby aiming to attain ROE of 20% in the medium-term.

The Company’s dividend policy does not have any specific dividend payout ratio target. Through the process of making investments necessary for its sustainable growth, the Company aims to increase its dividend payments consistently as a means of distributing its ample free cash flows to shareholders. The fundamental concept of its capital policy is that such process will allow the organization to improve return on capital without needlessly holding surplus cash internally. For the year ending February 29, 2016, the Company intends to pay a per-share dividend of 245 yen, an increase of 5 yen compared to the end of the fiscal year 2015.

The Company purchased its own shares worth approx. 43.0 billion yen as treasury stock to retire them during a period of four years from the year ended February 28, 2002 to the year ended February 28, 2005. Moreover, it purchased its own shares worth approx. 21.0 billion yen (approx. 5.3 million shares) as treasury stock during the period from October 2007 to January 2008 before retiring a total of 5.0 million of such shares in February 2008. The Company will continue to consider acquiring its own shares as treasury stock to retire them in the future as a means of achieving higher ROE.

■ Annual dividends per share & payout ratio



Overview of major consolidated subsidiaries and equity method affiliates

Consolidated financial results for the year ended February 28, 2015 include the financial results of 17 group companies comprising 15 consolidated subsidiaries and two equity method affiliates. The principal business activities of Lawson, Inc.'s subsidiaries and affiliates consist chiefly of the domestic convenience store business, Seijo Ishii business, entertainment & home convenience business and overseas business. As a major change in the scope of consolidation for the year under review, Lawson HMV Entertainment United Cinema Holdings, Inc. was newly established and included as a consolidated subsidiary.

Due to its acquisition of shares in United Entertainment Holdings Co., Ltd., Lawson, Inc., its subsidiary United Cinema Co., Ltd. was also included in the scope of consolidation. Lawson, Inc. acquired shares in SEIJO ISHII CO., LTD. and was included in the scope of consolidation as well. The following paragraphs outline the business activities and financial results of Lawson, Inc.'s major consolidated subsidiaries and affiliates, including those mentioned above.

Lawson Mart, Inc. (consolidated subsidiary)

Established on November 14, 2013, Lawson Mart, Inc. ("Lawson Mart") succeeded to the operational functions of Ninety-nine Plus, Inc., including its store operation and product development, on February 1, 2014 through an absorption-type company split program. The former succeeded to the latter's store-related assets including franchise agreements for the LAWSON STORE 100 business (including those for the Lawson Market business). Lawson Mart resolved at its Board of Directors meeting held on January 29, 2015 to implement a business revival plan to close down approx. 300 stores, concentrate its store areas and overhaul its product strategy, among other steps. LAWSON STORE 100 will meet the needs of a wide range of customers from children to senior citizens, with a focus on single person and homemaker customers, by offering three types of value, the "diverse merchandise assortment" of a supermarket, the "convenience" of a convenience store and the easy-to-understand "standardized prices" of a 100 yen shop.

SCI, Inc. (consolidated subsidiary)

SCI, Inc. ("SCI") was established by Lawson, Inc. in July 2012 as a supply chain management function subsidiary aimed at enabling Lawson, Inc. to involve itself in supply chain business activities as an influential player and to help streamline the manufacturing and logistics operations, with the objective of becoming the "manufacturing retailer based on small commercial areas." The Company aims to build a manufacturing retailer business model that coherently covers the entire supply chain from the upstream to the downstream, based on the efforts to reduce inefficiencies such as waste and redundant work that occur in the supply chain from raw materials procurement to manufacturing to logistics to the store. Added value generated through this supply chain management reform initiative will be leveraged by Lawson, Inc. for attaining greater product competitiveness and assisting the sales promotion efforts of franchise owners. In the medium term, the Company will use the know-how in this area to grow the business of supplying raw materials and merchandise to non-group customers.

Lawson Okinawa, Inc. (equity-method affiliate)

In January 2009, Lawson, Inc. entered into a business alliance agreement with SAN-A CO., LTD. ("SAN-A"), the largest integrated retailer in Okinawa, concerning their operations in the prefecture. Through this alliance with SAN-A, an unrivalled player there in loyal customer following, we desire to deliver services better suiting local needs and to offer a merchandise and store environment befitting local consumer tastes, in a prefecture that has unique lifestyle and food preferences. To this end, we established Lawson Okinawa, Inc. in October 2009 as a wholly-owned subsidiary of Lawson, Inc.

Subsequently, in December 2009, 51% of the total shares outstanding in Lawson Okinawa, Inc. were sold to SAN-A to run as a joint venture.

For the year ended February 28, 2015, Lawson Okinawa, Inc. had a total of 174 stores at the period-end date, and operating profit stood at 1,100 million yen, an increase of 12.5% compared to a year-ago period.

We will continue to have Lawson Okinawa, Inc. strive to build a store environment meeting local needs appropriately, thus growing Lawson chain stores in Okinawa in the coming years.

■ Lawson Okinawa, Inc. (Millions of Yen)

(Fiscal Year)	**2014**	2013	2012	2011	2010
Gross operating revenues	**4,674**	4,199	3,954	3,659	3,347
Operating profit	**1,182**	1,051	924	780	601
Net income	**738**	792	799	1,049	612
Number of stores	**174**	163	154	147	141

Lawson Minami-Kyushu, Inc. (equity method affiliate)

Lawson Minami-Kyushu, Inc. ("Lawson Minami-Kyushu") was established in May 2013 as a wholly-owned subsidiary of Lawson, Inc. before launching Lawson store operations in Kagoshima in August the same year. Subsequently, in March 2014, Nangoku Corporation took a 51% equity participation in Lawson Minami-Kyushu (Lawson, Inc.'s equity interest ratio became 49%) to acquire Lawson, Inc.'s Kagoshima operations before starting to run Lawson stores in the prefecture in the form of a joint venture with it.

For the year ended February 28, 2015, Lawson Minami-Kyushu had a total of 202 stores at the period-end date, and operating profit stood at a negative 400 million yen. We will continue to have Lawson Minami-Kyushu strive to build a store environment meeting local needs appropriately, thus growing Lawson chain stores in Kagoshima in the coming years.

SEIJO ISHII CO., LTD. (consolidated subsidiary)

Supermarket operator SEIJO ISHII CO., LTD. ("Seijo Ishii") is a firm that has achieved outstanding brand appeal by using its superior merchandising skills to deliver high added value, with the aim of becoming a company that is "committed to ensuring food quality excellence and helping create a better world to live in." Its existing network of "SEIJO ISHII" brand supermarkets, renowned for quality, consists of 107 stores located mainly in the Kanto area (as of February 28, 2015).

At a time when we aspire to become a "manufacturing retailer based on small commercial areas," it is the manufacturing retailer function that Lawson, Inc. has in common with Seijo Ishii, a player committed to "delivering delicious food offerings," based on its unique platform, while developing and manufacturing safe and reliable merchandise. Lawson decided to acquire all shares in Seijo Ishii in the belief that significant potential would be offered by the partnership with the supermarket operator, a player delivering services that are highly differentiated from those of general and luxury supermarket chains. Based on this partnership, we will leverage its manufacturing retailer know-how, such as in central kitchen operations, for further bolstering our domestic convenience store business.

Non-consolidated operating profit for the three months of the 4th quarter of Seijo Ishii, whose financial results are included in Lawson, Inc.'s consolidated statement of income, stood at 1.5 billion yen.

Lawson HMV Entertainment, Inc. (consolidated subsidiary)

Lawson HMV Entertainment, Inc. ("Lawson HMV Entertainment") distributes tickets for concerts, sporting events, theaters and cinemas mainly through multimedia information terminal "Loppi" in Lawson stores and the "L-Tike.com" website. The company is particularly strong in the areas of J-pop and sporting event ticket sales. Holding a top-class position in the industry in ticket sales quantity, Lawson HMV Entertainment has been expanding its operations in a steady manner.

Established in 1992 as RIZA JAPAN, primarily a ticket distributor, the company changed its name to Lawson Ticket in 1996 before being included in Lawson, Inc.'s scope of consolidation as a subsidiary in 1997.

In order to make the most of the customer interface provided by Lawson Ticket as well as the e-commerce business know-how and mechanism developed by i-Convenience, Inc, then a wholly-owned Lawson, Inc. subsidiary, these two subsidiaries merged in March 2009, with Lawson Ticket as the surviving company. In July 2009, the company changed its name to Lawson Entermedia, Inc. It was listed on the Osaka Securities Exchange JASDAQ Market but was delisted in June 2010. The company then became a wholly-owned subsidiary of Lawson, Inc. in July 2010 through a share swap transaction.

In September 2011, Lawson Entermedia, Inc. and our subsidiary HMV Japan K.K.* merged to form Lawson HMV Entertainment with the aim of achieving increased synergy between the entertainment and e-commerce businesses of the Lawson Group going forward. Lawson HMV Entertainment in the future will be able to leverage the Group's solid e-commerce business platform to provide one-stop shopping convenience to customers by, for instance, enabling those now buying concert tickets and CDs for a given artist separately to make purchases in one single action. The company is likely to generate good synergy between the HMV brand's competitive edge in the CD music industry and Lawson Ticket's footprint in the ticket distribution industry.

As for Lawson HMV Entertainment's revenue structure, commission revenues on ticket sales currently account for the bulk of its revenues. Its operating revenues mainly comprising commissions are recorded as "operating revenues- other" in the consolidated statement of income of Lawson, Inc.

For the year ended February 28, 2015, Lawson HMV Entertainment's operating profit stood at 3.0 billion yen, an increase of 9.8% compared to a year-ago period, supported by strong ticket sales mainly for major concerts.

*HMV Japan K.K. (a consolidated subsidiary of Lawson, Inc. until August 31, 2011) was a retailer selling CDs and DVDs under the HMV brand. Established in 1990, the firm opened its first store in Shibuya, Tokyo that year. The company in 1999 launched the "HMV Online" service to commence its current e-commerce business. In 2007, HMV Japan Holdings Co., Ltd., all shares of which were owned directly or indirectly by Daiwa Securities SMBC Principal Investments Co., Ltd., acquired all shares in HMV Japan K.K. In December 2010, Lawson, Inc. acquired all of the shares from HMV Japan Holdings Co., Ltd. in an effort to reinforce its entertainment business and achieve increased synergies with Lawson Entermedia, Inc.

■ Lawson HMV Entertainment, Inc. (Millions of Yen)

(Fiscal Year)	**2014**	2013	2012	2011	2010
Gross operating revenues	**46,018**	45,313	45,481	25,545	9,864
Operating profit	**3,093**	2,818	2,446	1,650	1,111
Net income	**2,918**	2,450	2,450	2,073	1,870

Lawson ATM Networks, Inc. (consolidated subsidiary)

Lawson ATM Networks, Inc. ("Lawson ATM Networks") was established in 2001 with investments from Mitsubishi Corporation, partner banks and Lawson, Inc., as a provider of automated teller machine (ATM) services for Lawson stores. The company installed ATMs at certain Lawson stores that year to launch the ATM service, which comprises the installation of multibank ATMs at Lawson stores in areas for which ATM installation agreement is reached with individual partner banks. Revenues, consisting mainly of an ATM operation service fee from such banks, are recorded as "operating revenues-other" in Lawson, Inc.'s consolidated statement of income. Principal expenses are composed chiefly of operation center contract service fees, ATM line costs and ATM equipment lease fees.

Operating income for the year ended February 28, 2015, stood at 5,900 million yen, more or less in line with the plan, albeit slightly down year on year, as the company installed a growing number of ATMs at Lawson stores.

During the year, Lawson ATM Networks continued to add to its list of ATM service partner banks, bringing the total to 71 banks based in Japan, including online banks, as of February 28, 2015, an increase of six banks compared to a year ago. The number of ATMs in operation at Lawson stores nationwide totalled 10,767, an increase of 649 year on year.

■ Lawson ATM Networks, Inc. (Millions of Yen)

(Fiscal Year)	**2014**	2013	2012	2011	2010
Gross operating revenues	**23,566**	24,188	23,975	23,063	20,826
Operating profit	**5,935**	6,089	4,753	3,640	3,159
Net income	**3,605**	3,689	2,712	1,993	1,788
Number of ATMs in operation (unit)	**10,767**	10,118	9,672	9,002	8,526

United Cinema Co., Ltd. (consolidated subsidiary)

In August 2014, Lawson, Inc. acquired all shares in United Entertainment Holdings, Inc., a holding company of cinema operator United Cinema Co., Ltd. ("UC"), in a deal newly conducted via Lawson HMV Entertainment United Cinema Holdings, Inc., a firm established by Lawson HMV Entertainment, Inc.

UC is Japan's third-largest cinema operator running 36 cinemas in the country (including partner cinemas) with 331 screens in combined total as of February 28, 2015. Thus, adding the firm to the Lawson Group will enable it to step up its contents holder service as an integrated entertainment distributor, and to boost its existing business lines' customer drawing power through collaborating with movie contents holders and encouraging its Lawson, HMV, e-commerce and cinema operations to guide customers to each other's service. Non-consolidated operating profit for the four months from September to December 2014 of UC, whose financial results are included in Lawson, Inc.'s consolidated statement of income, amounted to 100 million yen.

Shanghai Hualian Lawson, Inc. (consolidated subsidiary)

We were the first Japanese convenience store company to gain a foothold in China with our first store opening in 1996. We established Shanghai Hualian Lawson, Inc. ("Shanghai Hualian Lawson") in Shanghai, with Lawson, Inc. taking a 70.0% equity stake in the firm and Hualian Group Co., Ltd. ("Hualian Group")*, a Shanghai city government-related company, the remaining 30.0% equity stake in it.

With the aim of acquiring land and buildings in good locations and motivating local employees better, we transferred to the Hualian Group 21.0% of equity interest in Shanghai Hualian Lawson, out of our 70.0% equity interest in the firm, reducing our ownership in it to 49.0%. Subsequently, in response to changes in China's (Shanghai's) economic environment, we recognized the need to reinforce the Japanese-style convenience store concept. Accordingly, in September 2011, we began to again acquire incremental shares in Shanghai Hualian Lawson to regain management control of the company. After we brought our equity interest in Shanghai Hualian Lawson to 85.0%, the company was included in Lawson, Inc.'s scope of consolidation as a subsidiary. Lawson, Inc. carried out the above-mentioned incremental share acquisition program in order to accelerate its efforts to pursue the Japanese-style convenience store business model that is superior in product development, customer interaction, and cleanliness. This program, aimed at strengthening and expanding our China business, was done by concluding a share transfer agreement with Bailian Group Co., Ltd. ("Bailian Group")*, whose retail division restructuring was underway. Our equity interest in Hualian Lawson was raised even further since, standing at 94.0% as of February 28, 2015. The company aims to upgrade the quality of Lawson stores in Shanghai, the economic center of China, and achieve increased store brand appeal while focusing on ROI, a criterion used for new store opening in the country, as in Japan.

The total number of Lawson stores in operation stood at 354 as of February 28, 2015.

*Through a restructuring of China's retail industry driven by the national government, the Hualian Group was merged into the Bailian Group. In the course of this restructuring, all shares in the Hualian Group were transferred to the Bailian Group in December 2008.

■ Shanghai Hualian Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
Gross operating revenues	1,359	1,289	903	4,917	5,402
Operating profit (loss)	(645)	(404)	(574)	(283)	15
Net income (loss)	(924)	(1,568)	(2,034)	(443)	25
Number of stores	354	289	305	314	31

Chongqing Lawson, Inc. (consolidated subsidiary)

Populated by 33 million people (2014 JETRO survey), Chongqing is one of the world's biggest cities, and is China's fourth largest city trailing only Beijing, Shanghai, and Tianjin in population size. It is one of the nation's direct-controlled municipalities. The city has continued to enjoy double-digit economic growth for 10 consecutive years (2014 JETRO survey). This double-digit economic growth rate exceeds the national average and that of coastal cities such as Shanghai. It is against this backdrop that potential demand for convenience stores in China's fast-growing inland cities is increasing.

We established Chongqing Lawson, Inc. in April 2010 to gain a foothold in inland China as the first Japanese convenience store company to operate there at the invitation of the city. The first local Lawson store was opened in July the same year as a store equipped with a staff training facility. The Lawson store network has continued to grow steadily since, bringing the total store count to 104 as of February 28, 2015.

■ Chongqing Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
Gross operating revenues	3,473	1,843	977	258	30
Operating profit (loss)	(903)	(840)	(671)	(243)	(47)
Net income (loss)	(1,046)	(832)	(775)	(249)	(59)
Number of stores	104	77	49	38	47

Dalian Lawson, Inc. (consolidated subsidiary)

With a population of some six million (2014 JETRO survey), Dalian is the biggest port city in Northeast China. Following an invitation by the city of Dalian to commence convenience store operations there, we established Dalian Lawson, Inc. in September 2011 as a joint venture with local enterprise Dalian Acasia Fast Foods Co. before opening the first local Lawson store in November the same year. Currently, our equity stake in the company is 98.3%. The number of its Lawson stores stood at 30 as of February 28, 2015.

In the city of Beijing, we established Beijing Lawson, Inc. (non-consolidated company) in May 2013. The company opened 14 stores in the year ended February 28, 2015, bringing the total number of stores to 19 as of the date.

■ Dalian Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2014	2013	2012	2011	2010
Gross operating revenues	995	515	176	4	Established in Sep. 2011
Operating profit (loss)	(312)	(226)	(163)	(21)	
Net income (loss)	(338)	(210)	(196)	(27)	
Number of stores	30	18	8	3	

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

In May 2011, Lawson Asia Pacific Holdings Pte. Ltd. ("Lawson Asia Pacific Holdings") was established in Singapore as a wholly-owned consolidated subsidiary charged with managing Lawson, Inc.'s all non-China overseas operations. We signed a license agreement in June 2011 with PT MIDI UTAMA INDONESIA Tbk ("MIDI"), a member of the Alfa Group, a major Indonesian distribution and retail firm. Lawson Asia Pacific Holdings acquired a 30% equity stake in MIDI in July 2011. As of February 28, 2015, MIDI had 574 stores in operation comprising those under the Alfamidi store brand, a proprietary small-sized store format, and the Alfaexpress store brand while running 48 Lawson stores mainly in Greater Jakarta. In December 2014, Lawson, Inc. sold all its shareholding in then equity-method affiliate MIDI. While we acquired an equity stake of 2.24% in PT Sumber Alfaria Trijaya, MIDI's parent company, it is currently not within the scope of our consolidation.

In Thailand, Lawson Asia Pacific Holdings established Saha Lawson Co., Ltd. in November 2012 as a joint venture principally with the SAHA Group, Thailand's leading consumer goods distributor. In March 2013, this joint venture launched Lawson convenience stores under the "LAWSON 108" brand in Bangkok. As of February 28, 2015, the company had 32 Lawson stores in operation.

Outlook for Fiscal 2015

Deeming the year ending February 28, 2016 to be a year for us to fortify the foundation for Lawson, Inc. to continue growing in the future, we will pursue the structural reform composed mainly of the initiatives to "strengthen store capability," "improve merchandise assortment" and "better support franchise owners" while reinforcing Lawson stores' basic platform as a convenience store chain, in an effort to make them meet society's changing needs properly and remain loved by customers.

A program to invigorate existing Lawson stores in Japan

In order to further grow and develop with franchise stores, we will bring forward the introduction of a new franchise contract package designed for the franchise headquarters to bear part of store electricity bills and merchandise disposal loss, thereby building a platform in which the headquarters share greater risks with franchise stores while striving to achieve increased profits. Moreover, we will introduce at Lawson stores a semi-automatic ordering system using each store's Ponta member data, a move that will help us create an in-store environment that offers a merchandise assortment befitting each store and allows the customer to buy what he/she wants when he/she needs it.

Meanwhile, we will continue to make existing stores-related investments in earnest such as the wider introduction at Lawson stores of the "Machikado Chubo" in-store kitchen feature and the expanded installation there of store fixtures to cater for shoppers' supermarket goods substitution needs for frozen food and so on.

Delivery of required and value-added merchandise

On the merchandise front, we will boost LAWSON stores' merchandise assortment to make available items required by customers while continuing to deliver higher added value to customers in the form of the MACHI café service, "Machikado Chubo" in-store kitchen feature and over-the-counter fast food service. Moreover, through actively conducting customer drawing stimulation programs such as price discounting sale and TV commercial campaigns, we will strive to ensure that existing store sales, now remaining persistently in the negative territory, will recover to a flat level year on year, thereby enabling franchise stores to achieve improved profits even in the face of the challenging environment marked by the labor shortage and rising costs of various items.

New store opening plan focusing on location and profitability prospect

Adhering to its basic policy of focusing on profitability prospects, the Company plans to open 1,200 new LAWSON stores, including those run by merchants migrating to the LAWSON store format based on a new partnership agreement. While working harder to promote store relocation to better locations, we will close down 450 LAWSON stores in the year. Meanwhile, 300 LAWSON STORE 100 stores will be shut down due to the business revival plan, bringing the Company's net store increase to 450 for the year ending February 28, 2016.

Optimization of gross profit margin and costs

We aim to achieve a gross profit margin of 31.5%, an increase of 0.2 percentage points compared to a year-ago period. At a time when yen weakness and rising raw materials prices have been persisting since 2014, the Company will maximally leverage the supply chain function subsidiary SCI, Inc. for securing raw materials nimbly and switching to domestically-produced raw materials, thereby curbing cost ratio deterioration. Moreover, we will further expand our traditionally-competitive over-the-counter fast food service offerings, a service category involving sales of merchandise with a higher gross profit ratio, thus attaining the increased operating gross profit margin for the Company.

As for selling, general, and administrative expenses, franchise store assisting expenses are projected to grow by approx. 2.0 billion to 3.0 billion yen year on year for the year ending February 28, 2016 as the Company plans to bring forward the introduction of the new franchise contract package targeting 3,000 stores or so. In addition, we intend to increase advertising expenses for the year by 2.0 billion yen or more compared to the previous year with the aim of bolstering the customer drawing power of Lawson stores. These steps are likely to result in non-consolidated selling, general, and administrative expenses rising by 5% to 10% year on year. Non-consolidated operating profit for the year ending February 28, 2016 is projected to decline by 4.0% year on year to 58.5 billion yen, greatly affected by the above-mentioned measures to allocate higher expenses with the aim of making sure to improve franchise stores' profits and allow existing stores to attain 100% daily sales equivalent to those of a year ago.

Income contribution by consolidated subsidiaries

SEIJO ISHII CO., LTD. and United Cinema Co., Ltd., two firms to be included in the scope of Lawson, Inc.'s consolidation on a full-year basis starting from the year ending February 28, 2016, are projected to achieve a year-on-year gain in operating profit, posting 4.9 billion yen and 1.1 billion yen, respectively. The former and the latter expect to incur company acquisition-induced goodwill amortization of 0.8 billion yen and 0.5 billion yen, respectively.

Full-scale implementation of the home convenience-related business

We will leverage the Lawson Group's over-10,000-strong real store network to implement the home delivery service, a type of service providing great convenience to local community customers. As part of the initiative, Lawson, Inc. in April 2015 entered into a business partnership agreement with SG HOLDINGS, CO., LTD., the core company of which is SAGAWA EXPRESS CO., LTD. We will continue to expand the scope of our partner firms in the coming years, striving to build an open platform.

Overseas business development

Our overseas business is anticipated to post an aggregated total of 3.4 billion yen in operating loss for the year ending February 28, 2016. While continuing to open new stores in each country in a discreet manner, we will endeavour to achieve higher profitability. MIDI of Indonesia will be excluded from the scope of Lawson, Inc.'s consolidation as it sold its shareholding in the firm in the previous year. Philippines firm PG Lawson, Inc. the first LAWSON store of which was opened on March 30, 2015, will not be included in the scope of Lawson, Inc.'s consolidation for the year ending February 28, 2016 as its business is small in size.

Business performance outlook for fiscal 2015

For the year ending February 28, 2016, consolidated operating profit is projected at 71.0 billion yen, an increase of 0.7% year on year as earnings contribution should be made by SEIJO ISHII CO., LTD. on a full-year basis while non-consolidated operating income is likely to decline year on year. The net profit is projected at 35.2 billion yen, an increase of 7.7% year on year, and ROE is projected at 13.5%, an increase of 0.5 of a percentage point year on year.

Consolidated Balance Sheet

Lawson, Inc. and Consolidated Subsidiaries
February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2015	2014	2015
CURRENT ASSETS :			
Cash and cash equivalents	¥76,755	¥68,760	$643,540
Time deposits	4	8,004	34
Accounts receivable:			
Due from franchised stores (Notes 4 and 9)	37,052	32,186	310,656
Other	58,667	54,193	491,884
Allowance for doubtful accounts	(2,579)	(2,393)	(21,623)
Inventories	17,044	9,596	142,902
Deferred tax assets (Note 15)	5,300	4,481	44,437
Prepaid expenses and other current assets	31,400	20,957	263,268
Total current assets	223,643	195,784	1,875,098
PROPERTY AND STORE EQUIPMENT:			
Land (Notes 6 and 7)	9,640	8,774	80,825
Buildings (Note 6)	318,679	268,930	2,671,913
Furniture, fixtures, and equipment (Note 6)	74,271	65,945	622,713
Lease assets (Note 17)	154,932	126,056	1,299,002
Other (Note 6)	572		4,796
Total	558,094	469,705	4,679,249
Accumulated depreciation	(283,657)	(236,268)	(2,378,276)
Net property and store equipment	274,437	233,437	2,300,973
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	8,334	2,276	69,875
Investments in associated companies	11,447	10,982	95,976
Long-term loans receivable	37,233	33,728	312,174
Goodwill (Note 6)	48,189	9,719	404,033
Software (Note 6)	18,800	18,263	157,625
Trademark right	11,990	106	100,528
Lease deposits	93,206	86,150	781,471
Deferred tax assets (Note 15)	26,252	21,628	220,106
Other (Note 6)	12,204	9,886	102,322
Allowance for doubtful accounts	(1,121)	(966)	(9,399)
Total investments and other assets	266,534	191,772	2,234,711
TOTAL	¥764,614	¥620,993	$6,410,782

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2015	2014	2015
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 8 and 20)	¥103,459	¥89,171	$867,435
Due to franchised stores (Note 9)	1,508	1,405	12,644
Other	48,990	31,214	410,749
Short-term bank loans (Note 10)	1,740	680	14,589
Current portion of long-term debt (Note 10)	20,523	16,586	172,072
Income taxes payable	13,301	14,330	111,520
Money held as agent	103,634	87,586	868,902
Accrued expenses and other current liabilities	7,914	5,735	66,353
Total current liabilities	301,069	246,707	2,524,264
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 11)	12,959	11,083	108,653
Allowance for retirement benefits to executive officers and audit and supervisory board members	368	408	3,085
Guarantee deposits received from franchised stores and other	29,993	32,253	251,471
Long-term debt (Note 10)	134,599	61,667	1,128,524
Asset retirement obligations (Note 12)	21,530	17,875	180,515
Other	298	502	2,498
Total long-term liabilities	199,747	123,788	1,674,746
EQUITY (Note 13):			
Common stock—authorized, 409,300,000 shares in 2015 and 2014; issued, 100,300,000 shares in 2015 and 2014	58,507	58,507	490,542
Capital surplus	47,697	47,741	399,908
Stock acquisition rights	223	557	1,870
Retained earnings	147,177	138,142	1,233,982
Treasury stock—at cost, 395,953 shares in 2015 and 406,853 shares in 2014	(1,272)	(1,556)	(10,665)
Accumulated other comprehensive income:			
Net unrealized loss on available-for-sale securities	(394)	(94)	(3,303)
Land revaluation difference (Note 7)	(566)	(567)	(4,746)
Foreign currency translation adjustments	5,493	3,118	46,055
Defined retirement benefit plans	(519)		(4,351)
Total	256,346	245,848	2,149,292
Minority interests	7,452	4,650	62,480
Total equity	263,798	250,498	2,211,772
TOTAL	¥764,614	¥620,993	$6,410,782

Consolidated Statement of Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥247,681	¥242,079	$2,076,641
Net sales	174,044	168,159	1,459,244
Other	76,188	75,010	638,786
Total operating revenues	497,913	485,248	4,174,671
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 20)	128,116	126,638	1,074,168
Selling, general, and administrative expenses	299,315	290,483	2,509,558
Total costs and operating expenses	427,431	417,121	3,583,726
Operating income	70,482	68,127	590,945
OTHER (EXPENSES) INCOME:			
Interest expense—net	(658)	(405)	(5,517)
Compensation income		795	
Foreign exchange gains	1,585	272	13,289
Loss on cancellation of leases	(1,168)	(571)	(9,793)
Gain on sales of noncurrent assets		51	
Loss on disposal of property and store equipment	(2,967)	(2,648)	(24,876)
Loss on liquidation of business	(1,520)		(12,744)
Impairment of long-lived assets (Note 6)	(8,263)	(5,744)	(69,280)
Other—net	880	(91)	7,378
Other expenses—net	(12,111)	(8,341)	(101,543)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	58,371	59,786	489,402
INCOME TAXES (Note 15):			
Current	24,939	26,759	209,097
Deferred	312	(5,136)	2,616
Total income taxes	25,251	21,623	211,713
NET INCOME BEFORE MINORITY INTERESTS	33,120	38,163	277,689
MINORITY INTERESTS IN NET INCOME	(433)	(197)	(3,630)
NET INCOME	¥32,687	¥37,966	$274,059

	Yen		U.S. Dollars
	2015	2014	2015
PER SHARE OF COMMON STOCK (Notes 2.t and 22):			
Net income—basic	¥327.08	¥380.04	$2.74
Net income—diluted	326.65	379.35	2.74
Cash dividends applicable to the year	240	220	2.01

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
NET INCOME BEFORE MINORITY INTERESTS	¥33,120	¥38,163	$277,689
OTHER COMPREHENSIVE INCOME:			
Unrealized loss on available-for-sale securities	(300)	(172)	(2,515)
Land revaluation difference	1		8
Foreign currency translation adjustments	962	2,655	8,066
Share of other comprehensive income in associated companies	1,441	(839)	12,082
Total other comprehensive income	2,104	1,644	17,641
COMPREHENSIVE INCOME	¥35,224	¥39,807	$295,330
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥34,762	¥39,733	$291,456
Minority interests	462	74	3,874

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2015

	Thousands of Shares/Millions of Yen						
	Common Stock					Treasury Stock	
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount
BALANCE, MARCH 1, 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)
Net income					32,687		
Year-end cash dividends, ¥110 per share					(10,989)		
Interim cash dividends, ¥120 per share					(11,990)		
Change of scope of equity method					(608)		
Reversal of land revaluation difference					(1)		
Purchase of treasury stock						(40)	(290)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(45)		(64)	135	573
Disposal of treasury stock			1			0	1
Others—net				(334)			
BALANCE, FEBRUARY 28, 2015	100,300	¥58,507	¥47,697	¥223	¥147,177	301	¥ (1,272)

	Thousands of Shares/Millions of Yen						
	Accumulated Other Comprehensive Income						
	Net Unrealized Loss on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 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
Net income					32,687		32,687
Year-end cash dividends, ¥110 per share					(10,989)		(10,989)
Interim cash dividends, ¥120 per share					(11,990)		(11,990)
Change of scope of equity method					(608)		(608)
Reversal of land revaluation difference					(1)		(1)
Purchase of treasury stock					(290)		(290)
Exercise of stock acquisition rights to shares (delivery of treasury stock)					464		464
Disposal of treasury stock					2		2
Others—net	(300)	1	2,375	¥ (519)	1,223	2,802	4,025
BALANCE, FEBRUARY 28, 2015	¥ (394)	¥ (566)	¥5,493	¥ (519)	¥256,346	¥7,452	¥263,798

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, FEBRUARY 28 2014	$490,542	$400,277	$4,670	$1,158,229	$ (13,046)
Net income				274,059	
Year-end cash dividends, $0.92 per shareshare				(92,135)	
Interim cash dividends, $1.01 per share				(100,528)	
Change of scope of equity method				(5,098)	
Reversal of land revaluation difference				(8)	
Purchase of treasury stock					(2,431)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		(377)		(537)	4,804
Disposal of treasury stock		8			8
Others—net			(2,800)		
BALANCE, FEBRUARY 28, 2015	$490,542	$399,908	$1,870	$1,233,982	$ (10,665)

	Thousands of U.S. Dollars (Note 1)						
	Accumulated Other Comprehensive Income						
	Net Unrealized Loss on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28 2014	$ (788)	$ (4,754)	$26,142		$2,061,272	$38,987	$2,100,259
Net income					274,059		274,059
Year-end cash dividends, $0.92 per shareshare					(92,135)		(92,135)
Interim cash dividends, $1.01 per share					(100,528)		(100,528)
Change of scope of equity method					(5,098)		(5,098)
Reversal of land revaluation difference					(8)		(8)
Purchase of treasury stock					(2,431)		(2,431)
Exercise of stock acquisition rights to shares (delivery of treasury stock)					3,890		3,890
Disposal of treasury stock					16		16
Others—net	(2,515)	8	19,913	$ (4,351)	10,255	23,493	33,748
BALANCE, FEBRUARY 28, 2015	$ (3,303)	$ (4,746)	$46,055	$ (4,351)	$2,149,292	$62,480	$2,211,772

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥58,371	¥59,786	$489,402
Adjustments for:			
Income taxes paid	(26,176)	(26,956)	(219,468)
Depreciation and amortization	41,826	47,889	350,683
Impairment of long-lived assets	8,263	5,744	69,280
(Reversal of) provision for allowance for doubtful accounts	(171)	565	(1,435)
Loss on disposal of property and store equipment	2,967	2,648	24,876
Loss (gain) on sales of investment securities—net	760	(404)	6,372
Changes in assets and liabilities:			
Increase in accounts receivable	(8,025)	(14,256)	(67,284)
Increase in inventories	(2,589)	(211)	(21,707)
Increase in accounts payable	26,289	5,569	220,416
Increase in money held as agent	15,610	50	130,879
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	1,684	1,260	14,120
Decrease in guarantee deposits received from franchised stores and other	(2,308)	(2,559)	(19,351)
Other—net	(5,933)	2,378	(49,744)
Total adjustments	52,197	21,717	437,637
Net cash provided by operating activities	110,568	81,503	927,039
INVESTING ACTIVITIES:			
Payments into time deposits	(11,204)	(22,000)	(93,938)
Proceeds from withdrawal of time deposits	19,204	26,000	161,013
Purchase of investment securities	(6,507)	(45)	(54,557)
Purchases of property and store equipment	(41,053)	(34,857)	(344,202)
Purchases of software and other intangible assets	(7,902)	(5,499)	(66,253)
Purchase of long-term prepaid expenses	(3,806)	(2,373)	(31,911)
Decrease (increase) in short-term loans receivable	3,135	(4,145)	26,285
Increase in long-term loans receivable	(4,633)	(2,000)	(38,845)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(41,381)		(346,952)
Acquisition of a subsidiary, net of cash acquired		1,733	
Acquisition of associated companies	(3,335)	(4,052)	(27,962)
Other—net	(2,952)	(686)	(24,751)
Net cash used in investing activities	(100,434)	(47,924)	(842,073)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
FINANCING ACTIVITIES:			
Repayments of long-term debt	(42,122)	(17,663)	(353,165)
Cash dividends paid	(22,979)	(20,978)	(192,663)
Proceeds from stock issuance to minority shareholders	2,000		16,769
Proceeds from long-term debt	59,000		494,676
Other—net	812	(1,009)	6,808
Net cash used in financing activities	(3,289)	(39,650)	(27,575)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,150	2,065	9,642
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,995	(4,006)	67,033
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,760	72,766	576,507
CASH AND CASH EQUIVALENTS, END OF YEAR	¥76,755	¥68,760	$643,540

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 28, 2015

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 2014 financial statements to conform to the classifications used in 2015.

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 ¥119.27 to $1, the approximate rate of exchange at February 28, 2015. 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, 2015, which represent 32.4% 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 fifteen (twelve in 2014) 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 2014) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and 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 (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 in net income.

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 previous accounting standard required R&D costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

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 7). Depreciation is computed mainly by the straight-line 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. **Trademark right**—Trademark right is amortized using the straight line method based on the estimated useful life (mainly twenty years).

m. **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 projected benefit obligations and plan assets at the balance sheet date. Unrecognized prior service costs are amortized on a straight-line method over 10 years, which is determined within the average remaining service periods for the employees.
Unrecognized actuarial gains or losses are amortized on a straight-line method over 10 years, which is determined to be within the average remaining service periods for the employees, from the following year in which it occurs.

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

(1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are 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.

The Company applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective February 28, 2015. As a result, liability for retirement benefits of ¥12,959 million ($108,653 thousand) were recorded as of February 28, 2015, and accumulated other comprehensive income for the year ended February 28, 2015, decreased by ¥519 million ($4,351 thousand).

n. **Allowance for Retirement Benefits to Executive Officers and Audit and 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 and supervisory board members resigned as of each balance sheet date.

o. **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.

p. **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.

q. **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.

r. **Income Taxes**— The Companies provide for income taxes applicable to all items included in the consolidated statement 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.

s. **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.

t. 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 99,931 thousand shares for 2015 and 99,898 thousand shares for 2014.

Diluted net income per share for the years ended February 28, 2015 and 2014, 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.

u. 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.

v. Reclassification of Prior Year's Consolidated Financial Statements— The Company has made changes to the classification of amounts in the consolidated balance sheet, consolidated income statement and the consolidated cash flows statement for the year ended February 28, 2015. In order to conform with the presentation for the year ended February 28, 2015, the Company has reclassified the related amounts in the consolidated balance sheet, the consolidated income statement and the consolidated cash flows statement for the year ended February 28, 2014, respectively, as stated below.

The Company has reclassified "Trademark right" in the Investments and other assets section of the consolidated balance sheet for the year ended February 28, 2015. The amount previously included in "other" as of February 28, 2014 was ¥106 million.

The Company has reclassified "Foreign exchange gains" and "Loss on cancellation of leases" in the Other (Expenses) Income section of the consolidated income statement for the year ended February 28, 2015. The amounts previously included in "other-net" as of February 28, 2014 were ¥272 million and ¥(571) million, respectively.

The Company has reclassified "Equity in earnings of associated companies" and "Decrease in claims in bankruptcy and reorganization" in the Operating Activities section of the consolidated cash flows statement for the year ended February 28, 2014, to "Other-net" among the Operating activities section of the consolidated cash flows statement for the year ended February 28, 2015. The amounts included in "other-net" as of February 28, 2014 were ¥(119) million and ¥123 million, respectively.

The Company has reclassified "Purchase of investment securities" in the Investing Activities section of the consolidated cash flows statement for the year ended February 28, 2015. The amount previously included in "other-net" as of February 28, 2014 was ¥(45) million.

w. 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:

(1) Outline
Based on the viewpoint of improving financial reporting and international movement, amendments were made with a focus on the methods of processing unrecognized actuarial differences and unrecognized prior service costs, the methods of calculating retirement benefit obligations and service costs, and the expansion of disclosure.

(2) Expected adoption date
The revised methods of calculating the retirement benefit obligations and service costs will be adopted from the beginning of the fiscal period ending February 28, 2016.

(3) Effect of application of the standards
The effects of applying the revised accounting standard above for the year ending February 28, 2016 are expected to be a increase of beginning of retained earnings by ¥1,411 million ($11,830 thousand). The effect of this change in the consolidated statement of income is expected to be immaterial.

Accounting Standards for Business Combinations and Consolidated Financial Statements— In September, 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:

(a) *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.

(b) *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.

(c) *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.

(d) *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 provisional 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.

(e) *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 (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs 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 (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) 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 shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income 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 (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs 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 for (a), (b), (c) and (e) above from March 1, 2016, and for (d) above for a business combination which will occur on or after 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 CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies which are not easily distinguished from changes in accounting estimates

Depreciation method of property and store equipment

The Company and domestic consolidated subsidiaries changed the depreciation method for property and store equipment (excluding lease assets) from the declining-balance method to the straight-line method which has been adopted primarily from the current fiscal year.

The Companies, under the policy of placing emphasis on existing stores, reviewed the depreciation method of its property and store equipment upon the adoption of a strategy to reinforce the competitiveness of its existing stores, which includes the utilization of membership card data and the restructuring of the Companies. As a result, the depreciation method was changed to the straight-line method from the current consolidated fiscal year because an even distribution of depreciation is considered to be more appropriate going forward since it is anticipated that the number of visiting customers, which is proportionate to equipment utilization (the main factor behind economic depreciation), will be maintained as store assets age.

The effects of this change compared to the previous method are an increase of ¥9,422 million ($78,997 thousand) in operating income and income before income taxes and minority interests for the fiscal year ended February 28, 2015.

The effects on segment information are stated in the relevant sections.

4 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.

5 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Non-current— Marketable and other equity securities	**¥8,101**	¥2,276	**$67,921**
Non-current— Corporate bonds	**233**		**1,954**

The costs and aggregate fair values of marketable and investment securities as of February 28, 2015 and 2014, were as follows:

	Millions of Yen			
February 28, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	**6,355**		**¥ 780**	**¥5,575**

	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

	Thousands of U.S. Dollars			
February 28, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale— Equity securities	**$53,283**		**$6,540**	**$46,743**

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended February 28, 2015 and 2014, were as follows:

	Millions of Yen		
February 28, 2015	Proceeds	Realized Gain	Realized Loss
Available-for-sale:			
Equity securities	**¥369**	**¥369**	

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

	Thousands of U.S. Dollars		
February 28, 2015	Proceeds	Realized Gain	Realized Loss
Available-for-sale:			
Equity securities	**$3,094**	**$3,094**	

6 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 statement of income.

The Companies recognized an impairment loss in the following asset categories for the years ended February 28, 2015 and 2014:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	2015	2014	2015
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	¥1,308	¥729	$10,967
		Osaka	771	598	6,464
		Others	4,240	2,566	35,550
Other	Land		29		243
	Buildings and Furniture, fixtures, and equipment			608	
	Software		17	1236	143
	Goodwill		1,898		15,913
	Other			7	
Total			¥8,263	¥5,744	$69,280

The above noted assets, which incurred impairment losses for the years ended February 28, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Buildings	¥3,659	¥2,868	$30,678
Furniture, fixtures, and equipment	464	359	3,890
Lease assets	2,172	1,251	18,212
Land	29		243
Goodwill	1,898		15,913
Software	17	1,236	143
Other	24	30	201
Total	¥8,263	¥5,744	$69,280

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 4.8% and 4.3% for the years ended February 28, 2015 and 2014, respectively.

7 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, 2015, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥314 million ($2,633 thousand).

8 ACCOUNTS PAYABLE—TRADE

The balances of "Accounts payable—trade" represent the amounts payable to vendors for merchandise purchased by the Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for the Company-operated stores and franchised stores and makes collective payments to vendors (see Note 4).

"Accounts payable—trade" as of February 28, 2015 and 2014, was summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Accounts payable—trade for franchised stores	¥83,386	¥79,444	$699,136
Accounts payable—trade for the Company-operated stores	20,073	9,727	168,299
Total	¥103,459	¥89,171	$867,435

9 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 4.

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."

10 SHORT-TERM BANK LOANS AND LONG TERM DEBT

Short-term bank loans at February 28, 2015 and 2014, consisted of notes to banks.

The annual interest rates applicable to the short-term bank loans were 0.33% and 0.05% at February 28, 2015 and 2014, respectively.

Long-term debt at February 28, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Loans from banks, due serially to 2019 with a weighted-average interest rate of 0.26% (2015)	**¥59,000**		**$494,676**
Obligations under finance leases	**96,122**	¥78,253	**805,920**
Less current portion	**(20,523)**	(16,586)	**(172,072)**
Long-term debt, less current portion	**¥134,599**	¥61,667	**$1,128,524**

The aggregate annual maturities of the current portion of long-term debt and long-term debt, excluding finance leases, at February 28, 2015, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2016	¥575	$4,821
2017	575	4,821
2018	575	4,821
2019	575	4,821
2020	56,700	475,392
Total	¥59,000	$494,676

The aggregate annual maturities of finance lease obligations at February 28, 2015, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2016	¥19,948	$167,251
2017	18,558	155,597
2018	16,791	140,781
2019	14,217	119,200
2020 and thereafter	26,608	223,090
Total	¥96,122	$805,919

As of February 28, 2015, the carrying amounts of assets pledged as collateral for short-term bank loans and the current portion of long-term debt of ¥1,575 million ($13,205 thousand) and long-term debt of ¥8,425 million ($70,638 thousand), respectively, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending February 28 or 29	2015	2015
Cash and cash equivalents	¥416	$3,488
Shares of consolidated subsidiaries (Amount before elimination)	16,615	139,306
Total	¥17,031	$142,794

11 EMPLOYEES' RETIREMENT BENEFITS

For employees' retirement benefits, the Company and some consolidated subsidiaries adopt a funded defined benefit type lump-sum retirement allowance plan and a defined contribution type pension plan.

The lump-sum retirement allowance plan (unfunded, but some are funded as a result of setting an employee pension trust) pays a lump sum as a retirement benefit based on salary and length of service of the employee.

The lump-sum retirement allowance plan employed by some consolidated subsidiaries calculates liabilities related to retirement benefits and retirement benefit expenses by the simplified method.

Year Ended February 28, 2015

(1) The changes in defined benefit obligation for the year ended February 28, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥17,417	$146,030
Current service cost	1,405	11,780
Interest cost	209	1,752
Actuarial losses	86	721
Benefits paid	(804)	(6,741)
Others	35	294
Balance at end of year	¥18,348	$153,836

(2) The changes in plan assets for the year ended February 28, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,588	$46,852
Actuarial gains	1	8
Balance at end of year	¥5,589	$46,860

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥17,053	$142,978
Plan assets	(5,589)	(46,860)
	11,464	96,118
Unfunded defined benefit obligation	1,295	721
Net liability arising from defined benefit obligation	¥12,759	$96,839

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥12,759	$96,839
Net liability arising from defined benefit obligation	¥12,759	$96,839

(4) The components of net periodic benefit costs for the year ended February 28, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,405	$11,780
Interest cost	209	1,752
Recognized actuarial losses	114	956
Amortization of prior service cost	5	42
Others	(9)	(75)
Net periodic benefit costs	¥1,724	$14,455

(5) Accumulated other comprehensive income on defined retirement benefit plans as of February 28, 2015

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥29	$243
Unrecognized actuarial losses	712	5,970
Total	¥741	$6,213

(6) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended February 28, 2015, were set forth as follows:

Discount rate	1.2% (mainly)
Expected rate of return on plan assets	0%

(8) Contributions to the defined contribution pension plan for the year ended February 28, 2015, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Periodic benefit cost	¥331	$2,775

Year Ended February 28, 2014

The liability (asset) for retirement benefits at February 28, 2014, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥17,416
Fair value of plan assets	(5,588)
Unrecognized actuarial gain (loss)	(745)
Net liability (asset)	¥11,083

The components of net periodic benefit costs for the year ended February 28, 2014, are as follows:

	Millions of Yen
Service cost	¥1,383
Interest cost	200
Amortization of prior service cost	179
Recognized actuarial loss	136
Contribution to defined contribution plan	295
Net periodic benefit costs	¥2,193

Assumptions used for the year ended February 28, 2014, are set forth as follows:

Discount rate	1.2% (mainly)
Expected rate of return on plan assets	0%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years

12 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Balance at beginning of year	**¥17,885**	¥16,791	**$149,954**
Additional provisions associated with the acquisition of property, plant, and equipment	**1,711**	1,373	**14,345**
Reconciliation associated with passage of time	**343**	321	**2,876**
Reduction associated with settlement of asset retirement obligations	**(832)**	(600)	**(6,976)**
Other	**2,445**		**20,500**
Total	**21,552**	17,885	**180,699**
Less current portion	**(22)**	(10)	**(184)**
Asset retirement obligations, less current portion	**¥21,530**	¥17,875	**$180,515**

13 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.

14 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, 2015, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	ExercisePrice	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
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 ($0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 ($0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 ($0.01)	From February 18, 2012 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 ($0.01)	From April 12, 2013 to March 26, 2033
13th Stock Option	7 directors	25,400 shares	2014.4.10	¥1 ($0.01)	From April 10, 2014 to March 23, 2034

The stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	12th Stock Option	13th Stock Option
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	21,500	18,900	27,000		
Vested								26,900	
Exercised									
Canceled									
February 28, 2014—Outstanding	15,000	21,300	18,000	26,400	21,500	18,900	27,000	26,900	
Year Ended February 28, 2015									
Non-vested									
February 28, 2014—Outstanding									
Granted									25,400
Canceled									
Vested									25,400
February 28, 2015—Outstanding									
Vested									
February 28, 2014—Outstanding	15,000	21,300	18,000	26,400	21,500	18,900	27,000	26,900	
Vested									25,400
Exercised	11,200	11,400	11,400	17,200	15,200	13,000	19,900	18,400	18,100
Canceled									
February 28, 2015—Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise	¥7,690	¥7,696	¥7,697	¥7,698	¥7,698	¥7,698	¥7,698	¥7,774	¥7,765
	($64.48)	($64.53)	($64.53)	($64.54)	($64.54)	($64.54)	($64.54)	($65.18)	($65.10)
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146
		($26.65)	($23.91)	($29.15)	($22.24)	($22.55)	($28.00)	($46.25)	($43.15)

The assumptions used to measure the fair value of the 13th stock option (2015) were as follows:

	13th Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	24.10%
Estimated remaining outstanding period	10 years
Estimated dividend	¥210 per share
Risk-free interest rate	0.60%

15 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 38.0% for the years ended February 28, 2015, and 2014.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2015 and 2014, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Deferred tax assets:			
Accrued enterprise taxes	**¥1,063**	¥1,254	**$8,913**
Accrued employees' bonuses	**1,031**	880	**8,644**
Excess of depreciation	**14,839**	12,164	**124,415**
Excess of amortization of software	**348**	808	**2,918**
Employees' retirement benefits	**6,584**	6,018	**55,202**
Allowance for doubtful accounts	**1,011**	1,055	**8,477**
Impairment loss	**3,560**	3,072	**29,848**
Tax loss carryforwards	**13,520**	7,261	**113,356**
Other	**7,578**	3,190	**63,537**
Less valuation allowance	**(13,759)**	(9,593)	**(115,360)**
Total	**35,775**	26,109	**299,950**
Deferred tax liabilities—Trademark right	**4,223**		**35,407**
Net deferred tax assets	**¥31,552**	¥26,109	**$264,543**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended February 28, 2015, is as follows:

	2015	2014
Normal effective statutory tax rate	38.0%	-
Change in valuation allowance	1.9	-
Expenses not deductible for income tax purposes	0.4	-
Per-capita inhabitant tax	0.5	-
Difference in tax rates of foreign consolidated subsidiaries	1.3	-
Reduction of ending deferred tax balance due to change in statutory tax rate	1.1	-
Amortization of goodwill	0.9	-
Impairment loss of goodwill	1.2	-
Effect of net operating loss carried forward resulting from liquidation of consolidated subsidiaries	(1.4)	-
Other—net	(0.6)	-
Actual effective tax rate	43.3%	-

For the year ended February 28, 2014, the reconciliation is not disclosed because the difference is less than 5% of the normal effective statutory tax rate.

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 38.0% to 35.6%. The effect of this change is immaterial.

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 35.6% and for the fiscal year beginning on or after April 1, 2016, to approximately 32.3%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥2,198 million ($18,429 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥2,156 million ($18,077 thousand).

At February 28, 2015, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥30,888 million ($258,975 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
2015	¥963	$8,074
2018	1,369	11,478
2019	571	4,787
2020	11,950	100,193
2021	4,975	41,712
2022	8,511	71,359
2023	442	3,706
2024	2,107	17,666
Total	¥30,888	$258,975

16 SUPPLEMENTAL INFORMATION FOR CASH FLOWS

(1) Finance lease assets and finance lease obligations regarded as noncash transactions incurred for the year ended February 28, 2015, amounted to ¥33,682 million ($282,401 thousand).

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

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

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Current assets	¥14,441	$121,078
Noncurrent assets	27,418	229,882
Goodwill	28,744	241,000
Current liabilities	28,219	236,598
Long-term liabilities	6,114	51,262
Cost of purchase of investments in subsidiaries	36,270	304,100
Cash and cash equivalent of newly consolidated companies	5,803	48,655
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥30,467	$255,445

The following is a breakdown of assets and liabilities at the time United Entertainment Holdings Co., Ltd. and its subsidiary United Cinema Co., Ltd. was newly consolidated through purchase of shares, and the difference between the cost of purchase of United Entertainment Holdings Co., Ltd. shares and proceeds from the purchase.

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Current assets	¥3,947	$33,094
Noncurrent assets	7,307	61,264
Goodwill	9,563	80,179
Current liabilities	4,764	39,943
Long-term liabilities	3,036	25,455
Cost of purchase of investments in subsidiaries	13,017	109,139
Cash and cash equivalent of newly consolidated companies	2,103	17,632
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥10,914	$91,507

17 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 as of February 28, 2015 and 2014, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2015		2014		2015	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥19,948	¥1,064	¥16,586	¥914	$167,251	$8,921
Due after one year	76,174	1,498	61,667	1,295	638,669	12,560
Total	¥96,122	¥2,562	¥78,253	¥2,209	$805,920	$21,481

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	2015	2014	2015
Acquisition cost	¥7,763	¥13,773	$65,088
Accumulated depreciation	7,188	11,490	60,267
Accumulated impairment loss	429	673	3,597
Net leased property	¥146	¥1,610	$1,224

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due within one year	¥610	¥1,793	$5,114
Due after one year	3	629	26
Total	¥613	¥2,422	$5,140

Allowance for impairment loss on leased property of ¥243 million ($2,037 thousand) and ¥375 million as of February 28, 2015 and 2014, 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
	2015	2014	2015
Depreciation expense	¥1,686	¥2,662	$14,136
Interest expense	38	103	319
Lease payments	1,833	3,016	15,368
Reversal of allowance for impairment loss on leased property	140	178	1,174
Impairment loss	8	32	67

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.

18 COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 28, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrealized loss on available-for-sale securities			
Losses arising during the year	¥ (432)	¥ (263)	$ (3,622)
Reclassification adjustments to profit or loss	(23)	(9)	(193)
Amount before income tax effect	(455)	(272)	(3,815)
Income tax effect	155	100	1,300
Total	¥ (300)	¥ (172)	$ (2,515)
Land Revaluation Difference			
Adjustments arising during the year	¥1		$8
Foreign currency translation adjustments			
Adjustments arising during the year	¥2,089	¥2,655	$17,515
Reclassification adjustments to profit or loss	(1,127)		(9,449)
Total	¥962	¥2,655	$8,066
Share of other comprehensive loss in associated companies			
Losses arising during the year	¥ (31)	¥ (839)	$ (260)
Reclassification adjustments to profit or loss	1,472		12,342
Total	¥1,441	(839)	$12,082
Total other comprehensive income	¥2,104	¥1,644	$17,641

19 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.

For entertainment/home convenience business, Lawson HMV Entertainment, Inc. sells concert tickets at Lawson stores, and CD and video media at HMV stores. In addition, United Cinemas Co., Ltd. operates construction and management of multiplex movie theatres.

From this current consolidated fiscal year under review, for Lawson HMV Entertainment, Inc, due to its rise in importance, changes were made to the recording method of reporting segments. Based on this change, for segment information of the previous fiscal year, the segment information for the previous year included in "(c) Information about sales, plofit (loss), assets and other items" has been reclassified.

(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.

As described in Note 3, the Company and its domestic consolidated subsidiaries changed their depreciation method of property, plant and equipment to the straight-line method in the consolidated fiscal year started March 1, 2014.

As a result of this change, in the fiscal year ended February 28, 2015, segment profit for the domestic convenience store segment increased by ¥9,404 million ($78,846 thousand), the entertainment/home convenience business segment increased by ¥17 million ($143 thousand) and the Other segment increased by ¥1 million ($8 thousand).

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

	Millions of Yen					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil- iations	Consolidated
Sales:						
Sales to external customers	**¥392,463**	**¥50,688**	**¥54,762**	**¥497,913**		**¥497,913**
Intersegment sales or transfers	**2,917**	**1,413**	**1,170**	**5,500**	**¥ (5,500)**	
Total	**¥395,380**	**¥52,101**	**¥55,932**	**¥503,413**	**¥ (5,500)**	**¥497,913**
Segment profit	**¥63,864**	**¥2,588**	**¥4,021**	**¥70,473**	**¥9**	**¥70,482**
Segment assets	**707,340**	**58,323**	**115,964**	**881,627**	**(117,013)**	**764,614**
Other:						
Depreciation	**36,927**	**839**	**2,667**	**40,433**		**40,433**
Amortization of goodwill	**409**	**433**	**551**	**1,393**		**1,393**
Payment for associated companies	**3,806**			**3,806**		**3,806**
Increase in property, plant,and equipment and intangible assets	**45,039**	**1,085**	**2,831**	**48,955**		**48,955**

	Millions of Yen					
	2014					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil- iations	Consolidated
Sales:						
Sales to external customers	¥408,018	¥44,620	¥32,610	¥485,248		¥485,248
Intersegment sales or transfers	2,305	1,421	1,084	4,810	¥ (4,810)	
Total	¥410,323	¥46,041	¥33,694	¥490,058	¥ (4,810)	¥485,248
Segment profit	¥63,299	979	¥3,803	¥68,081	¥46	¥68,127
Segment assets	601,710	35,544	48,979	686,233	(65,240)	620,993
Other:						
Depreciation	44,008	842	2,112	46,962		46,962
Amortization of goodwill	419	274	268	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	1,187	1,999	40,357		40,357

	Thousands of U.S. Dollars					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Sales:						
Sales to external customers	**$3,290,543**	**$424,985**	**$459,143**	**$4,174,671**		**$4,174,671**
Intersegment sales or transfers	**24,457**	**11,847**	**9,810**	**46,114**	**$ (46,114)**	
Total	**$3,315,000**	**$436,832**	**$468,953**	**$4,220,785**	**$ (46,114)**	**$4,174,671**
Segment profit	**$535,457**	**$21,699**	**$33,713**	**$590,869**	**$76**	**$590,945**
Segment assets	**5,930,578**	**489,000**	**972,281**	**7,391,859**	**(981,077)**	**6,410,782**
Other:						
Depreciation	**309,608**	**7,035**	**22,361**	**339,004**		**339,004**
Amortization of goodwill	**3,429**	**3,630**	**4,620**	**11,679**		**11,679**
Payment for associated companies	**31,911**			**31,911**		**31,911**
Increase in property, plant,and equipment and intangible assets	**377,622**	**9,097**	**23,736**	**410,455**		**410,455**

Notes: 1. "Other" consists of operating segments that are not included in reportable segments, consisting of Seijo Ishii 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					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Loss on impairment of long-lived assets	**¥5,832**	**¥238**	**¥2,193**	**¥8,263**		**¥8,263**

	Millions of Yen					
	2014					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Loss on impairment of long-lived assets	¥5,838	¥66	¥391	¥6,295	¥ (551)	¥5,744

	Thousands of U.S. Dollars					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Loss on impairment of long-lived assets	**$48,897**	**$1,995**	**$18,388**	**$69,280**		**$69,280**

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

	Millions of Yen					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Goodwill at February 28, 2015	**¥8,789**	**¥9,857**	**¥29,543**	**¥48,189**		**¥48,189**

	Millions of Yen					
	2014					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ home convenience business	Other	Total	Reconcil-iations	Consolidated
Goodwill at February 28, 2014	¥6,027	¥727	¥2,965	¥9,719		¥9,719

	Thousands of U.S. Dollars					
	2015					
	Reportable Segments					
	Domestic Convenience Store	Entertainment/ Home Convenience Business	Other	Total	Reconcil-iations	Consolidated
Goodwill at February 28, 2015	**$73,690**	**$82,644**	**$247,699**	**$404,033**		**$404,033**

The amount under "Other" is for Seijo Ishii business, the overseas business.

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

20 RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with subsidiaries of Mitsubishi as of and for the years ended February 28, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	**¥45,736**	¥43,961	**$383,466**
Purchases	**582,268**	502,344	**4,881,932**

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

21 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

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

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 is securing the funds required for M&A, and redemption dates are within five years.

The primary purpose of 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.

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, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥76,755**	**¥76,755**	
Time deposits	**4**	**4**	
Accounts receivable	**93,222**	**93,222**	
Investments securities	**5,575**	**5,575**	
Lease deposits	**92,719**	**89,755**	**(2,964)**
Total	**¥268,275**	**¥265,311**	**¥ (2,964)**
Accounts payable	**¥153,957**	**¥153,957**	
Money held as agent	**103,634**	**103,634**	
Long-term debt (include current portion of long-term debt)	**155,122**	**155,006**	**¥ (116)**
Total	**¥412,713**	**¥412,597**	**¥ (116)**

February 28, 2014	Millions of Yen 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 ranchised stores and other	32,253	30,436	(1,817)
Total	¥319,882	¥318,392	¥ (1,490)

February 28, 2015	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$643,540**	**$643,540**	
Time deposits	**34**	**34**	
Accounts receivable	**781,604**	**781,604**	
Investments securities	**46,743**	**46,743**	
Lease deposits	**777,387**	**752,536**	**(24,851)**
Total	**$2,249,308**	**$2,224,457**	**$ (24,851)**
Accounts payable	**$1,290,828**	**$1,290,828**	
Money held as agent	**868,902**	**868,902**	
Long-term debt (include current portion of long-term debt)	**1,300,595**	**1,299,623**	**$ (972)**
Total	**$3,460,325**	**$3,459,353**	**$ (972)**

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 value because of their short maturities.

Investment securities

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.

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.

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

	Carrying Amount Millions of Yen 2015	2014	Thousands of U.S. Dollars 2015
Investments in equity instruments that do not have a quoted market price in an active market	**¥1,313**	¥971	**$11,009**
Investments in unconsolidated subsidiaries and affiliated companies	**11,447**	7,106	**95,975**
Others	**1,446**	388	**12,124**

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

	Millions of Yen 2015 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	**¥76,755**			
Time deposits	**4**			
Accounts receivable	**95,719**			
Lease deposits	**4,859**	**¥19,402**	**¥24,240**	**¥44,705**
Total	**¥177,337**	**¥19,402**	**¥24,240**	**¥44,705**

	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

	Thousands of U.S. Dollars			
	2015			
	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	$643,540			
Time deposits	34			
Accounts receivable	802,540			
Lease deposits	40,740	$162,673	$203,236	$374,822
Total	$1,486,854	$162,673	$203,236	$374,822

22 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2015 and 2014, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2015	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥32,686	99,932	¥327.08	$2.74
Effect of dilutive securities—Stock options		134		
Diluted EPS—Net income for computation	¥32,686	100,066	¥326.65	$2.74

	Millions of Yen	Thousands of Shares	Yen
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
Effect of dilutive securities—Stock options		181	
Diluted EPS—Net income for computation	¥37,965	100,079	¥379.35

23 BUSINESS COMBINATIONS

(1) Acquisition of United Entertainment Holdings Co., Ltd. and United Cinemas Co., Ltd.

a. Outline of business combination

(i) Name of the acquired business and summary of its business
Name of business: United Entertainment Holdings Co., Ltd. and United Cinemas Co., Ltd.
Business summary: Construction of movie theatres and management of the business

(ii) Main reason for the business combination
1. The acquired business has been developing its business in the movie industry, which the Company has been interested in, and is seeing steady revenue growth in the movie business, which has a large number of participants and boasts continuous stable growth.
2. The acquired business has a strong connection to the entertainment business, which the Companies are engaged in, and the Company expects a mutual increase in customers and business synergies.

(iii) Date of business combination
August 28, 2014

(iv) Legal form of business combination
Acquisition of shares

(v) Name of company after the business combination
There is no change.

(vi) Acquire of voting rights
100%

(vii) Main reason to decide the acquiring company
Lawson HMV Entertainment United Cinemas Holdings, Inc. the Company's consolidated subsidiary has acquired the stock of United Entertainment Holdings, Inc. by cash.

b. Period in which the acquired company's results are included in the consolidated financial statements
From September 1, 2014 to December 31, 2014

c. Acquisition cost and component

		Millions of Yen	Thousands of U.S. Dollars
Acquisition price	Cash and cash equivalents	¥12,973	$108,770
Costs directly required for the acquisition	Advisory costs	44	369
Acquisition cost		¥13,017	$109,139

Amount, cause, amortization method and period of goodwill generated

(i) Amount of goodwill generated
¥9,563 million ($80,179 thousand)

(ii) Cause of the generation of goodwill
Mainly excess earning power that is anticipated from the low-cost business model in which stable growth is expected.

(iii) Method and period of amortization
Straight-line method over twenty years

e. The amount and major breakdown of assets received and liabilities assumed on the date of the business combination

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥3,947	$33,093
Noncurrent assets	7,307	61,264
Total assets	¥11,254	$94,357
Current liabilities	¥4,765	$39,951
Long-term liabilities	3,035	25,447
Total liabilities	¥7,800	$65,398

(2) Acquisition of SEIJO ISHII CO., LTD.

a. Outline of business combination

(i) Name of the acquired business and summary of its business

Name of business: SEIJO ISHII CO., LTD.

Business summary: Food retailing, import, wholesale, food manufacture and restaurant operations business

(ii) Main reason for the business combination

The Company and the acquired company are both engaged in retail manufacturing. In addition, an alliance with the acquired company, which has product appeal and sales power that exceed those of ordinary supermarkets, has the potential to generate a significant synergy.

(iii) Date of business combination

October 31, 2014 (acquisition date)

September 30, 2014 (deemed acquisition date)

(iv) Legal form of business combination

Acquisition of shares

(v) Name of company after the business combination

There is no change.

(vi) Acquire of voting rights

100%

(vii) Main reason to decide the acquiring company

The company acquired the stock of SEIJO ISHII CO., LTD. by cash.

b. Period in which the acquired company's results are included in the consolidated financial statements

From October 1, 2014 to December 31, 2014

c. Acquisition cost and component

		Millions of Yen	Thousands of U.S. Dollars
Acquisition price	Cash and cash equivalents	¥36,138	$302,994
Costs directly required for the acquisition	Advisory costs	131	1,098
Acquisition cost		¥36,269	$304,092

d. Amount, cause, amortization method and period of goodwill generated

(i) Amount of goodwill generated

¥28,743 million ($240,991 thousand)

(ii) Cause of the generation of goodwill

Mainly excess earning power that is anticipated from the business model of a high revenue retail manufacturing business in which stable growth is expected.

(iii) Method and period of amortization

Straight-line method over twenty years

e. Amount and category allocated to intangible assets other than goodwill, and amortization period of category

Category	Trademark right
Amount of money	¥12,000 million ($100,613 thousand)
Amortization period	twenty years

f. The amount and major components of assets received and liabilities assumed on the date of the business combination

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥14,441	$121,078
Noncurrent assets	15,417	129,262
Total assets	¥29,858	$250,340
Current liabilities	¥28,218	$236,589
Long-term liabilities	1,837	15,402
Total liabilities	¥30,055	$251,991

24 SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 26, 2015:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥120 ($1.01) per share	¥11,999	$100,604

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 (the "Company") as of February 28, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for depreciation of property and store equipment (excluding lease assets) from the declining-balance method to the straight-line method. Our opinion is not modified in respect of this matter.

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 26, 2015