



Creating Happiness and Harmony in Our Communities

# LAWSON

INTEGRATED REPORT 2017



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## Lawson communication media



### Lawson website

Presents information and data not covered by Lawson publications.

#### ■ 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, 2016 to February 28, 2017, 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.

How about *Genkotsu croquettes* tonight?  
or *Deka yakitori*?  
Enjoy choosing with your family!



**P29** Contributing to the success of female workers in the community.

*Terrific!* *Cool!*

**Generating & Conserving** energy in our stores' *Awe-some!*



**P37** For the community's future: We contribute through eco-friendly model stores.

**When you need it, Lawson has it.**



*Terrific!* *Cool!* *Wow!* *Really?* *Awe-some!* *Super!*

**P27** Meeting the needs of the whole community.

**No more checkout lines?**  
**No more cash registers?**  
We're working on it!



**P35** Improving the community's working environment.

*Really?*

**Bran bread** and **Green Smoothies**  
Basic essentials in the daily diet.



*Super!*

We support community health.

**P31**

**Each & every item's** quality strictly controlled. *Super!*  
**Each & every person's** work and environment considered.  
We gather the world's most desirable products.



**P39** Creating happiness and harmony in our world communities.

The fun never ends!  
Lawson presents great entertainment, too!



*Wow!*

We build vibrant communities where everyone can thrive.

**P33**

## Corporate Philosophy

### Creating Happiness and Harmony in Our Communities

#### Vision

To be a leading company in execution  
Think through customers' needs and changes,  
execute with speed and become an essential part of our communities.

#### Code of Conduct

1. Think as customers, communities and stores.
2. Master the basics and strive to innovate.
3. Improve the quality and speed of the Plan-Do-Check-Act cycle.
4. Act with discipline, take initiative and succeed as a team.
5. Grow as individuals and support the growth of our team members.

### Sadanobu Takemasu

President and CEO, Representative Director, Chairman of the Board

## Lawson is continuously evolving as an “essential part of our communities,” supporting the lives of people in local neighborhoods.

The convenience store has evolved from its beginnings as a “convenient” store for quick shopping into an “essential part of people’s daily lives.” And the roles it is relied on to play continue to expand. The convenience store shoulders responsibility for Japan’s day-to-day life as a facility whose lights stay on 24 hours a day and where everyone from children to seniors can drop in to make purchases at will. It also serves as a reliable part of the community infrastructure in emergencies or times of disaster.

The environment surrounding Lawson is changing from moment to moment, meanwhile, as exemplified by Japan’s declining birthrate and aging population as well as by the advance of digital technologies and industrial reorganization. In the midst of all these changes, Lawson launched a 1,000-Day Action Plan in 2016, embarking on the creation of a Next-Generation LAWSON Convenience Store model that can satisfy customers’ overall lifestyle needs. This year, fiscal 2017, marks the second year of the Plan. We will build on the firm foundation we have

established over the years by improving our product offering, reinforcing our store capabilities through the introduction of next-generation systems and increasing support for newly opened stores.

Going forward, we must leverage the combined knowledge of all our Group members and unite to engage in an all-out battle as a single force guided by the wisdom of many. We are determined to complete implementation of our 1,000-Day Action Plan through the individual and combined efforts of everyone associated with Lawson, including our franchise owners, store crews, supervisors, and suppliers, such as boxed meal manufacturers and delivery centers, as well as our parent company, Mitsubishi Corporation.

We will strive to increase our corporate value further in order to realize our Corporate Philosophy of “Creating Happiness and Harmony in Our Communities” by supporting people’s daily lives as an essential part of our communities, with each and every member of our personnel providing warmhearted service to customers.



**Sadanobu Takemasu**

President and CEO,  
Representative Director,  
Chairman of the Board

## How do you view the changes in the external environment surrounding the convenience store industry?

The convenience store has evolved continuously in response to changes in society throughout its history of nearly half a century. The stores are open in a nearby location 24 hours a day, enabling customers to shop whenever they like without traveling long distances to large stores to purchase items such as delicious boxed meals, cold beverages, desserts, stationery goods, daily necessities and frozen foods. Customers can also acquire concert tickets and access copiers and ATMs at the stores. Friendly interactions, replete with bright smiles, are a familiar part of the experience.

Since opening its first store in January 1975, Lawson has expanded its product and service offerings in an effort to satisfy every customer's everyday needs. Today's convenience stores, their lights burning round the clock, are expected to serve as part of the community's social infrastructure in the event of disasters. Our roles include keeping a close eye on the children who shoulder responsibility for Japan's future, providing 24-hour support for the working generations with their increasingly busy lives, and offering a place for the senior citizens who developed Japan into such a wonderful country to relax in. Much remains to be done to fully realize our goals,

and I view this challenge as a tremendous opportunity.

The convenience store based on a small commercial area model is, together with e-commerce, without doubt one of a handful of growth models in the retail market. In fact, the food distribution market, including the food service industry, is currently contracting in the face of the declining population. The convenience store's share of Japan's food service market grew annually to reach 8.1% in 2016 compared with 6.5% five years earlier, and it seems likely that this trend will continue into the future. This in itself does not, however, assure Lawson's survival. We face competition not only from other major convenience store chains but also from drugstores and food supermarkets, and new competitors in the form of Internet-based services have also emerged.

It is not easy to attract growing numbers of customers to our stores in a climate like this. Lawson is responding proactively to this challenge by developing innovative new services ahead of the times and by constructing a sustainable profitability model. The following are just a few of our many ideas for achieving these objectives: the Machikado Chubo in-store kitchen with its value-added

## How do you think Lawson should differentiate itself from other companies?

I believe Lawson's strength lies in the "warmth" found at every LAWSON store. Lawson has grown into a retail chain that currently operates approximately 13,000 stores in Japan and over 1,000 stores overseas, with total store sales amounting to over 2 trillion yen. The most important question for us now is whether or not each of these stores is contributing support for the daily life of the community it serves. In the past, we had local shopping streets in communities throughout Japan. I myself have fond memories of being treated with warmhearted friendliness by the elderly owner of a neighborhood store as a child. This same friendliness is now found at LAWSON stores. Many LAWSON franchise owners have firm roots in the communities where they conduct business. Some who began with a single store now operate 10 or more

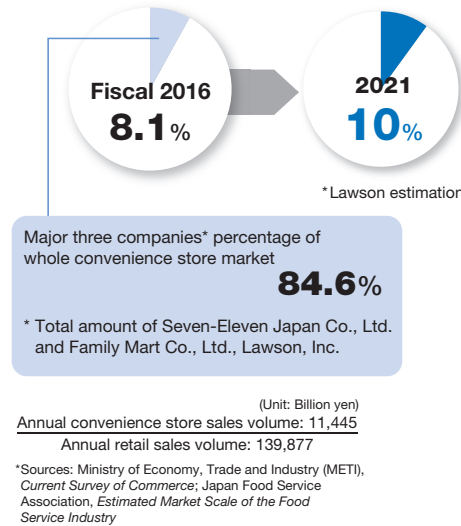
stores in their area, thus playing a significant role in supporting the life of the community as a whole. Each of these LAWSON stores is striving to establish itself as a preferred store that its customers love and rely on. It is to support this kind of development that our headquarters and franchise stores work as one to realize a warmhearted retail chain whose personnel take pride in their work. I want to ensure that Lawson remains this kind of store.



# A Conversation with the President

menu of delicious, in-store cooked dishes; an expanded offering of OTC non-prescription medicines; home-delivery services; customer Internet order receipt and pickup services; development of more convenient, unconventional payment methods; and provision of new financial services. Realizing these ideas as a sustainable profitability model will require us to abandon our conventional frameworks and generally accepted business models. The 1,000-Day Action Plan calls for reform of our operational frameworks, working styles and corporate culture. We cannot achieve growth if we continue to operate as we have in the past. We are determined to meet customers' expectations by implementing full-scale reforms extending from our product offering and sales floors to our store operations and manufacturing, distribution and IT systems. The Lawson Group will unify its forces to take up this challenge earnestly as it seeks to solidify its position as an essential part of our communities by fully implementing the 1,000-Day Action Plan.

## Growth of convenience stores' share of Japan's retail industry



offering must extend beyond products to meet customers' lunch needs, for example, such as our familiar large-volume boxed meals and the deli salads and soups that have attracted so many female customers in recent years. It must also include side dishes for serving as part of more leisurely meals, or as snacks to accompany alcoholic beverages, as well as milk, eggs and other items for breakfast the next morning.

In the OTC fast-food category, meanwhile, we need to stock more trendy products such as MACHI café fresh-brewed coffee and snacks such as Kara-age Kun (fried chicken nuggets) and L-Chicki as well as items that can be served as main dishes at dinner. We responded to this demand by adding Deka Yakitori (mega grilled chicken) and Deka Kushikatsu (mega skewered deep-fried pork) to such existing staple dinner favorites as Genkotsu Menchi ("clenched fist" minced-beef patties), Genkotsu Croquettes and deep-fried chicken. We are also expanding our seafood menu with new items such as deep-fried horse mackerel and deep-fried squid.

We will, at the same time, continue our efforts to strengthen our store capabilities. It is particularly important that we keep the shelves full in the late afternoon and evening, when customers have time for more leisurely shopping. We introduced the semi-automatic ordering system in fiscal 2015, which further improved the accuracy of our demand forecasting. We are increasing ties among franchise owners, meanwhile, by sharing successful strategies and other information at area meetings held by stores in our sales regions nationwide. We have also worked to upgrade productivity among the supervisors responsible for providing guidance for stores. Our thoroughgoing efforts to reduce the on-site workload have included classifying approximately 300 tasks as work to be eliminated, work to be systematized and work to be outsourced or handled by different departments. This has created an environment in which our supervisors and franchise owners can cooperate more effectively in solving problems and increasing individual stores' sales and profits.



## What can you tell us about Lawson's strategies for the current fiscal year, the second year of the 1,000-Day Action Plan?

I will approach it as a year for further accelerating the advance of the 1,000-Day Action Plan we introduced last year. Efforts to expand the stores' product offering during the past year included raising the height of the store shelves, increasing the number of refrigerated showcases for products such as milk and eggs, and adding new freezer cases. These efforts contributed to expanding the number of products available at the stores from 3,000 to 3,500 items. This year, we are reinforcing our offering of such convenience

store staples as boxed meals and rice balls, while also enhancing our lineup of over-the-counter fast foods, which is already unrivalled by our competitors.

Strengthening our product offering is among our key strategies for surviving the fierce competition from other retail businesses, including our direct competitors as well other members of the food service industry. In addition to reinforcing all our current products one by one, moreover, we will be required to expand our merchandise selection. The

# A Conversation with the President

## 1,000-Day Action Plan



When dealing with store operation and management issues, we inevitably encounter the problem of manpower shortages. Lawson's 1,000-Day Action Plan consequently designates next-generation system development as one of the major issues for resolution. This will involve reforming the systems supporting everything from store operations to the supply chain as a whole, including our product manufacturing processes and the distribution systems employed to deliver merchandise to the stores. Beginning this fiscal year, our responses include the installation of tablets and advanced point-of-sales (POS) cash registers in the stores. Installing the tablets, an advance aimed at increasing efficiency in managing work shifts and OTC fast-food cooking operations, will eventually enable order placement and various other operations to be performed

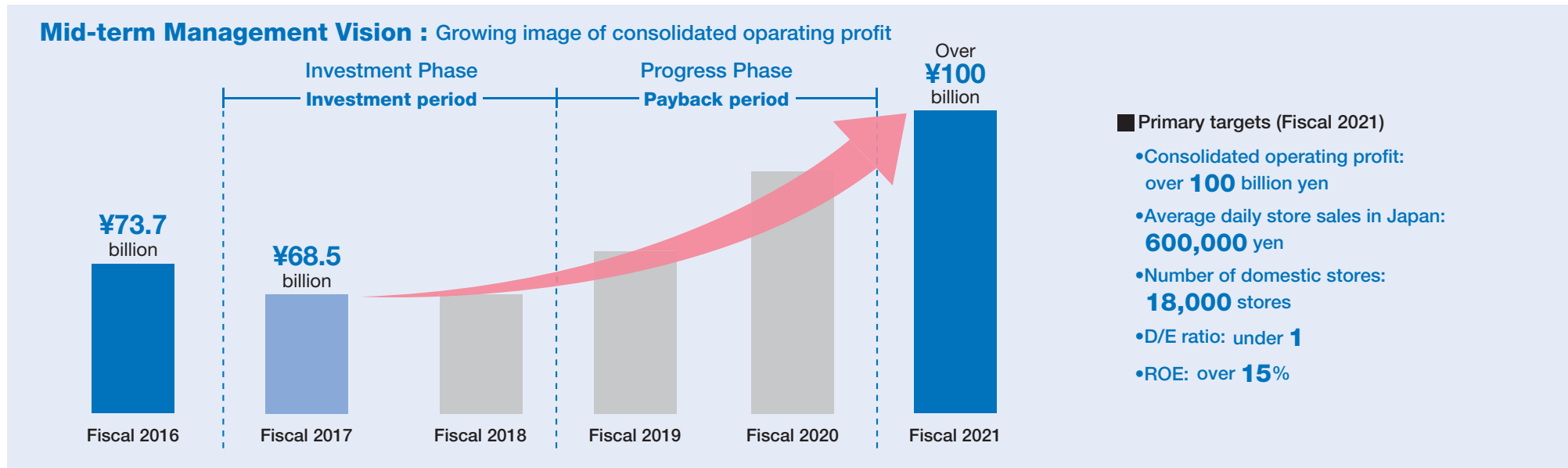
from anywhere in the store. The new POS cash registers, meanwhile, will incorporate automatic change machines as well as a multilingual capability. These advances can be expected to increase the efficiency of checkout and cash management operations at the checkout counter.

The above measures to strengthen our store capabilities will be implemented at newly opened stores as well as at existing stores. We plan to open 1,400 stores, including converting brands from other convenience store chains to the LAWSON brand. We have organized Store Opening Teams (SOTs) for the specific purpose of firmly establishing these new stores. These teams of experts specializing in store-launching operations work closely with the franchise owners and supervisors concerned to provide efficient support for new store openings. Headquarters has also begun offering greater support for more aggressive actions by owners of newly opening franchise stores to strengthen their store capabilities, including helping them cover costs associated with food waste. This consistent, well-considered support for every new store is reinforcing the stores' preparatory work in such areas as crew education, operating proficiency enhancement and appropriate inventory investment. These and other measures are aimed at preparing new LAWSON stores to become an essential part of the communities they serve quickly by responding accurately to customers' expectations.

We hope to achieve our current fiscal year's targets—same-store sales increases of 1% and gross profit margin increases of 0.3% year-on-year—through reinforcement of our product offering, store capabilities and new store opening procedures.



## A Conversation with the President



### Next, we would like you to describe the Mid-term Management Vision and your business plan for fiscal 2017.

We developed the Mid-term Management Vision in April 2017 to serve as a benchmark for measuring Lawson's future operations. This benchmark anticipates management objectives through fiscal 2021, three years beyond the 1,000-Day Action Plan. The Vision clearly states our aim of achieving average daily sales per store of 600,000 yen by LAWSON stores in Japan, increasing the number of stores to 18,000 and earning consolidated operating profit of over 100 billion yen, while maintaining the D/E (debt/equity) ratio at under 1 and achieving an ROE (return on equity) of over 15% by exercising financial discipline. Among these objectives, we place the highest priority on achieving average daily sales per store of 600,000 yen. The number of

stores is important, of course, but even should the size of the chain as a whole expand, we would have no future if the individual stores did not meet customers' expectations. This 600,000-yen target, which represents an increase in daily sales of nearly 10%, will be far from easy to achieve, but we must achieve it at all costs if we are to compete successfully with our major competitors. I believe we can do this only by uniting the capabilities of everyone affiliated with the Lawson Group.

The forecast for our fiscal 2017 business performance calls for operating profit of 68.5 billion yen, down 7.1% from fiscal 2016. As I mentioned, we plan to improve same store sales and the gross profit margin registered by our domestic convenience store business, and

we consequently expect our convenience store operations to see an increase in consolidated operating profit of approximately 6 billion yen, with loss reduction in our overseas operations taken into account. We project an overall decrease in profit, however, due largely to the following and other investments targeting future growth: investments in next-generation systems; anticipatory costs assumed in the financial services business leading to losses in new business-related fields; and initial expenses associated with brand conversion from other convenience store chains to the LAWSON store brand. Additional factors include the effects of a change in the final month of a consolidated subsidiary's fiscal year and the pro forma standard tax.

Investments in such advances as introduction of next-generation systems, entry into new businesses, and conversion from other chains will certainly be essential if we are to achieve mid- to long-term growth. Although our short-term business results for fiscal 2017 and 2018 will most likely be extremely austere due to such expenditures for investment in future growth, however, we have decided that now is the time for investments we cannot avoid making if we are to realize average daily sales of 600,000 yen and consolidated operating profit of 100 billion yen—the targets specified in our Mid-term Management Vision.



## A Conversation with the President

### Could you also tell us something about the LAWSON stores' efforts to contribute to health and wellness in their communities?

It is safe to say that health has become a major concern among members of every generation, from young people to seniors, in recent years. Considered from another perspective, we can also say that rising healthcare costs are a growing problem for Japan, a country with a rapidly aging population. Seeking to contribute to health and wellness in our communities, Lawson takes a two-pronged approach to addressing the health issues facing Japan: a "meal solutions" approach involving promotion of health through healthful foods, and a "self-medication" approach centered on provision of medical support through sales of over-the-counter medicines and various health-related services. In the area of meal solutions, we have continuously developed delicious and healthful foods and beverages, including such hit products as bran bread and Green Smoothies. In pursuing the self-medication approach, meanwhile, we are promoting partnerships with pharmacies and drugstore chains as well as with major nursing care businesses to meet

the needs of customers who want to purchase medications for such minor health conditions as a slight fever or to receive consultations on various caregiving issues without hesitation in a non-institutional environment. Despite the difficulty of increasing the number of stores adopting the healthcare-focused LAWSON or Care LAWSON model due to regulations, we will continue to work in this direction to meet the burgeoning need for such services.

The efforts to promote health described above will be of no value, however, unless we ourselves are healthy. We not only require employees to undergo regular medical checkup, therefore, but we have also implemented programs to promote the health of our franchise owners. We intend to continue these efforts, including those aimed at improving employees' working efficiency and work-life balance, in the future to ensure the ability of all the Lawson Group's human capital to lead vital, healthy lives every day.

past, Lawson will continue to create pleasant work environments for all its personnel, and to make proactive efforts to hire and promote women and foreign nationals.

We also seek to assure diversity in employee working styles. In our belief that men as well as women should participate actively in child-rearing, for example, we encourage our male employees to take childcare leaves. The ratio of fathers of babies or young children who take childcare leaves now exceeds 80%, which suggests it is becoming a commonly accepted practice.

We are also concerned about the issue of making efficient use of limited working

hours. I send out messages about the necessity of a work-life balance at every opportunity, and all Lawson Group member companies are engaged in efforts to improve the work environment and promote highly productive working styles.



### What environmental initiatives is Lawson implementing as part of its social mission?

Every company is now required to implement a CSV (Creating Shared Value) management style that seeks to solve social issues through business activities. Lawson is proactively taking up challenges toward realization of a sustainable society. We have made effective use of the United Nations' Sustainable Development Goals (SDGs) adopted in September 2015 to grasp risks and discover new opportunities. We are working in accordance with the Lawson Group Environmental Policy we formulated in 2010 to improve our operations in the areas of energy efficiency, resources conservation and waste reduction as well as to curb CO<sub>2</sub> emissions at every stage of the supply chain, from raw materials purchasing, manufacturing and sales to final disposal. All these efforts reflect the full consideration we give to our impact on the natural environment and local communities. We promote social and environmental training

for headquarters employees, franchise owners, and store managers and crews, moreover, while also encouraging them to take external examinations.

Electricity is indispensable for convenience store operation. Not only do stores need electricity to operate their refrigerators, freezers and air-conditioners, but their position as 24-hour neighborhood stores responsible for the security and safety of their communities requires them to keep their lights burning brightly through the night. At a time when awareness of the need to respond to climate change is growing, we are committed to reducing CO<sub>2</sub> emissions resulting from electricity use by the stores. As a medium-term energy-saving target, therefore, Lawson is implementing the Ten Energy-saving Rules and introducing energy-efficient store facilities to meet its goal of reducing per-store electricity consumption by 20% by 2020 (compared with

### Next, we wonder what actions Lawson is taking to achieve Companywide diversity?

We have employees from diverse backgrounds at Lawson headquarters, including myself. Some have spent their entire careers at Lawson since joining the company as new graduates. Some are professional human capital who began their careers at other companies. Still others came to Lawson from Mitsubishi Corporation, as I did. The circle of our Group companies is expanding, and there are a great many people supporting it, including business

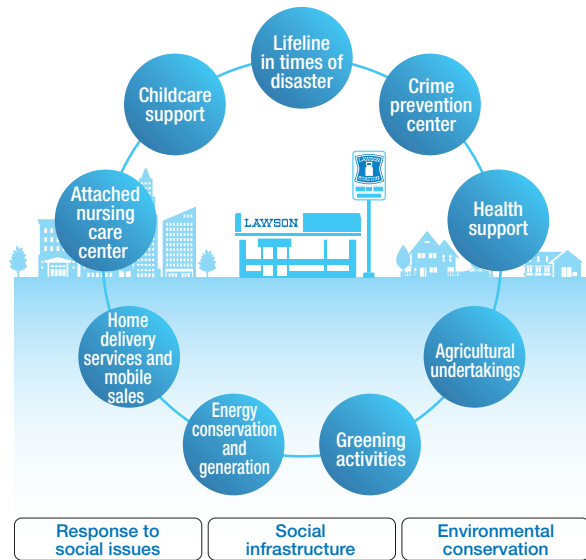
partners and associates who are outside the Group. Everyone involved in our business works together as "One Lawson" to realize our Corporate Philosophy of "Creating Happiness and Harmony in Our Communities," regardless of their background or place of origin. Coping with the rapid changes in society and taking up new challenges one after another requires an organization comprising a wide range of human capital and a richly diversified team. As in the

# A Conversation with the President

2010 levels). These efforts are symbolized by eco-friendly model stores focused on energy generation and energy savings. They are part of ongoing trials aimed at developing stores equipped with solar power systems, LED lighting, freezer and refrigeration systems using CO<sub>2</sub> refrigerants. The results will be

gradually reflected in our existing and newly opened stores. The many other measures we have introduced to reduce our burden on the global environment include converting food waste to feed and fertilizer, reducing the number of deliveries to stores and using imperfect vegetables.

## Contributing as infrastructure to regional society



## What changes do you anticipate in the Group's future strategies now that Mitsubishi Corporation has become Lawson's parent company?

Both our direction and strategies will remain unchanged. Mitsubishi Corporation and Lawson have maintained a close-knit partnership since completing a business alliance agreement in 2000. Following deliberations by the Board of Directors,

including the independent officers, Lawson accepted Mitsubishi Corporation's offer to acquire a majority stake through a friendly takeover bid. This was possible only because of the existing foundation of mutual trust established over a period of more than a

decade. Mitsubishi Corporation sees great potential in the convenience store business, one of the few growth markets in the retail sector. For its part, Lawson has found it advisable to gird itself for a fierce battle, with Mitsubishi Corporation more deeply involved than ever, to assure its survival in an unprecedentedly competitive environment.

Implementation of our strategy of creating a Next-Generation LAWSON Convenience Store model can be accelerated further by leveraging the networks and resources of the Mitsubishi Corporation Group, which operates a global network of food raw materials procurement routes and conducts business with a number of food supermarket chains in Japan.

Lawson has retained its listing on the First Section of the Tokyo Stock Exchange, meanwhile, even since becoming a subsidiary of Mitsubishi Corporation. Maintaining transparency and independence as a listed company is of enormous significance for a convenience store operator, which is supported by many stakeholders, including franchise owners, and which is expected to serve as a part of the community infrastructure. Three of the eight members of Lawson's Board of Directors are independent directors, moreover, and five of the six members of the Nomination and Compensation Advisory Committee are independent officers. Thus, we have given ample consideration to ensuring properly functioning corporate governance.

## Is there anything you wish to say in conclusion?

Lawson is a convenience store chain that is supported by an extensive group of warmhearted franchise stores and employees. Today is a time of enormous opportunity for convenience stores. Customers have great expectations of us. It is also true, however, that we are operating in a highly competitive environment, including competition from businesses outside our sector. Although we have forecast austere operating results for the next two years, in particular, which we have designated as an investment period, I firmly believe that a highly positive outcome awaits us after that. We will continue to strive, drawing on the experience and expertise accumulated over Lawson's 42-year history and with everyone joining in the challenge, to establish Lawson as a leading store in every region in which we operate.





**Satoshi Nakaniwa**  
Senior Vice President, CFO

## Lawson is targeting an ROE of over 15% in fiscal 2021, while maintaining appropriate financial discipline as stated in our Mid-term Management Vision.

### Review of fiscal 2016

Lawson's consolidated operating profit of 73.7 billion yen in fiscal 2016 (the year ended February 2017) exceeded the previous year's level. Measures implemented during the term, the first year of our 1,000-Day Action Plan, included aggressive remodeling of our existing stores, including installation of additional refrigeration and freezer cases and raising the heights of the store shelves, and drastic expansion of our product offering to satisfy the full range of customers'

everyday needs. Our aggressive investment in store remodeling and our advertising and promotional expenses exerted a considerable impact on our results. Non-consolidated operating profit remained nearly unchanged at 57.4 billion yen (up 0.3% from the previous year). We recorded consolidated operating profit of 73.7 billion yen (up 1.7%), a year-on-year increase of 1.2 billion yen due primarily to contributions from consolidated subsidiaries such as Seijo Ishii. Consolidated net profit totaled 36.4 billion yen, exceeding its previous-year level by 5.0 billion yen (an

increase of 16.0%), with an ROE of 13.5%.

Net sales by existing LAWSON stores in Japan—the Company's core business—maintained positive growth of 0.6% in the fourth quarter, compared with the corresponding period of the previous year. In a reflection of the severe environment surrounding the industry, however, net sales by existing stores fell by 0.2% year-on-year on a full financial year basis, due primarily to the effect of a decline in ticket sales during the first half in reaction to an upsurge in the previous year. The gross profit margin, on the other hand, improved by 0.1 percentage point to 31.4% compared with the year before. The Lawson Group opened 1,143 stores and closed 427 stores, a net increase of 716 stores. The total number of LAWSON stores in Japan stood at 13,111 as of the end of February 2017.

### Fiscal 2016 (Consolidated)

(Unit: Million yen)

	2017.2	YoY	2016.2
Gross operating revenues	631,288	+8.2%	583,452
Operating profit	73,772	+1.7%	72,541
Recurring profit	73,014	+4.9%	69,622
Net income	36,400	+16.0%	31,381

### Mid-term Management Vision

Lawson formulated the Mid-term Management Vision to delineate its objectives for the next few years. The targets the Company will strive to achieve by fiscal 2021, three years after completion in fiscal 2018 of the 1,000-Day Action Plan, begin with construction of the Next-generation LAWSON Convenience Store model. We anticipate average daily sales per store of 600,000 yen with 18,000 stores in operation in Japan. Our consolidated operating profit is expected to exceed 100 billion yen. In addition, the Vision sets a D/E ratio under 1 as financial discipline, and an ROE of over 15% as a benchmark to be achieved through a combination of earnings growth and improved capital efficiency. We will advance corporate structural reform through efforts encompassing the following: improvement in store productivity using new-generation systems that make full use of leading-edge technologies; supply chain reformation extending from raw materials procurement and product manufacturing to distribution; initiation of new businesses such as financial services and in-store parcel pick-up services; reinforcement of store networks, including pursuit of alliances with other chains; increasing the profitability of overseas businesses; and strengthening ties with our parent company, Mitsubishi Corporation.

## Plans for fiscal 2017

Our profitability planning for fiscal 2017 (the year ending February 2018) projects a decline in consolidated operating profit to 68.5 billion yen (down 7.1% from the preceding year). We anticipate an upturn in average daily sales due to an improved product offering, reinforced store capabilities and strengthened support for newly opened stores. Outlays are nevertheless expected to exceed profits due to a number of advance investments we plan to conduct with a view to the future.

We will seek to achieve 1.0% growth in sales by existing stores compared to the previous year and a gross profit margin of 31.7%. First, we will take full advantage of the semi-automatic ordering system we have introduced and the expanded product offering that has enhanced support for customers' everyday needs. Next, we will reinforce our over-the-counter fast-food business—a special LAWSON strength—and improve core products such as boxed meals.

In addition, we plan to open 1,400 new stores, a net increase of 900 stores, including stores converted from other convenience store chains through business alliances, and to expand the number of LAWSON stores in Japan to 14,000. We expect operating profit by our existing convenience store business to grow by some 6 billion yen due to enhancement of our domestic operations and improved profitability of our overseas business.

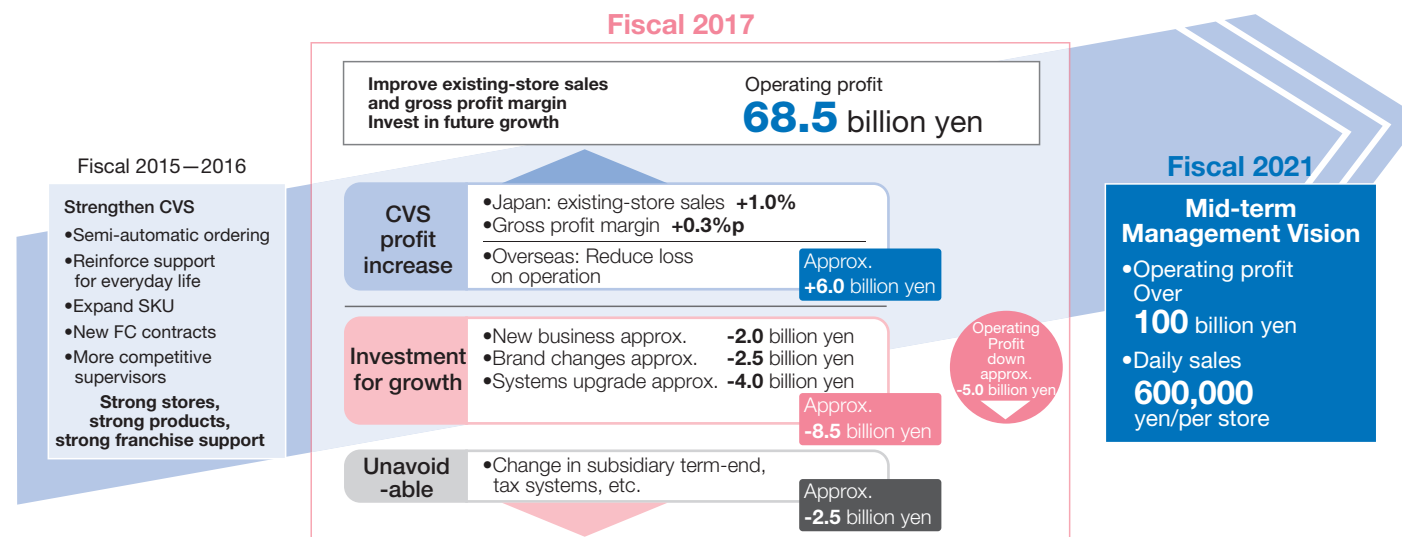
We will also accelerate our program of forward-looking investments in fiscal 2017 toward the goals stated in the Mid-term Management Vision of creating an original

Lawson business model and pursuing growth toward daily sales of 600,000 yen. These investments will encompass spending on next-generation systems, including the introduction of tablets and new point-of-sales cash registers, for example, to improve store productivity; increased expenditures for introducing new businesses such as financial services and healthcare support in response to a widening range of customer needs; and initial costs associated with business alliances with other chains. An approximately 8.5 billion yen increase in spending will be required during the term to cover these investments

Thus, besides projecting increased daily sales by existing stores and a higher gross

profit margin, our fiscal 2017 projections incorporate higher up-front expenditures. We consequently foresee consolidated operating profit of 68.5 billion yen in fiscal 2017, down 5.2 billion yen (7.1%) from the preceding year and consolidated net profit of 33.5 billion yen, down 2.9 billion yen (8.0%). This planned decline in short-term profit will be implemented to expand the future sales of existing stores and increase the stores' gross profit margins, while also developing new-generation systems to realize consolidated operating profit in excess of 100 billion yen in fiscal 2021.

## Fiscal 2017 Plan

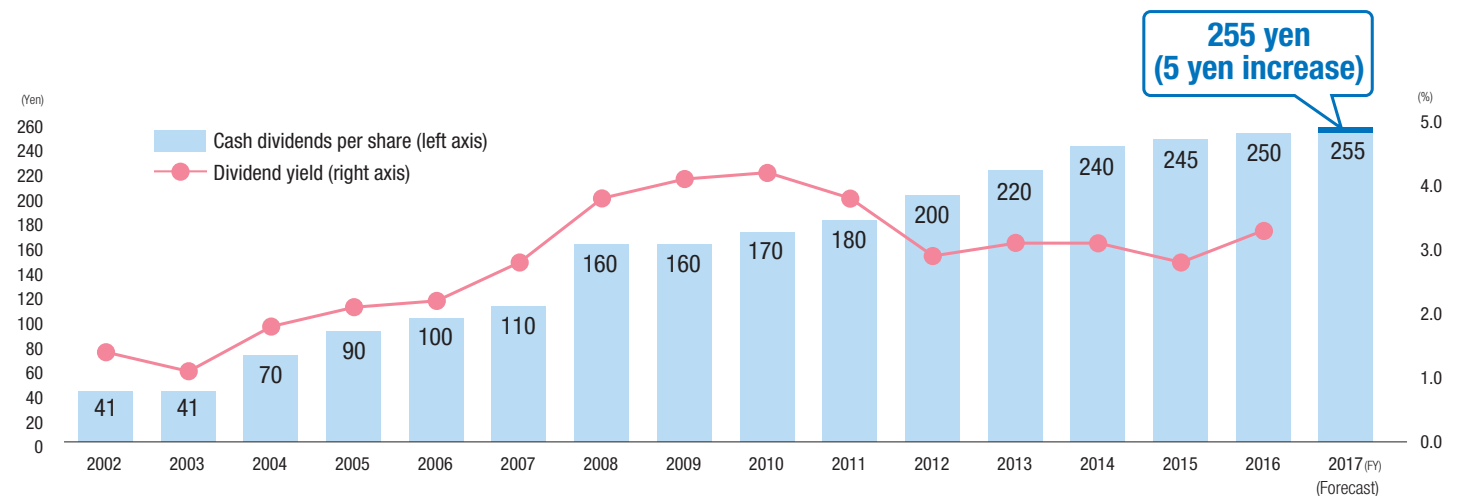


## Financial discipline and returns to shareholders

Lawson anticipates consolidated operating cash flows of 120 billion yen in fiscal 2017, an amount exceeding our expected consolidated investment cash flows of 110 billion, including new store investments associated with an increased number of store openings and investments in development of next-generation systems. In order to secure liquidity on hand, we recorded short-term borrowings of 30 billion yen as of the end of February 2017. We are considering obtaining additional bank loans to secure further liquidity on hand, depending on circumstances such as expanded capital expenditures, but we are determined to maintain proper financial discipline as indicated by the D/E ratio of under 1 specified in our Mid-term Management Vision. We will strive to achieve an ROE of above the 15% specified in the Mid-term Management Vision by maintaining a healthy balance between earnings growth through value creation and returns to shareholders.

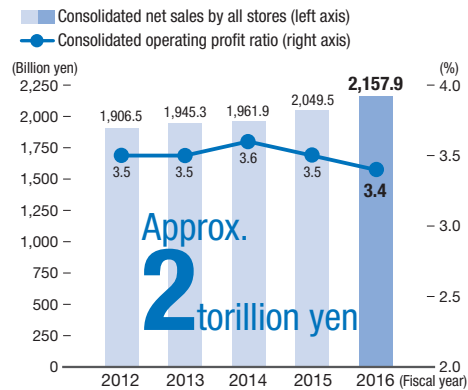
Lawson is committed to realizing earnings growth at all costs in the medium term, and to achieving operating profit greater than the 100 billion yen specified in the Mid-term Management Vision. While projecting negative growth for a single fiscal year, we plan to increase the dividend by 5 yen, as in the previous year, and pay a dividend of 255 yen for fiscal 2017. Going forward, while working to improve corporate value in the medium and long terms, we intend to maintain our current policy of stable dividend payments.

Transitions in cash dividends per share and dividend yield

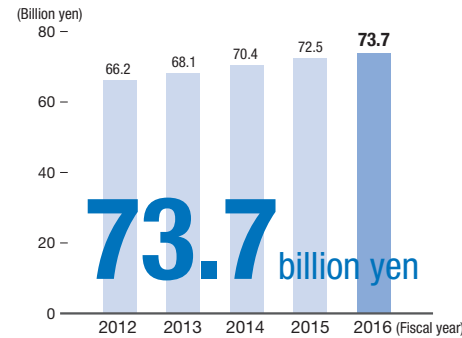


## Financial Data

### Consolidated net sales by all stores



### Consolidated operating profit



## Mid-term Management Vision (Fiscal 2021)

Consolidated operating profit:  
over **100** billion yen

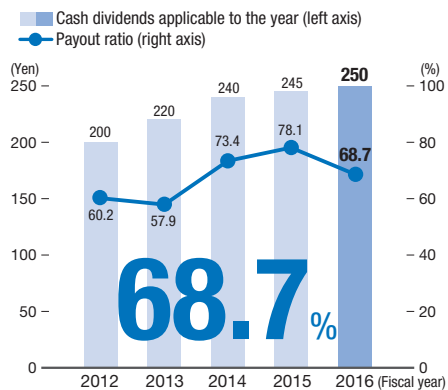
Average daily per-store sales in Japan:  
**600,000** yen

Number of domestic stores:  
**18,000** stores

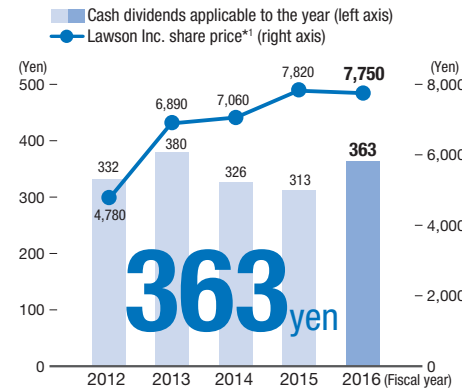
D/E ratio: under **1**

ROE: over **15** %

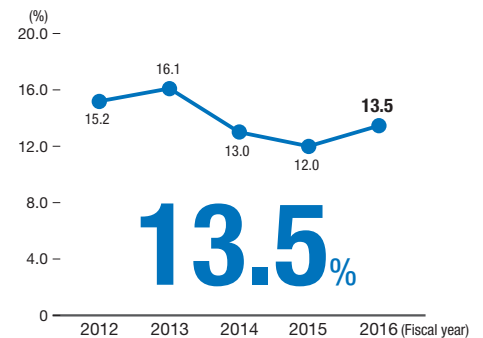
### Payout ratio



### Net income per share



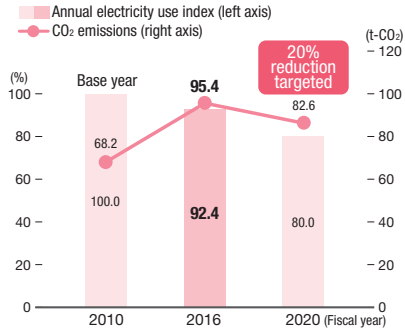
### ROE (return on equity)



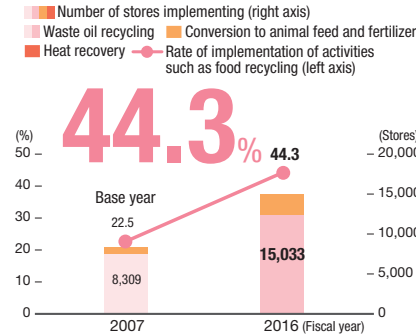
\*1 The Lawson stock prices are closing prices at the end of February of each year.

Non-financial Data

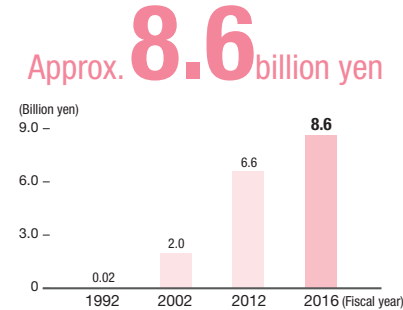
Electricity use (index) and CO<sub>2</sub> emissions per store



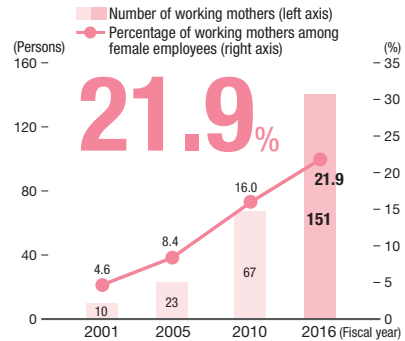
Rate of food recycling & number of participating stores



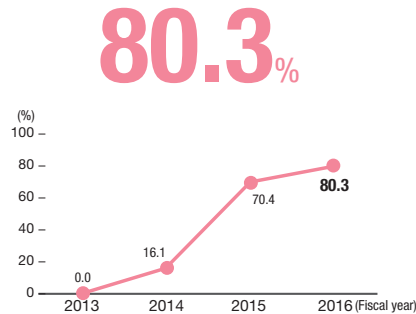
Total customer donations received since 1992 (including disaster relief funds)



Number of working mothers & their proportion among female employees



Percentage of male employees taking paternity leave



Ratio of independent directors among directors



LAWSON stores in numbers\*

Number of domestic stores

Approx. 13,000 stores

Number of customers (per day, all stores)

Approx. 10 million

Number of franchise owners

Approx. 6,000

Number of store crew

Approx. 200,000

Number of items

Approx. 3,500

Store size

Approx. 120m<sup>2</sup>

\* The figures for LAWSON stores are rounded off as of end February 2017.

# A new management team exhibiting a balance of diversity, expertise and independence

The management team led by the President represents human capital appointed for its varied experience and expertise to ensure the diversity required to facilitate appropriate decision-making and supervision. Several independent officers who have no potential conflicts of interest with the general shareholders are also appointed to ensure management transparency and fairness. To add further assurance, there are three independent directors, a number comprising over one-third of the total of eight directors; and four of the twelve officers, including the corporate auditors, are women.

Under the Executive Officer System, meanwhile, the roles of the members responsible for execution of business and those responsible for corporate management are separated and clarified. Lawson limits the size of the Board to enable speedy business decision-making.

\*As of June 1, 2017/The number of Company's shares held is as of February 28, 2017



**Sadanobu Takemasu**  
 President and CEO,  
 Representative Director,  
 Chairman of the Board  
 Years on Board: 3  
 Company's shares held: 700

---

2014, Senior Executive Vice President, Representative Director; 2016, appointed President and CEO, Representative Director. Joined Lawson from Mitsubishi Corporation.

Reinstatement



**Katsuyuki Imada**  
 Member of the Board  
 Senior Executive Vice President,  
 Director of Corporate Strategy  
 Years on Board: 0  
 Company's shares held: 1,600

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In addition to experience in the employ of Mitsubishi Corporation, Katsuyuki Imada has extensive experience acquired during nine years as Lawson's CFO; Director, Corporate Strategy Division; and General Manager, Next-Generation CVS Promotion Division.

Newly appointed



**Satoshi Nakaniwa**  
 Member of the Board  
 Senior Vice President,  
 Chief Financial Officer  
 Years on Board: 0  
 Company's shares held: 0

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Satoshi Nakaniwa has extensive knowledge of finance and accounting as well as of business investment and evaluation acquired in the employ of Mitsubishi Corporation.

Newly appointed





**Emi Osono**  
 Outside Director  
 Years on Board: 5  
 Company's shares held: 300

Emi Osono is an academic with in-depth knowledge of global corporate management, corporate strategies and organizational behavior.

Reinstatement Outside Independent



**Keiko Hayashi**  
 Outside Director  
 Years on Board: 1  
 Company's shares held: 0

Founder of DoCLASSE, Keiko Hayashi has experience and expertise in corporate management and an in-depth knowledge of marketing.

Reinstatement Outside Independent



**Masakatsu Gonai**  
 Standing Corporate Auditor  
 Years as auditor: 0  
 Company's shares held: 1,400

In addition to his deep understanding of Lawson's operations based on experience acquired as branch manager and in CR and human resources management, Masakatsu Gonai has expertise in risk management and human resources development.

Newly appointed



**Yutaka Kyoya**  
 Outside Director  
 Years on Board: 4  
 Company's shares held: 0

Yutaka Kyoya has a broad understanding of the living essentials field, primarily as it relates to foods, acquired in the employ of Mitsubishi Corporation

Reinstatement



**Kazunori Nishio**  
 Outside Director  
 Years on Board: 1  
 Company's shares held: 0

Kazunori Nishio has extensive knowledge of the living essentials field with specialization in the retail industry acquired through experience in the employ of Mitsubishi Corporation.

Reinstatement



**Tetsuo Ozawa**  
 Outside Corporate Auditor  
 Years as auditor: 14  
 Company's shares held: 500

Tetsuo Ozawa is an attorney with specialization in the fields of corporate law and risk management and extensive knowledge in the areas of corporate finance and accounting.

Outside Independent



**Sakie Akiyama**  
 Outside Director  
 Years on Board: 3  
 Company's shares held: 300

Founder and CEO of Saki Corporation, Sakie Akiyama has extensive experience and expertise in corporate management acquired as an entrepreneur and manager.

Reinstatement Outside Independent



**Toshio Takahashi**  
 Standing Corporate Auditor (Outside)  
 Years as auditor: 1  
 Company's shares held: 0

Toshio Takahashi has years of experience as an employee of a major bank and as a standing corporate auditor for a major IT company as well as extensive knowledge in the fields of corporate finance and accounting.

Outside Independent



**Eiko Tsujiyama**  
 Outside Corporate Auditor  
 Years as auditor: 6  
 Company's shares held: 600

Eiko Tsujiyama is an academic with in-depth knowledge of corporate finance and accounting and experience working for the Business Accounting Council of the Japanese Financial Services Agency as well as for the National Tax Council of the Japanese National Tax Agency.

Outside Independent



**Sakie Akiyama**

Founder and CEO,  
Saki Corporation

**Emi Osono**

Professor,  
Graduate School of International  
Corporate Strategy,  
Hitotsubashi University

**Keiko Hayashi**

President and CEO,  
DoCLASSE Corporation

**We see immense future potential in Lawson, as it continues to take up challenges in pursuit of medium- and long-term growth.**

**Please begin by sharing your views of the current state of the convenience store industry, and of the challenges it faces and potential it offers.**

**Akiyama:** I've observed a conspicuous movement toward reorganization of the industry accompanying the recent maturation of the market. You might say that the convenience store industry is operating in a highly dynamic environment.

**Osono:** I agree completely. When we consider the industry as a whole, we see that this movement toward reorganization or integration has made significant progress. It is not yet completely clear what form the system will take by the time this movement settles down at some point in the future. This is where the distinctive characters of the individual companies can be expected to shine through.

**Akiyama:** The range of products and services offered by the convenience store, which is uniquely integrated into the community, has expanded impressively. Still, not only do community needs differ among metropolitan areas, smaller cities and suburbs, but personal needs vary from one customer to another. I believe the ability of every convenience store chain, including Lawson, to remain involved in the lives of its individual customers will become increasingly important in the future.

**Hayashi:** So, the question is how to respond to changes in customers' needs as well as to regional differences. Should it be by expanding the product lineup or developing new services, for instance? It will be important to identify the most significant emerging trends, including

technological advances, and to decide what to relinquish and what to retain.

**Osono:** I see an unlimited number of things that can and should be done. The convenience store, which supports the lives of community residents as a neighborhood store, will continue to play an enormous role in the future.

**How do you rate Lawson's management strategy against this background?**

**Osono:** One of LAWSON's products that is particularly popular among highly health-conscious customers is the Green Smoothie. It debuted at NATURAL LAWSON and then spread to LAWSON stores throughout the country. Stores with diversified formats serving a varied range of customers without adhering rigidly to a set style or standard — this kind of flexibility appears to be a Lawson strong point.

**Akiyama:** Having a culture and environment that enable employees to respond accurately to new needs is another Lawson strength. Going forward, I want to see us take up challenges aggressively to develop products and services that stand apart from our competitors.

**Hayashi:** Speaking of challenges, the most effective strategy will be to increase awareness in categories where Lawson already has a strong presence.

**Akiyama:** In that sense, sweets are among Lawson's specialties. I understand the Roll Cake Lawson developed in collaboration with the major premium chocolate brand GODIVA received considerable attention. This is one example of a challenge that made the most of Lawson's sterling reputation for sweets.

**Hayashi:** I think it would be a good idea for Lawson to push its unique Lawson character to the forefront more strongly. By this I mean redefining the market and reinforcing areas in which Lawson has a strong presence. Lawson is constantly taking up challenges that generate innovative new trends. Its entry into financial services is expected to open up various possibilities, for example. We outside directors will follow up with a rigorous investigation to determine whether or not these new measures are truly worthwhile from Lawson's perspective.



**Osono:** Physical fitness is a prerequisite for meeting these kinds of challenges. With investment in both new businesses and next-generation systems set to grow, this fiscal

year might be a good time to build up "core strength," as they say in the fitness training field. I consider this an unavoidable direction in light of Lawson's future growth requirements. **Hayashi:** Yes, I also see it as an appropriate direction. The Board of Directors has discussed its investment plans with an eye to the future, and I believe them to be necessary from both medium- and long-term perspectives. These plans offer a great deal of potential for the future.

**Akiyama:** I agree. Lawson has set a course toward steady progress, while carefully safeguarding its essential requirements for sustainable growth.

### What expectations do you have for the future now that Mitsubishi Corporation has become the parent company?

**Akiyama:** I expect Mitsubishi Corporation to supply resources and networks in such new fields for Lawson as financial services. Business tie-ups with different industries should be strengthened as well. We can also look for an accelerated turnaround in the profitability of our overseas operations to be supported by leveraging Mitsubishi Corporation's resources.

**Osono:** As a manufacturing retailer based on a small commercial area model, Lawson can also be expected to make greater use than ever of Mitsubishi Corporation's raw materials procurement capabilities and manufacturing and distribution networks.

**Hayashi:** The same goal of increasing Lawson's corporate value is shared by Lawson's parent company and individual shareholders. As in the past, the other outside directors and I intend to pay close attention to make sure the strategy is one that can be clearly explained to all the shareholders.

**Osono:** Lawson has maintained a relationship with Mitsubishi Corporation for over 15 years as a strategy for raising Lawson's corporate value on a long-term basis. Although the parent company's ownership share now exceeds 50%, there is no reason to expect any sudden or dramatic change. The atmosphere of the Board of Directors remains virtually the same as before. We find it easy to talk about anything we want, and President Takemasu responds sincerely to our remarks.

**Hayashi:** We feel the atmosphere of the Board of Directors is truly wholesome, enabling us to express any opinion with no hesitation. We feel free to speak up frankly if we have questions. The management accommodates us in an open manner and is eager to hear our ideas. I feel we make a superb team.



**Akiyama:** I think openness like this is one of Lawson's distinctive characteristics. I hope to see it remain a leading company in the realm of corporate governance.

### Finally, please tell us how you personally envision the future of Lawson.

**Osono:** Lawson is not just a part of the social infrastructure but a place where every customer is greeted with warmhearted hospitality. It will be important to place greater stress on Lawson's unique positive attributes to bring them to the attention of more people.

**Akiyama:** Yes, precisely. And I would also like to see Lawson go beyond merely maintaining a positive atmosphere and begin making proactive efforts to create an environment in which everyone in its employ takes up challenges enthusiastically.



**Hayashi:** We live in a tumultuous age, shaken up by advancing technologies. This represents a great opportunity to uncover newly emerging needs and develop commercial or business responses. You might even say that this is the most exciting time ever. Lawson's culture is conducive to generating positive challenges, and I have the highest expectations.

### \*\*"Uchi Café SWEETS×GODIVA Chocolate Roll Cake"

LAWSON stores sold a limited number of 2.5 million pieces of Uchi Café SWEETS×GODIVA Chocolate Roll Cake, crafted with ingredients of uncompromising quality in collaboration with GODIVA. This collaborative product with its Ichigo-ichie\* theme reflected a desire to offer a special product that customers could find at their neighborhood LAWSON stores only during a specified period.

\*"Treasure every meeting, for it will never recur."



## Lawson's corporate governance

### Characteristics of Corporate Governance

How do we raise the value we offer Lawson's stakeholders in accordance with our Corporate Philosophy of "Creating Happiness and Harmony in Our Communities"? We believe realization of this goal will lead to higher corporate value. Realizing it will require us to enhance our management soundness, transparency and corporate governance through actions taken in consideration of the Corporate Philosophy and Lawson Code of Ethics, and with full disclosure based on the Basic Principles Concerning Information Disclosure, while maintaining compliance with laws, regulations and societal norms.

We select candidates for the Board of Directors with experience and expertise in

varied fields to ensure the diversity required to facilitate appropriate supervision. Our selections comply not only with the judgment criteria specified in the Tokyo Stock Exchange guidelines, but also with Lawson's own Judgment Criteria Regarding Independence. Several independent officers are appointed to ensure management transparency and fairness.

As concerns the number of directors, the Articles of Incorporation specify that there shall be no more than eleven. Thus, we have constructed a system that enables full consideration and deliberation by the Board of Directors at their meetings without lessening their responsive. By introducing the Executive Officer System, meanwhile, we have divided

management and supervision from business execution to enable quick decision-making and business execution. It should be noted with respect to the auditors that we elect candidates for the position of corporate auditor based on their possession of the extensive financial, accounting, risk management and/or legal expertise and experience required to fulfill auditors' duties.

Although Lawson became a consolidated subsidiary of Mitsubishi Corporation on February 15, 2017, from the perspective of protection of minority shareholders, we will continue our efforts to assure appropriate governance as an independent listed company.

### Main initiatives concerning corporate governance since 2000

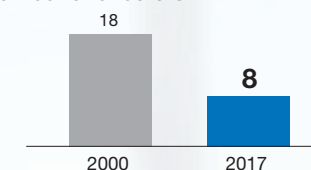
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Directors:	18	20	8	9			7				9*	8						
Outside directors:	2	3	5			3				4	5		3					
Independent officers:								1	2		3							
Female directors:			1				2		3									
Ensuring transparency of executive remuneration			2002 - Compensation Committee										2014 - Nomination and Compensation Advisory Committee established					
			2005 - Directors' retirement bonus system discontinued															
			2005 - Share-based system for directors' compensation introduced															
													2012 - Auditors' retirement bonus system discontinued					
Mitsubishi Corporation shareholding ratio (notable movements)	2001 Mitsubishi Corporation largest shareholder:										As of April 2017 33.4%		As of February 2017 50.1%					

\* The number of directors is as of the end of the General Meeting of Shareholders of each year. In 2014, however, the number was 9 until July 31 and 8 from August 1 forward.

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

In order to realize flexible management decision-making by promoting separation between management and business execution and limiting the number of directors, we have maintained the number at 10 or fewer since 2002.

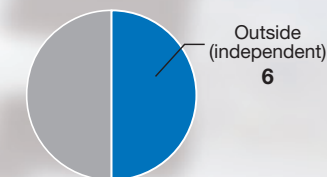
#### Number of directors



### (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.

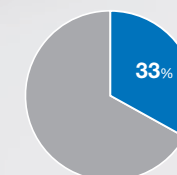
#### Composition of outside officers



### (3) Active appointment of female officers

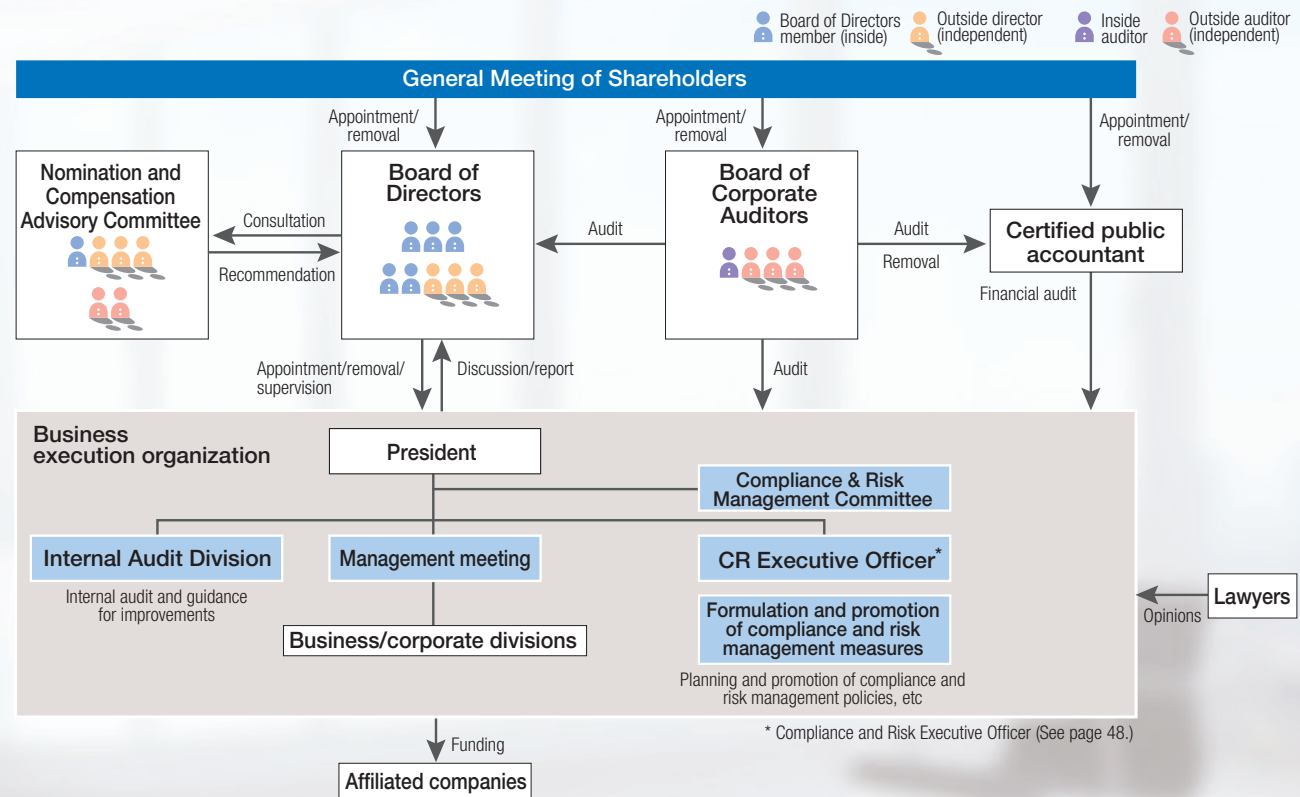
Stressing diversity in its management, the Company is proactive in its appointment of female officers. We also make ongoing efforts to promote other female employees' career advancement, increasing the ratio of women in managerial positions.

#### Ratio of female officers



## Corporate governance system

LAWSON has moved more quickly than its competitors to construct a highly flexible and transparent corporate governance system. Six independent officers who are considered to have no conflict of interest with the general shareholders comprise half the total of 12 directors and corporate auditors. Four women have been appointed to the positions of director or corporate auditor, moreover, with a view to promoting diversity with the composition of the executive officers taken into consideration. They are contributing to reinforcing the corporate governance system from various perspectives. Following the establishment of the Nomination and Compensation Advisory Committee to recommend candidates for the positions of director and representative director on the Board of Directors, meanwhile, independent officers have been selected to fill five of the six positions as Committee members, thus creating a system that can make recommendations with a high degree of independence. Going forward, we will continue our efforts to ensure management transparency and independence, and to improve corporate value to meet the expectations of all our stakeholders.



## Corporate Governance Code

[Five general principles]

1. Rights and equality of shareholders
2. Appropriate collaboration with stakeholders other than shareholders
3. Ensuring appropriate information disclosure and transparency
4. Board of Directors' responsibilities
5. Dialog with shareholders

The Corporate Governance Code (CG Code) is a set of guidelines applied to listed companies as of June 2015. Lawson implements all five basic rules specified by the Code. Lawson's efforts are also published in various reports, including corporate governance reports, meeting notices to shareholders and securities reports. Please visit the following URL to see the content of disclosure items related to the individual rules in the CG Code.

### URL

[http://www.lawson.co.jp/company/corporate/system/governance/pdf/governance\\_201706.pdf](http://www.lawson.co.jp/company/corporate/system/governance/pdf/governance_201706.pdf)

(In Japanese only)

## Basic policy for determining directors' compensation

Lawson's policy is to design its remuneration system in a manner that links directors' compensation with returns to shareholders, while retaining its function as an incentive for enhancement of corporate value, continuous growth and improvement of corporate performance and ensuring 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 (earnings per share). Share-based stock options—share price-linked compensation—are also incorporated as part of the remuneration to strengthen the linkage with returns to shareholders.

### 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 allocations.

#### 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, including EPS (earnings per share), in the fiscal period concerned. (To ensure linkage between directors' compensation and shareholders' interests)

##### B Share price-linked compensation

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

- Exercise price per share: 1 yen
- Number of shares allocated: Determined according to the director's position
- Exercise period: Exercisable only within a predetermined period after leaving the company (Not exercisable during tenure in office)

Note that no performance-linked variable compensation is paid to Nomination and Compensation Advisory Committee members, who support the representative directors and Board of Directors in a specialized supervisory and advisory capacity.

### Details of auditors' compensation

Auditors' compensation is determined according to a basic policy of paying compensation at a sufficient and appropriate level in consideration of the duties performed by individual auditors. It comprises base compensation (fixed compensation) paid in cash. The amount is determined through consultation with the auditors, with consideration given to such factors as full-time or part-time status and share of the auditing work, within a range approved by the General Meeting of Shareholders.

### Disclosure method for directors' compensation

Total amounts of officers' compensation are listed in the Company's securities reports and business reports.

#### ● Details of officers' compensation (Fiscal 2016)

Total compensation, total amounts by type of compensation and number of eligible directors per company director category

(Millions of yen)

Category	Total compensation	Total by type of compensation		Number of eligible officers
		Basic compensation	Stock options	
Directors (excluding outside directors)	226	147	78	3
Auditors (excluding outside auditors)	24	24	—	1
Outside officers	108	92	15	11
Total	359	264	94	15

(Note) There were 8 directors and 4 auditors as of end February 2017.

Total consolidated compensation paid to a director in amounts totaling 100 million yen or above

(Millions of yen)

Full name	Director category	Company category	Amount by type of consolidated compensation		Total consolidated compensation
			Basic compensation	Stock options	
Genichi Tamatsuka	Director	Reporting company	71	45	116

## Status of internal control system development

The construction and maintenance of an internal control system is considered an important issue for management to ensure healthy, sustainable business growth. In accordance with the provisions of the Financial Instruments and Exchange Act, in addition to the Companies Act and Ordinance for Enforcement of the Companies Act, a Basic Policy for Maintaining the Internal Control System is determined each fiscal year (see page 48).

These policies are subject to frequent revision in accordance with changes in the business environment in order to ensure the effectiveness, efficiency and appropriateness of business. Efforts to develop an effective, rational internal control system contribute to maintaining and increasing corporate value.

## Policy on nomination and standards for appointment and independence of candidates for director

Lawson has established criteria for appointing officers and for making judgments regarding independence. The Nomination and Compensation Advisory Committee serves as an advisory body, moreover, that makes recommendations to the Board of Directors regarding nominations of candidates for the positions of director and representative director. Since five of the six members are independent officers, this system also enables the Committee to make recommendations with a high degree of independence. It should be noted with respect to candidates for auditor that they are individuals with the financial, accounting, risk management and/or legal experience and expertise required to fulfill the duties of auditors whose candidacy is approved by the Board of Corporate Auditors.

### <Appointment criteria for officers>

- Persons whose views resonate deeply with the Lawson Group's Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."

- Persons who can contribute to sustainable growth of the Lawson Group and enhance its corporate value.
- Persons with good mental and physical health that will not interfere with pursuit of their corporate duties.
- Respected persons with dignity and high ethical standards who comply conscientiously with laws and regulations.
- Persons capable of making objective judgments, and endowed with excellent foresight and insight.
- Persons possessed of a wealth of experience and expertise in corporate management or specialized fields.
- Persons who are able to ensure sufficient time to conduct their duties.
- Persons to whom none of the grounds for disqualification specified in the Companies Act apply.
- As concerns independent officers, persons in compliance with the Judgment Criteria Regarding Independence stipulated by Lawson.

### <Judgment criteria regarding independence>

- A major business partner of the Lawson Group or its business executors: A group of business partners that provides products or services to the Lawson Group, the amount of which group's transactions with the Lawson Group in the previous business year exceeds 2% of the consolidated sales of the group of business partners concerned.
- A major business partner of the Lawson Group or its business executors: A group of business partners to which the Lawson Group provides products or services, the amount of the Lawson Group's transactions with which business group in the previous business year exceeds 2% of the consolidated sales (gross operating revenues) of the Lawson Group.
- Consultants, accounting experts and legal experts who have received large sums of money and other assets other than

- executive compensation from the Lawson Group: Consultants, accounting specialists such as CPAs and legal specialists such as attorneys who receive money and assets other than executive compensation from the Lawson Group, and whose remuneration from the Lawson Group has amounted to 5 million yen or more annually for the past two years.
- Major shareholders of Lawson or, in cases in which the major shareholder in question is a corporation, the corporation's business executors.
- Close relatives of the business executors of the Lawson Group.
- Close relatives of non-business executing members of the Board or accounting advisors, in the case of outside corporate auditors, of the Lawson Group.

## Special circumstances with the potential to seriously impact corporate governance

Mitsubishi Corporation increased its share of the Company's voting rights to 50.1% through a tender offer conducted during the period from December 2016 to February 2017, and Lawson became a consolidated subsidiary of the Company as of February 15, 2017. Mitsubishi Corporation cooperates with Lawson in human resources exchanges

and raw materials procurement as well as in sharing of information on retail properties and other matters based on a comprehensive business alliance. Lawson makes management decisions independently, however, in its capacity as a listed company.

## Board of Directors and Board of Auditors meetings held and attendance rates

	Board of Directors	Board of Corporate Auditors
Number of meetings held	14	15
Attendance rate	Outside directors	—
	Outside auditors	100%

## Related sites

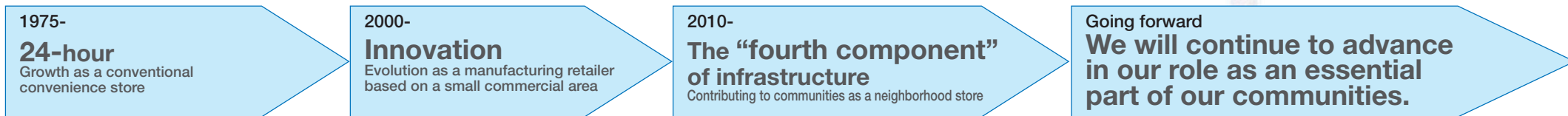
For details of basic principles concerning information disclosure  
<http://www.lawson.co.jp/company/corporate/system/disclose/>

For details concerning trade policies  
<http://www.lawson.co.jp/company/corporate/system/torihiki/>

(In Japanese only)

# Lawson continues to discern social trends and to advance and grow without interruption as it develops its business model as a “Next-Generation LAWSON Convenience Store.”

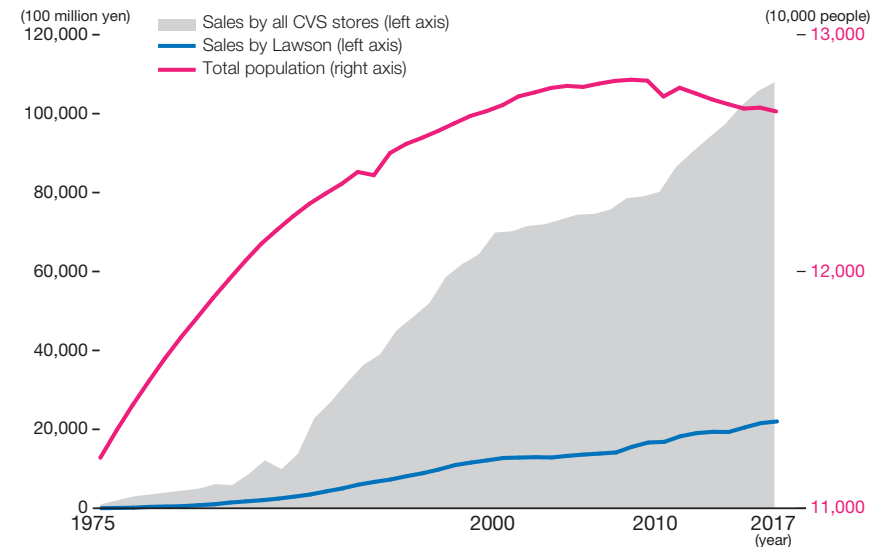
Lawson has responded proactively to changes in society since its founding, continually identifying customer needs and developing new products and services. It has become an essential part of its communities over the years by supporting the lives of residents in various ways. As the future unfolds, we will continue to work from the customer’s perspective toward construction of the Next-Generation LAWSON Convenience Store model.



In 1975, Lawson opened its first outlet as a “store that stays open 24 hours a day year round.” As time passed, it started carrying a widening variety of food and daily necessities, which had formerly been sold in separate stores organized by industry. It also broadened its services to include temporary holding of parcels for customer pick-up, public utility payment services, installation of ATMs and postboxes and handling of concert tickets. Thus, LAWSON took root in its communities as a “neighborhood store.”

In response to social changes such as the aging society and increasing participation by women, it introduced NATURAL LAWSON, a health-oriented convenience store, in 2001 and LAWSON STORE100, a perishable foods convenience store, in 2005. These moves gave it access to a wider range of customers. Through these efforts and others, such as customer-driven research and development of products and services, Lawson has advanced to become a manufacturing retailer based on a small commercial area model. With the Great East Japan Earthquake of 2011, people began to see convenience stores as the fourth component of infrastructure following electricity, gas and water supply services. The disaster also made Lawson strongly aware of the importance of its mission as an essential component of regional infrastructure. As people became increasingly health conscious, the Company began to open stores with a stronger focus on health care and original merchandise development, designating these as stores providing “Health and Wellness in Our Communities.” It has also introduced unique services, such as the Machikado Chubo in-store kitchen and MACHI café service. Entering the entertainment industry, meanwhile, it began engaging in ticket and DVD sales, and even movie theater management. These wide-ranging initiatives are expected to reinforce Lawson’s role as a neighborhood store frequented by community residents.

● Changes in sales by all convenience stores versus sales by LAWSON convenience stores



Source: “Population Estimates,” Statistics Bureau, Ministry of Internal Affairs and Communications  
 Source: “Current Survey of Commerce,” Ministry of Economy, Trade and Industry

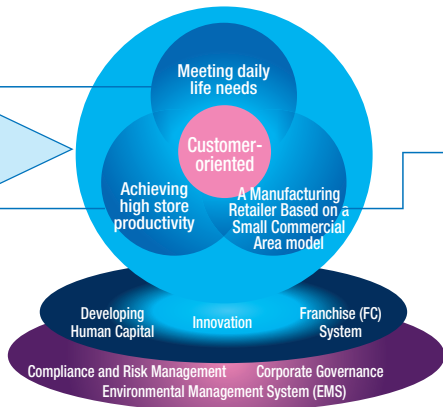


## Meeting daily life needs

“A place where daily-life essentials are always available, even at night.” This is the conventional view of the convenience store. Lawson is not satisfied with that definition; instead, we strive to be a neighborhood store that anyone might find indispensable at any time in the daily life of the community. For this reason, Lawson increased the number of products on its shelves by about 15% to 3,500 items over the past year. We stock essential products for daily-life, while also making every effort to meet particular needs for such items as healthful, small-portioned products, especially for elderly customers who are unable to travel long distances for shopping and customers with limited time. Lawson is expanding its services at the stores as well, adding new offerings such as ATM and financial services and temporary reception of Internet orders for customer pick-up. By transitioning from a “merely convenient” store to an “essential part of our communities,” Lawson is helping community residents live safe, healthy lives.

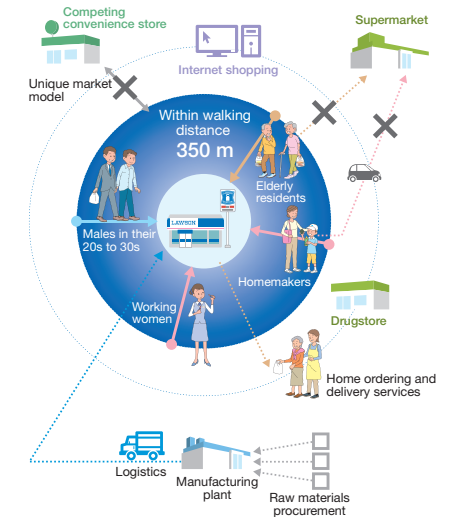


## Next-Generation LAWSON Convenience Store model



## A manufacturing retailer based on a small commercial area model

As a neighborhood store located within easy walking distance of customers' homes and workplaces, Lawson offers the most appropriate items from a unique product and service lineup closely related to customers' daily lives in a timely manner to a wide range of customers — including elderly neighbors and working housewives as well as young community residents. To fulfill this aim, we need a mechanism for managing the overall supply-chain processes, from product design, raw materials procurement and manufacturing to distribution and sales, so that finished products are delivered safely and reliably. We will increase our commitment to optimizing raw materials procurement and manufacturing while reviewing our system of controlling temperatures throughout the distribution process. We will also adopt an information system capable of monitoring overall supply-chain processes. Lawson is determined to continue improving added value as a manufacturing retailer.



## Achieving high store productivity

It is the individual stores that encounter customers in their communities. As products and services grow in number and variety and store operations increase in complexity, improving store productivity has become an important issue. To provide our increasingly diversified human capital with ample opportunities to utilize their capabilities, we seek to develop simplified operations that anyone can handle easily through the use of leading-edge digital technologies. Lawson will continue to improve its store productivity by leaving the tasks machinery can take care of to machinery, while focusing on warmhearted service that only human beings can provide.

## Constructing a Next-Generation LAWSON Convenience Store model

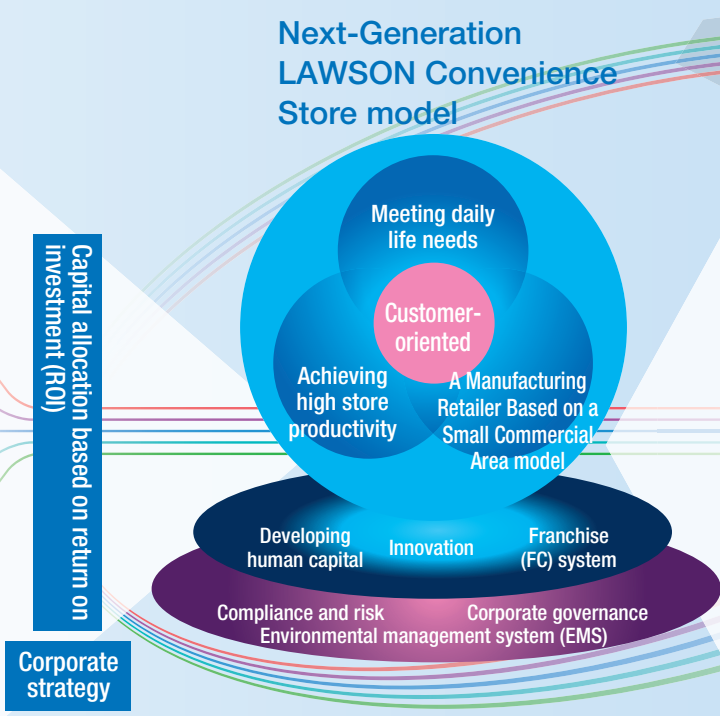


# Lawson contributes to happiness and harmony in its communities by creating added value through its customer-oriented business model.

Lawson will continue to increase its corporate value by leveraging its unique customer-oriented business model as a Manufacturing Retailer Based on a Small Commercial Area model. This means meeting daily life needs and achieving high store productivity while executing appropriate management strategies. Lawson's business model is designed to increase both its visible capital, including physical assets and funds specified in the financial statements, and its invisible but tangible capital, such as human capital and information, through appropriate investment in these areas. Lawson will continue to contribute to its customers' local communities as an essential company through continued application of its corporate value creation cycle.

## Inputs

- 
**Financial capital (funds)**  
 Capital raised to fund business activities through sales of shares and borrowing
- 
**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



## Outputs

- 
**Investment determined according to capital discipline to meet the expectations of the equity market**
  - Creating sufficient cash flow
  - Establishing a firm financial footing
- 
**Leveraging the full supply chain to develop products that meet local community needs**
  - Optimizing of the supply chain through integrated production and sales
  - Manufacturing original products with high added value
- 
**Nurturing human resources who are self-motivated and innovative to satisfy local community needs appropriately**
  - Nurturing next-generation management candidates and leaders
  - Development of human resources under supportive personnel management systems
  - Success of franchise owners
- 
**Cultivating innovation based on prompt perception of changes in local communities**
  - Enhancing the Lawson brand
  - Pursuing store development that responds to community needs
  - Analyzing Ponta data
- 
**Contributing to communities as social infrastructure in careful consideration of society and the environment**
  - Considering the environment throughout the supply chain
  - Revitalizing communities through enhanced social infrastructure functions

## Social challenges Lawson is tackling

A number of worries persist about the effects on people's lives of future developments, such as global environmental issues and the serious challenges facing Japan due to its low birthrate and aging population.

### Decreasing number of nearby stores

Decline in the number of retailers

Compared to 1991 **Approx. 40% decrease**

### Empowerment of women

Increase in number of double-income households

Compared to 1991 **Approx. 1.3 times**

### Rise in health consciousness

Medical expenses

Projected rate of decline by 2025 compared with 1990 **Approx. 2.5 times**

### Rapidly aging society

Increase in the population of residents aged 75 or older

Projected rate of decline by 2025 compared with 1990 **Approx. 3.6 times**

### Declining labor force

Employed people aged 15 to 64:

Projected rate of decline by 2025 compared with 1990 **Approx. 20% decrease**

### Rise in average global temperatures

Long-term global goals determined by the Paris Agreement of December 2015

Compared with the pre-industrial era **2°C or less**

### Contributions as a nearby neighborhood store and a component of social infrastructure

LAWSON stores contribute to their local communities and society as neighborhood stores where senior citizens and busy customers with time constraints can purchase foods and daily necessities, and as emergency evacuation sites in times of disaster.

### Responding to lifestyle diversification accompanying the empowerment of women and other initiatives

Working women and single-person households find it convenient to have a store that offers daily-life essentials in their neighborhood. LAWSON grasps these changing trends and social needs and provides appropriate lifestyle support services.

### Developing products and stores dedicated to promoting health

Lawson is developing menus and stores offering a focus on customer health. We are working to help them maintain good physical health through a healthful daily diet, while also selling pharmaceutical products, operating stores with dispensing pharmacies on the premises, and strengthening partnerships with local municipalities.

### Supporting senior citizens' efforts to lead fulfilling lives in a comfortable environment

Lawson promotes measures that respond to the needs of senior citizens by offering smaller, more healthful meal products and introducing stores that sell pharmaceuticals and provide health consultation services. It also contributes to creation of a social environment in which senior citizens do not have to live in isolation by employing staff over the age of 60.

### Seeking to improve employee productivity and to create an environment in which anyone can work

Lawson is creating an environment that provides jobs for a diverse range of human capital—including senior citizens, women, young people and foreign nationals—by realizing store operations that anyone can conduct easily through such means as digital technologies.

### Considering the environment in every aspect of operations, including store operation, manufacturing and distribution

Lawson contributes to realizing a sustainable society by addressing environmental issues from every perspective, including installing store equipment such as refrigeration and freezer systems that use natural (CO<sub>2</sub>) refrigerants and employing eco-friendly containers and packaging materials, manufacturing platforms and distribution procedures.

## “Creating Happiness and Harmony in Our Communities”

Lawson's business is supported by seven core stakeholders, including the community as a whole (local society).

We will continue to provide unique new value by leveraging our stores' accessibility to local community residents to address a variety of challenges facing society and our customers.



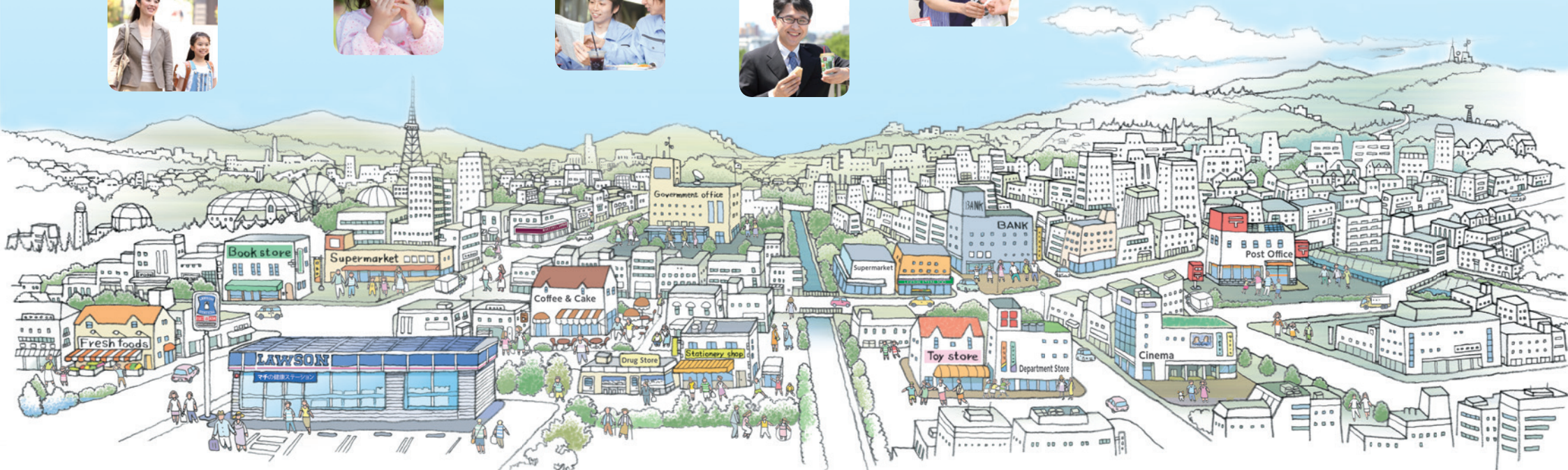
The Sustainable Development Goals (SDGs) were adopted unanimously by 193 member countries of the United Nations Sustainable Development Summit convened at the United Nations Headquarters in September 2015. The Summit set 17 goals and 169 targets for achieving the SDGs on a global scale by 2030. Lawson is contributing proactively to these efforts in the areas of economy, society, environment, human rights and governance.



# Lawson will become an essential part of our communities offering a full range of daily-life essentials.

“Becoming an essential part of all our communities”

We will not be satisfied with simply offering convenience and comfort, a role played by 24-hour convenience stores in general; but we will also respond swiftly to potential customer needs generated by such sentiments as, “It would be more convenient if we could...” Lawson wants to be a community center, serving all the functions communities require and filled with the happy faces of local residents. We will continue our earnest efforts to do things only Lawson can do.



## Community Infrastructure

### A conveniently small store stocked with daily-life essentials at all times and located right in the neighborhood, Lawson responds to lifestyles of every variety.

It is open 24 hours/day, 7 days a week; easily accessible on foot for picking up any necessary item early in the morning or late at night; welcoming of elderly residents shopping for daily-life essentials, working women stopping by on their way home and young people living alone; offering a wide range of foods, from morning coffee to boxed lunches and prepared meals for the dinner table; and stocked with all the daily-life essentials in the proper quantity.

### Meeting communities' varied needs

Communities require a wide range of functions. Besides foods, LAWSON stores stock daily necessities, magazines and cigarettes. They also provide convenient services—including public utility payment services, bank ATMs and ticket sales. Some stores have initiated sales of OTC pharmaceuticals (self-medication products). We have also entered into new businesses outside the purview of LAWSON stores, including management of HMV stores as well as operation of United Cinemas movie theaters. Lawson is making every effort to meet its communities' various needs.

### Supporting communities through shopping

With the society aging and the number of privately operated neighborhood shops shrinking, Lawson is working on initiatives rooted in its communities. We have started a mobile sales service for remote areas where stores are scarce and introduced a "community watch service" that dispatches staff to pay visits to elderly households. Lawson also cooperates with the Urban Renaissance Agency in community revitalization activities and provides assistance to the elderly at stores located in public housing complexes.

### Building warm relationships with deep roots in the community

Lawson is supported by immense numbers of local residents. Most of the franchise owners managing individual LAWSON stores are from local families who have lived in the neighborhood for years. Store managers and crews also have roots in the local communities. This is why Lawson has such a deep understanding of community needs, and the things that matter most to its residents. These relationships with their local roots are a source of warm interactions with customers. We believe we are making communities safer with our casual greetings of local residents.

### Ensuring the "safety and security" of communities

As a member of the local community with its lights on 24 hours a day, Lawson serves as part of the community infrastructure. We have signed the "Agreement on Cooperation in Supplying Daily Necessities in Case of Disasters, etc." with many municipalities. We have also prepared fixtures and fittings necessary for emergencies and disaster-prevention manuals. In cases of emergency, we will secure safety and do our utmost to resume our functions as a lifeline as soon as possible.

#### Services provided by Lawson (\*)



\* Figures for services, etc., developed by Lawson are as of end February 2017.

Support for Active Women

# I can get “things I need just when I need” them

With the number of working-couple households growing, the time available for household chores and shopping is increasingly limited. Family members are looking for a store within walking distance they can stop by easily on their way home from work and, moreover, purchase safe, good-tasting products. Lawson supports everyone in the family by stocking 3,500 items essential for daily life as well as by further improving its menu of value-added store-cooked side dishes.



Expanding the product lineup with such items as in-store prepared dishes to meet busy women’s lifestyle needs and frozen foods and daily life necessities contributes to attainment of the following SDGs: Goal 3: Ensure healthy lives and promote well-being for all at all ages. Goal 5: Achieve gender equality and empower all women and girls. Goal 9: Build resilient infrastructure, promote inclusive, sustainable industrialization and foster innovation.



## Support for Active Women

### A product offering that meets all the needs of daily life

“I can just step out, even in the middle of housework, to buy things I’ve run out of.” “I can drop in before or after work to pick up whatever we need for lunch, dinner or tomorrow’s breakfast.” Lawson aspires to be this kind of neighborhood store, where customers can purchase the things they need whenever the need arises. These range from ready-to-eat pre-cut vegetables, side dishes, frozen foods, and milk, eggs and other breakfast essentials to seasonings and household necessities such as detergents and toilet paper. Lawson has responded to these diverse needs by adding new products to its Lawson Select line, making capital expenditures for such purposes as increasing the number of refrigeration and freezer cases in the stores, and, in fiscal 2016, expanding the stores’ product offering by approximately 15% to 3,500 items. We

have also developed new meal products such as soups and salads with special appeal for women. These have been positively received since their addition to our conventional boxed meals and rice balls on the shelves.

Daily delivered foods



Daily necessities



### Cooked or prepared fresh in the store with a stress on good taste

Fast-food side dishes prepared at the counter, including “*Tori-kara*” (deep-fried chicken), “*Genkotsu-korokke*” (“clenched fist” croquettes) and “*Genkotsu-menchi*” (“clenched fist” minced-beef patties), are ready-to-eat staples whose high-quality ingredients have made them highly popular. In 2017 “*Deka yakitori*” (mega grilled chicken) and “*Deka kushikatsu*” (mega skewered deep-fried pork) were newly added to the lineup. Some 3,500 LAWSON stores are now operating “Machikado Chubu” in-store kitchens, moreover, where various food items are cooked fresh on site—a service conventional convenience stores cannot offer. Boxed meals and sandwiches made with freshly cooked ingredients such as rice, thick-sliced pork cutlets and *kakiage* (seafood-and-mixed-vegetable tempura) are popular for their fresh, good taste that is possible only with an in-store kitchen.



### Pre-cut vegetables with uncompromising quality

With the exception of certain products and regions, Lawson’s pre-cut vegetables are prepared from produce cultivated according to the Nakashima method. This method focuses on growing wholesome vegetables in healthy soil with a good mineral balance. Lawson is currently promoting introduction of the Nakashima method at its Company-operated “Lawson Farms.”



### Restaurant-quality side dishes for informal eating pleasure (Seijo Ishii)

Seijo Ishii selects its side dishes based on the concept of “no-frills enjoyment of good-tasting professional-level cooking.” It also offers a range of homemade products prepared with uncompromising care. Popular favorites include breads made from scratch (starting with mixing the flour and other ingredients to prepare and bake the dough) and sausages made from fresh pork and natural sheep intestines with the fewest possible additives, and smoked with wood chips imported from Germany.



## Further enhanced community support CHALLENGE 01

**Hitoshi Fujii,**  
Director, Merchandising Division  
**Yuko Washizu,**  
General Manager, OTC Fast Foods Dept.

We aspire to be a reliable community store, where women who are busy with work or childrearing can drop in easily to purchase anything they need. Recommended favorite menu items include *Deka yakitori*, the largest grilled chicken ever offered by Lawson, and our in-store kitchen’s *Kaisen kakiage-don* (seafood-and-mixed-vegetable tempura on rice), which is prepared on site with a little extra time and effort. We will pursue ongoing product development to provide customers with delicious foods prepared with special care.



Catering to Health-conscious Customers

# Providing our communities with “delicious and healthful” foods and beverages

Lawson believes that pursuing various support initiatives to help people in its communities lead healthy lives is a natural component of its mission as an entity responsible for creating happiness and harmony in its communities. Dedicated to promoting health maintenance as only a neighborhood store can, Lawson will reinforce the two axes of “meal solutions” and “self-medication solutions” in accordance with its role in supporting “Health and Wellness in our Communities.”



Promoting delicious, health-conscious products at local stores and participating in employees' and franchise owners' health management contribute to attainment of the following SDGs: Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture. Goal 3: Ensure healthy lives and promote well-being for all at all ages. Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.





## Catering to Health-conscious Customers

### Delicious products contributing to health

Advocating meal solutions that help people maintain physical health through their daily diet, Lawson has developed bran bread sandwiches and steamed bran buns suited to low-carb (restricted carbohydrate) diets as well as Green Smoothie Off & Plus, a lactobacillus-rich beverage that packs in the vegetable content of a full meal\* with lower carbohydrates and calories. Lawson is continuing to pursue product development in accordance with 11 health themes it has identified, including “Let’s eat vegetables,” “Delicious low-carb foods” and “Use less salt.”

\* Recommended daily requirement: Over 350g.  
Source: Ministry of Health, Labour and Welfare, Kenko Nippon 21 (“Health Japan 21”) Campaign



Bran bread



Green Smoothie Off & Plus

### Reliability in time of need with 24-hour OTC medicine shopping

The first in the industry to open stores in hospitals in 2000, Lawson has continued to provide “self-medication solutions” to help community residents maintain and manage their personal health. As of the end of February 2017, we were selling OTC medicines at 157 LAWSON stores, 41 of which had dispensing pharmacies on the premises, in partnership with dispensing pharmacy chains and drugstores. Our aim is to become a reliable source of medicines for community residents when a sudden fever or unexpected illness strikes at night or other times when their doctor is not available.



Sales store of OTC medicines

Stores with a dispensing pharmacy on the premises (“Pharmacy Lawson”)



### Implementing health and productivity management to promote employee and franchise owner wellness

As a company committed to contributing to customers’ health, Lawson recognizes its responsibility for assuring its own employees’ health first and foremost. It reinforced its employee health promotion measures in 2012, beginning with a program encouraging all employees to take physical checkup. In 2015, it established Lawson Healthcare Points, a health service business that manages day-to-day healthcare. It followed this initiative in 2016 by implementing the “90-Day Health Challenge” aimed at raising health awareness Companywide. In recognition of these and other efforts, Lawson was honored with the 2017 Health & Productivity Stock Selection, an award presented jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange to companies that engage in strategic efforts toward employee health management. This made Lawson the only retail business to receive the award in three consecutive years. We also strive to promote the health of our franchise owners and store employees through the Lawson Owner Welfare Association by subsidizing full physical examinations and other medical checkups and preparing health support menus.

## Further enhanced community support CHALLENGE 02

**Yuichi Wada,**  
Senior Executive Officer, Director, Store Operations Division

Besides providing products that contribute to health, Lawson supports the health of community residents through sales of OTC medicines. Supporting the health of others requires everyone involved in Lawson, from franchise owners and store crews to headquarters employees, to be in good health themselves, both physically and mentally. Our aim is to be a retail chain in which everyone plays an active role cheerfully and energetically, while maintaining the customer’s perspective at all times.



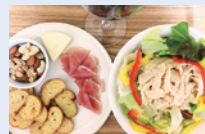
### Low-carb menu selections Excerpt from *Rocabo Nikki* (“Low-Carb Diary”), a blog on low-carb diets centered on Lawson products (May 23, 2017)



- Lawson Select Hogushi (“flaked”) salad chicken: ..... Glucide content 0.1 g (90 g per package)
- Lawson Select dry-cured pork loin ham: ..... Carbohydrate content 2.5 g (50 g per package)
- Lawson Select 6P cheese with Camembert: ..... Carbohydrate content 0.5 g (18 g per piece)
- NL avocado and cream cheese-flavored rusks: ..... Glucide content 5.6 g (30 g per bag)
- NL unsalted roasted mixed nuts (4 nut varieties): ..... Glucide content 11.9 g (75 g per bag)

The displayed nutritional content is that reported by the raw material producers. Since the content varies with the product, all numbers should be considered approximate indications. The values shown are for products sold in the Kanto Region, moreover, and may differ from those for other regions.

\*\*“Low-carb” refers to a moderate restriction on glucide content recommended by the Eat & Fun Health Association. Glucides are carbohydrates with the dietary fiber removed.



Response to the Rapidly Aging Society

# Contributing to a “fulfilling community life”

We live in an era in which people place a higher value on enjoying special times and experiences than on pursuing material possessions. With the numbers of active seniors increasing among our customers in addition to young people and families, we have become increasingly concerned with ensuring their ability to lead energetic, fulfilled lives, enriching their personal time and interacting with friends in the community. Lawson seeks to provide support in everything from their dietary life and everyday community activities to the movies and hobbies that enrich their world.



Besides helping to make our communities healthier and more pleasant for everyone, including senior citizens, providing opportunities to enjoy events such as concerts and movies contributes to attainment of the following SDGs: Goal 3: Ensure healthy lives and promote well-being for all at all ages. Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.



Location: United Cinemas Toyosu

## Response to the Rapidly Aging Society

### Entertaining active seniors

At a time when people are seeking to enhance their quality of life through activities such as events and entertainments, rather than through material consumption, Lawson has positioned itself to satisfy their needs. Lawson Group companies whose business centers on enriching customers' personal lives include Lawson Ticket, which engages in sales of concert, sports event and theater tickets; the United Cinemas movie theater chain; and HMV, a store specialized in sales of CDs, DVDs and books.

We provide everyone from young people and families to senior citizens with the means to enrich their lives.



### A range of small-portion food products with uncompromising taste and quality

The pleasure of eating provides the basis for a fulfilling life. The side dishes in the private "Lawson Select" brand are popular among seniors who want to eat delicious, healthful foods in just the right quantity, as well as among small households. These include Japanese side dishes such as broiled fish, *chikuzen-ni* (simmered root vegetables with chicken) and *nizakana* (fish boiled in broth), all sold in small portions for casual dining. At LAWSON STORE100, meanwhile, which supports customers' lives with good-value 100-yen products, vegetables and other perishable foods are sold in small packages and appropriate quantities. The store also brings together many good-quality 100-yen products under its private "Value Line" brand, which enables customers to enjoy good-value daily dining.



Value Line  
"Mix Salad"



Value Line  
"Spinach"



### Support for communitywide personal satisfaction

To assure people's ability to continue living satisfying lives in their familiar communities, Lawson has introduced the LAWSON store with a nursing care center ("Care LAWSON"). These stores feature on-site nursing care consultation windows, where care managers are always on duty, and accompanying salon spaces. We also provide a mobile sales service, which currently operates 24 Mobile "Lawson-Go" vehicles nationwide (as of end June 2017). The service enables elderly customers for whom leaving home is difficult to enjoy shopping. The "Community Safety Watch-over Agreement" we have concluded with a number of municipalities, meanwhile, helps to protect seniors and children from crimes and accidents.



LAWSON stores with nursing care consultation windows



"Mobile Lawson-Go"

## Further enhanced community support CHALLENGE 03

**Yasuhiko Hirokane,**  
Director, Healthcare Business Division

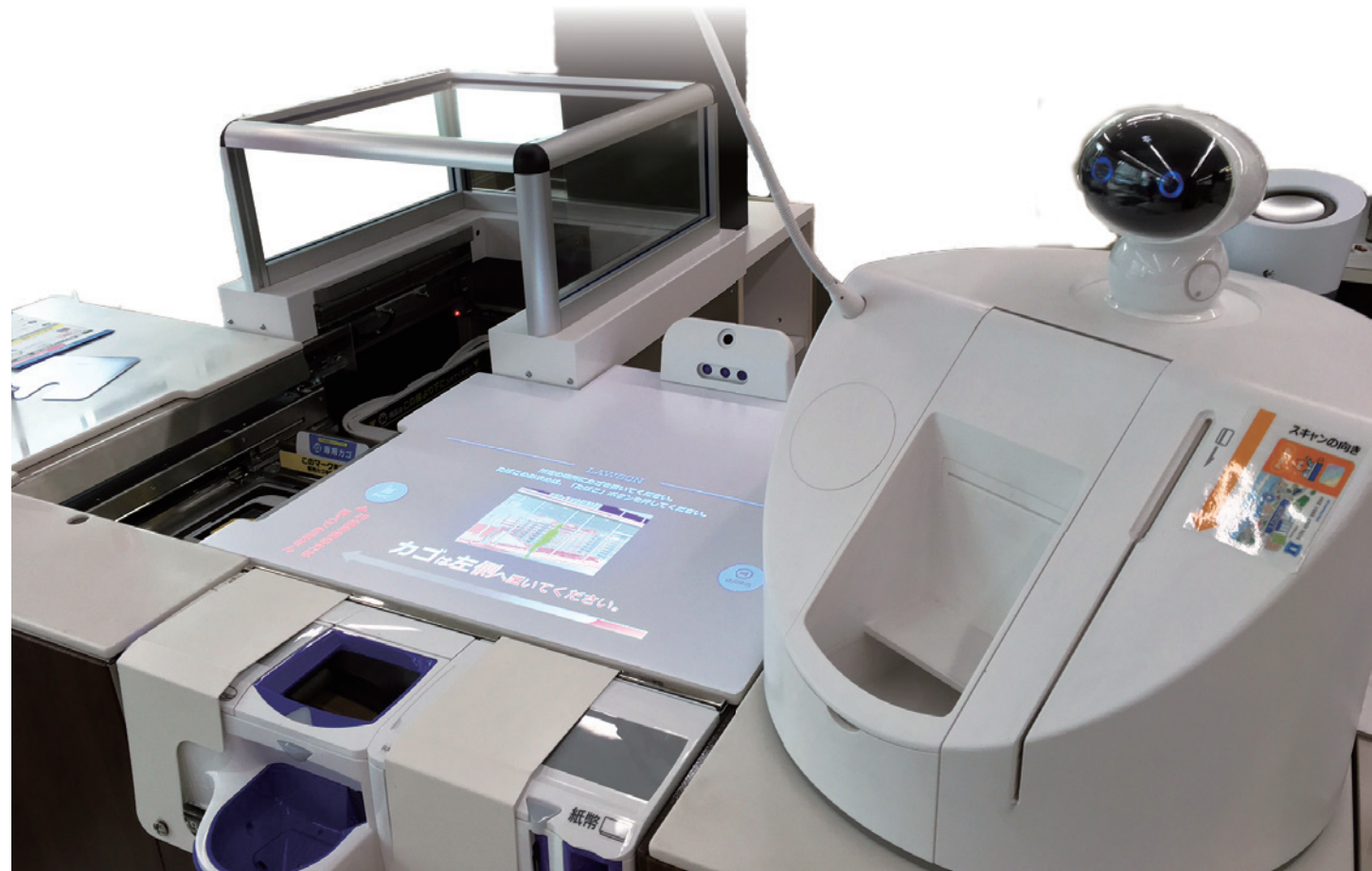
Although grouped together in the rapidly aging society, senior citizens have widely varying needs. These differ among active seniors, seniors requiring care or assistance, and their family members. Besides establishing nursing care windows on "Care LAWSON" store premises and offering nursing care products, we host healthcare-related events in our salon spaces. We hope senior citizens' families and others in the communities will make the most of the Care LAWSON stores' care-focused LAWSON for Senior Citizens program, as a venue for friendly communications. We initiated the program in 2015 and are currently operating 10 Care LAWSON stores (as of end June 2017), with plans to expand the service to more stores in the future.



Response to the Declining Working Population

# Lawson is making it easier for “anyone to work”

We pride ourselves on the warmhearted service customers receive from each and every member of the LAWSON store crews in communities everywhere. With the ongoing decline in Japan’s working population, meanwhile, a more diverse range of personnel, including seniors and people of foreign nationalities, are participating in store management. Faced with a declining population of working-age people, Lawson will make effective use of digital technologies to boost its store productivity, while also implementing measures to improve staff satisfaction.



Installing state-of-the-art digital workplace operation systems anyone can use as well as dependable training and support systems for diversified human capital contributes to attainment of the following SDGs: Goal 3: Ensure healthy lives and promote well-being for all at all ages. Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

## RFID

RFID (Radio Frequency Identification) is a system that identifies individual products through wireless detection of information stored in electronic tags. The price and other information is inscribed in small tags on each product as data to be read by electromagnetic wave radiation. This system is expected to reduce the crews’ workload significantly, not only at the checkout counter but also in their inspection and stocktaking duties. At the initiative of the Ministry of Economy, Trade and Industry, five convenience store chains (Seven-Eleven Japan Co., Ltd., FamilyMart Co., Ltd., Ministop Co., Ltd. JR East Retail Net Co., Ltd. (operator of New Days CVS chains), and Lawson) have formulated the “Declaration of Plan to Introduce 100 Billion Electronic Tags for Products in Convenience Stores” aimed at regularizing use of RFID for all convenience store products (an estimated 100 billion tags/year) by 2025.



Graphic image of RFID-tagged products

## Response to the Declining Working Population

### A focus on “services only people can provide” with the introduction of leading-edge digital technologies

The declining birthrate and aging population have combined to shrink the size of Japan’s working-age population. If we are to improve our product offering and services to meet community needs in this environment, we will have to streamline operations to let our crews focus on services only people can provide. Lawson has introduced a semi-automatic ordering system employing Ponta data-based demand forecasting to simplify and improve the accuracy of the ordering process. We will also introduce tablets and replace the current generation of cash registers with POS registers equipped with automatic change-dispensing machines. Nor will we concentrate solely on in-store work. We will also enhance efficiency throughout the supply chain, including optimizing our delivery schedules and automating our production lines.



### Upending conventional thinking with RFID

In February 2017, Lawson conducted verification testing of Regi-robo®, the industry’s first fully automated self-checkout register, and RFID at the LAWSON Panasonic-mae Store (Osaka Prefecture). Calculations of the system’s performance suggest that its use could reduce work at the cash register dramatically, both by eliminating the need to scan products one at a time and by automating the bagging process. Its ability to read product inventory information during delivery inspections and stocktaking should contribute to more efficient inventory control as well. When large numbers of convenience stores and other retail outlets adopt RFID for product sales and merchandise management, store operations will clearly evolve beyond conventional expectations.



Regi-Robo® fully automated self-checkout register

### Support to enable diversified human capital to “work with peace of mind”

Responding to social change and continuing to take up new challenges will require us to create diversified organizations in which it is normal to find women, senior citizens and foreign nationals working at both headquarters and stores. It will also be important, however, to address unease concerning such issues as language and cultural barriers and handling of complicated tasks such as cash register work. Lawson Staff, Inc., a Lawson Group company, is prepared to provide a variety of support and events, as well as pre-employment training and follow-up training for crews after they begin work, to help people who want to work but feel somewhat uneasy at the prospect. These programs enable them to work at LAWSON “with a smile and peace of mind for many years,” regardless of their age, gender or nationality.



## Further enhanced community support CHALLENGE 04

**Katsuyuki Imada,**  
Member of the Board, Director,  
Corporate Strategy and Planning Division

Throughout its history of over 40 years, the convenience store has responded without fail to the needs of its core customers and changes in the social environment. The most pressing change we face today is a declining population. Lawson is responding by identifying and adopting the most appropriate leading-edge technologies and by promoting efficiency and reform at every stage of the supply chain. Going forward, Lawson will continue to conduct management in which tasks machines can do are handled by machines and those only people can do are done by the human hand, with the aim of “creating happiness in our communities” through warmhearted service.



Combatting Climate Change

# Pursuing a sustainable society to pass down an abundant Earth to future generations

Lawson's Corporate Philosophy of "Creating Happiness and Harmony in Our Communities" makes consideration for society and the environment an inevitable factor in our business activities. In responding to global climate change, in particular, we are introducing state-of-the-art equipment to promote energy conservation and generate energy at the stores, while also conserving energy in our daily work, to ensure that the children of the next generation will continue to enjoy the benefits of an abundant Mother Earth.



Responding to global climate change, energy conservation and generation efforts and reduction of food waste contribute to attainment of the following SDGs: Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all. Goal 12: Ensure sustainable consumption and production patterns. Goal 13: Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.



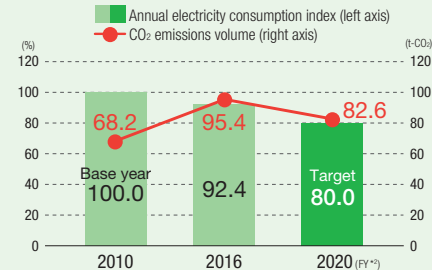
The newest environmentally conscious model store: Kodaira Tenjincho 2-chome store (Kodaira, Tokyo)

### Energy-saving objectives

20% reduction in per-store electricity use in fiscal 2020 compared with fiscal 2010

Lawson is implementing energy conservation and generation measures with the goal of achieving a reduction in per-store electricity consumption of 20% in fiscal 2020 compared with fiscal 2010.

#### ● Per-store electricity consumption (index) and CO<sub>2</sub> emissions\*1



\*1: CO<sub>2</sub> emissions derived using adjusted coefficients for receiving-end terminals published by the Federation of Electric Power Companies of Japan. The figures for fiscal 2016 and 2020 are estimated based on coefficients for fiscal 2015.

\*\*2: Calculated for the year from April 1 to March 31 to coincide with the administrative fiscal year.

As part of this effort, we open an eco-friendly model store that brings together state-of-the-art technologies to examine their energy-saving effects. We then introduce technologies that exhibit high energy efficiency to new stores and others to help to reduce their electricity consumption. Our objectives at our newest eco-friendly model store (Kodaira Tenjincho 2-chome store) opened in February 2017 are twofold: 1) to save (and generate) electric power through automatic control of rechargeable batteries and LED lighting with IoT technology; and 2) to deploy state-of-the-art energy conservation measures to reduce per-store electricity consumption by approximately 60% compared to fiscal 2015 levels (nationwide average per store).



Lawson became the first convenience store to acquire 5 stars and +ZEB certification\* under the Building-Housing Energy-efficiency Labeling System (BELS) awarded to buildings with high energy-saving performance.

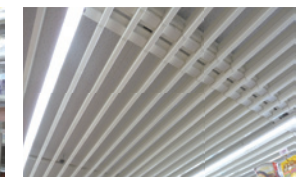
\* The energy-saving performance of buildings is evaluated in five stages, with 5 stars as the highest rating. The ZEB (Zero Energy Building) evaluation takes renewable energy into consideration. ZEB (awarded to Lawson) is the highest of three rankings, followed by Nearly ZEB and ZEB Ready.



A sloped ceiling promotes natural ventilation, and the skylight introduces natural light.



Double-pane glass enclosing the cold cases significantly limits leakage of cooled air.



Radiant ceiling panels cool the store efficiently in summer and dehumidify it simultaneously by draining off the generated condensation.

## Introduction of CO<sub>2</sub> freezer and refrigeration systems

Lawson began installing highly energy-efficient Freon-free freezer and refrigeration systems cooled by CO<sub>2</sub> refrigerants that do not emit chlorofluorocarbons (CFCs) in fiscal 2010. As of the end of February 2017, they were installed in approximately 2,000 stores. Reduction of the use of HFC\* will be required by law beginning in fiscal 2019. Lawson will contribute to combatting climate change by successively replacing the refrigerants currently used for cooling with non-CFC refrigerants.

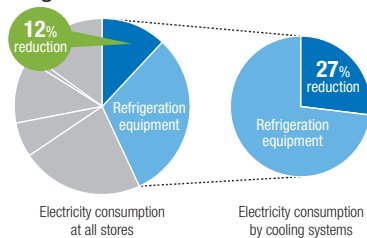
These systems significantly reduce greenhouse gas emissions, moreover, because CO<sub>2</sub> refrigerants exert a global-warming impact about 1/4,000 that of CFC refrigerants. They also excel in energy-saving performance, and can reduce electricity consumption by the store as a whole by 12%.

\* HFC (hydrofluorocarbon) is often referred to as "substitute Freon." Although it does not damage the ozone layer, its reduction is required by law due to its significant greenhouse effect.



Freezing and refrigeration systems using CO<sub>2</sub> coolant

### Reduction of electricity consumption through use of CO<sub>2</sub> coolant



## Use of solar power systems to generate energy

Lawson is engaged in an active program of installing solar power systems in the stores, approximately 2,000 of which had solar panels on their roofs by fiscal 2016. The panels can generate a total of 12 kW of electric power, 2 kW for use in the store and an additional 10 kW (5 kW × 2 lines) for selling to electric power suppliers.



Solar panels with a 22 kW\* power-generation capacity at the Kodaira Tenjincho 2-chome store

\* Power generation by the store exceeds the usual 12 kW.

## Implementing the Ten Energy-saving Rules to promote energy conservation at every store

Lawson has formulated and implemented the "Ten Energy-saving Rules" to improve the operating efficiency of the cooling and air-conditioning systems installed in its stores and reduce wasteful electricity consumption throughout the store operation.

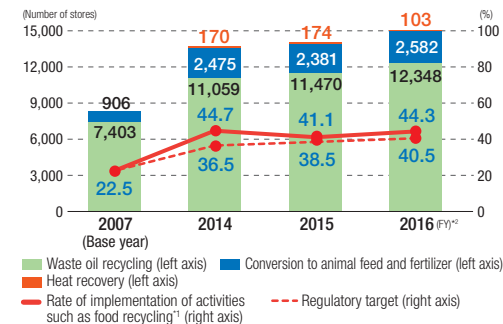


Every store is responsible for keeping the filters of its cooling and air-conditioning systems compliant with the standards and for maintaining the recommended heating and cooling temperature settings in daily operation.

## Recycling to reduce food waste

Lawson is working to limit waste generation and encourage recycling in order to reduce the volume of food waste (11 kg/day per store) discarded by Lawson stores. These efforts have included introducing a new ordering system to improve the accuracy of our product ordering and help to control waste. Any surplus food that remains is delivered to recycling plants for conversion into animal feed and fertilizer, and waste oil is recycled as a feed additive. These efforts resulted in a food-recycling ratio of 44.3% in fiscal 2016, well above our 38.5% target.

### Transitions in number of stores implementing Lawson Group's food-recycling activities



\*1 Figures for the implementation rate of food recycling activities exclude figures for Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc. Lawson Kochi, Inc. and Lawson Sanin, Inc.

\*2 Calculated for April 1 to March 31 to coincide with the administrative fiscal year.

## Further enhanced community support CHALLENGE 05

**Toshihiko Chihiro,**  
Executive Officer  
Director, Development Division

Our efforts to combat climate change and reduce greenhouse gas emissions will require us to pursue energy conservation and generation at all the Lawson Group's 13,000 stores. This will mean creating a mechanism that can be implemented easily. We are currently experimenting with an energy-saving activity support system at about 90 stores for this reason. Besides instructing tablets installed in the stores to implement energy-saving measures, the system saves power automatically by controlling heating-and-cooling equipment and lighting during peak demand hours. We will continue to introduce leading-edge technologies to make our stores environmentally friendly.



Balancing Business and Environmental Concerns in the Supply Chain

# Efforts to construct a business model as a manufacturing retailer of good-quality, affordable, eco-friendly products

Lawson is seeking to realize itself as a Manufacturing Retailer Based on a Small Commercial Area model that pays close attention to the quality and cost of our products, and to their impact on society and the environment. We deliver high value-added products and sell them through neighborhood stores. We will structure a supply chain that can coexist synergistically with society by engaging fully in all the processes concerned, from product development and raw materials procurement to manufacturing and distribution.

Our customers' needs are highly diversified. They seek food products that are delicious, safe, reliable, healthful and inexpensive. Lawson always plans and develops original products from the customer's perspective, and one-third of our total sales are sales of original Lawson products. These original products not only differentiate Lawson from other companies, but they also provide higher gross profit margins. Higher profitability generated upstream and midstream in the supply chain by operations including raw materials procurement, manufacture and distribution enables us to provide such time-consuming products and services with high added value as in-store cooking and over-the-counter fast foods.

We are approaching an optimal balance between environmentally friendly processes, reflected in reduced CO<sub>2</sub> emissions and improved fuel efficiency, and product quality enhancement at lower cost through three key strategies: close involvement in every facet of the supply chain, fully transparent operations, and strict control over inefficiencies and waste.

Going forward, we will continue to reinforce our collaboration with the Mitsubishi Corporation Group further and advance our evolution as a Manufacturing Retailer Based on a Small Commercial Area model.

Social and environmental consideration in raw materials procurement



Seeking to reduce the burden it places on society and the environment to the greatest extent possible, the Lawson Group pursues energy conservation, resources saving and waste reduction in every stage of the supply chain. Since CO<sub>2</sub> emissions from raw materials are particularly high, we give special consideration to society and the environment at the raw materials procurement stage.

Our MACHI café fresh-brewed coffee service, for example, uses only coffee beans from Rainforest Alliance Certified™ plantations.\* This certification is awarded only to farms that seek to preserve biodiversity through tree planting and other activities, and that establish work environments in which workers can perform their jobs safely. The standards include SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture. The applicable targets are SDG 2 Target 12: Attain sustainable production and Target 15: Pursue protection, recovery and sustainable use of terrestrial eco systems. The Lawson Group will continue to promote sustainable development at every stage of the supply chain, including raw materials procurement.

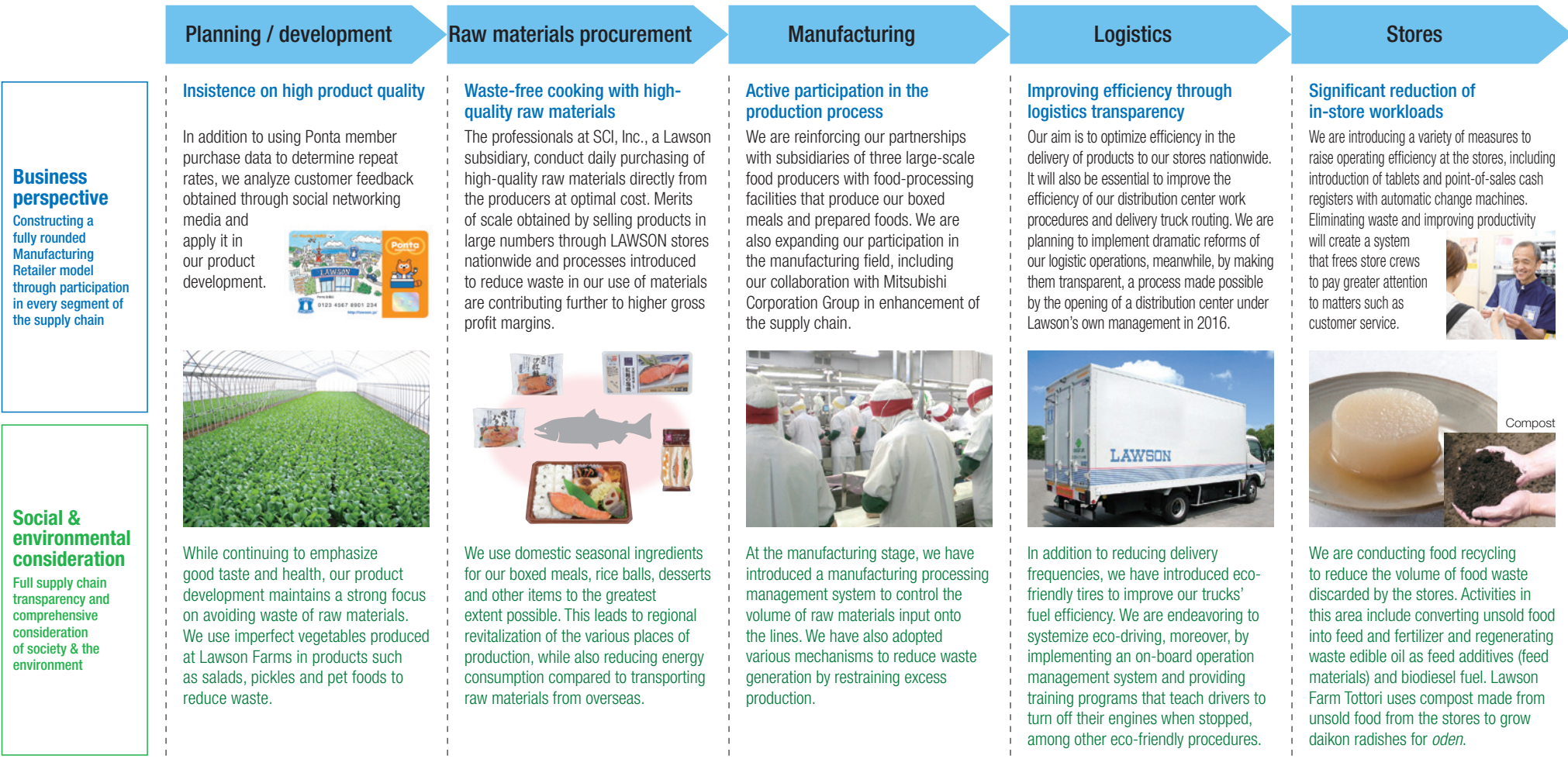
\* Single origin series — caffeine-free series are not eligible.



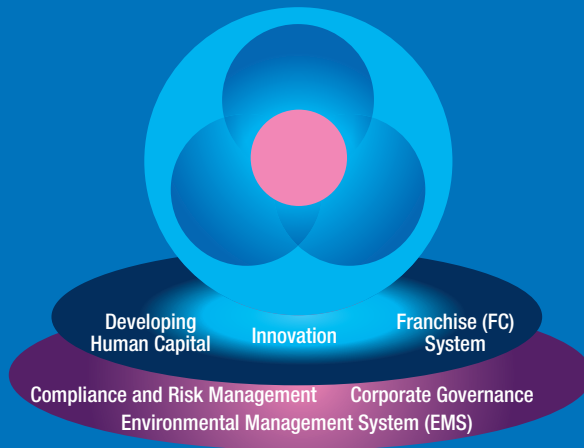


# Balancing Business and Environmental Concerns in the Supply Chain

Customers



# The Foundation Supporting Lawson



Lawson's customer-based business model is supported by various foundations, including its innovative human capital and strong franchise system.



## Developing Human Capital

To put its Corporate Philosophy into practice, Lawson has adopted supportive personnel management systems that contribute to a corporate culture in which individual employees are encouraged to think and act voluntarily. We have clarified the scope of employees' responsibilities and the role they should play according to individual duties. Their performance and skills are evaluated in accordance with this clarified scope and role.



## Innovation

Lawson has sought innovation that takes social change into consideration in conducting a number of advanced investments and experiments. These efforts are not confined to the development of new businesses such as NATURAL LAWSON and new products such as bran breads; we are also working to establish a completely new store operating system based on IC tags.



## Franchise (FC) System

Lawson's franchise (FC) system is designed to enable the franchise stores—which know their communities best—and headquarters to grow together in a spirit of cooperative business. We are building strong relationships through the Management Owner (MO) system, which assists entrepreneurial franchise owners in managing multiple stores, as well as through various other support systems.



## Compliance and Risk Management

Besides establishing the Compliance and Risk Management Office and Information Security Management Office at headquarters, the Group has assigned a CRO (compliance and risk management officer) to each department in every area. Faced with increasing risk as society changes and the Lawson Group's business expands, Lawson is establishing a system capable of grasping risk information promptly and responding to it in the shortest time possible.



## Corporate Governance

Lawson has led the industry in constructing a responsive, highly transparent corporate governance system. The recent introduction of the Executive Officer System has separated the executive and management functions. Of the 12 officers comprising the Board of Directors and Corporate Auditors, six are independent officers and four are female officers, a balance established to promote diversity.



## Environmental Management System (EMS)

In accordance with its Environmental Policy, Lawson actively conducts business with consideration for society and the environment. We implement the ISO 14001 Environmental Management System in pursuing achievement of a sustainable society and contributing to maintaining happiness in our communities and on Earth as a whole.



## 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.

### Lawson's corporate awards program was reformed in 2015 with the creation of the Awards for Promotion of Self-motivated Innovation.

The award is aimed at encouraging employees to take up challenges voluntarily. Profound effects may result from an ingenious change in work procedures, for example, no matter how small, or from an effort to improve operating efficiency in an area that has been neglected, even though the need for improvement is widely recognized.

Every Lawson employee is eligible to apply for the award. Those who pass a first and second screening attend a presentation competition, where their ideas are evaluated by executive officers. Award winners have an opportunity to present their suggestions at an annual business policy briefing session attended by all Lawson employees.



## Promoting diversity

### Contributing to the success of diversified human capital, including female employees and employees of foreign nationalities; encouraging male employees to take paternity leave

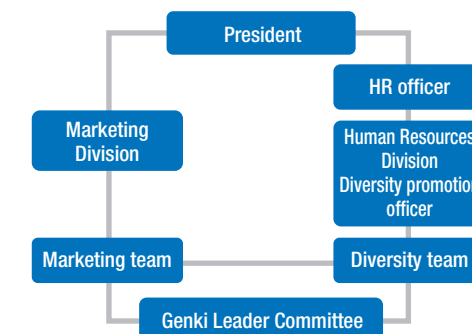
Lawson promotes diversity in order to create an organization in which employees with a wide range of values can realize their full potential. Besides conducting active hiring of women and people of foreign nationalities, Lawson has established a special subsidiary to promote employment of people with disabilities. The Company has also created a venue for labor-management consultations concerning improvement of operating efficiency and work environments. Discussion meetings are organized nationwide with the aim of deepening understanding of diversity.

In its efforts to help female employees remain active while raising children, Lawson is implementing initiatives to support their success. These include career development training for young employees, distribution of information from the Company to employees on maternity leave, group training sessions for career formation after these employees return to work and training sessions to enable selected employees improve their business skills. Since 2014, moreover, Lawson has operated onsite childcare facilities. Through these initiatives, Lawson seeks to attain a ratio of 30% women in management positions by fiscal 2020.

Lawson does not concentrate its efforts for change on women alone, but is committed to raising awareness among male employees as well. Initiatives in this area include encouraging Lawson men to take paternity

leave, a program that has contributed to an 80% ratio of paternity leaves among eligible men, the level targeted for fiscal 2016.

#### ● System for promoting diversity



Under the President's leadership, the Human Resources Division designs and operates a system for promoting diversity and determines employees' positions accordingly. The Marketing Division, meanwhile, takes charge of creating new value based on ideas generated by female employees.



The President participated in a training session for selected female employees.



Ikumen promotion posters displayed in every office

## Activities contributing to the health of employees and franchise owners

### Lawson's efforts begin with promotion of healthy operations for employees and franchise owners.

Since Lawson's mission is to help customers lead healthy lives, we consider it essential to begin by promoting healthy lifestyles among our employees. With this in mind, we have completed agreements between labor and management to enhance work efficiency and eliminate excessive working hours, while also establishing a cooperative health union to create a mechanism for sustaining employees' long-term health.

We have been implementing this mechanism to strengthen measures for promoting employee health since October 2012. Our efforts have involved establishing a user-friendly environment in which employees can get medical checkups without hesitation. We strongly encourage employees who fail to meet certain health criteria to retake the examinations.

We also introduced the Lawson Healthcare Point program in April 2015. In developing this program, Lawson, the Labor Union, and the Lawson Health Insurance Society cooperate in efforts to raise employee awareness of health issues, and to motivate them to maintain their health and to continue their work at Lawson.

In 2016, we began analyzing numerical data concerning our various initiatives and the changes in all Lawson employees' medical conditions. The data is used to publicize the status of progress toward our targets, as well as the results based on our Data Health Plan, through publication in an annual employee health white paper.

Among efforts to promote participation by women in the workplace, Lawson holds the Women and Health Seminar to help female employees take advantage of workplace opportunities while pursuing health at the same time.



Women and Health Seminar

### Promoting industrial safety and hygiene

We seek to assure safe, worker-friendly workplaces by implementing the "5S Methodology"—which consists of "sorting, setting in order, shining, standardizing and sustaining"—and by providing the stores with manuals that illustrate operating procedures. We also hold safety management meetings to raise awareness of the importance of safe driving among store supervisors whose jobs involve driving. Those with no history of accidents or traffic violations also receive official commendations.

Should any work-related accident occur, we investigate, analyze and share information on the cause internally with the aim of preventing recurrences.

### Promoting the health of FC owners

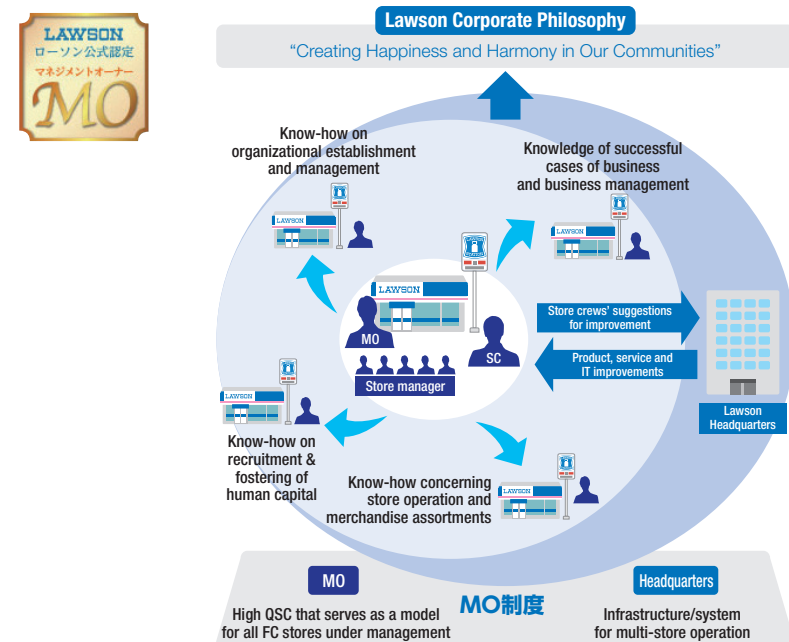
Lawson places a high priority on promoting the health of its FC owners. The Company provides an assistance program for medical examinations and health support through the Lawson Owner Welfare Association, which is operated in a spirit of mutual assistance by the FC owners themselves.

## Lawson's unique Management Owner system

### Maintaining close ties with communities through multi-store business operations

While maintaining close communications between headquarters and the FC stores, Lawson shows respect for the FC owners' independence in its store operation. Most notably, Management Owners (MOs) engage in community-based multi-store operation through a stronger partnership with headquarters, with the MO system serving as a framework that supports them in managing multiple stores as a "corporation" instead of a "family business." Not only does the MO system realize a model store and merchandise assortment, but it also assumes an important role in contributing

to the LAWSON chain as a whole. It sets an example for successful business operation, for example, as well as sharing know-how on human capital development with other FC stores and transmitting proposals for improvements from the store crews to headquarters. Headquarters, in turn, provides advice and suggestions from management consultants and supports the MOs' activities by introducing the information systems and various support systems required for multi-store management. We will continue to pursue growth in collaboration with our FC owners, who are intimately familiar with their communities, and with the crews who engage in daily interaction with customers at the stores, while providing support to strengthen the FC stores' management.



### Message from a Management Owner

**Mitsuo Inoue**, President, MKL Co., Ltd. Manager of 27 stores, including the LAWSON Denen-Chofu 1-chome store

**As an MO responsible for managing 27 stores, I am committed to enlivening Lawson through neighborhood FC store operation.**

I started thinking of becoming a business owner when I was a sophomore in college, and I later selected Lawson on the recommendation of a longtime acquaintance who was already a Lawson FC owner. I opened my first store in August of the year I graduated and gradually increased the number of stores under my management. The Management Owner (MO) system was established about the time I opened my fourth store in 2010, and I joined the system as one of its earliest members. This system has enabled me to grow my business. Today, I own 21 LAWSON and six NATURAL LAWSON stores. I currently operate these 27 stores with 45 employees and about 400 crews.

Developing multiple stores as an MO enables me to manage them much differently from the way I did as a single-store owner, even though they are all LAWSON stores. MOs can adjust their multiple stores' ordering or personnel, for example, based on analysis of their overall store data. Since we have close communication with headquarters and other MOs, moreover, we can take advantage of shared know-how to improve our capabilities. I consider it an enormous advantage, unique to Lawson, for MOs to take the initiative in enlivening FC stores in their communities. I hope to use the MO system to continue to enhance my company's business capabilities, expand my business further and grow together with the local residents.



### The Lawson Owner Welfare Association

This organization provides franchise stores with a range of welfare benefits centered on the three principles of "comfort," "health" and "peace of mind." It offers a range of benefits for member franchise owners and their families as well as for store crew and staff. These include subsidies to encourage medical checkups and the use of preferred discounts for health promotion activities.

- Subsidy system for use of sports facilities
- Subsidy system for full physical examinations and health checkups
- Health promotion: Hosting of parent/child events & seminars for women
- System to facilitate employee travel/holiday accommodation
- Correspondence course subsidy system
- Congratulatory and condolence payment system
- Voluntary group insurance system for FC stores
- Discount/preferential systems for leisure activities, entertainment, child-rearing, nursing care and other life-related facilities

Above: A pamphlet on the Lawson Owner Welfare Association



Below: The Association holds seminars on health promotion.



## Lawson's social and environmental initiatives

### Social and environmental initiatives in our core business

Based on our Environmental Policy, we are seeking to pass on the blessings of our abundant Earth to future generations by conducting efforts in our core business aimed at realizing a sustainable society and through social contribution activities conducted in our local communities. We employ the ISO 14001 Environmental Management System to promote business activities that are considerate of society and the environment and implement the PDCA (Plan-Do-Check-Action) cycle to promote a harmonious relationship with society and reduce the environmental burden. In addition to conducting internal audits several times a year, we invite third-party audits by an external organization as part of ongoing efforts to verify the status of our activities and identify ways to improve them.

Lawson updated and registered its certification to the new fiscal 2015 standard after successfully undergoing a third-party audit in fiscal 2016.

### Lawson Group Environmental Policy

#### Our Commitment

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

#### Our principles

1. Creation of a low-carbon society
2. 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

Scope of ISO 14001 certification (as of March 1, 2017)

Headquarters, 20 main offices / offices, 8 areas, 4 Group companies, 13,111 stores (as of February 28, 2017)

### Promotion of social and environmental education

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. For Headquarters employees, education begins with new employee training and extends to annual general environmental training of all employees through e-learning. Training is provided at the time of store openings for franchise owners and store managers and crew, who also receive a continuous flow of information through in-house magazines and the Company's social and environmental reports.

Lawson encourages the representatives responsible for promoting CSV\* activities in the various departments to deepen their knowledge by acquiring both internal and external training and taking the eco test.

\* CSV (Creating Shared Value)

### CSV (Creating Shared Value) Subcommittee

With the CSR Promotion Department of the Business Operations Support Division serving as a secretariat, the CSV Subcommittee convenes monthly meetings 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 concerning social and environmental objectives, providing guidance and assistance for stores, responding to internal and third-party audits, and promoting social and environmental education.



### Support for greenery and children through social contribution activities

The LAWSON Group promotes social contribution activities centered on support for greenery and children. Among these, the Lawson Group's "Happiness in Communities" fundraising combines customers' benevolence received through donation boxes placed beside store checkout counters with funds donated by headquarters and contributes them to NGOs.

In July 2017, we established the Single-Parent Family Scholarship Program under the auspices of our Support Dreams Fund to provide scholarships to children from single-parent (mainly single-mother) families with no repayment requirement to help them realize their dream of furthering their education.



#### Lawson Green Fund

Recipient: The National Land Afforestation Promotion Organization

Provides support for elementary school and junior high school greening activities nationwide, and for forest maintenance activities conducted by volunteer groups.



#### TOMODACHI Fund

Recipient: U.S.-Japan Council (Japan)

Conducts educational and cultural exchanges between Japan and the United States for students from the Tohoku region.



#### Support Dreams Fund

(Great East Japan Earthquake Scholarship Program)  
Recipient: Civic Force

Provides scholarships for approximately 1,000 students from the three Tohoku districts affected by the Great East Japan Earthquake, and conducts support programs in these districts.



#### Support Dreams Fund

(Single-Parent Family Scholarship Program)  
Recipient: General Incorporated Foundation National Council of Mother and Child and Widows Welfare

Supports the dreams of children from single-parent (mainly single-mother) families by providing scholarships for a total of 400 junior high school (3rd-year) and high school students with no repayment requirement.

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

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.

### Disaster preparedness and response

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

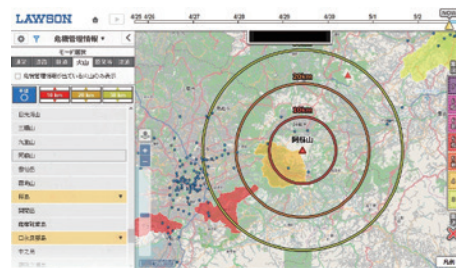
When disasters occur, disaster relief headquarters are set up immediately in three locations in the affected area: headquarters, regional offices and local sites. Lawson takes advantage of a Disaster Information Map System

designed to enable personnel to respond while the disaster situation is being confirmed in real-time to conduct safety checks, ascertain the nature of the damage, and implement support measures for shops, factories and delivery centers.

At the same time, we respond swiftly to resume operations as early as possible at stores in affected areas to fulfill our mission of serving as an essential lifeline for the community.



Disaster relief manual



#### Disaster Information Map System

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

### 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.

Upon enforcement of the revised Act on the Protection of Personal Information in May 2017, we communicated the revised provisions to all members of the Lawson Group and ensured that Lawson and its Group companies revised their own internal rules accordingly.

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

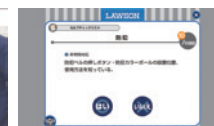
We conduct education to ensure that store personnel act with the highest priority placed on personal safety and with crime prevention in mind, in ways such as greeting customers in a cheerful and spirited manner. We are cooperating with the police and the Japan Franchise Association in efforts to prevent 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.
- 2. Creation of an environment for store crew education**  
Reminders to raise awareness of crime prevention are distributed for display on POS cash registers and store computers, and crime prevention DVDs are also delivered to stores for use in educating their crews. Various tools and manuals, such as crime prevention self-check lists, have also been prepared.
- 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



BCP Guidelines

such events as deep offshore earthquakes, nuclear power plant accidents, volcanic eruptions and heavy flooding.

### 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.

### Cooperation with local governments at times of disaster

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

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

- Local governments: 47 prefectures, 17 cities and wards
- Others: Tokyo Fire Department and Japan Ground Self-Defense Force
- Mass transit systems: 8
- Electric power companies: 2

#### <Entities concluding agreements on assistance to stranded commuters>

- Local governments: 41 prefectures, 10 ordinance-designated cities  
(As of March 1, 2017)

### Shuichi Imagawa,

Senior Vice President, CR Executive Officer and Director, Human Resources

The problems facing society have escalated remarkably in recent years, and new risks continue to emerge. We are responding by reinforcing internal controls across the whole Group, strengthening our compliance and risk management systems, and increasing our emphasis on three key factors: quality and hygiene management, information security, and disaster preparedness. We are procuring and providing emergency supplies in preparation for disasters resulting from major earthquakes or extreme weather, especially, while also conducting restoration activities in areas affected by past disasters. We are also using the time between disasters to implement disaster prevention work plans, create a mechanism for grasping disaster information in real time, conduct disaster drills and introduce other measures to meet our responsibilities as a lifeline supporting the lives of people in our communities.



### "Resilience certification"

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

In the spirit of building national resilience against disasters, the government's National Resilience Promotion Office, Cabinet Secretariat established a system for "certifying groups contributing to the building of national resilience against disasters (resilience certification)." This system certifies businesses that are actively engaged on a regular basis in efforts related to business continuity in preparation for large-scale natural disasters and so on as "organizations contributing to the building of national resilience against disasters." The February 2016 "Guidelines relating to certification of groups contributing to the building of national resilience against disasters" were enacted by this office.

Lawson has received confirmation from the National Resilience Promotion Office, Cabinet Secretariat to the effect that it conforms to the "requirements of a certified organization" stipulated by the above guidelines. Lawson was recognized by the Association for Resilience Japan as the first convenience store to contribute to the building of national resilience against disasters.

In March 2017, moreover, Lawson was honored at the Japan Resilience Award ceremony with a Best Resilience Award in the Risk Communication Information category. Lawson's selection was based on the judges' evaluation of our Disaster Information Map System disaster information-sharing infrastructure.





## 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 revisions of the “Basic Policy for Maintaining the Internal Control System” implemented in fiscal 2017 are described below.

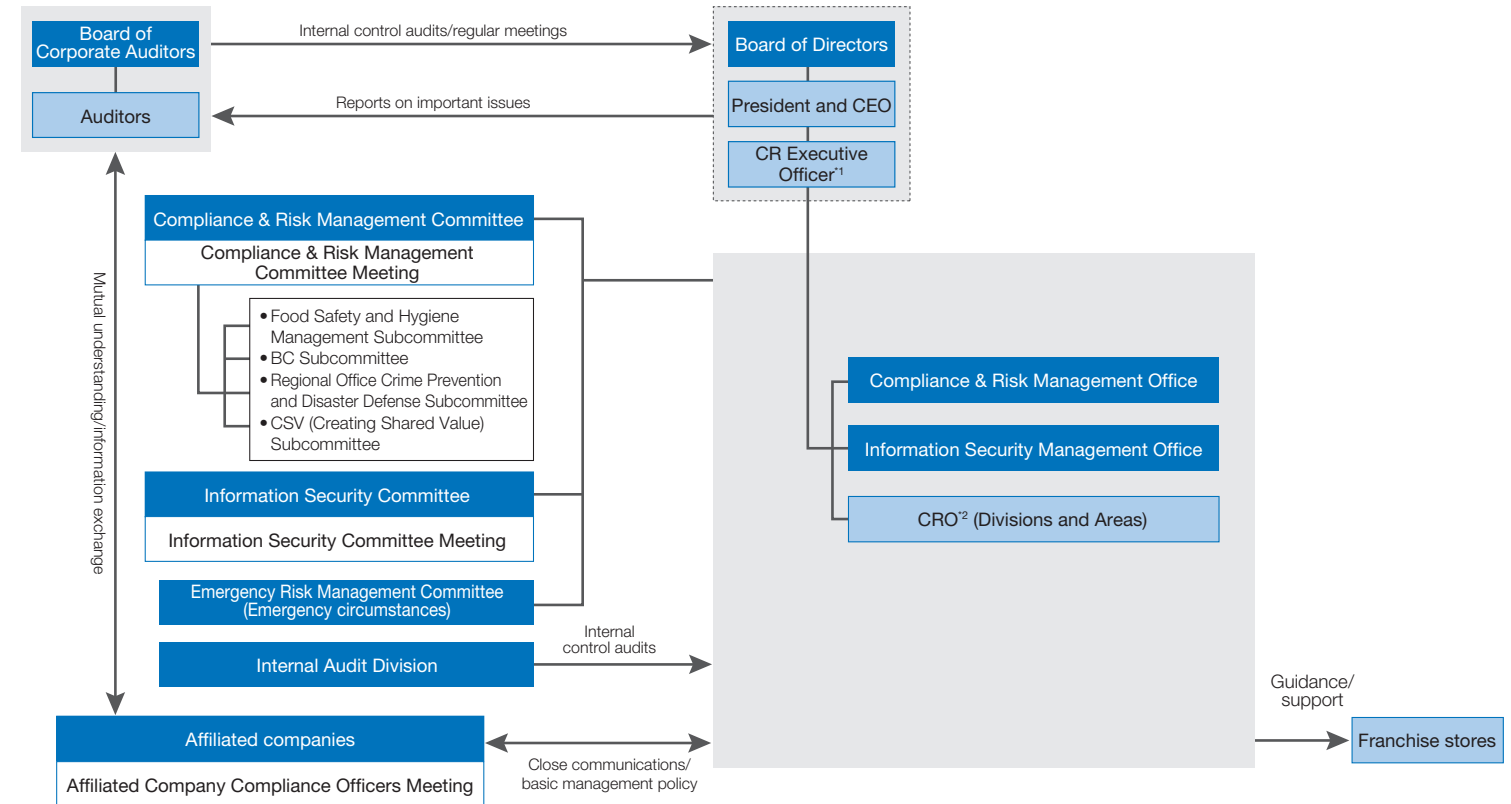
### Clarification of the purpose of Business Continuity Management (BCM)

Convenience stores are increasingly expected to serve as components of infrastructure that support people’s lives in times of disaster. To meet these expectations, we have clarified the purpose of BCM as “management that minimizes the duration of business suspensions and maintains the convenience store’s function as social infrastructure.”

### Establishment of a system for reporting to the parent company

We have added establishment of a system for notifying the parent company of any event that may threaten severe damage to Lawson or its subsidiaries and affiliates as soon as any party concerned learns of such an event.

### Lawson’s internal control system (as of June 1, 2017)



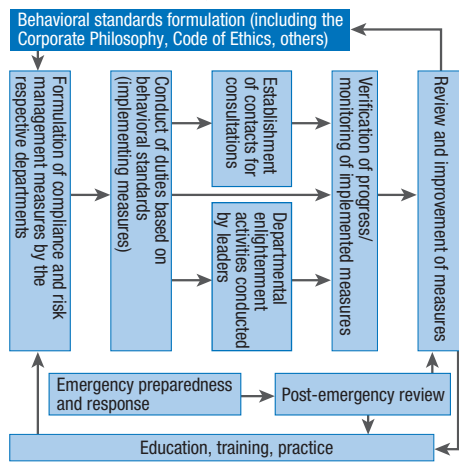
\*1 CR Executive Officer: The executive with overall responsibility for the development and implementation of a framework for identifying misconduct and problems concerning legal compliance and preventing risks from arising

\*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

## 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.

### Management organization



### Formulation of behavioral standards

We have established the Code of Ethics, Lawson Group Privacy Policy and 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 C&R Handbook

### Appointment of CR promotion officers

We have appointed an executive officer responsible for 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.

### Full implementation of education and training

Lawson conducts compliance and risk management training for all its employees each year for the purpose of improving their ethical awareness and risk response capabilities. It has developed a training system to support structured, systematic learning, moreover, that begins with training of newly recruited 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.

### Establishing and raising awareness of the Consultation/Whistleblower Hotline

In addition to Human Resources Department personnel who specialize in consulting concerning sexual harassment and abuse

of power and legal personnel who provide consultations on legal matters, Lawson has established consultation contacts to receive internal notifications and provide consultations concerning compliance and risk management issues. Besides establishing the Lawson Group Outside Consultation/Whistleblower Hotline involving law firms and other external organizations, it has created a framework for providing business partners' employees with anonymous consultations.

Lawson is working harder today than ever to increase awareness and understanding of these services and frameworks by communicating about them with employees and other concerned parties.

### 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 CR Executive Officer. 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 Meeting and Information Security Committees Meeting and manage the progress of measures implemented in these areas by individual departments throughout the Group.

Four separate subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and Disaster Defense Subcommittee, and the CSV Subcommittee) have been established under the Compliance and Risk Management Committees Meeting and tasked with

managing the progress of important measures while preventing the emergence of risks.

The subcommittees collaborate with the Corporate Auditors Office, moreover, receiving reports on the results of compliance audits as needed while also providing detailed guidance for implementing 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 been appointed by the Group companies as well, and Lawson also holds meetings of affiliated companies' compliance officers. Besides formulating codes of ethics and providing training to heighten employee awareness, it conducts the same employee awareness surveys and business partner questionnaires at the Group companies as at Lawson. The Corporate Auditors Office conducts audits of operational duties at the Group companies, whose boards of auditors convene meetings to provide guidance and assistance in establishing and improving their compliance, risk management and information security frameworks.



A meeting of affiliated company compliance officers

## Lawson Group Overview

 As of February 28, 2017/Consolidated  
 (Representative as of May 31, 2017)

<b>Company name</b>	Lawson, Inc.	<b>Business activities</b>	Franchise chain development of LAWSON, NATURAL LAWSON and LAWSON STORE100
<b>Headquarters</b>	East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan	<b>Net sales for all stores</b>	¥2,157.9 billion (consolidated)
<b>President and CEO, Representative Director, Chairman of the Board</b>	Sadanobu Takemasu	<b>Number of stores</b>	14,267 (worldwide)
<b>Established</b>	April 15, 1975	<b>Operating areas</b>	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing, Wuhan), Indonesia, Hawaii, Thailand, Philippines
<b>Capital</b>	¥58,506.644 million		
<b>Number of employees</b>	9,403		

Note 1: 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.

2: The total number of stores in Japan is the total of ①+②+③: ① LAWSON, NATURAL LAWSON and LAWSON STORE100 stores operated by Lawson, Inc.; ② LAWSON stores operated by Lawson Sanin, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., Lawson Kochi, Inc.; and ③ Seijo Ishii stores operated directly by SEIJO ISHII, CO., LTD.

The number of overseas stores is the number of LAWSON brand stores run by the operating company in each region.

## Share information

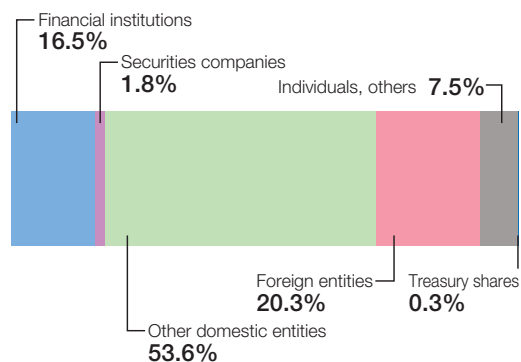
As of February 28, 2017/Non-consolidated

<b>Authorized shares</b>	409,300,000
<b>Shares issued</b>	100,300,000
<b>Shareholders</b>	28,971
<b>Stock exchange listings</b>	Tokyo Stock Exchange (1st Section) Mitsubishi UFJ Trust and Banking Corporation
<b>Stock transfer agent</b>	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

### Major shareholders (Top 10)

Shareholder name	Number of shares held (Thousands)	Percentages of total shares held
1 Mitsubishi Corporation	50,150	50.1
2 Japan Trustee Services Bank, Ltd. (Trust account)	2,657	2.7
3 The Master Trust Bank of Japan, Ltd. (Trust account)	2,360	2.4
4 NTT DOCOMO, INC.	2,092	2.1
5 STATE STREET BANK WEST CLIENT — TREATY 505234	1,394	1.4
6 National Mutual Insurance Federation of Agricultural Cooperatives	1,001	1.0
7 Merrill Lynch Japan Securities Co., Ltd. (MLJS)	933	0.9
8 Japan Trustee Services Bank, Ltd. (Trust account 7)	816	0.8
9 Employee Ownership	754	0.8
10 Japan Trustee Services Bank, Ltd. (Trust account 1)	733	0.7

### Distribution of shareholders by type



## Main Lawson Group companies

As of February 28, 2017/Consolidated

Category	Name of company	
<b>Domestic convenience store business</b>	Lawson, Inc.	
	Lawson Store100, Inc.	Consolidated subsidiary
	SCI, Inc	Consolidated subsidiary
	Lawson Sanin, Inc.	Consolidated subsidiary
	Lawson Okinawa, Inc.	Equity-method affiliate
	Lawson Minami-Kyushu, Inc.	Equity-method affiliate
	Lawson Kochi, Inc.	Equity-method affiliate
<b>Entertainment business</b>	Lawson HMV Entertainment, Inc. United Cinemas Co., Ltd.	Consolidated subsidiary (Consolidated subsidiary of Lawson HMV Entertainment, Inc.)
<b>Financial services business</b>	Lawson ATM Networks, Inc.	Consolidated subsidiary
<b>Consulting business</b>	BestPractice, Inc.	Consolidated subsidiary
<b>Overseas business</b>	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.)
	Beijing Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Saha Lawson Co., Ltd.	Consolidated subsidiary
<b>SEIJO ISHII business</b>	SEIJO ISHII CO., LTD.	Consolidated subsidiary

## Executive Officers

As of March 1, 2017

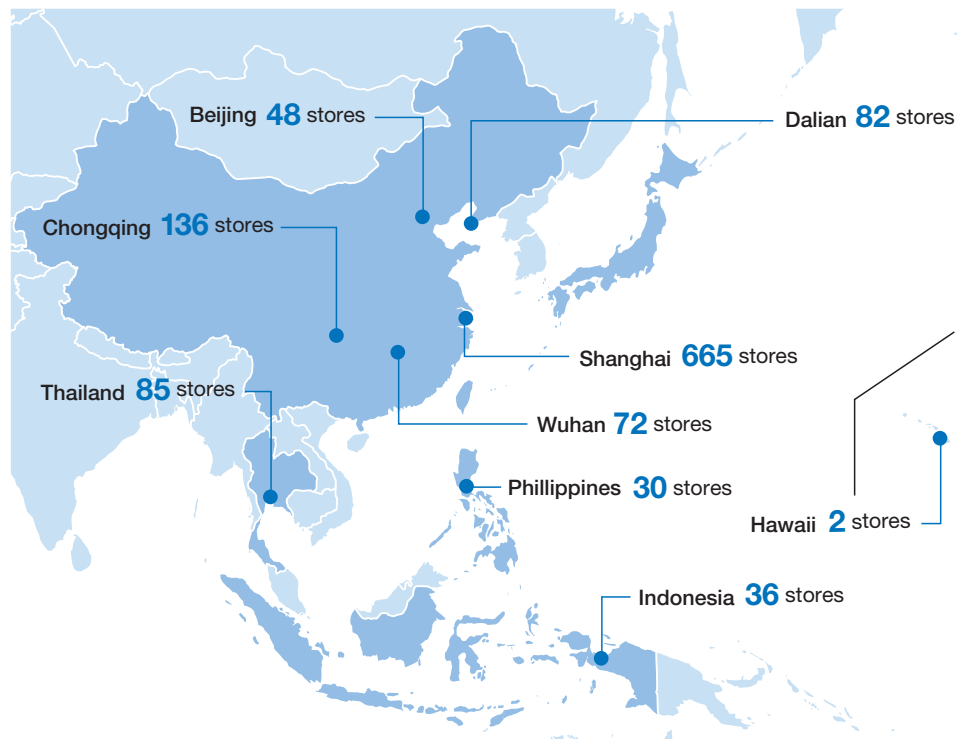
Senior Executive Vice President	<b>Masahiro Oyama</b>	Senior Vice President	<b>Keita Kamoi</b>
Executive Vice President	<b>Suichi Imagawa</b>	Senior Vice President	<b>Zhang Joshua</b>
Executive Vice President	<b>Jun Miyazaki</b>	Senior Vice President	<b>Hajime Kawamura</b>
Senior Vice President	<b>Yuichi Wada</b>	Senior Vice President	<b>Atsushi Maeda</b>
Senior Vice President	<b>Motonobu Miyake</b>	Senior Vice President	<b>Yasuhiro Iseki</b>
Senior Vice President	<b>Norikazu Nishiguchi</b>	Senior Vice President	<b>Takuya Shiraishi</b>
Senior Vice President	<b>Akihito Watanabe</b>	Senior Vice President	<b>Naotaka Honda</b>
Senior Vice President	<b>Yasuhiko Hirokane</b>	Senior Vice President	<b>Kazuhiro Wakui</b>
Senior Vice President	<b>Tatsushi Sato</b>	Senior Vice President	<b>Masayuki Sawada</b>

(Excluding directors' additional posts)

## Store network expansion area

As of February 28, 2017

Total number of stores (worldwide) **14,267 stores**  
 Stores in Japan **13,111 stores**  
 Overseas stores **1,156 stores**



\* The total number of stores in Japan is the total of ①+②+③: ① LAWSON, NATURAL LAWSON and LAWSON STORE100 stores operated by Lawson, Inc.; ② LAWSON stores operated by Lawson Sanin, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., Lawson Kochi, Inc.; and ③ Seijo Ishii stores operated directly by SEJO ISHII, CO., LTD.

\* The number of overseas stores is the number of LAWSON brand stores run by the operating company in each region.

## Main businesses and services

As of February 28, 2017

<p>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</p> <p><b>LAWSON</b></p> <p>Operating companies                      Lawson, Inc.                      Lawson Okinawa, Inc.                      Lawson Minami-Kyushu, Inc.                      Lawson Kochi, Inc.                      Lawson Sanin, Inc.</p>	<p>A nearby store, observing a "daily and reliably" concept, that supports customer lifestyles embracing "beauty, health, and comfort"</p> <p><b>NATURAL LAWSON</b></p> <p>Operating company                      Lawson, Inc.</p>
<p>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)</p> <p><b>LAWSON STORE 100</b></p> <p>Operating company                      Lawson Store100, Inc.</p>	<p>A food-lifestyle supermarket for people who care about food, providing food from around the world at affordable prices</p> <p><b>SUPERMARKET 成城石井</b></p> <p>Operating company                      SEJO ISHII CO., LTD.</p>
<p>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.</p> <p><b>LAWSON FRESH</b>                      カラダにやさしい &amp; おいしい                      ローソン フレッシュ</p> <p>Operating companies                      Lawson, Inc.</p>	<p>Twenty-three farms nationwide producing fresh fruit and vegetables for Lawson Group stores</p> <p><b>LAWSON Farm</b>                      ローソン農場</p> <p>Operating company                      Individual LAWSON farms</p>
<p>55 stores nationwide specializing in CDs, DVDs, and books.</p> <p><b>HMV</b>                      the music &amp; movie master</p> <p>Operating company                      Lawson HMV Entertainment, Inc.</p>	<p>Sales of the full range of entertainment tickets, including tickets to concerts, sports events, plays and movies</p> <p><b>ローソンチケット</b>                      LAWSON TICKET</p> <p>Operating company                      Lawson HMV Entertainment, Inc.</p>
<p>Comprehensive entertainment e-commerce website selling CDs, DVDs, and books as well as concert, sport, and theatre tickets.</p> <p><b>ロチケ HMV</b></p> <p>Operating company                      Lawson HMV Entertainment, Inc.</p>	<p>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</p> <p><b>UNITED CINEMAS</b></p> <p>Operating company                      United Cinemas Co., Ltd.</p>
<p>A business that provides installation, management and operation of ATMs installed at LAWSON stores in cooperation with banks</p> <p><b>LAWSON STATION ATM</b></p> <p>Operating company                      Lawson ATM Networks, Inc.</p>	<p>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.</p> <p><b>マチの暮らしサポート</b>                      マチの暮らしサポート                      株式会社 ローソン</p> <p>Operating company                      SG Lawson Co., Ltd.</p>

# LAWSON

## 2017 MD&A

### Management's Discussion and Analysis

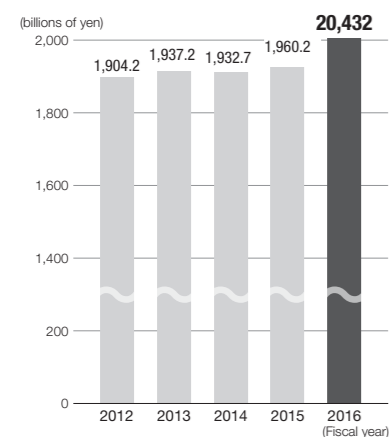
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| <b>1</b> Eleven-Year Financial Summary  | <b>13</b> Cash Flows   |
| <b>3</b> Industry Trends  | <b>13</b> Capital Policy: Dividend and Treasury Stock Retirement                   |
| <b>4</b> Management Policies for Fiscal 2016  | <b>14</b> Overview of Major Consolidated Subsidiaries and Equity Method Affiliates |
| <b>4</b> Overview of Merchandise and Services   | <b>18</b> Future Outlook   |
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| <b>5</b> Overview of Store Development  | <b>21</b> Consolidated Statement of Income   |
| <b>6</b> Other Initiatives in Our Convenience Store Business                                      | <b>22</b> Consolidated Statement of Comprehensive Income                           |
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# Eleven-Year Financial Summary

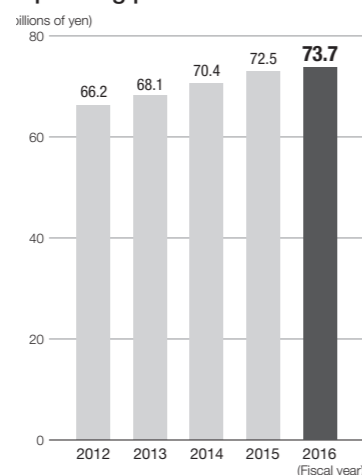
(Fiscal year)	(Millions of yen)					(Millions of yen)						(Thousands of U.S. dollars <sup>1</sup> )
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2016
<b>For the year:</b>												
Gross operating revenues												
Franchise commissions from franchise stores	¥ 275,312	¥ 261,681	¥ 247,681	¥ 242,079	¥ 230,003	¥ 215,574	¥ 197,673	¥ 185,656	¥ 186,928	¥ 177,443	¥ 174,325	\$ 2,445,913
Net sales	254,169	227,606	174,044	168,159	192,942	208,063	192,330	233,694	119,944	84,266	75,858	2,258,075
Other	101,806	94,166	76,188	75,010	64,500	55,320	51,275	47,842	42,604	39,468	32,870	904,460
<b>Total operating revenues</b>	<b>631,288</b>	<b>583,453</b>	<b>497,913</b>	<b>485,248</b>	<b>487,445</b>	<b>478,957</b>	<b>441,278</b>	<b>467,192</b>	<b>349,476</b>	<b>301,177</b>	<b>283,053</b>	<b>5,608,457</b>
Operating profit	73,772	72,542	70,482	68,127	66,246	61,769	55,541	50,276	49,186	46,610	44,513	655,401
Net profit	36,400	31,381	32,687	37,966	33,183	24,885	25,387	12,562	23,807	22,119	20,983	323,383
Net cash provided by operating activities	99,865	112,205	110,568	81,503	85,189	86,357	72,210	40,696	51,717	55,771	47,596	887,216
Net cash used in investing activities	(76,228)	(68,657)	(100,434)	(47,924)	(54,196)	(52,912)	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(677,221)
Net cash used in financing activities	(25,638)	(50,201)	(3,289)	(39,650)	(31,980)	(27,545)	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(227,772)
Capital expenditures	119,784	106,747	141,251	84,032	77,361	74,572	50,326	71,399	42,907	64,413	49,822	1,064,179
Depreciation and amortization <sup>2</sup>	56,199	49,293	41,826	47,889	43,886	37,846	33,084	27,468	20,879	21,469	21,352	499,280
<b>At year-end:</b>												
Total assets	¥ 866,577	¥ 803,212	¥ 764,614	¥ 620,993	¥ 579,810	¥ 531,454	¥ 476,037	¥ 448,132	¥ 436,096	¥ 397,108	¥ 398,258	\$ 7,698,800
Net assets	285,995	272,997	263,798	250,498	230,182	214,663	208,467	198,136	201,167	188,574	199,493	2,540,822
Shareholders' equity ratio	31.7%	32.9%	33.5%	39.5%	39.1%	39.7%	42.7%	42.8%	44.8%	46.6%	49.0%	
Cash and cash equivalents	67,692	69,793	76,755	68,760	72,766	73,670	67,712	54,843	83,982	62,823	75,547	601,386
Total number of stores in Japan	13,111	12,395	12,276	11,606	11,130	10,457	9,994	9,761	9,527	8,587	8,564	
Number of employees (full-time)	9,403	8,377	7,606	6,336	6,404	6,475	5,703	5,236	5,186	3,735	3,614	
<b>Per share data:</b>												
Net profit (yen/ U.S. dollars <sup>1</sup> )	¥ 364	¥ 314	¥ 327	¥ 380	¥ 332	¥ 249	¥ 255	¥ 127	¥ 240	¥ 215	¥ 202	\$ 3.23
Cash dividends (yen/ U.S. dollars <sup>1</sup> )	250	245	240	220	200	180	170	160	160	110	100	2.22
Payout ratio	68.7%	78.1%	73.4%	57.9%	60.2%	72.2%	66.8%	126.3%	66.6%	51.2%	49.6%	
<b>Financial data:</b>												
Return on equity (ROE)	13.5%	12.0%	13.0%	16.1%	15.2%	12.0%	12.8%	6.5%	12.5%	11.6%	11.3%	
Return on assets (ROA)	4.4%	4.0%	4.7%	6.3%	6.0%	4.9%	5.5%	2.8%	5.7%	5.6%	5.4%	
<b>Net sales of all stores (Domestic convenience store business):</b>												
Net sales by store format												
Franchise stores <sup>3</sup>	¥ 1,969,920	¥ 1,880,395	¥ 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	\$ 17,501,066
Company-operated stores	188,030	79,872	105,019	126,873	156,339	173,820	183,205	232,459	124,614	83,321	75,151	1,670,487
Net sales by product category <sup>3</sup>												
Processed foods	1,073,044	1,033,449	1,034,355	1,060,455	1,063,120	1,022,378	897,415	902,306	844,324	726,750	705,155	9,533,084
Fast foods	481,267	463,432	429,212	408,672	372,706	345,226	321,851	324,197	332,894	327,501	324,993	4,275,648
Daily delivered foods	294,141	276,886	277,210	275,437	271,920	263,101	264,166	239,088	186,109	162,625	155,575	2,613,193
Non-food products	194,833	186,500	192,020	192,726	196,506	194,546	199,348	200,544	195,453	198,230	200,907	1,730,925
<b>Net sales of all stores</b>	<b>¥ 2,043,287</b>	<b>¥ 1,960,267</b>	<b>¥ 1,932,798</b>	<b>¥ 1,937,292</b>	<b>¥ 1,904,254</b>	<b>¥ 1,825,253</b>	<b>¥ 1,682,782</b>	<b>¥ 1,666,136</b>	<b>¥ 1,558,781</b>	<b>¥ 1,415,106</b>	<b>¥ 1,386,630</b>	<b>\$ 18,152,869</b>
Ratio of operating profit to net sales of all stores	3.4%	3.5%	3.6%	3.5%	3.5%	3.4%	3.3%	3.0%	3.2%	3.3%	3.2%	

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 28, 2017 (\$1 = ¥112.56).  
 2. These figures include depreciation and amortization of intangible assets.  
 3. These figures include sales reported by franchise stores and are unaudited.

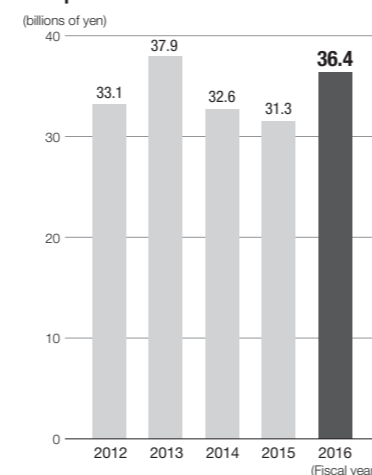
**Net sales of all stores (Domestic convenience store business)**



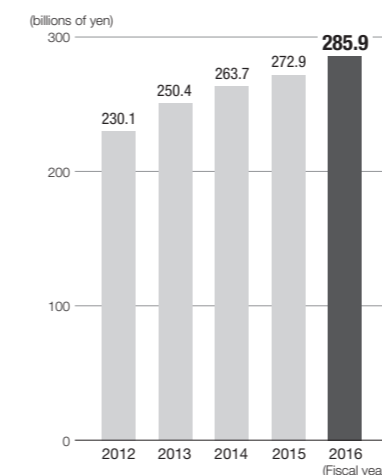
**Operating profit**



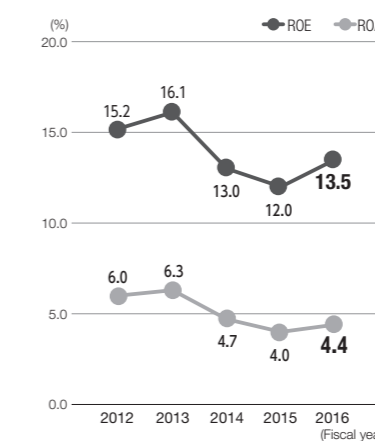
**Net profit**



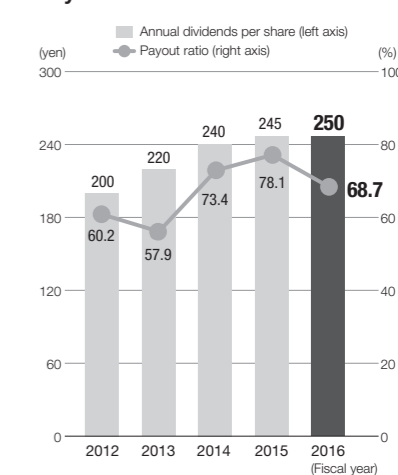
**Total assets**



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



**Payout ratio and dividends**



## Management's Discussion and Analysis

## Industry Trends

Although Japanese economy enjoyed a moderate recovery in fiscal 2016 thanks to improvement in the employment environment and an increase in wages, there was a persistent budget-minded trend of consumer spending due to future uncertainty, which kept the retail industry severe situations.

Under these circumstances, as there was progress in industry consolidation and fiercer competition, top chain operators opened new stores aggressively. And

the country's convenience store industry expanded in the calendar year 2016 (January to December). Industry-wide sales were buoyant, amounting to 11,445.6 billion yen, up 4.1% from the previous year. The total number of stores as of the end of December 2016 stood at 55,636, up 2.0% year on year. Net sales of existing stores for 2016 rose 0.5% compared to the previous year, the second consecutive year-on-year gain.

#### ■ Retail industry market size and convenience store share<sup>1</sup>

(Billions of yen)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006 <sup>2</sup>
Total retail industry annual sales	139,877	140,666	141,219	138,897	137,585	135,157	136,479	132,961	136,019	135,417	134,911
Convenience store sector annual sales	11,445	10,995	10,423	9,872	9,477	8,775	8,114	7,981	7,943	7,490	7,399
Convenience store share	8.1%	7.8%	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%	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<sup>1</sup>

(Billions of yen)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Lawson	2,157	2,049	1,961	1,945	1,907	1,826	1,683	1,666	1,559	1,415	1,387
Seven-Eleven Japan	4,515	4,291	4,008	3,781	3,508	3,281	2,948	2,785	2,763	2,574	2,534
FamilyMart	3,009 <sup>2</sup>	2,006	1,860	1,722	1,585	1,535	1,440	1,274	1,246	1,122	1,069
Circle K Sunkus		975	944	951	947	980	923	902	940	902	911
Total of the top 4 chains	9,682	9,321	8,773	8,399	7,947	7,622	6,994	6,627	6,508	6,013	5,901
Total market share of the top 4 chains	84.6%	84.8%	84.2%	85.1%	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%	79.8%

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.

2. On September 1, 2016, all Circle K Sunkus stores have been renamed to FamilyMart as the result of the merger of FamilyMart Co. and Uny Group Holdings Co.

#### ■ Number of convenience stores

(Stores)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Number of convenience stores	55,636	54,505	52,725	50,234	47,801	43,373	42,347	41,724	40,745	40,405	40,183

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

#### ■ Non-consolidated operating results

(Millions of yen)

(Fiscal year)	2016	As a percentage of all stores	2015	2014	2013	2012
Net sales of all stores	2,027,504	100.0%	1,960,267	1,932,798	1,758,656	1,693,435
Gross operating revenues	356,186	17.5%	333,856	316,340	298,779	282,752
Gross operating profit	325,716	16.0%	308,889	293,938	275,442	258,061
Selling, general and administrative expenses	268,296	13.2%	251,642	232,972	213,999	198,730
Advertising and promotional expenses	13,808	0.6%	14,705	8,227	9,023	10,691
Personnel expenses	41,527	2.0%	39,248	36,691	35,852	34,931
Facility expenses	150,182	7.4%	142,073	132,941	123,444	113,321
Other SG&A expenses	62,779	3.1%	55,616	55,112	45,680	39,784
Operating profit	57,419	2.8%	57,247	60,966	61,443	59,331
Recurring profit	56,459	2.7%	54,983	61,649	62,171	59,459
Net profit	19,088	0.9%	21,802	26,200	33,625	30,314

## Management Policies for Fiscal 2016

We launched the "1,000-Day Action Plan" in fiscal 2016 and implemented business activities toward building a Next-Generation LAWSON Convenience Store model. Today's convenience store industry is in a period of dramatic change. Not only are we witnessing such changes in the community as an aging population and an increasing number of nuclear families, but we are also experiencing a drastic change in our industry.

We regard the three years from fiscal 2016 as a significant period. Under the "1,000-Day Action Plan", we will advance the evolution of our business model founded on the concept of a Manufacturing Retailer Based on Small Commercial Areas and realize sophisticated, one-of-a-kind store productivity. At the same time, we will pursue "to become an essential part of our communities" that can satisfy customers' everyday needs.

## Overview of Merchandise and Services

We upgraded the assortment of merchandise mainly in the daily purchased categories such as daily delivered foods and frozen foods under the private Lawson Select brand. We also reinforced our product offerings in the delicatessen category such as Japanese side dishes and salads. In addition, we remained committed to selling merchandise that takes customers' health into consideration. For example, the Green Smoothie, a Natural Lawson brand item allowing the customer to easily consume vegetables, was received well by many customers composed mainly of female and highly health-conscious consumers. Niku Yasai Bento, a stir-fried meat and vegetables boxed lunch allowing the customer to eat one half of the daily vegetable intake, was also popular. In the over-the-counter fast food category, we launched Deka-Yakitori, the grilled chicken on a skewer which weighs approx. 20% more than usual products. Deka-Yakitori is the largest in Lawson's history and has been popular with many consumers since its launch in January 2017.

Lawson Farms are operated in 23 locations across Japan, and play the role of supplying safe, fresh fruits and vegetables to Lawson Group stores as well as factories for our original products. In order to construct an adequate Lawson Farm management system, Lawson is pursuing efforts to obtain certification for the JGAP agricultural production process management technique. In July 2016, Lawson and the President and CEO of Lawson Farm

were awarded the GAP Initiative Award 2016 of Asia GAP Research Institute for their contribution to dissemination of GAP<sup>1</sup>. The Lawson Group will pursue providing safe, reliable products through these initiatives.

In addition to these merchandise-upgrading efforts, Lawson enhanced services. Sales of gift cards<sup>2</sup> remained strong.

In January 2017, all Lawson stores began to accept payments via Alipay, the world's largest mobile payment service platform, and barcode-type payments via Line Pay in the communication application LINE, for the first time in the industry.

As a sales promotion initiative, we held a monthly Lawson Tokuchi! campaign, where a 10% discount was offered on "Lawson Select" chilled/frozen foods as well as some items offered in the counter cases, as part of our efforts to increase the number of purchased items per customer. Other sales promotions comprised those highly capable of attracting customers such as the Rice Ball 100 Yen Sale event, the Instant Lottery themed on E-girls and Sandaime J Soul Brothers from EXILE TRIBE, a lottery program in which Lawson leveraged its strength in the entertainment field, and the campaign rewarding Ponta Card members with five times more points on purchases in evenings and at night.

1 GAP: Good Agricultural Practice (A set of agricultural production process management techniques)

2 Gift cards: Collective terms for prepaid cards that can be used for online payments

## Overview of Store Operations

In store operations, we enhanced the Three Essential Practices of (1) serving customers courteously; (2) providing a quality product offering that meets community needs; and (3) keeping our stores and communities clean. In addition, we conducted aggressive renovations in

existing stores involving the installation of more refrigerated showcases as well as the introduction of flatbed freezers and higher shelves to increase the number of racks, broadening the range of prepared foods, frozen foods, seasonings and other products.

## Overview of Store Development

In developing (opening) new stores, the Group continued to prioritize profitability.

In partnerships with other convenience store chain operators, under a mega-franchise contract with SAVE ON Corp. in fiscal 2015, we converted 54 SAVE ON stores in operation in Yamagata, Fukushima, and Ibaraki Prefectures into LAWSON stores on a step-by-step basis. In the fourth quarter, we additionally entered a mega-franchise contract for stores in operation in Gunma, Tochigi, Niigata, Saitama and Chiba Prefectures. We will convert 503 SAVE ON stores in these areas (as of the end of December 2016, including two stores in Nagano Prefecture) into LAWSON stores from around summer in 2017 to the end of 2018 on a step-by-step basis.

Under our partnership with Three-F Co., Ltd., we converted 23 Three-F stores into LAWSON stores by February 2017. L·TF Co., Ltd, the joint venture established in September 2016, operates 89 LAWSON Three-F stores (as of the end of February 2017) that were formerly Three-F stores.

Under our partnership with Poplar Co., Ltd., Lawson Sanin, Inc., the company established by Lawson, Inc. and Poplar Co., Ltd. in the form of joint investment, started a regional franchise business in Tottori and Shimane regions. Lawson Sanin, Inc. merged the POPLAR-brand convenience stores that wished to transfer to a joint LAWSON POPLAR brand and the LAWSON stores operated by Lawson's Tottori and Shimane branch offices. As of the end of February 2017, Lawson Sanin, Inc. operated 287 stores (including 56 LAWSON POPLAR stores).

Furthermore, through partnerships with prescription drug pharmacy and drug store chains, we continued to expand healthcare-focused stores offering a wider merchandise selection than in ordinary LAWSON stores, by adding such items as non-prescription drugs, cosmetics, and daily necessities. The number of LAWSON stores

offering non-prescription drugs, including such healthcare-focused stores, reached 157 as of the end of February 2017 (of which 41 stores were Pharmacy Lawson stores equipped with drug-dispensing pharmacies). The number of LAWSON stores equipped with a care (nursing care) service facility incorporating a nursing care consultation counter reached nine as of the end of February 2017, including LAWSON Kure Hironagahama Store, the first Lawson equipped with a care (nursing care) service facility in Hiroshima Prefecture in July 2017. We continue to build a LAWSON Convenience Store model that meets customer needs associated with social changes such as an aging population and rising health consciousness.

As for LAWSON STORE100, we continued from fiscal 2015 to 1) meet customer needs for good value by offering a product assortment containing an increased proportion of adequate-volume and small-lot products priced at 100 yen excluding tax; and 2) stepped up sales of fruits and vegetables, a category much loved by customers. As a result, net sales of existing stores under the brand for fiscal 2016 under review grew year on year.

The total number of LAWSON, NATURAL LAWSON, and LAWSON STORE100 stores opened and closed in Japan during the fiscal year under review stood at 1,143 and 427 stores, respectively, with the total number of stores in the country reaching 13,111 as of the end of February 2017.

Furthermore, as of the same date, LAWSON chain stores run in Kochi Prefecture by Lawson Kochi, Inc., an affiliated company accounted for by the equity method, totaled 135 with 191 LAWSON chain stores run by equity-method affiliate Lawson Minami-Kyushu, Inc. in Kagoshima Prefecture and 210 LAWSON chain stores by equity-method affiliate Lawson Okinawa, Inc. in Okinawa Prefecture.

### Number of stores in the convenience store business in Japan

(Stores)

(Fiscal year)	2016	2015	2014	2013	2012
Total number of stores	13,111	12,395	12,276	11,606	11,130
Openings	1,143	1,007	1,010	869	938
Closings	427	888	422	393	265
Net increase	716	119	588	476	673

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

### Number of convenience stores in Japan

(Stores)

(Fiscal year)	2016 <sup>5</sup>		Net increase in the term <sup>3</sup>	2015 <sup>4</sup>		2014 <sup>2</sup>	
	Stores	Share		Stores	Share	Stores	Share
<b>Lawson, Inc.</b>							
Company-operated stores							
LAWSON	248	1.9%	82	166	1.3%	123	1.0%
NATURAL LAWSON	30	0.2%	0	30	0.2%	32	0.3%
Franchise stores							
Type B	1,306	10.0%	115	1,191	9.6%	1,286	10.5%
Type G	1,680	12.8%	-141	1,821	14.7%	1,988	16.2%
Type C	8,115	61.9%	356	7,759	62.6%	7,236	58.9%
NATURAL LAWSON	111	0.8%	7	104	0.8%	84	0.7%
LAWSON STORE100 <sup>1</sup>	798	6.1%	-11	809	6.5%	1,151	9.4%
Subtotal	12,288	93.7%	408	11,880	95.8%	11,900	96.9%
<b>Lawson Sanin, Inc.</b>							
Company-operated stores	5	0.0%	5	—	—	—	—
Franchise stores	282	2.2%	282	—	—	—	—
Subtotal	287	2.2%	287	—	—	—	—
<b>Lawson Kochi, Inc.</b>							
Company-operated stores	5	0.0%	0	5	0.0%	—	—
Franchise stores	130	1.0%	3	127	1.0%	—	—
Subtotal	135	1.0%	3	132	1.1%	—	—
<b>Lawson Minami-Kyushu, Inc.</b>							
Company-operated stores	1	0.0%	0	1	0.0%	1	0.0%
Franchise stores	190	1.4%	-1	191	1.5%	201	1.6%
Subtotal	191	1.5%	-1	192	1.5%	202	1.6%
<b>Lawson Okinawa, Inc.</b>							
Company-operated stores	3	0.0%	1	2	0.0%	2	0.0%
Franchise stores	207	1.6%	18	189	1.5%	172	1.4%
Subtotal	210	1.6%	19	191	1.5%	174	1.4%
Total number of convenience stores in Japan	13,111	100.0%	429	12,395	100.0%	12,276	100.0%

Notes: 1. The number of stores of LAWSON STORE 100 includes that of LAWSON STORE 100 and Lawson Mart.

2. "Total number of convenience stores in Japan" includes the number of stores operated by Lawson Kumamoto, Inc. that was absorbed into the parent company in March 2014.

3. 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.

4. In April 2015, Lawson, Inc. transferred 128 stores to Lawson Kochi, Inc.

5. In November 2016, Lawson, Inc. transferred 234 stores to Lawson Sanin, Inc.

### Other Initiatives in Our Convenience Store Business

With regard to our home convenience service initiative, we strived to build the Open Platform utilizing the service network for LAWSON's store-based order intake, merchandise receipt, and home delivery, and provide improved convenience to customers.

As our logistics initiative, in March 2016, we opened a three temperature-range distribution center that handles products with three shipping temperatures: room, chilled and frozen. Through efforts in the Company-operated distribution center and other initiatives, we will further improve the efficiency of the entire supply chain and store

productivity.

In building a Next-Generation LAWSON Convenience Store model, we conducted the industry-first demonstration experiment of Reji-Robo<sup>®</sup>, an entirely automated checkout system using RFIDs (electronic tags), at LAWSON Panasonic-Mae Store (Moriguchi City, Osaka). To promote a revolution in productivity to deliver improved convenience to customers and increase the efficiency of the convenience store operations in which complexity is growing, we will eliminate the need of product scanning at the time of settlements and shorten the payment process.



■ 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 <sup>1</sup>	Franchise fee Investment	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000) (excluding tax) ¥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 <sup>2</sup>	Gross profit x 50%	Gross profit x 45%	Gross profit x 34%
Burden of utility expenses	A franchise store		
Minimum guarantee (annual) <sup>2</sup> (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	
Signs and business fixtures	Provided by headquarters	
Payment by a franchise store at time of contract <sup>1</sup>	Franchise fee	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000) (excluding tax)
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 <sup>2</sup>	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% <sup>3</sup> of electricity expenses and store air conditioning energy expenses are borne by headquarters	A franchise store
Minimum guarantee (annual) <sup>2</sup> (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	New opening stores or stores already being operated by the company	Land and building owned by a franchise store
Contract term	10 years from store opening day	
Necessary expenses	Payment by a franchise store at time of contract <sup>4</sup>	Franchise fee ¥1.0 million (excluding tax) Breakdown Contract fee ¥250,000/Training expenses ¥250,000/Store opening preparation commission ¥500,000
	Other expenses	Store opening preparation expenses: Approx. ¥500,000 (e.g., change, licensing fee for operation)
Investment	Store construction and interior decoration expenses	Borne by headquarters
	Business fixtures	Provided by headquarters
Minimum guarantee <sup>5</sup>	¥20.4 million per year	¥22.2 million per year
Headquarters income <sup>5</sup>	[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.  
5. The minimum guarantee and headquarters income apply to stores operating on a 24-hour basis.

Overview of Sales Figures

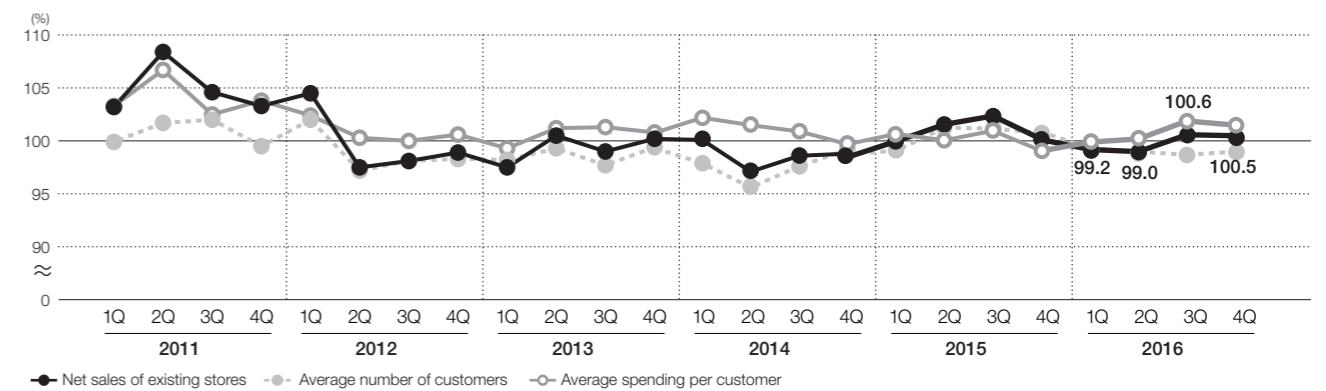
Net Sales

Net sales of all LAWSON stores (consolidated) for fiscal 2016 amounted to 2,157,900 million yen (up 5.7% from the previous fiscal year). This year-on-year sales growth was achieved as the number of LAWSON stores in Japan increased to 13,243 (including the stores of all Group companies and those of the Seijo Ishii business), a gain of 728 compared to the previous fiscal year, among other factors.

Sales of existing stores for fiscal 2016 (non-consolidated basis) decreased by 0.2% from the previous fiscal year and was 0.3% short of the plan due to the significant impact of the decrease in ticket sales in the first half of the year.

Sales of existing stores for fiscal 2016 (excluding the impact of the decrease in ticket sales and other factors) increased 0.3% throughout fiscal 2016, although these figures were the internally managed values.

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



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

(Fiscal year)	2016	2015	2014	2013	2012
Net sales of existing stores (YoY)	99.8%	101.4%	99.0%	99.8%	100.0%
Average number of customers	99.0%	100.9%	98.0%	99.0%	99.4%
Average spending per customer	100.8%	100.4%	101.0%	100.8%	100.6%

\* The total of LAWSON and NATURAL LAWSON.

Regarding consolidated results by product category, sales of fast foods increased by 3.8% from the previous fiscal year. Sales of daily delivered foods grew by 6.2%, sales of processed foods grew by 3.6% and sales of non-food products grew by 4.5%, respectively from the previous fiscal year. The main categories of which both net sales of all stores and existing stores exceeded the previous year results are as follows.

Sales of bakery items in the fast food category increased from the previous fiscal year, as sales of sandwiches and other breads increased as a result of sales promotion measures such as the Point Collecting Campaign.

To enhance supermarket alternative functions, we

renovated stores and improved merchandise selections. As a result, sales of daily delivered foods and frozen foods in the daily delivered food category and sales of delicatessen items in the fast food category increased significantly from the previous fiscal year.

Sales of soft drinks in the processed food category also grew from the previous fiscal year, mainly driven by the successful Receipt Stamp Campaign. In addition, sales of chilled beverages in the processed food category grew from the previous fiscal year, driven by strong sales of the Green Smoothie which satisfied highly health-conscious consumers.

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

(Fiscal year)	2016	2015	2014	2013	2012
Fast foods (share)	481,267 23.6%	463,432 23.6%	429,212 22.2%	408,672 21.1%	373,385 19.6%
Daily delivered foods (share)	294,141 14.4%	276,886 14.1%	277,210 14.4%	275,437 14.2%	272,312 14.3%
Processed foods (share)	1,073,044 52.5%	1,033,449 52.7%	1,034,355 53.5%	1,060,455 54.7%	1,064,133 55.8%
(Cigarettes) (share)	487,271 23.9%	476,176 24.3%	482,750 25.0%	459,100 23.7%	496,971 26.1%
Total food sales (share)	1,848,452 90.4%	1,773,767 90.4%	1,740,778 90.1%	1,744,564 90.1%	1,709,830 89.7%
Non-food products (share)	194,833 9.5%	186,500 9.5%	192,020 9.9%	192,726 9.9%	196,716 10.3%
Net sales of all stores (share)	2,043,287 100.0%	1,960,267 100.0%	1,932,798 100.0%	1,937,292 100.0%	1,906,547 100.0%

### 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, gift cards, etc.

### Gross profit margin by product category (Non-consolidated basis)\*

The gross profit margin stood at 31.4%, up 0.1% from the previous fiscal year and down 0.1% compared to the plan. This was attributable to the fact that sales of cigarette products with a lower gross profit margin exceeded the plan while sales of the over-the-counter fast foods with

a higher gross profit margin did not reach the plan. The gross profit margin for non-cigarette product categories remained unchanged compared to the previous fiscal year.

Notes: \* The total of LAWSON and NATURAL LAWSON.

### Gross profit margin by product category (Non-consolidated) \*

(Fiscal year)	2016	2015	2014	2013	2012
Fast foods	38.4%	38.4%	38.9%	38.9%	38.4%
Daily delivered foods	34.0%	34.0%	34.1%	34.1%	34.4%
Processed foods	24.1%	24.0%	24.1%	24.0%	23.9%
Non-food products	49.1%	49.7%	48.9%	47.7%	45.6%
Gross profit margin	31.4%	31.3%	31.3%	31.0%	30.5%

### Third party bill settlement services (Non-consolidated) \*

(Fiscal year)	2016	2015	2014	2013	2012
Bill settlements (millions of yen)	2,132,450	2,088,693	2,073,049	1,979,384	1,879,679
Number of transactions (millions)	202.0	198.3	198.9	196.1	190.4
Commission revenues (millions of yen)	10,788	10,671	10,779	10,585	10,192

### Other Businesses

In addition to the domestic convenience store business, the Group is also involved in other businesses, including the entertainment-related business, Seijo Ishii business, overseas business, and financial services business.

With regard to entertainment-related business, Lawson HMV Entertainment, which forms the core of the business, continued to secure the top position in the ticketing industry. HMV, which sells music CDs and DVDs, opened its second HMV record shop specialized in second-hand analog records and CDs in Shinjuku. The shop was received well. The number of HMV stores totaled 55 as of the end of February 2017. We will strive to better respond to customer needs by, for example, expanding an even wider selection of products and services in the entertainment business. United Cinema Co., Ltd. opened the Japan's first new style cinema theater, called "Premium Dining Cinema" in Fukuoka City in April 2016 where people can enjoy a movie while tasting meals. The company operates a total of 38 sites and 340 screens at its cinemas nationwide (including screens operated on commission) as of the end of February 2017.

Regarding the Seijo Ishii business, the company-operated stores of Seijo Ishii totaled 132 as of the end of February 2017. Sales remained strong. In April 2016, we opened the first hybrid store in a combination of Seijo Ishii and Le Bar a Vin 52 at the Atré Ebisu West Building. With respect to merchandise, we launched desica, a new private brand (PB) which achieved strong sales. We promoted the collaboration between domestic convenience store business and the Seijo Ishii business in the form of arranging for wine products on sale at Seijo Ishii supermarkets to be offered at NATURAL LAWSON stores, and of having both businesses import confectionery items and develop nut and cup soup products, each on a joint basis. We will further strive to enhance the brand appeal and corporate value of SEIJO ISHII CO., LTD which is celebrating its 90th year in business in February 2017. At the same time, we will leverage its strengths, including product development capabilities, knowhow as a manufacturing retailer, and sales techniques, in order to strengthen the domestic convenience store business.

SEIJO ISHII CO., LTD changed the fiscal year end in fiscal 2016. As a result of the change, segment profit represented a

14-month period.

With regard to the overseas business, LAWSON stores are operated by regional operators in Thailand, Indonesia, the People's Republic of China, the Philippines and Hawaii in the United States. In the People's Republic of China, the Group marked its 20th anniversary in July 2016 as the first Japanese convenience store opened in Shanghai. In May 2016, the first LAWSON stores opened in Wuhan, Hubei Province. In February 2017, the total number of LAWSON stores in the People's Republic of China exceeded the 1,000-mark.

Lawson ATM Networks, Inc., which operates the financial services business, increased the number of ATMs installed

at LAWSON stores and other locations. We promoted new partnerships with financial institutions, bringing the total number of our financial institution partners, including online banks, to 87 nationwide (up seven from the end of the previous fiscal year), and the number of ATMs installed nationwide to 11,912 (up 711 from the end of the previous fiscal year) as of the end of February 2017. In November 2016, we established Lawson Bank Preparatory Company, Inc. with the aim of establishing a bank leveraging Lawson's previous experience in financial service, and meeting necessary preconditions for obtaining approval from the relevant authorities.

### Items of the Consolidated Statement of Income

#### Gross Operating Revenues

For the year ended February 28, 2017, gross operating revenues consisting of net sales, franchise commissions from franchise stores, and "Other" stood at 631.2 billion yen, an increase of 47.8 billion yen, and 10.7 billion yen short of the plan. Of these items, net sales amounted to 254.1 billion yen, higher year on year, which was attributable to the fact that 1) the number of stores increased as we opened non-consolidated stores, 2) revenues of franchise stores increased to 275.3 billion yen, 3) the number of Company-operated, non-consolidated stores increased and 4) sales of SEIJO ISHII increased because the company changed the fiscal year end and 14-month accounts were consolidated, among other factors.

#### Selling, General, and Administrative Expenses

For the year under review, consolidated selling, general, and administrative expenses stood at 383.2 billion yen, an increase of 28.2 billion yen compared to the year-ago period, and approx. 3 billion yen short of the plan. Of the increase of 28.2 billion yen, approx. 16.6 billion yen is accounted for by non-consolidated accounts. The remainder totaling approx. 4.6 billion yen is attributable to the selling, general, and administrative expenses of SEIJO ISHII CO., LTD. because 14-month accounts were consolidated.

Non-consolidated selling, general, and administrative expenses amounted to 268.2 billion yen, an increase of 16.6 billion yen, or 6.5%, compared to the year-ago period, and approx. 2.6 billion yen short of the plan.

Non-consolidated advertising and promotional expenses stood at 13.8 billion yen. In the first half of the year, non-consolidated advertising and promotional expenses increased from the previous fiscal year due to the cost to support franchise stores to sustain the amount of inventory as part of our initiative to assist consumers' living. However, we conducted efficient expense control in the second half of the year, reducing non-consolidated advertising and promotional expenses by approx. 900 million yen throughout the fiscal year.

Non-consolidated personnel expenses amounted to 41.5 billion yen, an increase of 2.2 billion yen and almost flat compared to the plan, which was attributable to a growth in the number of employees, among other factors. Non-consolidated

information technology (IT) costs stood at 9.3 billion yen, a decrease of 2 billion yen compared to the year-ago period and 1.4 billion yen short of the plan, which was attributable to reduction of operational costs, end of the hardware lease term and other facts as well as partial schedule changes in development of next-generation systems. Non-consolidated facilities costs (excluding part of IT costs) totaled 144.3 billion yen, an increase of 8.7 billion yen compared to the year-ago period on the back of the rising number of stores, yet came in 1.7 billion yen short of the plan.

The remainder of non-consolidated costs and expenses grew by 8.6 billion yen compared to the year-ago period and by 2.8 billion yen compared to the plan, which was attributable to the fact that the amount paid by headquarters in new FC packages increased by 3.6 billion yen and the amount of pro forma standard tax increased by 800 million yen from the previous fiscal year, among other factors.

The difference between consolidated and non-consolidated selling, general, and administrative expenses was 114.9 billion yen, an increase of 11.6 billion yen compared to the year-ago period but 400 million yen below the plan. This was attributable to the fact that selling, general, and administrative expenses in Seijo Ishii and the overseas business was below the plan, among other factors.

## ■ Breakdown of Selling, General, and Administrative expenses

(Millions of Yen)

(Fiscal Year)	2016	2015	2014	2013	2012
Personnel expenses	73,893	68,994	60,847	58,990	60,013
Percentage composition	19.2%	19.4%	20.3%	20.3%	21.7%
Advertising and promotional expenses	30,594	29,461	16,718	17,734	16,607
Percentage composition	7.9%	8.3%	5.6%	6.1%	6.0%
Rent	115,926	108,795	96,877	89,485	84,578
Percentage composition	30.2%	30.6%	32.3%	30.8%	30.6%
Equipment lease	2,149	2,763	3,579	4,494	5,914
Percentage composition	0.5%	0.8%	1.2%	1.5%	2.1%
Depreciation and amortization	55,516	49,157	41,788	47,889	43,886
Percentage composition	14.5%	13.8%	14.0%	16.5%	15.9%
Depreciation of property and store equipment*	44,652	40,270	32,959	37,872	34,030
Percentage composition	11.6%	11.3%	11.0%	13.0%	12.3%
Amortization of intangible assets	10,864	8,886	8,830	10,017	9,856
Percentage composition	2.8%	2.5%	3.0%	3.5%	3.6%
Other	105,182	95,791	79,506	71,892	65,315
Percentage composition	27.4%	27.0%	26.6%	24.8%	23.7%
Total	383,260	354,961	299,315	290,483	276,314
Percentage composition	100%	100.0%	100.0%	100.0%	100.0%

## Operating Profit

Operating profit for fiscal 2016 stood at 73.7 billion yen, an increase of 1.2 billion yen, or 1.6 %, compared to the year-ago period because the non-consolidated operating profit remained the same as the previous fiscal year and subsidiaries such as SEIJO ISHII CO., LTD. contributed to profits. However, operating profit was 2.2 billion yen short of the plan, which was greatly attributable to the fact that net sales and gross profit margin in the domestic convenience store business did not reach the plan.

## Recurring Profit

Recurring profit for the year under review stood at 73 billion yen, an increase of 3.3 billion yen, or 4.8%, compared to the year-ago period, and flat compared to the plan. Non-operating loss improved by 2.1 billion yen from the previous fiscal year due to reduction of foreign exchange loss and a decrease in loss on lease contract termination stemming from store shutdowns, among other factors. The amount of loss reduced by 2.2 billion

yen compared to the plan because of the smaller number of closings than originally planned. Recurring profit reduced only by 700 million yen.

## Income before Income Taxes and Minority Interests

Although operating profit and recurring profit increased, consolidated extraordinary losses amounted to 14.5 billion yen, an increase of 300 million yen from the previous fiscal year, due mainly to greater impairment of stores than planned. As a result, consolidated income before income taxes and minority interests for fiscal 2016 stood at 58.4 billion yen, an increase of 3 billion yen or 5.5% from the previous fiscal year.

## Net Income

As a result, net income attributable to owners of the parent for the year under review stood at 36.4 billion yen, an increase of 5 billion yen or 16.0%, compared to the year-ago period. Net income per share amounted to 363.96 yen.

## Items of the Consolidated Balance Sheet

## ● Consolidated Balance Sheet

## Current Assets

Current assets as of February 28, 2017 stood at 249.2 billion yen, an increase of 25 billion yen, or 11.1%, compared to the end of the previous fiscal year. This was attributable mainly to the fact that accounts receivable-due from franchise stores increased by 9.4 billion yen and accounts receivable-other increased by 10.6 billion yen.

## Non-current assets

Non-current assets as of February 28, 2017 amounted to 617.2 billion yen, an increase of 38.2 billion yen, or 6.5%, compared to

the end of the previous fiscal year, which was mainly attributable to the fact that property and store equipment such as buildings grew by 21.7 billion yen due to new store openings, and intangible non-current assets such as software increased by 10.2 billion yen due to investments related to next-generation systems. As a result, total assets as of February 28, 2017 stood at 866.5 billion yen, an increase of 63.3 billion yen, compared to the end of the previous fiscal year.

## Current Liabilities

Current liabilities as of February 28, 2017 stood at 356.7 billion yen, an increase of 37.1 billion yen, or 11.6%, compared to the

end of the previous fiscal year, which was mainly attributable to the fact that short-term bank loans increased by 29.1 billion yen.

## Long-term Liabilities

Long-term liabilities as of February 28, 2017 amounted to 223.7 billion yen, an increase of 13.1 billion yen, or 6.2%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that lease obligations grew by 11.9 billion yen. As a result, total liabilities as of February 28, 2017 stood at 580.5 billion yen, an increase of 50.3 billion yen, compared to the end of the previous fiscal year.

## Net Assets

Net assets as of February 28, 2017 amounted to 285.9 billion yen, an increase of 12.9 billion yen, or 4.7%, compared to the end of the previous fiscal year. This was mainly attributable to the fact that retained earnings increased by 10.5 billion yen. As a result, the shareholders' equity ratio as of February 28, 2017 stood at 31.7% (compared to 32.9% at the end of the previous fiscal year).

## ● 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, 2017, accounts receivable-due from franchise stores stood at 39.9 billion yen, an increase of 9.4 billion yen compared to the end of the previous fiscal year.

## Accounts Receivable-Other

"Accounts receivable-other" include accounts receivable from business partners, such as 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 party to agreements with credit card companies, Lawson, Inc. is the holder of all accounts receivable from them.

As of February 28, 2017, accounts receivable-other amounted to 78.3 billion yen, an increase of 10.6 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, 2017 stood at 44.4 billion yen, an increase of 3.6 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, 2017 totaled 95.5 billion yen, an increase of 3.1 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 payable-due to franchise stores" on the consolidated balance sheet, as part of outstanding liabilities. Accounts payable-due to franchise stores as of February 28, 2017 totaled 1.6 billion yen, a decrease of 300 million 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 forth. The agency payment service handling amount stood at 2,132.4 billion yen, an increase of 2.1% compared to a year-ago period, supported by the rising

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

Total consolidated capital expenditures for the year ended February 28, 2017 stood at 119.7 billion yen, an increase of 13 billion yen compared to a year-ago period.

Investments in new stores amounted to 47.5 billion yen, an increase of 7.1 billion yen compared to a year-ago period as the number of store openings was higher year-on-year. Investments in existing stores totaled 7.2 billion yen, an increase of 500 million yen compared to a year-ago period. IT-related investments came to 19.2 billion yen, an increase of 3.4 billion

yen compared to a year-ago period due mainly to investments in next-generation systems. Lease transactions stood at 42.6 billion yen, an increase of 4.5 billion yen compared to a year-ago period due mainly to aggressive renovations for bolstering our customer living assistance service. New investments and advances amounted to 1.5 billion yen, a decrease of 2.6 billion yen compared to a year-ago period.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures

(Millions of Yen)

(Fiscal Year)	2016	2015	2014	2013	2012
New store investments	47,594	40,460	49,014	32,230	33,133
Existing store investments	7,233	6,727	5,840	7,078	8,769
IT-related investments	19,261	15,882	8,218	5,362	5,907
Other investments	1,464	1,466	2,752	2,067	3,238
Sub-total investments	75,554	64,535	65,823	46,736	51,047
Investments and advances	1,594	4,122	42,610	5,189	1,550
Leases*	42,634	38,089	32,818	32,107	24,765
Total	119,784	106,747	141,251	84,032	77,361

\*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 29, 2016, expenditures for repayment of lease obligations stood at 30,054 million yen.

■ Breakdown of depreciation and amortization

(Millions of Yen)

(Fiscal Year)	2016	2015	2014	2013	2012
Depreciation of property and store equipment	44,792	40,396	32,977	37,872	34,030
Amortization of intangible assets	11,406	8,897	8,849	10,017	9,856
Total depreciation and amortization	56,199	49,293	41,826	47,889	43,886

Cash Flows

Net cash provided by operating activities for the year ended February 28, 2017 stood at a cash inflow of 99.8 billion yen, a cash decrease of 12.3 billion yen compared to a year-ago period, due mainly to changes in accounts receivable and accounts payable.

Net cash used in investing activities for the year ended February 28, 2017 amounted to a cash outflow of 76.2 billion yen, a cash increase of 7.5 billion yen compared to a year-ago period, which was due, among others, to an increase in expenditures for acquisition of property and store equipment and

intangible non-current assets.

Net cash used in financing activities for the year ended February 28, 2017 amounted to a cash outflow of 25.6 billion yen, a cash decrease of 24.5 billion yen compared to a year-ago period, which was due, among other reasons, to a net increase/decrease of short-term bank loans.

As a result, cash and cash equivalents as of February 28, 2017, stood at 67.6 billion yen, a decrease of 2.1 billion yen compared to February 29, 2016.

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.

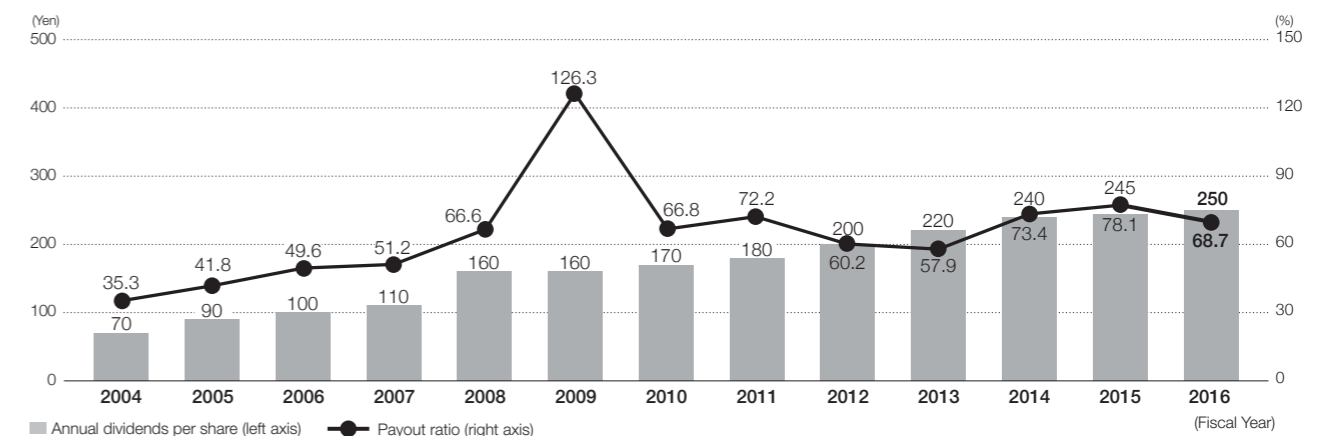
For this reason, we use ROE (Return on Equity), one of the return on capital metrics, as the Company's top priority business management indicator in an effort to selectively pursue businesses offering ROI above the cost of capital.

Based on a rigorous selection process, we will make investments offering the prospect of superior investment returns towards achieving corporate growth that is sustainable in the medium- to long-term. As a result, we strive to grow cash flows from operating activities in a sustainable manner while continuing to generate free cash flows, and continue to preserve the stability of its financial position. 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 improve ROE 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 stably 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 28, 2018, the Company intends to pay a per-share dividend of 255 yen, an increase of 5 yen compared to the fiscal year 2016.

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, 2017 include the financial results of 23 group companies comprising 20 consolidated subsidiaries and three equity method affiliates. The principal business activities of Lawson, Inc.'s subsidiaries and affiliates consist of the domestic convenience store business, Seijo Ishii business, entertainment business, overseas business and financial service business. The following paragraphs outline the business activities and financial results of Lawson, Inc.'s major consolidated subsidiaries and affiliates.

Lawson Store100, Inc. (consolidated subsidiary)

Established on November 14, 2013, Lawson Store100, Inc. 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. The former succeeded to the latter's store-related assets including franchise agreements for the LAWSON STORE 100 (including Lawson Mart). Effective March 2016, the corporate name was changed from Lawson Mart, Inc. to Lawson Store100, Inc.

LAWSON STORE 100 meets 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 selection" of a supermarket, the "convenience" of a convenience store and the easy-to-understand "standardized prices" of a 100-yen shop.

For the year ended February 28, 2017, Lawson Store100, Inc. had a total of 798 stores at the period-end date, and operating profit stood at 500 million yen, an increase of 45.3% compared to a year-ago period.

■ Lawson Store100, Inc. (Millions of Yen)

(Fiscal Year)	2017.2	2016.2	2015.2
Gross operating revenues	48,111	50,675	78,232
Operating profit	545	375	1,763
Net income	441	286	985

\*Consolidated starting from February 2013

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, reducing 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.

For the year ended February 28, 2017, operating profit amounted to 1.8 billion yen, a decrease of 21.3% compared to a year-ago period.

■ SCI, Inc. (Millions of Yen)

(Fiscal Year)	2017.2	2016.2	2015.2	2014.2
Gross operating revenue	256,143	191,299	87,638	74,460
Operating profit	1,860	2,365	1,128	509
Ordinary profit	2,065	2,369	1,128	510
Net income	1,395	1,423	687	300

\*Consolidated starting from September 2012

Lawson Sanin, Inc. (consolidated subsidiary)

In September 2016, Lawson Inc. established Lawson Sanin, Inc. in Yonago City, Tottori Prefecture based on joint investment with Poplar Co., Ltd., a convenience store operator based in Hiroshima City. In November 2016, Lawson Sanin, Inc. started a regional franchise business. In addition to two experimental double-brand convenience stores opened in November 2015, 52 LAWSON stores in Tottori, Shimane and Yamaguchi Prefectures were transferred to a joint LAWSON POPLAR brand. Lawson Sanin, Inc. operates 287 stores (including existing LAWSON stores in Tottori and Shimane Prefectures). LAWSON POPLAR brand stores are function-reinforcing stores selling POP Ben

boxed lunches that are prepared on site, under LAWSON FC packages. Sales of the two experimental stores remain strong due to high synergistic effects of the customer drawing powers of both companies. Lawson, Inc. has strengths in attracting female and senior customers, while Poplar Co., Ltd., has the advantage of gathering male customers.

#### Lawson Sanin, Inc.

(Millions of Yen)

(Fiscal Year)	2017.2
Gross operating revenues	2,460
Operating profit (loss)	(56)
Net income (loss)	(75)

\*Income began to be reflected in the consolidated accounts, starting from November 2016

For the year ended February 28, 2017, operating loss for four months amounted to approx. 60 million yen, due, among others, to expenses at the time of start-up.

#### 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 operations in the prefecture. Through this alliance with SAN-A, an unrivalled player there with a 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 for the former to be run as a joint venture.

For the year ended February 28, 2017, Lawson Okinawa, Inc. had a total of 210 stores at the period-end date, and operating profit stood at 1.6 billion yen, an increase of 16.4% 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)	2017.2	2016.2	2015.2	2014.2	2013.2
Gross operating revenues	6,509	5,605	4,674	4,199	3,954
Operating profit	1,637	1,407	1,183	1,051	924
Net income	1,081	954	738	792	799

#### Lawson Minamikyushu, Inc. (equity method affiliate)

Lawson Minamikyushu, Inc. ("Lawson Minamikyushu") 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 Minamikyushu (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, 2017, Lawson Minamikyushu had a total of 191 stores at the period-end date, and operating profit turned positive and stood at 100 million yen, despite a loss in the previous fiscal year. We will continue to have Lawson Minamikyushu strive to build a store environment meeting local needs appropriately, thus growing Lawson chain stores in Kagoshima in the coming years.

#### Lawson Minamikyushu, Inc.

(Millions of Yen)

(Fiscal Year)	2017.2	2016.2	2015.2
Gross operating revenues	4,007	3,756	3,595
Operating profit (loss)	94	(183)	(422)
Net income (loss)	(93)	(591)	(472)

\*Income began to be reflected in the consolidated accounts, starting from March 2014

#### Lawson Kochi, Inc. (equity-method affiliate)

In December 2014, Lawson, Inc. entered into a corporate franchise contract with SUNNY MART Co., Ltd. ("SUNNY MART"), which was a supermarket operator serving chiefly Kochi Prefecture and was the parent of Three-F Chu-Shikoku Co., Ltd. This was followed by SUNNY MART converting Three-F stores operated by the company into LAWSON stores on a step-by-step basis. In April 2015, Lawson Kochi, Inc. was established as a joint venture between SUNNY MART and Lawson, Inc. (with the former and the latter holding 51% and 49% equity stakes in the joint venture, respectively). Thus, all LAWSON stores in Kochi Prefecture began to be operated by Lawson Kochi, Inc.

For the year ended February 28, 2017, the number of LAWSON stores in the prefecture stood at 135 at the period-end date, and the operating profit of Lawson Kochi, Inc. amounted to 400 million yen, an increase of 7.6% compared to the previous fiscal year.

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

#### Lawson Kochi, Inc.

(Millions of Yen)

(Fiscal Year)	2017.2	2016.2
Gross operating revenues	4,482	4,208
Operating profit	463	430
Net income	298	286

\*Income began to be reflected in the consolidated accounts, starting from April 2015

#### SEIJO ISHII CO., LTD. (consolidated subsidiary)

SEIJO ISHII CO., LTD ("Seijo Ishii") celebrated its 90th year in business in February 2017. The company further strives to enhance the brand appeal and corporate value. At the same time, the company leverages its strengths, including product development capabilities, knowhow as a manufacturing retailer, and sales techniques, in order to strengthen the domestic convenience store business.

For the year ended February 28, 2017, Seijo Ishii opened the first hybrid store in a combination of Seijo Ishii and Le Bar a Vin 52 at the Atré Ebisu West Building in April 2016. It launched desica, a new private brand (PB) which achieved strong sales. It promoted the collaboration between the domestic convenience store business and the Seijo Ishii business in the form of arranging for wine products on sale at Seijo Ishii supermarkets to be offered at NATURAL LAWSON stores, and of having both businesses import confectionery items and develop nut and cup soup products, each on a joint basis.

Operating profit stood at 7.7 billion yen, an increase of 2 billion yen, or 34.5% compared to the previous fiscal year, which was attributable to the fact that 14-month accounts were consolidated as a result of the change in the fiscal year ended in fiscal 2016.

#### SEIJO ISHII CO., LTD.

(Millions of Yen)

(Fiscal Year)	2017.2	2015.12	2014.12
Gross operating revenues	85,824	68,993	17,881
Operating profit	7,795	5,795	1,547
Net income	4,616	2,625	1,086

\*Consolidated starting from February 2013

#### Lawson HMV Entertainment, Inc. (consolidated subsidiary)

Lawson HMV Entertainment, Inc. ("Lawson HMV Entertainment") distributes tickets for concerts, sporting events, theaters and cinemas mainly through the 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 location. The company is likely to generate good synergy between the HMV brand's competitive edge in the CD music industry and Lawson Ticket's prowess 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, 2017, the company opened its second HMV record shop specialized in second-hand analog records and CDs in Shinjuku. The number of HMV stores totaled 55 as of the end of February 2017. Operating profit stood at 2.1 billion yen, a decrease of 14.1% compared to the previous fiscal year, due mainly to an increase in amortization costs related to next-generation ticket systems.

\* 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)	2017.2	2016.2	2015.2	2014.2	2013.2
Gross operating revenues	50,423	50,205	46,018	45,314	45,481
Operating profit	2,119	2,469	3,094	2,819	2,446
Net income	1,466	1,644	2,918	2,450	2,450

#### 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 an ATM service. It engages in the installation of multibank ATMs at Lawson stores in areas for which an 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, 2017, stood at 5.9 billion yen, a decrease of 3.1% compared to a year-ago period.

During the year, Lawson ATM Networks continued to add to its list of ATM service partner banks, bringing the total to 87 banks based in Japan, including online banks, as of February 28, 2017, an increase of seven banks compared to a year ago. The number of ATMs in operation at Lawson stores nationwide totaled 11,912, an increase of 711 year-on-year.

#### Lawson ATM Networks, Inc.

(Millions of Yen)

(Fiscal Year)	2017.2	2016.2	2015.2	2014.2	2013.2
Gross operating revenues	25,722	24,688	23,567	24,188	23,975
Operating profit	5,991	6,188	5,935	6,089	4,753
Net income	3,857	3,877	3,605	3,690	2,712

#### United Cinemas Co., Ltd. (consolidated subsidiary)

In August 2014, Lawson, Inc. acquired all shares in United Entertainment Holdings, Inc., a holding company of cinema operator United Cinemas Co., Ltd. ("UC"), in a deal conducted via Lawson HMV Entertainment United Cinemas Holdings, Inc., a firm newly established by Lawson HMV Entertainment, Inc. Adding the firm to the Lawson Group steps up its contents holder service as an integrated entertainment distributor and boosts 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.

For the year ended February 28, 2017, UC opened the Japan's first new style cinema theater, called "Premium Dining Cinema" in Fukuoka City in April 2016 where people can enjoy a movie while tasting meals. UC operates a total of 38 sites and 340 screens at its cinemas nationwide (including screens operated on commission) as of the end of February 2017. Operating profit amounted to 2.4 billion yen, an increase of 100 million yen from the previous fiscal year. UC changed the fiscal year end. The financial results for the year under review included the 12-month operating profit, while the financial results for fiscal 2015 included

the 14-month operating profit. However, operating profit increased because the company enjoyed hits and enhanced expense control.

(Fiscal Year)	2017.2	2016.2	2014.12
Gross operating revenues	22,637	24,960	5,773
Operating profit	2,457	2,338	156
Net income (loss)	2,137	2,260	(112)

\* Consolidated starting from September 2014

#### Shanghai 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 a joint venture, Shanghai Hualian Lawson, Inc. ("Shanghai Hualian Lawson") in Shanghai, with Lawson, Inc. taking a 70.0% equity stake in the firm and China 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, in 2004, 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 performed by concluding a share transfer agreement with Bailian Group Co., Ltd. ("Bailian Group")\*, whose retail division restructuring was underway. Our equity interest in Shanghai Hualian Lawson was raised even further since, standing at 100% as of February 28, 2017. On February 27, 2017, Shanghai Hualian Lawson, Inc. changed its corporate name to Shanghai Lawson, Inc.

From now on, 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 openings in the country, as in Japan. The total number of Lawson stores in operation stood at 665 as of February 28, 2017.

\* 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.

(Fiscal Year)	2016.12	2015.12	2014.12	2013.12	2012.12
Gross operating revenues	13,561	8,532	1,360	1,290	903
Operating profit (loss)	(555)	(756)	(646)	(404)	(574)
Net income (loss)	(1,347)	(1,100)	(925)	(1,568)	(2,034)

\* Starting from the year ended December 31, 2015, the profits (losses) of Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd. and Zhejiang Lawson, Inc., each located in Shanghai and surrounding area, were added to the profit (loss) of Shanghai Hualian Lawson, Inc.

#### Chongqing Lawson, Inc. (consolidated subsidiary)

Populated by 34 million people (2015 JETRO survey), Chongqing is one of the world's biggest cities, and is the fourth direct-controlled municipality of China after Beijing, Shanghai and Tianjin. The city has continued to enjoy double-digit economic growth for 10 consecutive years (2015 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 136 as of February 28, 2017.

(Fiscal Year)	2016.12	2015.12	2014.12	2013.12	2012.12
Gross operating revenues	3,586	4,400	3,474	1,843	977
Operating profit (loss)	(452)	(778)	(904)	(840)	(671)
Net income (loss)	(623)	(973)	(1,047)	(833)	(775)

#### Dalian Lawson, Inc. (consolidated subsidiary)

With a population of some six million (2015 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., Ltd. 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 82 as of February 28, 2017.

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, 2017, bringing the total number of stores to 48 as of the date.

(Fiscal Year)	2016.12	2015.12	2014.12	2013.12	2012.12
Gross operating revenues	2,043	1,503	995	516	176
Operating profit (loss)	(183)	(313)	(313)	(227)	(163)
Net income (loss)	(190)	(345)	(338)	(211)	(196)

#### Saha Lawson Co., Ltd. (consolidated subsidiary)

In Thailand, we 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. The number of stores stood at 85 as of February 28, 2017.

(Fiscal Year)	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	7,171	6,963	7,800	5,959
Operating profit (loss)	(305)	(251)	(655)	(338)
Net income (loss)	(396)	(309)	(831)	(525)

\* Consolidated starting from January 2013

#### Future Outlook

We believe the three years from fiscal 2016 through fiscal 2018 will greatly influence our future. As for the "1,000-Day Action Plan" launched with the aim of becoming an essential part of our communities, net sales and operating profit fell short of the planned targets for the first year of the plan. However, we saw an increase in sales of our broadened product lineups such as daily delivered foods and improved delicatessen items, as well as a rise in the average spending per customer, from the previous year, which has given us confidence in the initiative. In the year ending February 2018, we will advance this project, based on the foundations built in the first year.

#### Mid-term Management Vision

The business environment we are faced with is changing dramatically, even during this year alone. Such social changes include the worsening labor shortage caused by the shrinking working-age population, declining birthrate, and aging of the overall population. In the convenience store industry, many alliances are taking place. Newly developed technologies such as artificial intelligence and electronic tagging may change the way we do our business. With all this in mind, we have formulated the Mid-term Management Vision, which incorporates the "1,000-Day Action Plan" and sets out clear targets to be achieved by fiscal 2021.

By building our unique Next-Generation LAWSON Convenience Store model, we will work to achieve a consolidated operating profit of over 100 billion yen, average daily sales per store of 600,000 yen, and 18,000 domestic convenience stores by fiscal 2021. As for our financial strategy, we will continue to distribute profits to shareholders by paying dividends steadily while utilizing bank loans required for establishing our business model and investing in future growth. We aim to maintain the D/E ratio under 1 and achieve an ROE of over 15% by fiscal 2021.

#### Investments in Growth toward the Future

The year ending February 2018 will see our investments becoming more aggressive in building the business model stated in the Mid-term Management Vision and in achieving the targeted average daily sales per store of 600,000 yen.

Accordingly, costs and expenses are projected to increase for investments in next generation systems, including the installation of tablets and new POS cash registers to improve store productivity, for new services to respond to the wider daily life needs of our consumers, such as financial and health care businesses, and for the launch of business alliances with other chain operators.

#### Enhancement of Existing Convenience Store Business

Meanwhile, we will make the best use of the fruits of our past initiatives such as the semi-automatic ordering system and expanded merchandise selection to support our customers' everyday needs. At the same time, we will strengthen the over-the-counter fast foods, one of our strong points, and the boxed meals, our core products. Thus, we plan to achieve a 1% increase in net sales of existing stores compared to the previous fiscal year and a gross profit margin of 31.7% in the year ending February 2018.

Furthermore, we will open 1,400 new stores including those under business partnerships with SAVE ON Corp. and Three-F Co., Ltd., achieve a net increase of 900 stores, and increase the number of domestic LAWSON stores to 14,000. In the existing convenience store business, operating profit is projected to grow, due mainly to the enhancement of the domestic convenience store business and profitability improvement in the overseas business.

#### Business Performance Outlook for Fiscal 2017

For fiscal 2017 ending February 2018, consolidated operating profit is projected to be 68.5 billion yen, a decrease of 5.2 billion yen, or 7.1% year on year. Consolidated net profit is expected to be 33.5 billion yen, a decrease of 2.9 billion yen, or 8.0% from the previous fiscal year. These projections reflect the cost increase associated with our future growth strategy, although average daily convenience store sales and gross profit margin will be improved.

Non-consolidated operating profit is planned to be 52 billion yen, a decrease of 5.4 billion yen, or 9.4% year on year. The difference between consolidated and non-consolidated operating profits is planned to be 16.5 billion yen, almost the same level of the previous fiscal year.

With regard to subsidiaries, a decrease in the operating profit of SEIJO ISHII CO., LTD. is projected because an irregular accounting period of 14 months will return to the normal 12-month period, and Lawson Bank Preparatory Company, Inc. will be consolidated, which are among other factors behind the decline in profit. For the overseas business, operating loss is projected to decrease mainly because the business in Shanghai will turn positive.

With regard to cash flow, consolidated cash flow from operating activities is projected to be 120 billion yen, which is greater than the 110 billion yen of projected consolidated cash flow from investment activities including investments in increasing new store openings and in next-generation systems.

## Consolidated Balance Sheet

Lawson, Inc. and Consolidated Subsidiaries  
February 28, 2017

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥67,692	¥69,793	\$601,386
Time deposits	423	4	3,758
Accounts receivable:			
Due from franchised stores (Note 4)	39,983	30,547	355,215
Other	78,364	67,736	696,198
Allowance for doubtful accounts	(50)	(8)	(444)
Lease receivables	12,336	5,906	109,595
Inventories	18,131	17,977	161,079
Deferred tax assets (Note 15)	3,907	4,525	34,710
Other	28,493	27,729	253,135
Total current assets	249,279	224,209	2,214,632
<b>PROPERTY AND STORE EQUIPMENT:</b>			
Land (Notes 6 and 7)	9,701	9,794	86,185
Buildings (Note 6)	347,086	331,133	3,083,564
Furniture, fixtures, and equipment (Note 6)	74,988	73,627	666,205
Lease assets (Note 6)	186,344	179,244	1,655,508
Other (Note 6)	743	619	6,602
Total	618,862	594,417	5,498,064
Accumulated depreciation	(294,351)	(291,655)	(2,615,059)
Net property and store equipment	324,511	302,762	2,883,005
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 5)	8,781	10,120	78,012
Investments in associated companies	14,151	15,600	125,720
Long-term loans receivable	44,495	40,886	395,300
Goodwill (Note 6)	46,042	46,310	409,044
Software (Note 6)	37,568	26,377	333,760
Trademark right	10,691	11,381	94,980
Lease deposits	95,594	92,495	849,271
Deferred tax assets (Note 15)	23,139	22,017	205,570
Other (Note 6)	13,295	11,915	118,116
Allowance for doubtful accounts	(968)	(860)	(8,600)
Total investments and other assets	292,788	276,241	2,601,173
<b>TOTAL</b>	<b>¥866,578</b>	<b>¥803,212</b>	<b>\$7,698,810</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>CURRENT LIABILITIES:</b>			
Accounts payable:			
Trade (Notes 8 and 19)	¥110,835	¥112,225	\$984,675
Due to franchised stores (Note 9)	1,611	1,998	14,312
Other	59,546	59,407	529,016
Short-term bank loans (Note 10)	31,180	1,990	277,008
Current portion of long-term debt (Note 10)	28,588	24,473	253,980
Income taxes payable	9,877	8,501	87,749
Money held as agent	103,157	101,909	916,462
Other (Note 12)	11,990	9,104	106,521
Total current liabilities	356,784	319,607	3,169,723
<b>LONG-TERM LIABILITIES:</b>			
Net defined benefit liability (Note 11)	13,084	12,187	116,240
Allowance for retirement benefits to executive officers and audit and supervisory board members	332	413	2,950
Long-term debt (Note 10)	156,687	145,623	1,392,031
Asset retirement obligations (Note 12)	26,958	24,665	239,499
Deferred tax liabilities (Note 15)	958		8,511
Other	25,779	27,720	229,024
Total long-term liabilities	223,798	210,608	1,988,255
<b>EQUITY (Note 13):</b>			
Common stock—authorized, 409,300,000 shares in 2017 and 2016; issued, 100,300,000 shares in 2017 and 2016	58,507	58,507	519,785
Capital surplus	49,084	47,697	436,070
Stock acquisition rights	315	307	2,798
Retained earnings	165,162	154,609	1,467,324
Treasury stock—at cost, 285,191 shares in 2017 and 301,897 shares in 2016	(1,211)	(1,280)	(10,759)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	274	801	2,434
Land revaluation difference (Note 7)	(619)	(566)	(5,499)
Foreign currency translation adjustments	4,611	5,531	40,965
Defined retirement benefit plans	(928)	(906)	(8,244)
Total	275,195	264,700	2,444,874
Noncontrolling interests	10,801	8,297	95,958
Total equity	285,996	272,997	2,540,832
<b>TOTAL</b>	<b>¥866,578</b>	<b>¥803,212</b>	<b>\$7,698,810</b>

## Consolidated Statement of Income

Lawson, Inc. and Consolidated Subsidiaries  
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>OPERATING REVENUES:</b>			
Franchise commissions from franchised stores	¥275,312	¥261,681	\$2,445,913
Net sales	254,169	227,606	2,258,076
Other	101,807	94,166	904,469
Total operating revenues	631,288	583,453	5,608,458
<b>COSTS AND OPERATING EXPENSES:</b>			
Cost of sales (Note 19)	174,255	155,949	1,548,108
Selling, general, and administrative expenses	383,261	354,962	3,404,948
Total costs and operating expenses	557,516	510,911	4,953,056
Operating income	73,772	72,542	655,402
<b>OTHER INCOME (EXPENSES):</b>			
Interest expense—net	(1,103)	(1,072)	(9,799)
Compensation income	524	646	4,655
Loss on cancellation of leases	(1,275)	(1,953)	(11,327)
Equity in earnings of unconsolidated subsidiaries and associated companies	602	293	5,348
Loss on sales of non-current assets	(295)	(229)	(2,621)
Loss on disposal of property and store equipment	(3,554)	(4,342)	(31,574)
Impairment of long-lived assets (Note 6)	(9,535)	(10,542)	(84,710)
Gain on valuation of derivatives	409		3,634
Loss on disaster	(772)		(6,859)
Other—net	(317)	59	(2,817)
Other expenses—net	(15,316)	(17,140)	(136,070)
<b>INCOME BEFORE INCOME TAXES</b>	<b>58,456</b>	<b>55,402</b>	<b>519,332</b>
<b>INCOME TAXES</b> (Note 15):			
Current	18,929	19,234	168,168
Deferred	2,453	4,032	21,793
Total income taxes	21,382	23,266	189,961
<b>NET INCOME</b>	<b>37,074</b>	<b>32,136</b>	<b>329,371</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(674)</b>	<b>(755)</b>	<b>(5,988)</b>
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>¥36,400</b>	<b>¥31,381</b>	<b>\$323,383</b>
	Yen		U.S. Dollars
	2017	2016	2017
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.u and 21):			
Net income—basic	¥363.96	¥313.82	\$3.23
Net income—diluted	363.71	313.57	3.23
Cash dividends applicable to the year	250.00	245.00	2.22

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Lawson, Inc. and Consolidated Subsidiaries  
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>NET INCOME</b>	<b>¥37,074</b>	<b>¥32,136</b>	<b>\$329,371</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Unrealized gain (loss) on available-for-sale securities	(527)	1,195	(4,682)
Land revaluation difference	(53)		(471)
Foreign currency translation adjustments	(929)	(16)	(8,253)
Remeasurements of defined benefit plans	(22)	(387)	(195)
Total other comprehensive income	(1,531)	792	(13,601)
<b>COMPREHENSIVE INCOME</b>	<b>¥35,543</b>	<b>¥32,928</b>	<b>\$315,770</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b> (Note 17):			
Owners of the parent	¥34,879	¥32,227	\$309,871
Noncontrolling interests	664	701	5,899

See notes to consolidated financial statements.



## Consolidated Statement of Changes in Equity

Lawson, Inc. and Consolidated Subsidiaries  
Year Ended February 28, 2017

	Thousands of Shares/Millions of Yen													
	Common Stock					Treasury Stock		Accumulated Other Comprehensive Income					Noncontrolling Interests	Total Equity
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total		
<b>BALANCE, MARCH 1, 2015</b>	100,300	¥58,507	¥47,697	¥223	¥148,589	(301)	¥ (1,272)	¥ (394)	¥ (566)	¥5,493	¥ (519)	¥257,758	¥7,452	¥265,210
Net income attributable to owners of the parent					31,381							31,381		31,381
Year-end cash dividends, ¥120 per share					(12,000)							(12,000)		(12,000)
Interim cash dividends, ¥122.5 per share					(12,250)							(12,250)		(12,250)
Change of scope of equity method					(1,111)							(1,111)		(1,111)
Exercise of stock acquisition rights to shares (delivery of treasury stock)						(1)	(8)					(8)		(8)
Disposal of treasury stock			0			0	0					0		0
Others—net				84				1,195		38	(387)	930	845	1,775
<b>BALANCE, FEBRUARY 29, 2016</b> (MARCH 1, 2016, as previously reported)	100,300	58,507	47,697	307	154,609	(302)	(1,280)	801	(566)	5,531	(906)	264,700	8,297	272,997
<b>BALANCE, MARCH 1, 2016</b> (as restated)	100,300	58,507	47,697	307	154,609	(302)	(1,280)	801	(566)	5,531	(906)	264,700	8,297	272,997
Net income attributable to owners of the parent					36,400							36,400		36,400
Change in the parent's ownership interest due to transactions with noncontrolling interests			1,387									1,387		1,387
Year-end cash dividends, ¥122.5 per share					(12,250)							(12,250)		(12,250)
Interim cash dividends, ¥125 per share					(12,502)							(12,502)		(12,502)
Change of scope of consolidation					(1,130)							(1,130)		(1,130)
Reversal of land revaluation difference					52							52		52
Purchase of treasury stock						(1)	(3)					(3)		(3)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(0)		(17)	17	72					55		55
Others—net				8				(527)	(53)	(920)	(22)	(1,514)	2,504	990
<b>BALANCE, FEBRUARY 28, 2017</b>	100,300	¥58,507	¥49,084	¥315	¥165,162	(286)	¥ (1,211)	¥274	¥ (619)	¥4,611	¥ (928)	¥275,195	¥10,801	¥285,996

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Noncontrolling Interests	Total Equity	
						Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, FEBRUARY 29, 2016</b> (MARCH 1, 2015, as previously reported)	\$519,785	\$423,747	\$2,727	\$1,373,570	\$ (11,372)	\$ 7,116	\$ (5,028)	\$49,138	\$ (8,049)	\$2,351,634	\$73,712	\$2,425,346
Net income attributable to owners of the parent				323,383						323,383		323,383
Change in the parent's ownership interest due to transactions with noncontrolling interests		12,322								12,322		12,322
Year-end cash dividends, \$1.09 per share				(108,831)						(108,831)		(108,831)
Interim cash dividends, \$1.11 per share				(111,070)						(111,070)		(111,070)
Change of scope of consolidation				(10,039)						(10,039)		(10,039)
Reversal of land revaluation difference				462						462		462
Purchase of treasury stock					(27)					(27)		(27)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		1		(151)	640					490		490
Others—net			71			(4,682)	(471)	(8,173)	(195)	(13,450)	22,246	8,796
<b>BALANCE, FEBRUARY 28, 2017</b>	\$519,785	\$436,070	\$2,798	\$1,467,324	\$ (10,759)	\$2,434	\$ (5,499)	\$40,965	\$ (8,244)	\$2,444,874	\$95,958	\$2,540,832

See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries  
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥58,456	¥55,402	\$519,332
<b>Adjustments for:</b>			
Income taxes paid	(18,204)	(23,984)	(161,727)
Depreciation and amortization	56,199	49,293	499,280
Impairment of long-lived assets	9,535	10,542	84,710
Loss on disposal of property and store equipment	3,554	4,342	31,574
Changes in assets and liabilities:			
Increase in accounts receivable	(20,289)	(6,312)	(180,251)
Increase in accounts payable	5,051	21,952	44,874
Increase (decrease) in money held as agent	1,244	(1,725)	11,052
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	666	742	5,917
Other—net	3,653	1,953	32,455
Total adjustments	41,409	56,803	367,884
Net cash provided by operating activities	¥99,865	¥112,205	\$887,216
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	(842)	(1,301)	(7,480)
Proceeds from withdrawal of time deposits	1,764	1,301	15,672
Purchases of property and store equipment	(42,064)	(40,884)	(373,703)
Purchases of software and other intangible assets	(18,892)	(15,609)	(167,839)
Increase in long-term loans receivable	(3,917)	(3,632)	(34,799)
Purchases of long-term prepaid expenses	(3,112)	(1,802)	(27,647)
Acquisition of associated companies	(1,805)	(3,362)	(16,036)
Other—net	(7,360)	(3,368)	(65,839)
Net cash used in investing activities	(76,228)	(68,657)	(677,221)
<b>FINANCING ACTIVITIES:</b>			
Net increase in short-term loans payable	29,190	250	259,328
Repayments of long-term debt	(30,913)	(26,165)	(274,636)
Cash dividends paid	(24,752)	(24,250)	(219,901)
Other—net	837	(36)	7,437
Net cash used in financing activities	(25,638)	(50,201)	(227,772)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(436)	(453)	(3,874)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,437)	(7,106)	(21,651)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	69,793	76,755	620,052
CASH AND CASH EQUIVALENTS IN SUBSIDIARIES RESULTING FROM CHANGE IN SCOPE OF CONSOLIDATION	336	144	2,985
CASH AND CASH EQUIVALENTS, END OF YEAR	¥67,692	¥69,793	\$601,386

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Lawson, Inc. and Consolidated Subsidiaries  
Year Ended February 28, 2017

### 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 2016 financial statements to conform to the classifications used in 2017.

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 ¥112.56 to \$1, the approximate rate of exchange at February 28, 2017. 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 50,150 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2017, which represents 50.2% of the total voting rights of the Company. Accordingly, Mitsubishi is the parent company.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements include the accounts of the Company and its twenty (eighteen in 2016) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiaries 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 three (three in 2016) 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 has been 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. Fiscal Year End of the Consolidated Subsidiaries**—The fiscal year end of Chongqing Lawson, Inc., Shanghai Lawson, Inc., Dalian Lawson, Inc., Lawson (China) Holdings, Inc., Saha Lawson Co., Ltd., Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd., Zhejiang Lawson, Inc., Beijing Lawson, Inc. and

BEIJING LUOSONG Co., Ltd. is December 31. In order to prepare the consolidated financial statements, the Company used these companies' financial statements prepared as of such fiscal year end and significant transactions which occur between December 31, end and the consolidated fiscal year end are adjusted as required for consolidation.

Effective February 28, 2017 SEIJO ISHII CO., LTD. changed its fiscal year end from December 31 to February 28. Thus, its accounting period is 14 months (from January 1, 2016 to February 28, 2017) in this current consolidated fiscal year. Furthermore, during the two-month period from January 1, 2017 to February 28, 2017, SEIJO ISHII CO., LTD reported operating revenue of 12,133 million yen, operating income of 1,114 million yen, and income before income taxes of 1,034 million yen.

The fiscal year end date for the other consolidated subsidiaries is the same as that of the Company.

**c. 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 related to pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (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.

**d. 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 of R&D; and (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.

**e. Business Combination**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. 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. 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. The acquirer recognizes any 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. 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 noncontrolling 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. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

**f. Franchise Agreement and Basis of Recognizing Franchise Commission**—The Company operates principally in a single industry referred to 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 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.

**g. 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.

**h. Inventories**—Substantially all inventories are stated at the lower of cost, determined by the retail method as generally applied in the retail industry or by the gross average method, or net selling value.

**i. 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 quotations. 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 investment securities are stated at cost determined by the moving-average method. For other than-temporary declines in fair value, nonmarketable investment securities are reduced to net realizable value by a charge to income.

**j. 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.

**k. 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.

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

**m. Trademark rights**—Trademark rights are amortized using the straight-line method based on the estimated useful life (mainly twenty years).

**n. Net Defined Benefit Liability**—In calculating the retirement benefit obligation, in order to attribute the estimated amount of retirement benefits in the period up to the end of the current fiscal year, the obligation is based on the benefit formula method.

Prior service cost is amortized starting from the fiscal year incurred mainly on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of occurrence. Actuarial differences are mainly amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of occurrence. Certain consolidated subsidiaries apply the simplified method to estimate the amount required for voluntary resignations at the end of the fiscal year as the retirement benefit liability in order to calculate net defined benefit liability and retirement benefit expenses.

**o. 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.

**p. Asset Retirement Obligations**—An asset retirement obligation is recorded for 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.

**q. Stock Options**—Compensation expense for employee stock options which were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Stock Options". Stock options granted to nonemployees are accounted for 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 as a separate component of equity until exercised. The accounting standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

**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 current income tax rates to the temporary differences.

**s. Foreign Currency Financial Statements**—The balance sheet accounts of associated companies 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 "Noncontrolling interests" in a separate component of equity. Revenue and expense accounts of affiliated companies 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 100,015 thousand shares for 2017 and 99,998 thousand shares for 2016.

Diluted net income per share for the years ended February 28, 2017 and February 29, 2016 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 statement of income and the consolidated statement of cash flows for the year ended February 28, 2017. In order to conform to the presentation for the year ended February 28, 2017, the Company has reclassified the related amounts in the consolidated balance sheet, the consolidated statement of income and the consolidated statement of cash flows for the year ended February 29, 2016, as stated below.

(Consolidated Balance Sheet)

In the "CURRENT ASSETS" section, "Lease Receivables" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Lease Receivables" is now separately presented. To reflect this change in the method of presentation, the consolidated balance sheet for the previous fiscal year has been reclassified.

As a result, in the "CURRENT ASSETS" section, the 5,906 million yen that had previously been presented in "Other" in the consolidated balance sheet for the previous fiscal year is now presented as "Lease Receivables."

(Consolidated Statement of Income)

In the "OTHER INCOME (EXPENSES)" section, "Store equipment related income" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Store equipment related income" is now presented in "Other-net." To reflect this change in the method of presentation, the consolidated statement of income for the previous fiscal year has been reclassified.

As a result, in the "OTHER INCOME (EXPENSES)" section, the 318 million yen that had previously been presented as "Store equipment related income" in the consolidated statement of income for the previous fiscal year is now presented in "Other-net."

In the "OTHER INCOME (EXPENSES)" section, "Foreign exchange gains (losses)" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Foreign exchange gains (losses)" is now presented in "Other-net." To reflect this change in the method of presentation, the consolidated statement of income for the previous fiscal year has been reclassified.

As a result, in the "OTHER INCOME (EXPENSES)" section, the 914 million yen that had previously been presented as "Store equipment related income" in the consolidated statement of income for the previous fiscal year is now presented in "Other-net."

(Consolidated Statement of Cash Flows)

In the "Cash flow from operating activities" section, "Provision for (reversal of) allowance for doubtful accounts" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Provision for (reversal of) allowance for doubtful accounts" is now included in "Other." To reflect this change in method of presentation, the consolidated statement of cash flows for the previous fiscal year have been reclassified.

As a result, in the "Cash flow from operating activities" section, the (311) million yen that had previously been presented as "Provision for (reversal of) allowance for doubtful accounts" in the consolidated statement of cash flows for the previous fiscal year is now included in "Other-net."

In the "Cash flow from investing activities" section, "Purchase of long-term prepaid expenses" was included in "Other-net" in the previous fiscal year. Due to an increase in financial materiality, "Purchase of long-term prepaid expenses" is now separately presented. To reflect this change in the method of presentation, the

consolidated statement of cash flows for the previous fiscal year has been reclassified.

As a result, in the "Cash flow from investing activities" section, the (1,801) million yen that had previously been presented in "Other-net" in the consolidated statement of cash flows for the previous fiscal year is now presented as "Purchase of long-term prepaid expenses."

In the "Cash flow from financing activities" section, "Net increase in short-term loans payable" was included in "Other-net" in the previous fiscal year. Due to an increase in financial materiality, "Net increase in short-term loans payable" is now separately presented. To reflect this change in the method of presentation, the consolidated statement of cash flows for the previous fiscal year has been reclassified.

As a result, in the "Cash flow from financing activities" section, the 250 million yen that had previously been presented in "Other-net" in the consolidated statement of cash flows for the previous fiscal year is now presented as "Net increase in short-term loans payable."

#### w. New Accounting Pronouncements

**Tax Effect Accounting**—On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets", which included certain revisions of the previous accounting and auditing guidance issued by JICPA. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary difference, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for deductible temporary differences for which it was specifically prohibited to recognize deferred tax assets under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective March 1, 2018, and there will be no effects of applying the new guidance on the income or loss for the fiscal year ending on or after February 28, 2018.

### 3 | CHANGES IN ACCOUNTING POLICIES

Change in accounting policies

Application of "Accounting Standard for Business Combinations"

The Company adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), and other accounting standards. As a result, the Company now records any differences resulting from changes in its ownership interests in subsidiaries subject to ongoing control under capital surplus, and records acquisition-related costs as expenses in the fiscal year in which they are incurred.

Furthermore, for business combinations carried out on or after the beginning of the current fiscal year, the Company now reflects the updated acquisition cost allocation based on finalization of the provisional accounting treatment in the consolidated financial statements for the fiscal year in which the business combination occurs.

In addition, the company has made changes in the presentation of net income and other items and has changed from presenting minority interests to presenting non-controlling interests. To reflect these changes in presentation, the Company has reclassified the consolidated financial statements for the previous fiscal year.

The Company adopted the Accounting Standard for Business Combinations and other accounting standards in line with transitional measures stipulated in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4(4) of Accounting Standard for Business Divestitures. This application is effective from March 1, 2016. In the consolidated statements of cash flows for the current fiscal year, the Company lists cash flows related to the purchase or sale of stock in subsidiaries not resulting in a change in the scope of consolidation in the category of cash flows from financing activities, and cash flows related to acquisition-related costs for stock in subsidiaries resulting in a change in the scope of consolidation or expenses arising in relation to the purchase or sale of stock in subsidiaries not resulting in a change in the scope of consolidation in the category of cash flows from operating activities. Additionally, the Company is not reclassifying comparable information in the consolidated statements of cash flows for the current fiscal year, in line with transitional measures stipulated in Paragraph 26-4 of the Practical guidelines on Accounting Standards for Preparing Consolidated Statements of Cash Flows.

As a result, Capital surplus as of the end of this fiscal year increased by ¥1,387 million, while Income before income taxes decreased by ¥2,583 million. In addition, Capital surplus at the end of the fiscal year increased by ¥1,387 million in the consolidated statement of changes in equity of the current consolidated fiscal year.

### 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, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Non-current—Marketable and other equity securities	<b>¥8,624</b>	¥ 9,848	<b>\$76,617</b>
Non-current—Corporate bonds	<b>157</b>	272	<b>1,395</b>

The costs and aggregate fair values of marketable and investment securities as of February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 28, 2017				
Securities classified as available-for-sale—Equity securities	<b>¥6,407</b>	<b>¥1,099</b>	<b>¥983</b>	<b>¥6,523</b>

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 29, 2016				
Securities classified as available-for-sale—Equity securities	¥6,267	¥1,049		¥7,316

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 28, 2017				
Securities classified as available-for-sale—Equity securities	<b>\$56,921</b>	<b>\$9,763</b>	<b>\$8,733</b>	<b>\$57,951</b>

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
February 28, 2017			
Available-for-sale: Equity securities	<b>¥560</b>	<b>¥89</b>	

February 29, 2016

Not applicable.

	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
February 28, 2017			
Available-for-sale: Equity securities	<b>\$4,975</b>	<b>\$791</b>	

## 6 LONG-LIVED ASSETS

The Companies mainly identify individual stores as the smallest cash generating units. The Companies recognize an impairment loss cases 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, 2017 and February 29, 2016:

Category	Related Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2017	2016	2017
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	<b>¥1,703</b>	¥1,905	<b>\$15,129</b>
		Osaka	<b>1,442</b>	1,621	<b>12,811</b>
		Others	<b>6,390</b>	6,509	<b>56,770</b>
Other	Land Software Goodwill			507	
<b>Total</b>			<b>¥9,535</b>	¥10,542	<b>\$84,710</b>

The above noted assets which incurred impairment losses for the years ended February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Buildings	<b>¥5,833</b>	¥5,977	<b>\$51,821</b>
Furniture, fixtures, and equipment	<b>529</b>	608	<b>4,700</b>
Lease assets	<b>2,786</b>	3,131	<b>24,751</b>
Land	<b>354</b>	57	<b>3,145</b>
Software		680	
Other	<b>33</b>	89	<b>293</b>
<b>Total</b>	<b>¥9,535</b>	¥10,542	<b>\$84,710</b>

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or an expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rate used was mainly 4.3% for the years ended February 28, 2017 and February 29, 2016.



## 7 | LAND REVALUATION

Under the "Law of Land Revaluation," promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company opted for 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 statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2017, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥248 million (\$2,203 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, 2017 and February 29, 2016 were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Accounts payable—trade for franchised stores	¥95,107	¥92,265	\$844,945
Accounts payable—trade for the Company-operated stores	15,728	19,960	139,730
Total	¥110,835	¥112,225	\$984,675

## 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, 2017 and February 29, 2016, consisted of notes to banks.

The annual interest rates applicable to the short-term bank loans were 0.14% and 0.53% at February 28, 2017 and February 29, 2016, respectively.

Long-term debt at February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks, due serially to 2020 with a weighted-average interest rate of 0.11% (2017)	¥57,278	¥58,137	\$508,866
Obligations under finance leases	127,997	111,959	1,137,145
Less current portion	(28,588)	(24,473)	(253,980)
Long-term debt, less current portion	¥156,687	¥145,623	\$1,392,031

The aggregate annual maturities of long-term debt, excluding finance leases, at February 28, 2017 were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥575	\$5,108
2019	575	5,108
2020	56,128	498,650
Total	¥57,278	\$508,866

The aggregate annual maturities of finance lease obligations at February 28, 2017 were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥28,013	\$248,872
2019	25,717	228,474
2020	22,845	202,959
2021	18,961	168,452
2022 and thereafter	32,461	288,388
Total	¥127,997	\$1,137,145

As of February 28, 2017, the carrying amounts of assets pledged as collateral for short-term bank loans and the current portion of long-term debt of ¥575 million (\$5,108 thousand) and long-term debt of ¥6,704 million (\$59,555 thousand), were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Cash and cash equivalents	¥2,602	\$23,117
Shares of consolidated subsidiaries (Amount before elimination)	16,616	147,619
Total	¥19,218	\$170,736

**11 EMPLOYEES' RETIREMENT BENEFITS**

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

The lump-sum retirement allowance plan (generally unfunded, with some plans being funded in accordance with 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, 2017**

(1) The changes in the defined benefit obligation for the year ended February 28, 2017 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year (as restated)	¥17,552	\$155,934
Current service cost	1,595	14,170
Interest cost	54	480
Actuarial losses	149	1,324
Benefits paid	(932)	(8,280)
Others	(1)	(9)
Balance at end of year	¥18,417	\$163,619

(2) The changes in plan assets for the year ended February 28, 2017 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,590	\$49,662
Actuarial gains	(3)	(26)
Balance at end of year	¥5,587	\$49,636

(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	¥16,920	\$150,320
Plan assets	(5,587)	(49,636)
	11,333	100,684
Unfunded defined benefit obligation	1,497	13,300
Net liability arising from defined benefit obligation	¥12,830	\$113,984

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥12,830	\$113,984
Net liability arising from defined benefit obligation	¥12,830	\$113,984

(4) The components of net periodic benefit costs for the year ended February 28, 2017 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	1,595	14,170
Interest cost	54	480
Recognized actuarial losses	140	1,244
Amortization of prior service cost	9	80
Others	(20)	(178)
Net periodic benefit costs	¥1,778	\$15,796

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended February 28, 2017

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥10	\$89
Actuarial losses	(12)	(107)
Total	¥ (2)	\$(18)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2017

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥11	\$98
Unrecognized actuarial losses	1,295	11,505
Total	¥1,306	\$11,603

## (7) 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.

## (8) Assumptions used for the year ended February 28, 2017 were set forth as follows:

Discount rate	0.5% (mainly)
Expected rate of return on plan assets	0%

## (9) Contributions to the defined contribution pension plan for the year ended February 28, 2017 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥483	\$4,291

## Year Ended February 29, 2016

## (1) The changes in defined benefit obligation for the year ended February 29, 2016 were as follows:

	Millions of Yen
Balance at beginning of year (as previously reported)	¥18,348
Cumulative effects of changes in accounting policies	(2,131)
Balance at beginning of year (as restated)	16,217
Current service cost	1,503
Interest cost	93
Actuarial losses	663
Benefits paid	(931)
Prior service cost	4
Others	3
Balance at end of year	¥17,552

## (2) The changes in plan assets for the year ended February 29, 2016 were as follows:

	Millions of Yen
Balance at beginning of year	¥5,589
Actuarial gains	1
Balance at end of year	¥5,590

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

	Millions of Yen
Funded defined benefit obligation	¥16,241
Plan assets	(5,590)
	10,651
Unfunded defined benefit obligation	1,312
Net liability arising from defined benefit obligation	¥11,963

	Millions of Yen
Liability for retirement benefits	¥11,963
Net liability arising from defined benefit obligation	¥11,963

## (4) The components of net periodic benefit costs for the year ended February 29, 2016 were as follows:

	Millions of Yen
Service cost	¥1,503
Interest cost	93
Recognized actuarial losses	91
Amortization of prior service cost	13
Others	96
Net periodic benefit costs	¥1,796

## (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended February 29, 2016

	Millions of Yen
Prior service cost	¥9
Actuarial losses	(571)
Total	¥ (562)

## (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2016

	Millions of Yen
Unrecognized prior service cost	¥21
Unrecognized actuarial losses	1,283
Total	¥1,304

## (7) Plan assets

## c. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

## d. 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.

## (8) Assumptions used for the year ended February 29, 2016 were set forth as follows:

Discount rate	0.5% (mainly)
Expected rate of return on plan assets	0%

## (9) Contributions to the defined contribution pension plan for the year ended February 29, 2016 were as follows:

	Millions of Yen
Net periodic benefit cost	¥436

## 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 the normal Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year 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 within equity 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.

## 12 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2017 and February 29, 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥24,721	¥21,553	\$ 219,625
Additional provisions associated with the acquisition of property, plant, and equipment	2,625	1,961	23,321
Reconciliation associated with passage of time	393	400	3,491
Reduction associated with settlement of asset retirement obligations	(716)	(1,836)	(6,361)
Additional provisions associated with changes in accounting estimates		2,643	
Total	27,023	24,721	240,076
Less current portion	(65)	(56)	(577)
Asset retirement obligations, less current portion	¥26,958	¥24,665	\$239,499

## 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, 2017 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 (\$0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 (\$0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 (\$0.01)	From September 6, 2007 to August 20, 2027
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 (\$0.01)	From January 17, 2009 to December 15, 2028
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	2011.2.2	¥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
14th Stock Option	8 directors	12,400 shares	2015.4.10	¥1 (\$0.01)	From April 10, 2015 to March 24, 2035
15th Stock Option	1 director	1,100 shares	2015.6.10	¥1 (\$0.01)	From June 10, 2015 to May 25, 2035
16th Stock Option	8 director	15,100 shares	2016.5.2	¥1 (\$0.01)	From May 2, 2016 to April 12, 2036

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	14th Stock Option	15th Stock Option	16th Stock Option
<b>Year Ended February 29, 2016</b>												
<b>Non-vested</b>												
February 28, 2015— Outstanding												
Granted										12,400	1,100	
Canceled												
Vested										12,400	1,100	
February 29, 2016— Outstanding												
<b>Vested</b>												
February 28, 2015— Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300			
Vested										12,400	1,100	
Exercised												
Canceled												
February 29, 2016— Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300	12,400	1,100	
<b>Year Ended February 28, 2017</b>												
<b>Non-vested</b>												
February 29, 2016— Outstanding												
Granted												15,100
Canceled												
Vested												15,100
February 28, 2017— Outstanding												
<b>Vested</b>												
February 29, 2016— Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300	12,400	1,100	
Vested												15,100
Exercised	500	400	2,500	3,400	4,200	3,600	500	500	500	500		500
Canceled	1,700	5,800						1,000	500	500		500
February 28, 2017— Outstanding	1,600	3,700	4,100	5,800	2,100	2,300	6,600	7,000	6,300	11,400	1,100	14,100
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise												
Fair value price at grant date		¥3,178 (\$28.23)	¥2,852 (\$25.34)	¥3,477 (\$30.89)	¥2,652 (\$23.56)	¥2,689 (\$23.89)	¥3,339 (\$29.66)	¥5,516 (\$49.01)	¥5,146 (\$45.72)	¥6,251 (\$55.54)	¥6,310 (\$56.06)	¥6,254 (\$55.56)

The assumptions used to measure the fair value of the 16th stock options were as follows:

16th Stock Option	
Estimate method	Black-Scholes option pricing model
Volatility of stock price	24.01%
Estimated remaining outstanding period	10 years
Estimated dividend	¥242.5 per share
Risk-free interest rate	-0.12%

## 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 33.1% and 35.6% for the years ended February 28, 2017 and February 29, 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2017 and February 29, 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Accrued enterprise taxes	¥875	¥727	\$7,774
Accrued employees' bonuses	1,054	1,244	9,364
Excess of depreciation	11,048	13,388	98,152
Excess of amortization of software	410	517	3,643
Employees' retirement benefits	5,633	5,761	50,044
Allowance for doubtful accounts	310	285	2,754
Impairment loss	5,248	4,149	46,624
Tax loss carryforwards	10,901	14,073	96,846
Other	5,954	3,848	52,896
Less valuation allowance	(12,114)	(13,816)	(107,623)
Total	29,319	30,176	260,474
Deferred tax liabilities:			
Trademark rights	3,231	3,634	28,705
Net deferred tax assets	¥26,088	¥26,542	\$231,769

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 years ended February 29, 2016 and February 28, 2015 is as follows:

	2017	2016
Normal effective statutory tax rate	33.1%	35.6%
Change in valuation allowance	(0.3)	(0.9)
Expenses not deductible for income tax purposes	0.4	0.5
Per-capita inhabitant tax	0.6	0.6
Difference in tax rates of foreign consolidated subsidiaries	0.5	0.8
Reduction of ending deferred tax balance due to change in statutory tax rate	3.1	4.1
Amortization of goodwill	1.2	1.7
Other—net	(2.0)	(0.4)
Actual effective tax rate	36.6%	42.0%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after March 1, 2017, to approximately 30.9% and for the fiscal year beginning on or after March 1, 2019, to approximately 30.6%.

The effect of these changes as of for the year ended February 28, 2017 was to decrease deferred tax assets, net of deferred tax liabilities, by ¥1,804 million (\$16,024 thousand), to increase income taxes—deferred in the consolidated statement of income by ¥1,784 million (\$15,847 thousand) and to decrease accumulated other comprehensive income—defined retirement benefit plans by ¥20 million (\$180 thousand).

At February 28, 2017, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥36,072 million (\$320,469 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
2018	¥3,085	\$27,408
2019	3,094	27,488
2020	6,852	60,874
2021	7,003	62,216
2022	11,741	104,309
2023	442	3,927
2024	2,987	26,537
2025	575	5,108
2026	293	2,602
Total	¥36,072	\$320,469

**16 | SUPPLEMENTAL CASH FLOW INFORMATION**

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2017, amounted to ¥42,636 million (\$378,785 thousand).

(2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 28, 2017, amounted to ¥2,636 million (\$23,419 thousand).

**17 | OTHER COMPREHENSIVE INCOME**

The components of other comprehensive income for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities			
Gains (losses) arising during the year	¥(1,059)	¥1,587	\$(9,409)
Reclassification adjustments to profit or loss	244	239	2,168
Amount before income tax effect	(815)	1,826	(7,241)
Income tax effect	288	(631)	2,559
Total	¥(527)	¥1,195	\$(4,682)
Land revaluation difference			
Adjustments arising during the year	(53)		(471)
Total	¥(53)		\$(471)
Foreign currency translation adjustments			
Adjustments arising during the year	¥(906)	¥(16)	\$(8,049)
Reclassification adjustments to profit or loss	(23)		(204)
Total	¥(929)	¥(16)	\$(8,253)
Remeasurements of defined benefit plans			
Losses arising during the year	¥ (151)	¥(662)	\$(1,342)
Reclassification adjustments to profit or loss	149	100	1,324
Amount before income tax effect	(2)	(562)	(18)
Income tax effect	(20)	175	(177)
Total	¥ (22)	¥(387)	\$(195)
Total other comprehensive income	¥(1,531)	¥792	\$(13,601)

**18 | SEGMENT INFORMATION**

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures", and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decisionmaker 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 Company primarily operates the Domestic Convenience Store Business, Seijo Ishii Business and Entertainment-related Business while incorporating other related businesses.

Therefore, the Company has made the Domestic Convenience Store Business, Seijo Ishii Business and Entertainment-related Business its reportable segments based on consideration of financial characteristics and the nature of the services provided.

Regarding the Domestic Convenience Store Business, Lawson, Inc. operates a franchise system as well as undertakes direct management of stores in Japan as the parent company of LAWSON, NATURAL LAWSON and LAWSON STORE100. Lawson Sanin, Inc. undertakes the direct management of Lawson stores in Sanin area. Lawson Store100, Inc. undertakes the direct management of LAWSON STORE100 stores. SCI, Inc. is a subsidiary that serves the function of rationally managing the process from procurement to sale, and aims to improve the efficiency of and optimize the process.

Regarding the Seijo Ishii Business, SEIJO ISHII CO., LTD. operates the SEIJO ISHII supermarket.

Regarding the Entertainment related Business, Lawson HMV Entertainment, Inc. manages the sale of concert tickets at LAWSON stores and others, music and video at HMV stores and others. In addition, United Cinemas Co., Ltd. operates multiplex movie theatres.

## (b) Methods of measurement for the amounts of sales, profit, 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."

Segment profit is determined in the same manner as operating income. "Intersegment sales or transfers" are calculated based on market price.

The Company changed the method of calculating segment profit or loss in accordance with the accounting change in the treatments of business combinations as described in Note 3.

The impact of this change on segment profit for the current fiscal year is immaterial.

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

	Millions of Yen						
	2017						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other				
Sales:							
Sales to external customers	¥419,691	¥85,825	¥71,545	¥54,227	¥631,288		¥631,288
Intersegment sales or transfers	4,918		1,391	920	7,229	¥(7,229)	
Total	¥424,609	¥85,825	¥72,936	¥55,147	¥638,517	¥(7,229)	¥631,288
Segment profit	¥59,866	¥6,912	¥3,988	¥2,999	¥72,534	¥7	¥73,772
Segment assets	800,384	58,705	62,271	56,925	978,285	(111,707)	866,578
Other:							
Depreciation	44,797	2,006	2,279	3,386	52,468		52,468
Amortization of goodwill	912	1,677	501	99	3,189		3,189
Investments in associated companies	4,922				4,922		4,922
Increase in property, plant, and equipment and intangible assets	55,489	1,055	1,483	2,928	60,955		60,955

	Millions of Yen						
	2016						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other				
Sales:							
Sales to external customers	¥395,057	¥68,994	¥73,639	¥45,763	¥583,453		¥583,453
Intersegment sales or transfers	3,580		1,401	1,158	6,139	¥(6,139)	
Total	¥398,637	¥68,994	¥75,040	¥46,921	¥589,592	¥(6,139)	¥583,453
Segment profit	¥59,994	¥5,037	¥4,076	¥3,427	¥72,534	¥8	¥72,542
Segment assets	738,876	65,016	64,559	53,680	922,131	(118,919)	803,212
Other:							
Depreciation	40,769	1,756	1,375	2,591	46,491		46,491
Amortization of goodwill	596	1,437	665	104	2,802		2,802
Investments in associated companies	4,746				4,746		4,746
Increase in property, plant, and equipment and intangible assets	48,468	521	4,347	3,157	56,493		56,493

	Thousands of U.S. Dollars						
	2017						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other				
Sales:							
Sales to external customers	\$3,728,598	\$762,482	\$635,617	\$481,761	\$5,608,458		\$5,608,458
Intersegment sales or transfers	43,692		12,357	8,173	64,222	\$(64,222)	
Total	\$3,772,290	\$762,482	\$647,974	\$489,934	\$5,672,680	\$(64,222)	\$5,608,458
Segment profit	\$531,859	\$61,407	\$35,430	\$26,644	\$655,340	\$62	\$655,402
Segment assets	7,110,732	521,544	553,225	505,730	8,691,231	(992,421)	7,698,810
Other:							
Depreciation	397,983	17,822	20,247	30,082	466,134		466,134
Amortization of goodwill	8,102	14,899	4,451	880	28,332		28,332
Investments in associated companies	43,728				43,728		43,728
Increase in property, plant, and equipment and intangible assets	492,972	9,373	13,175	26,013	541,533		541,533

Notes: 1. The "Other" category refers to business segments that do not fall under the main reporting segments and includes the Financial Services-related Business operated by Lawson ATM Networks, Inc., Overseas Business operated by Shanghai Lawson, Inc. and others.

2. Reconciliation to segment profit and segment assets is the balance of elimination of intra-segment transactions

3. The segment profit is adjusted against consolidated operating income.

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

	Millions of Yen						
	2017						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other				
Loss on impairment of long-lived assets	¥9,035	¥62	¥208	¥230	¥9,535		¥9,535

	Millions of Yen						
	2016						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other				
Loss on impairment of long-lived assets	¥9,155	¥80	¥570	¥737	¥10,542		¥10,542



Thousands of U.S. Dollars							
2017							
Reportable Segments							
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	\$80,268	\$551	\$1,848	\$2,043	\$84,710		\$84,710

## (e) Information regarding the carrying amount of goodwill by reportable segments

Millions of Yen							
2017							
Reportable Segments							
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2017	¥11,269	¥25,270	¥8,690	¥813	¥46,042		¥46,042

Millions of Yen							
2016							
Reportable Segments							
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2016	¥8,589	¥26,947	¥9,192	¥1,582	¥46,310		¥46,310

Thousands of U.S. Dollars							
2017							
Reportable Segments							
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2017	\$100,115	\$224,502	\$77,203	\$7,224	\$409,044		\$409,044

The amount under "Other" is attributable to the overseas business.

## 19 RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 28, 2017 and February 29, 2016 were as follows:

## (1) Transactions between the Company and a related party

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥54,257	¥50,022	\$482,027
Purchases	654,902	614,452	5,818,248

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

## (2) Transactions between subsidiaries and a related party

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable-Other	¥12,850	¥8,015	\$114,161
Sales of processed food, etc.	120,219	67,163	1,068,044

Sales prices and other conditions are determined on an arm's-length basis.

## 20 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

## (1) Policy for Financial Instruments

The Company primarily uses short-term deposits, etc., to manage its funds and raises funds as necessary through borrowings from financial institutions and leasing according to the financing plan.

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

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

Long-term loans receivable (mainly construction assistance fund receivables and loans to franchised stores) and lease deposits are exposed to credit risks of borrowers and landlords, etc. With regard to this risk, the Company manages credit on a daily basis at the relevant division and aims to identify and minimize collection concerns arising from deterioration in the financial situation, etc. in the early stages.

Investment securities are primarily shares of companies with which the Company has business relationships and listed shares which are exposed to the risk of market price fluctuation. 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, accounts payable-trade for franchised stores, accounts payable-other and money held as agent as a result of bill settlement services have payment due dates within one month, while most deposits received held as a result of ticket sales transactions have payment due dates within six months.

Long-term loans from banks payable are mainly for the purpose of funding M&A, and are due within four years.

The primary purpose of lease obligations related to finance lease transactions is securing the funds required for capital investments and the maximum redemption period is 15 years after the consolidated balance sheet date.

With regard to the liquidity risk associated with fundraising (risk that payments cannot be executed on the payment due dates), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures including maintaining adequate liquidity on hand.

### (3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Since multiple factors are considered in the estimation of fair value, the results of the estimation might differ if other valuation techniques were used.

February 28, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥67,692	¥67,692	
Time deposits	423	423	
Accounts receivable	118,296	118,296	
Long-term loans receivable	44,461	44,445	¥(16)
Investment securities	6,523	6,523	
Lease deposits	95,181	94,608	(572)
<b>Total</b>	<b>¥332,576</b>	<b>¥331,987</b>	<b>¥(589)</b>
Accounts payable	¥170,381	¥170,381	
Money held as agent	103,157	103,157	
Long-term debt (including current portion of long-term debt)	185,275	180,856	¥4,419
<b>Total</b>	<b>¥458,813</b>	<b>¥454,394</b>	<b>¥4,419</b>

February 29, 2016	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥69,793	¥69,793	
Time deposits	4	4	
Accounts receivable	98,276	98,276	
Long-term loans receivable	40,831	40,817	¥(14)
Investment securities	7,316	7,316	
Lease deposits	92,121	89,375	(2,746)
<b>Total</b>	<b>¥308,341</b>	<b>¥305,581</b>	<b>¥(2,760)</b>
Accounts payable	¥173,630	¥173,630	
Money held as agent	101,909	101,909	
Long-term debt (including current portion of long-term debt)	170,096	170,711	¥615
<b>Total</b>	<b>¥445,635</b>	<b>¥446,250</b>	<b>¥615</b>

February 28, 2017	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$601,386	\$601,386	
Time deposits	3,758	3,758	
Accounts receivable	1,050,960	1,050,960	
Long-term loans receivable	394,998	394,856	\$(142)
Investment securities	57,951	57,951	
Lease deposits	845,602	840,512	(5,090)
<b>Total</b>	<b>\$2,954,655</b>	<b>\$2,949,423</b>	<b>\$(5,232)</b>
Accounts payable	1,513,691	1,513,691	
Money held as agent	916,462	916,462	
Long-term debt (including current portion of long-term debt)	1,646,011	1,606,751	\$39,260
<b>Total</b>	<b>\$4,076,164</b>	<b>\$4,036,904</b>	<b>\$39,260</b>

#### 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.

#### Long-term loans receivable

The fair values of long-term loans receivable (including allowance for doubtful accounts) are determined by discounting the cash flows related to the obligations at the Companies' assumed corporate discount rate.

#### 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 collectability, using the yield rate of government bonds for 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		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥945	¥1,412	\$8,396
Investments in unconsolidated subsidiaries and affiliated companies	14,151	15,600	125,720
Others	1,313	1,392	11,665

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

	Millions of Yen			
	2017			
	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	¥67,692			
Time deposits	423			
Accounts receivable	118,347			
Long-term loans receivable	450	¥14,901	¥14,408	¥14,736
Lease deposits	5,481	20,708	24,809	44,596
Total	¥192,393	¥35,609	¥39,217	¥59,332

	Millions of Yen			
	2016			
	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	¥69,793			
Time deposits	4			
Accounts receivable	98,283			
Long-term loans receivable	351	¥14,427	¥12,829	¥13,279
Lease deposits	5,335	20,987	22,158	44,015
Total	¥173,766	¥35,414	¥34,987	¥57,294

	Thousands of U.S. Dollars			
	2017			
	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	\$601,386			
Time deposits	3,758			
Accounts receivable	1,051,413			
Long-term loans receivable	3,998	\$132,382	\$128,003	\$130,917
Lease deposits	48,694	183,973	220,407	396,197
Total	\$1,709,249	\$316,355	\$348,410	\$527,114

**21 NET INCOME PER SHARE**

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2017 and February 29, 2016, is as follows:

Year Ended February 28, 2017	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥36,400	100,009	¥363.97	\$3.23
Effect of dilutive securities—Stock options		71		
Diluted EPS—Net income for computation	¥36,400	100,080	¥363.71	\$3.23

Year Ended February 29, 2016	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted-Average Shares	EPS
Basic EPS—Net income available to common shareholders	¥31,381	99,998	¥313.82
Effect of dilutive securities—Stock options		78	
Diluted EPS—Net income for computation	¥31,381	100,076	¥313.57

**22 SUBSEQUENT EVENT****Appropriation of Retained Earnings**

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 30, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥125.0 (\$1.11) per share	¥12,502	\$111,070



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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Lawson, Inc.:

We have audited the accompanying consolidated balance sheet of Lawson, Inc. and its consolidated subsidiaries as of February 28, 2017, 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, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

May 29, 2017

Member of  
Deloitte Touche Tohmatsu Limited



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