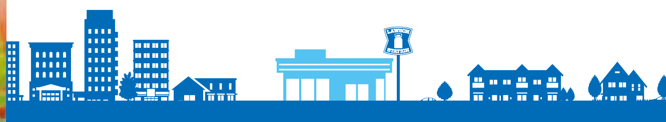
LAWSON

INTEGRATED REPORT 2016



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.

To become an essential part of our communities

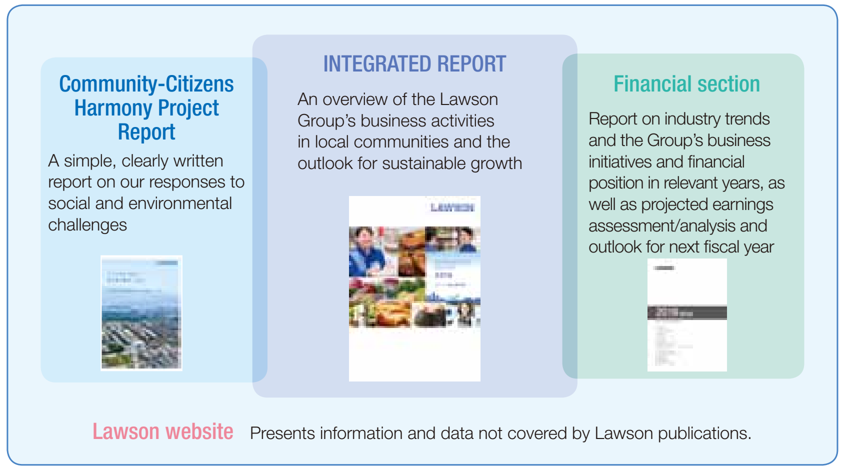
Today's convenience store industry is in a period of dramatic change. Not only are we witnessing such changes in the community as a declining birthrate and aging population, an increasing number of double-income households, and a decreasing number of locally-based retail shops, but we are also experiencing a drastic change in our industry. In the midst of all this, we launched the 1,000-Day Action Plan in the aim that the Company will reach some highly significant milestones in the next three years. First, we will advance the evolution of our business model founded on the concept of a Manufacturing Retailer Based on Small Commercial Area model and realize sophisticated, one-of-a-kind store productivity. At the same time, we will continue to pursue creation of a Next-Generation LAWSON Convenience Store model that can satisfy customers' overall lifestyle needs.

We have added a new Vision and a revised Code of Conduct to our enduring Corporate Philosophy. Under a new, firmly founded CEO/COO framework, the Lawson Group is positioned as a singular force to become an essential part of our communities as a leading company in execution. Lawson will increase its corporate value further while continuing to maintain a harmonious relationship with society as an essential component of its communities' social infrastructure.

Genichi Tamatsuka
Chairman and CEO,
Representative Director

Sadanobu Takemasu
President and COO,
Representative Director

Lawson communication media



CONTENTS

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

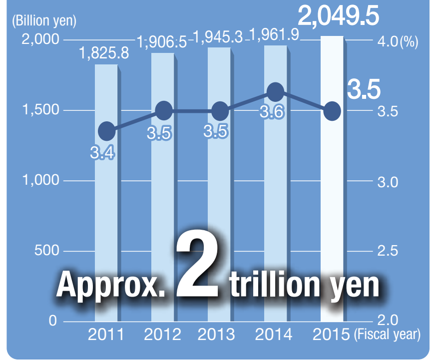
■ Reporting period
This report covers the fiscal year from March 1, 2015 to February 29, 2016, with some reporting on activities before and after this period. For further details, please visit our website:
http://lawson.jp/en/

■ 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.

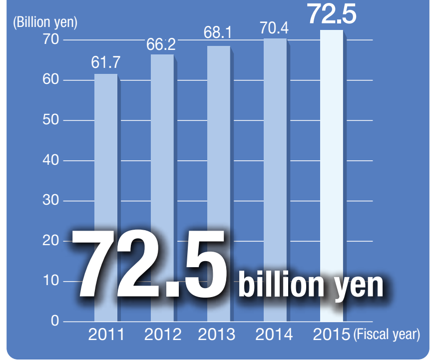
Financial data

Consolidated net sales by all stores



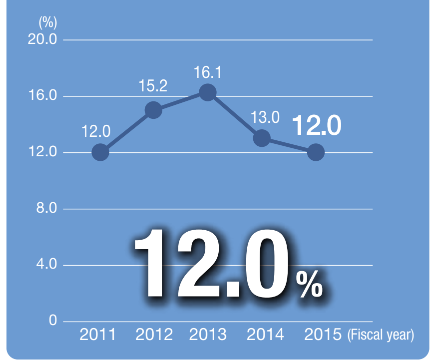
Approx. 2 trillion yen

Consolidated operating profit



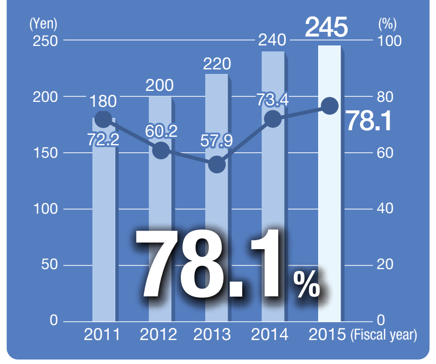
72.5 billion yen

ROE (return on equity)



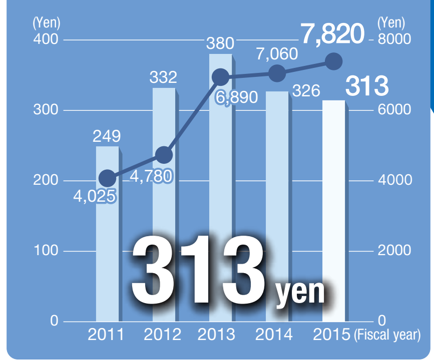
12.0%

Payout ratio



78.1%

Net income per share



313 yen

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

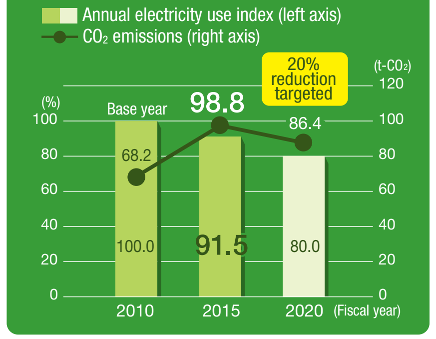
Medium- and long-term targets

ROE
20%

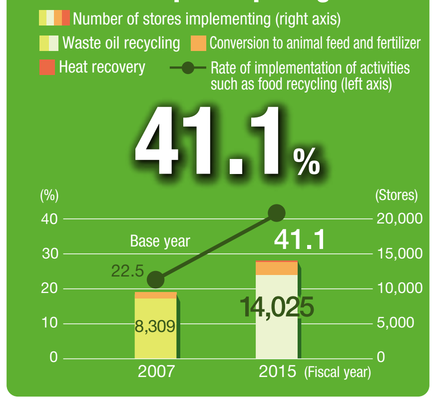
Consolidated operating profit
100 billion yen

Non-financial data

Electricity use (index) and CO_2 emissions per store



Rate of food recycling & number of participating stores

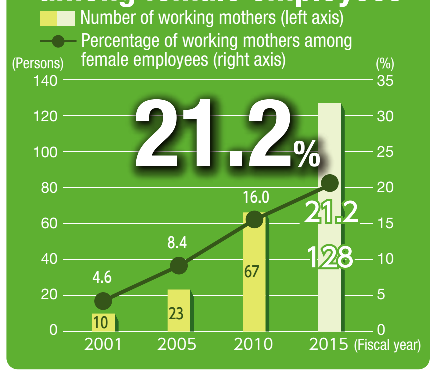


41.1%

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

Approx. 8.0 billion yen

Number of working mothers & their proportion among female employees



21.2%

Percentage of male employees taking paternity leave

70.4%

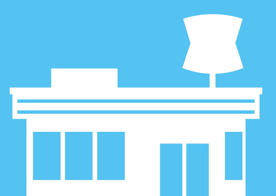
Percentage of independent directors among directors

3/8

Numbers related to LAWSON stores*2

Number of domestic stores

Approx. 12,000 stores

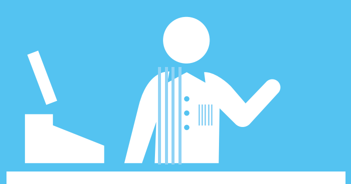


Number of customers (per day, all stores)

Approx. 10 millon

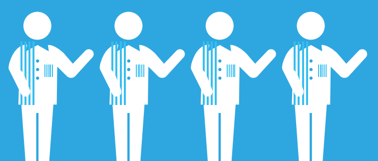
Number of franchise owners

Approx. 6,000



Number of store crew

Approx. 200,000



Store size

Approx. 120 m²

Number of items

Approx. 3,500

*2 About the figure of LAWSON stores, they are the round numbers in the end of February, 2016.

We will continue to build a Next-Generation LAWSON Convenience Store model that satisfies the everyday needs of our customers.

Genichi Tamatsuka
Chairman and CEO,
Representative Director

Would you please begin by sharing your observations regarding fiscal 2015, the term ended February 29, 2016?

First, we sought to reinforce the foundation for Lawson's convenience store business in the face of an unforgiving industry environment in fiscal 2015 by strengthening our store capabilities; improving our product offering; and providing better support for franchise owners. We reinforced our merchandising potential by launching the Passionate and Delicious project, for example, and holding a 40th-anniversary festival. We also installed a semi-automatic ordering system based on Ponta card membership data. We accelerated the contract signing of the new franchise package, moreover, a contract under which headquarters bears a portion of the franchise stores' electricity bills and disposal losses. We also made more proactive proposals in our advertising and promotional operations. These and other efforts led to a recovery trend in customer traffic and a year-on-year improvement of 1.4% in net sales by existing stores. Franchise owners' profits turned upward as a result. Despite a surge in advertising and promotional expenses associated with these efforts, the addition in fiscal 2014 of Seijo Ishii and United Cinemas to the Lawson Group as consolidated subsidiaries

■ FY2015 (ended February 29, 2016) (Consolidated)

(Unit: Million yen)

	2016.2	YoY	2015.2
Gross operating revenues	583,452	+17.2%	497,913
Operating profit	72,541	+2.9%	70,482
Net income	31,381	-4.0%	32,686

bore fruit in a substantial contribution to profits. As a result, we recorded consolidated operating profit of 72.5 billion yen, our best result to date and our 13th consecutive annual increase. Following a drawdown of deferred tax assets and an increase in extraordinary losses, however, consolidated net profit registered 31.3 billion yen, down 1.3 billion yen from the previous year, and our ROE (return on equity) was 12.0%.

What future course do you envision for your business?

Today's convenience store industry is undergoing a major transformation. The social changes that impact our industry directly include worsening conditions related to the declining birthrate and aging population and an increase in the number of double-income households. Other issues include rising healthcare costs and a decline in the number of community-based retail shops. As owners of community-based retail stores themselves, Lawson's individual franchise owners have also been caught in the downward spiral. Finally, we face a serious labor shortage and industrial changes led by M&A activities. I might add, moreover, that competition seems to be growing more intense each year, not only among convenience stores but also with stores in other sectors, such as supermarkets, drugstores and fast-food chains. Our responses over the coming three to five years will determine how successful we can be.

As a neighborhood store, our goal is to become an essential part of our communities. Looking to the future, we launched the 1,000-Day Action Plan in the current fiscal year. This means that everyone affiliated with the Lawson Group, which includes franchise owners as well as Lawson employees, will participate in its evolution toward being a "leading company in execution." We will build a Next-Generation LAWSON Convenience Store model that will satisfy our customers' changing lifestyle needs.

Could you please describe your 1,000-Day Action Plan?

This action plan is the basis for our efforts to become an essential part of our communities. Our core business has its origins in the franchise and retail stores where business actually takes place. Continuing last year's efforts, we will continue to strengthen our store capabilities; improve our product offering; and provide better support for franchise owners. We will be unable to keep pace with customer needs that change daily, if we simply stay the course. Instead, we will take advantage of our competitive edge to evolve into a new Lawson with a one-of-a-kind brand that adapts fluidly to the rapid changes in society.

However, just articulating a message changes nothing. We must reinvent our operational frameworks, working styles and, finally, our corporate culture itself. Over the next three years, we will pursue evolution of a business model founded on the Manufacturing Based on a Small Commercial Area model and actualize unconventional yet sophisticated store productivity. We will follow up by constructing a Next-Generation LAWSON Convenience Store model that can satisfy our customers' changing lifestyle needs.

We will start by restructuring the frameworks supporting Lawson over the next three years. The transformation will commence with the framework for store operations, followed by structural reforms in the areas of new product development and new store location. These will be followed, in turn, by restructuring of our connections with outsourcing plants—strengthening cooperation—and, finally, by optimizing the distribution flow. Dramatic leaps forward in digital technology have turned the unimaginable into reality in just the past 10 or 20 years. These are the times we live in. Our resolve to execute a complete makeover from the bottom up is unshakeable.

In the end, however, it is human beings who operate within these frameworks. We may have built a respectable system that is fully digitalized, but it is the franchise owners and, in fact, individual employees who actually put the frameworks we construct to work. That is to say, we are committed to operating a human-centered business. Going forward, we will initiate operational reforms for supervisors who are positioned to provide guidance for franchise stores. Breaking into our training structure and thoroughly revising our operation and working style , we will continue to revolutionize our way of doing business.

Finally, let me say a few words about our corporate culture. In the midst of fast-paced environmental changes, individual actions are of paramount importance. Organizations can be truly revitalized only when those on the upper and lower strata can confron t each other directly, expressing

differences of opinions and conducting candid discussions. It is in this way that the individual strength of each employee and affiliated member of the Lawson Group will coalesce into a transformative force that will see the next-generation business model through to fruition. Only then will we truly become an essential part of our communities.

■ 1,000-Day Action Plan

You assumed the positions of Chairman and CEO on June 1. What are your thoughts on the new CEO/COO management structure?

Yes. I have become the Chairman and CEO, Representative Director since June 1. Former Senior Executive Vice President Takemasu assumed the role of President and COO, Representative Director at the same time. The environment surrounding us is undergoing dramatic change. To respond to the widely varied needs emerging from this societal transformation, we are continuing to augment our business operations exponentially. I believe our business domains will continue to grow. In the midst of all this, we will need to complete implementation of our 1,000-Day Action Plan if we are to actualize the Next-Generation LAWSON Convenience Store model without further delay. This is why we reinforced our management to drive leadership by shifting to a CEO/COO management structure.

I will continue to shoulder responsibility for Lawson's overall management, including the convenience store operations in Japan , our core business. I will also take the lead in implementing our 1,000-Day Action Plan. In doing so, I will continue to take a direct, hands-on approach to operations. In this sense, my style has not changed. At the same time, President and COO Takemasu will not only continue to provide me with support, but he will play a more active role in areas with expanding operations. I have high expectations, for example, that he will demonstrate exceptional leadership and results in the overseas, Seijo Ishii and entertainment business spheres. It is important, moreover, that we further reinforce our ties in various fields with our largest shareholder, Mitsubishi Corporation. This is another area in which I am convinced President Takemasu will display strong leadership.

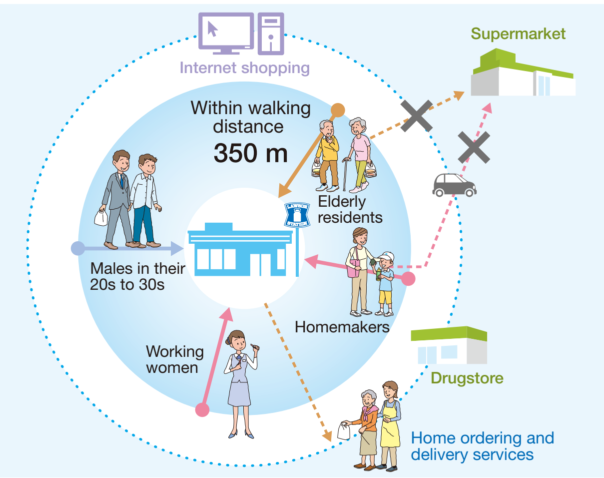
We will work as one under the new CEO/COO management structure to optimize and accelerate Lawson's reformation.

What does Lawson mean by the expression "to become an essential part of our communities" stated in the Vision?

The conventional convenience store has achieved growth as a 24-hour neighborhood store offering easy access through proximity and efficiency. In this era of social change, however, the role and significance of the convenience store as a neighborhood store have continued to grow as well. Today's convenience stores are expected to serve as places to visit on a daily basis to obtain overall lifestyle support. This takes on special relevance when we consider working women who have little time for shopping; senior citizens who want to shop within walking distance of home; and the declining numbers of community-based retail stores accompanying the closure of local commercial areas. This is why the convenience store product offering is no longer limited to rice balls, sandwiches, beverages, cigarettes and newspapers. It now extends to a wide array of products, from food items such as fresh produce, warm side dishes, milk and eggs for breakfast, and frozen foods that can be packed in boxed lunches to daily necessities such as detergents, kitchen utensils and beauty care products. Demand is growing every year for freshly cooked foods that are prepared on site, including pork cutlet sandwiches and rice balls. With more people using the convenience store as a window to pick up Internet shopping orders, meanwhile, we plan to expand the range of services we provide in cooperation with parcel delivery services. We now offer home delivery of products such as the boxed lunches on our display shelves, and we have introduced door-to-door order-taking services as well. With healthcare costs on the rise, meanwhile, more people are feeling a need for a nearby family pharmacy. This has generated demand for a new kind of store combining the characteristics of a convenience store with those of a pharmacy and drugstore.

By extending our activities beyond our normal convenience store function, we are responding to the diversifying range of needs arising in customers' daily lives. Lawson intends to transform itself in this way into an essential presence in everyday community life.

■ LAWSON as a "neighborhood store"



What are some of the specific undertakings you plan to pursue in fiscal 2016?

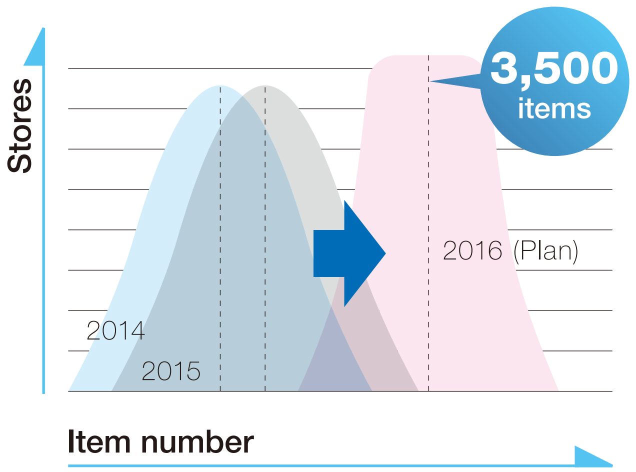
To begin with, all LAWSON stores will expand and improve their product offering. The product offering in every store will increase by 10% compared with the previous year, raising the total to some 3,500 items. Realizing this goal will require us to implement a number of special measures. First, we will invest in store fixtures. Second, we plan to make improvements in the products themselves and invest resources in advertising and promotional efforts to enhance customer awareness.

Next, we will make further improvements in the stores' ability to sell out their stocks. While continuing the establishment and activation of the semi-automatic ordering system and planned orders we introduced last year, we will also standardize the supervisors' function. This will help to minimize inconsistencies among different stores as well as among supervisors. Thus, the LAWSON chain as a whole aims to improve the stores' sellout and sales capabilities.

We are also initiating construction of a new generation of IT systems. This means introducing systems that facilitate comprehensive, real-time information-sharing across the range from raw materials procurement to product manufacturing, distribution and in-store sales. We are implementing a cloud-based system employing both Big Data and artificial intelligence (AI), while at the same time continuing to renew our stores' hardware.

We never forget, however, that it is *people* who operate these sophisticated systems. We cannot get results simply by converting analog systems to a digital platform. Unless we change our operating frameworks, working styles and culture as human operators, the final output will remain unchanged. We are responding by reexamining all the supervisors' job responsibilities with a focus on the things that really need doing after clarifying the things we can discontinue. At the same time, we are identifying areas in which greater efficiency is required and areas that should be handled by headquarters. We have completely discontinued all theoretical training, switching instead to an approach based on practical content that can be applied immediately at the workplace. Similarly, we are streamlining and standardizing product development and in-store sales development as a basis for completely restructuring our work procedures. Finally, we will remain committed to our fundamentals, think outside the box and change our working styles.

■ Improving our product offerings at all LAWSON stores



Tell us about the expanded and improved product offering you are achieving through the concerted efforts of all the stores.

In the past, LAWSON has confronted the issue of disparities in the product range depending on the store. Most notably, customers could not always find the items they required to meet their everyday needs. This is why we are expanding our product offering. We are installing new refrigeration cases to increase our offering of perishable foods and deli items in addition to such daily delivered foods as milk, eggs and tofu. Besides increasing the variety of frozen meals available by installing flatbed freezers, meanwhile, we are raising the store shelf heights to broaden the range of packaged foods and daily necessities on display. We are focusing on conducting these fixture investments in about 5,000 LAWSON stores in the first half of the fiscal year in order to bolster our product offering throughout the chain simultaneously. We will not stop with adding new display fixtures, either, but will also promote use of the planned order-placement system to make highly accurate recommendations of merchandise assortments for individual stores.

We will thus realize sales venues that support customers' overall lifestyles in all the stores by combining these facility upgrades with the above-mentioned enhancement of our product offering by applying the semi-automatic ordering system. Our expanded merchandise selection is already encouraging a trend toward repeat customers as well as toward an increase in the number of purchased items per customer, thanks to the elimination of opportunity loss at stores where remodeling has been completed.

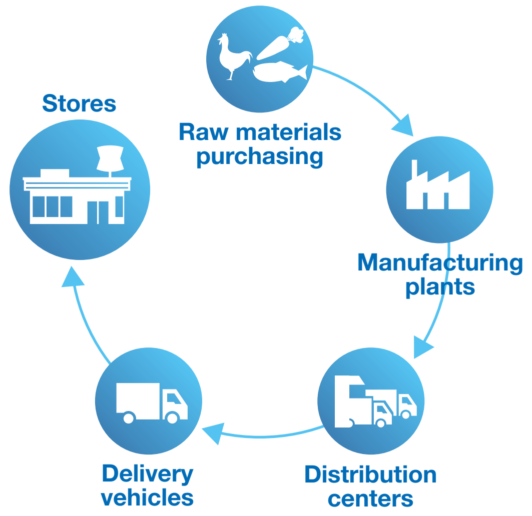
Please share some details of your merchandising strategy with us.

First, we are reinforcing our offering of such convenience store staples as boxed lunches. Food items such as hamburgers will be standardized in different categories, such as the boxed lunch and prepared food categories, and Niigata *koshihikari* rice will be used for both rice balls and boxed lunches. We will capitalize on LAWSON's strengths in raw materials procurement to reinforce our merchandise potential.

As a store that customers visit daily, moreover, we are improving our selection of main dishes such as *torikara* (fried chicken) and *genkotsu* croquettes (fist-shaped croquettes) that are sold over the counter for easy purchasing by busy women and elderly customers. We are also reinforcing our line of Lawson Select deli items, beverages and frozen meals.

In our role as a community health hub, we remain committed to selling merchandise that takes customers' health into consideration. Seeking to offer products that are both "delicious and healthy," we will continue to reinforce our health-related merchandise category with items such the Green Smoothie, which became a hit product last year for the NATURAL LAWSON brand.

■ Lawson supply chain



Please say a few words about your evolution as a manufacturing retailer and the importance of supply chain reform.

Reform of the supply chain is essential to realization of the Next-Generation LAWSON Convenience Store model. We have made steady progress in integrating our business flow, from raw materials purchasing to final sales. In the area of raw materials purchasing, our efforts have focused on transparency and efficiency, including the formation of a specialized department in the Company and establishment of SCI, a wholly owned Lawson subsidiary. With the introduction of the 1,000-Day Action Plan, moreover, we have reinforced our direct involvement in the manufacturing process and distribution flow. Our goal is to complete the process of becoming a manufacturing retailer serving small commercial areas. We will push forward with our efficiency drive by eliminating unseen losses occurring at various stages in the workflow — between manufacturing and distribution, for example, and between distribution and sales. This will not only increase the profitability of the supply chain as a whole, but it will reduce the burden our operations place on society and the environment at the same time.

We produce our boxed lunches, rice balls, desserts and other items in outsourcing manufacturing facilities nationwide. To improve our merchandising capabilities and products, we will reinforce our current partnerships with these food-processing facilities as well as with their parent companies, who are major food producers.

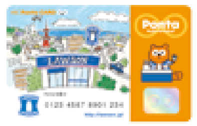
As for distribution, we not only plan to lower the overall cost of goods but also to enhance productivity in the stores. We will rethink our approaches to distribution and, for instance, reorganize such elements as our temperature zone management and distribution frequency.

Thus, we are moving ahead with building the Next-Generation LAWSON Convenience Store model by making the entire supply chain process visible at every point along the line, from raw materials purchasing to manufacturing, distribution and sales.

Please share us your thoughts on going forward with the IT infrastructure as the next generation system.

The performance of computers and Internet-related technologies has evolved dramatically over the past 10 to 20 years. Things that were impossible yesterday are somehow realized tomorrow. We live in a world in which innovations in IT occur overnight.

Lawson has been analyzing sales data collected from Ponta card members as well as sales trends for each product and store for some time now and applying its findings effectively in its business. Last year, we took another step forward by installing a semi-automatic ordering system that uses demand forecasts for each store and item to support franchise owners' ordering operations. We have since acquired the ability to apply the forecasts to achieve a further expanded and improved product offering. We are now pursuing development of a system in which demand forecast data of this type can be shared on a real-time basis with Lawson Group members throughout the supply chain, including boxed lunch producers and delivery centers in addition to headquarters and the stores. Without creating this type of systemized platform, it would be difficult to realize a more efficient overall supply chain and to improve individual stores' productivity.



So, how will the stores' productivity improve in reality? What are some of the specific measures Lawson is introducing?

One of the serious issues we face today is a manpower shortage. The trends toward a declining birthrate and aging population in Japan are expected to continue for the medium to long term, and this is exerting a substantial impact on Lawson's store operations. One way to counter this is to assign more tasks to machines that do not require the human hand. With the number of in-store operations increasing, a recognized LAWSON strength that includes over-the-counter fast food and Machikado Chubo in-store kitchen services, it has become essential that we implement store productivity reforms.

We will respond by reforming our store work procedures under the 1,000-Day Action Plan. There are two parts to this undertaking. The first is to simplify tasks to the extent that anyone can perform them. The second is to achieve a high level of efficiency with as few people as possible. We are starting by replacing the hardware. Over the next three years, we will install tablets to serve as operations devices, replace the old POS cash registers with new ones equipped with automatic change machines; and update the store PCs to handle cloud-based computing. As part of the distribution reforms I mentioned earlier, meanwhile, we will change our delivery style and optimize the delivery frequency. We will also standardize and simplify work procedures and work proactively toward paperless operation. Our aim is to reduce the store workload by 25% over the next three years through these and other initiatives.

Please describe the human capital that supports Lawson's business.

In this unforgiving industry environment, it is important that employees with diverse ideas be able to think as a team and work together to create an innovative organization. Lawson is proactive in hiring employees with diverse backgrounds. We are equipped to provide an environment in which female and foreign employees can succeed, benefiting from ample opportunities for training and promotions. We are also responding to demand for working style reform. We want employees who need time off to provide childcare or nursing care to be able to continue working without resigning. Besides enhancing our human resources system, we are continuing our efforts to create a working environment based on mutual understanding. I believe, for example, that men should share childcare responsibilities. In this climate, Lawson has achieved a rate of 70% of fathers of babies or young children taking childcare leave, which suggests that this attitude is taking hold. Employee health is another area of considerable importance. A healthy mind and body are prerequisites for employees to achieve optimal performance in the workplace. I have assumed the position of CHO (Chief Health Officer) at Lawson, and I will pursue improvement of Lawson Group employees' health as a vital management strategy. We will improve our productivity to make efficient use of the limited time available each day, and to balance work with a gratifying life. We are pursuing reformation of our work procedures to bring this kind of working environment into being.

Lawson University, an educational institution operating under Lawson's Education Department, has integrated its classes for franchise owners and headquarters employees. The resulting curriculum provides education in a diverse array of disciplines designed to transmit specialized skill sets. Our ultimate objective is to enable all the individual members of the Lawson Group to achieve growth independently by equipping them to think and act on their own.

Could you also discuss your corporate governance and returns to shareholders?

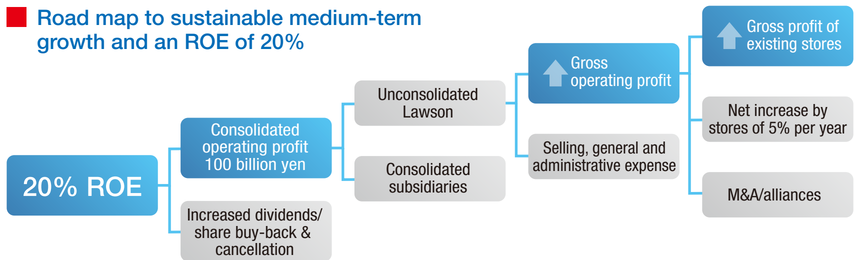
Lawson has led the industry in constructing a responsive, highly transparent corporate governance system. There are only eight directors on the Board of Directors, for example, and three of these are outside directors who are independent of the Company. We have an established structure with a Nomination and Compensation Committee, moreover, comprising only outside officers who offer opinions regarding the compensation of the directors as well as the selection of candidates for Board membership. Two new independent officers were elected at a recent General Meeting of Shareholders. Outside Director Hayashi brings a rich fund of managerial experience and entrepreneurial expertise acquired through founding and operating a successful company, while Outside Auditor Takahashi has experience as a standing corporate auditor for a major IT firm and extensive knowledge of finance and accounting. We believe they will make a substantial contribution, along with the other independent officers with their diverse backgrounds, to the supervision of Lawson's management as well as to its auditing operations.

In order to achieve an ROE (return on equity) of 20%, moreover, which is the global standard for capital efficiency, Lawson seeks to strike a balance between earnings growth by its main businesses and the most appropriate returns to shareholders. As concerns earnings growth, we have targeted consolidated operating profit of 100 billion yen in the medium to long term. We will achieve this by combining our domestic convenience store business, which we are reinforcing under our 1,000-Day Action Plan, with contributions to earnings from our overseas operations and Seijo Ishii business and others. With regard to returns to shareholders, meanwhile, our commitment to balancing the most appropriate reinvestment in the business with steady increases in dividends remains unchanged. We are planning to increase the fiscal 2016 dividend by 250 yen, marking our seventh consecutive year of increases. Thus, we will continue to maintain a strict capital discipline, and to meet the expectations of our investors at home and abroad for returns through our share price and dividend.

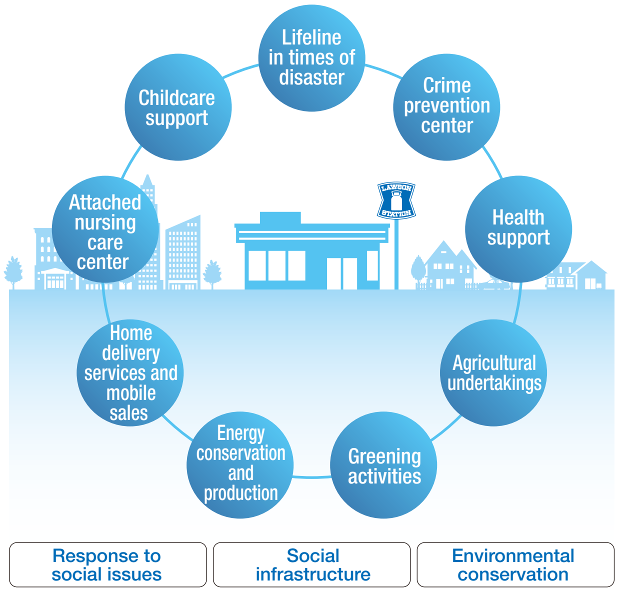
Would you mind saying a few words in closing about CSV (creating shared value) management?

Today's corporate managers are expected to apply CSV management, which seeks to solve social issues through business activities by balancing the value shared between a company and society. We have also taken up many challenges to create a sustainable society. First, we have enacted the Lawson Group Environmental Policy to promote our efforts

Road map to sustainable medium-term growth and an ROE of 20%



Contribute as infrastructure to regional society



for society and the environment. In our desire to pass down the abundant blessings of planet Earth to future generations, we have declared our commitment to environmentally friendly business activities and a mutually beneficial relationship with regional society. Among our accomplishments, we consider our environmental consideration in the development and sales of products and services most significant, since this is directly connected to our business. Our efforts to conserve energy and resources and reduce both food and container waste are demonstrated by our deployment of the latest technologies to achieve numerical targets. In the area of energy conservation with respect to climate change, we are implementing the 10 articles of energy conservation and promoting energy conservation at every store. We aim to achieve a 20% reduction in electricity per store by fiscal 2020 as compared to fiscal 2010. We also provide social and environmental training for all the Group employees, owners and crew.

Identified today as the fourth component of infrastructure after electricity, gas and water, the convenience store is recognized as an essential presence in every region. The lights are always on at Lawson, a situation with significance for community safety. In the event of major disaster, we will partner with the local government to serve as a lifeline. We also want to contribute to securing a safe, stable supply of fruits and vegetables as well as to help nurture and train new generations of agriculturalists, which is our purpose in operating 23 Lawson farms.

We are seeking to become an essential part of our communities. Going forward, Lawson will continue its efforts to contribute to society as a vital social lifeline.

Sadanobu Takemasu
President and COO,
Representative Director

A friendly neighborhood store and an essential member of the community. We are all working together to build a Next-Generation LAWSON Convenience Store model.

It is a pleasure to have this opportunity to address our stakeholders since assuming the position of President and COO at the start of this fiscal year.

I first joined Lawson in May 2014 as Senior Executive Vice President with responsibility for the Lawson Group's store development, LAWSON STORE100 business, Seijo Ishii businesses, international operations and entertainment businesses, among other businesses. Prior to joining Lawson, I worked at Mitsubishi Corporation, where my career included a number of years in a retail department supplying foodstuffs to convenience stores, including LAWSON stores, as well as to supermarkets and other retailers in Japan. During my first two years with Lawson, my confidence only grew stronger that LAWSON stores have fostered deep roots in their communities through the franchise owners' and store crews' friendly daily interactions with customers. The stores assume the significant responsibility of satisfying customers' expectations of them as an essential component of the social infrastructure that supports them in their daily lives and even in times when a disaster occurs.

Remembering the warm friendliness that greeted me on my local shopping street as a child, I want Lawson to express that same friendliness toward residents of its communities. This means welcoming customers to the stores with ample merchandise, clean interiors and bright smiles. We will continue to meet customer needs, while increasing our stores' competitiveness, by developing appealing merchandise, improving our services and introducing more efficient systems. This is the essence of our 1,000-Day Action Plan.

Everyone in the Lawson Group will strive for success under the leadership of our Chairman and CEO Tamatsuka in perfecting a unique business model for the Next-Generation LAWSON Convenience Store based on our Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."

President and COO Takemasu discusses disaster responses with a franchise owner during a visit to Kumamoto after the 2016 Kumamoto earthquakes (while Senior Executive Vice President).

President and COO Takemasu exchanges ideas with the store crew of a neighborhood LAWSON store in Hokkaido (while Senior Executive Vice President).

Targeting improved capital efficiency and an ROE of 20%

Yutaka Yoshitake
Executive Vice President,
Chief Financial Officer

Review of fiscal 2015 and plans for fiscal 2016

We were generally successful in achieving our performance objectives for fiscal 2015. Although our non-consolidated results did not live up to expectations, our consolidated results received a considerable contribution from our subsidiaries. The effect of increased expenses for advertising and promotions to improve franchise owners' profits and recover existing store customers led to a decline from the previous year in non-consolidated operating profit. We recorded consolidated operating profit of 72.5 billion yen, however, an upturn of 2 billion yen from the previous year, due in part to higher profits recorded by consolidated subsidiaries such as Seijo Ishii. We experienced a considerable impact from an increase in consolidated special losses, meanwhile, due to elaborated criteria for stores targeted for impairment losses against the backdrop of accelerated changes in the business environment. The result was consolidated net profit of 31.3 billion yen, down 1.3 billion yen from the year before. Return on equity (ROE) also fell to 12%.

Turning now to fiscal 2016, we foresee growth in non-consolidated operating profit (to 59 billion yen), consolidated operating profit (to 76 billion yen) and consolidated net profit (to 35.5 billion yen). The ROE is also expected to recover to 13.2%. As the first year of our 1,000-Day Action Plan, fiscal 2016 will see the implementation of measures to improve our product offering and expand our merchandise assortment, among other moves. Our target is a year-on-year increase of 1% in net sales by existing LAWSON stores in Japan and a year-on-year improvement of 0.3 % point in gross profit margin for our store base. As concerns investment, in addition to opening a total of 1,200 new Lawson Group stores nationwide (a net increase of 700 stores), we are planning a number of capital expenditures for such purposes as adding refrigeration cases and other fixtures to improve our product offering and purchasing tablet terminals to optimize store operations.

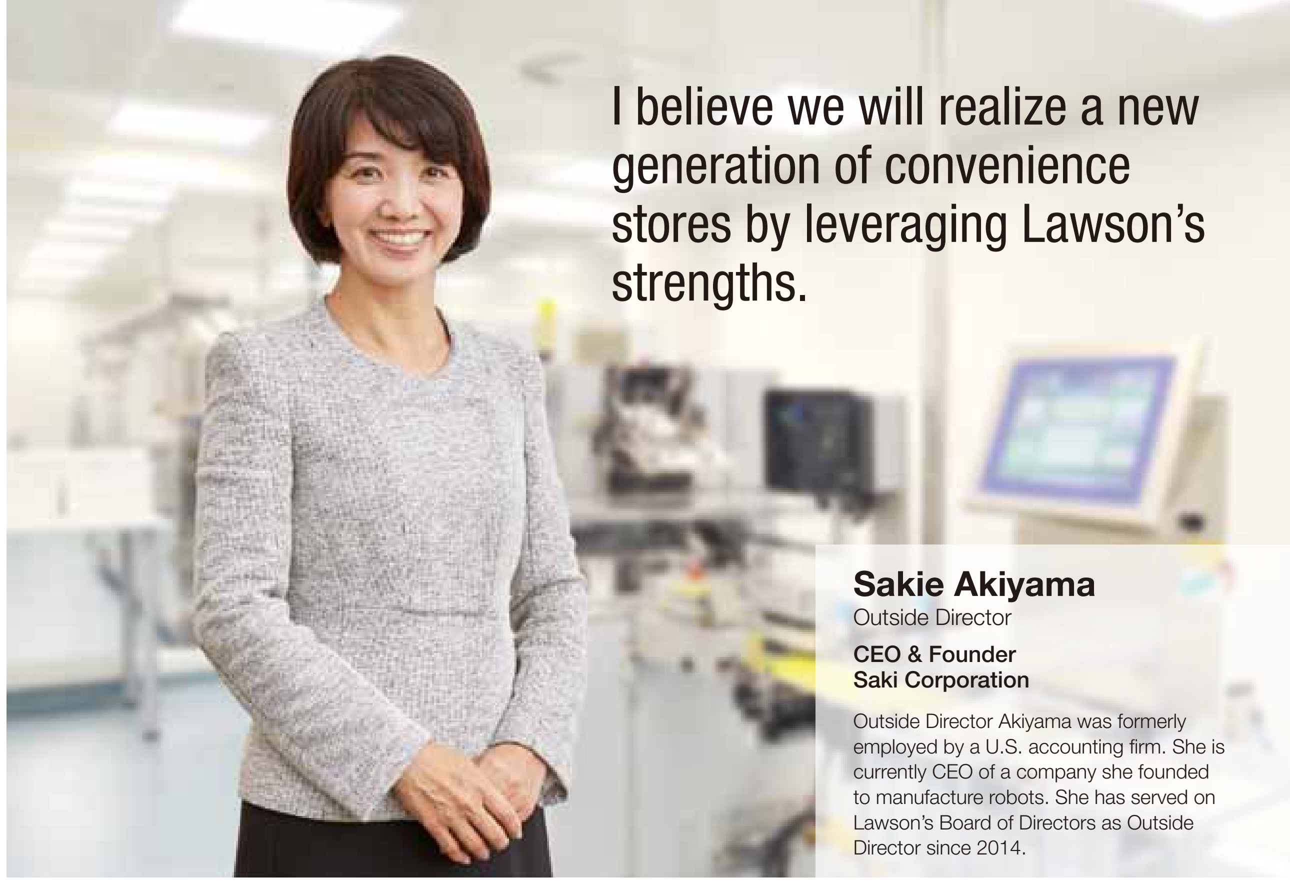
Financial discipline and ROE

Lawson is targeting an ROE of 20% as a management benchmark for the medium term in order to optimize use of shareholders' equity. We have at the same time set a medium-term goal, moreover, of achieving consolidated operating profit of 100 billion yen. Our objective is to raise our ROE by increasing operating cash flows and net income centered on our core business. In the three years of the 1,000-Day Action Plan, we will not only be investing in new stores, but we also expect to make investments amounting to tens of billions of yen for restructuring our IT systems to create a model for the Next-Generation LAWSON Convenience Store. We will be conducting this type of strategic investment aimed at medium- to long-term improvement in our corporate value after judiciously assessing the return on investment (ROI) of each individual investment and the state of our balance sheets. In doing so, we will consider the advantages and disadvantages of borrowing on a case-by-case basis.

Shareholders' returns

There has been no change in our policy regarding our objective of achieving sustainable medium- to long-term increases in shareholders' dividends. As concerns annual dividends for fiscal 2016, we expect to pay 250 yen per share, an increase of 5 yen from the previous year, based on a comprehensive consideration of business investment related to the 1,000-Day Action Plan and other projects.

The Lawson Group, acting as one, seeks "to become an essential part of our communities." Along with increasing corporate value, we will achieve stable, attractive dividends while maintaining financial soundness for our shareholders.



I believe we will realize a new generation of convenience stores by leveraging Lawson's strengths.

Sakie Akiyama
Outside Director

CEO & Founder
Saki Corporation

Outside Director Akiyama was formerly employed by a U.S. accounting firm. She is currently CEO of a company she founded to manufacture robots. She has served on Lawson's Board of Directors as Outside Director since 2014.

Creating a beneficial tension in the workplace through constructive discussions at Board of Directors meetings

I believe our role as outside directors is to investigate proposals presented to the Board of Directors to determine whether they are reasonable from an objective perspective and to make sure they do not reflect only internal considerations. The Board welcomes dissenting opinions, and the other independent officers and I feel free to bring up tough questions that might never be raised internally. When we do, the executives answer us squarely without dodging them. Discussions can naturally become lively, but the decision-making process eventually proceeds in a constructive direction. Decisions are reached through a confirmation process that includes divergent views, rather than simply giving opinions a green light. Extending this practice to the workplace produces a healthy tension throughout the Company.

Leveraging the Company's strengths across the board

Even considering the number of stores alone, the convenience store is clearly an essential part of the social infrastructure supporting Japanese people's daily lives. As people's lives change, their requirements of the convenience store change as well. Convenience stores are attracting new customers, including women and elderly people. Welcome as these changes may be to Lawson, it is not always easy to keep pace and to respond appropriately to rapidly emerging circumstances in today's tough competitive environment. But these difficulties are accompanied by the very real thrill of creating new social value. This thrill might inspire a desire to meet every demand of society. Trying to meet them all would undermine the appeal of the Lawson Group's various services, however, by requiring its personnel to handle too much, making their jobs overly complicated. If they feel overwhelmed, their productivity will decline. This pattern is the same for manufacturers and retailers alike. We must always ask ourselves how we can reach a proper understanding of our company's strengths and make the most effective use of our valuable resources.

Solidifying our foundation while pursuing innovation

The "1,000-Day Action Plan" introduced this year can be considered an initiative for building lower body strength. Under the plan, Lawson will fortify its foundation, its core business of chain-store development and operation, to assure its continued successes. Everyone in the Lawson Group must join forces in constructing an appropriate foundation for action. This begins by ensuring that the product offering meets customer needs and that customers always receive courteous service. It is painstaking work that requires considerable energy and time. If it is not conducted properly down to the final detail, confusion leading to a falloff in productivity may arise in the working environment. Lawson will move forward carefully and consistently, correcting its course appropriately along the way, to overcome these challenges.

On the other hand, drastic challenges such as IT system innovation and logistical reformation are also required. The conventional formula for success in which profit is expanded simply by adding more stores will not work in the current convenience store industry, where alliances flourish.

I feel certain that maintaining a solid foundation and pushing ahead with innovation will enable Lawson to realize a next generation of convenience stores.

I am convinced that Lawson becomes a model of essential social infrastructure as it challenges development of dream businesses that are supported by all sorts of people in their daily lives.

Eiko Tsujiyama
Outside Corporate Auditor

Professor
Graduate School of Commerce, Faculty of Commerce, Waseda University

Professor Tsujiyama has a wealth of expertise in both accounting and corporate auditing. She serves as outside corporate auditor for a number of corporations. She has been an outside corporate auditor for Lawson since 2011.

Observing management as an expert in accounting and finance

Guided by Chairman & CEO Tamatsuka's strong commitment to excellent corporate governance, Lawson is a company whose governance is functioning properly. The Board of Directors does not exist simply as a forum whose members are accustomed merely to agreeing with each other as in conventional Japanese companies. Instead, its members engage in exchanges of opinion until they reach appropriate conclusions. Decisions reached through this process are then put into practice by management. As a Lawson auditor with specialization in accounting and finance, I pay particularly careful attention to Lawson's investment projects. Because IT investments are among the decisions with the greatest impact on the future, for example, I examine them from such perspectives as cost-effectiveness, development process transparency and the degree to which they reflect learning from past failures. The same is true for mergers and acquisitions and new businesses. While the executives and departments responsible tend to promote them enthusiastically, I consider it my role to identify situations where optimism concerning future prospects is excessive and to bring cool consideration to the table.

I anticipate a future Lawson with women participating at the forefront of business

Of the 12 Lawson directors and auditors serving as executive officers, six of us are independent officers. Our Nomination and Compensation Committee, which is centered on independent officers, also holds significant discussions. It provides opportunities for the independent officers to gather outside the Board of Directors meetings. I believe our communication is extremely valuable. Four of the independent officers are women, and I hope to see female employees from inside the company appointed to the position of director in the future as well.

Lawson is focusing on strategies for improving the workplace environment to invite active participation by women – by hiring women to fill half its new employee positions, for example, and proactively introducing a childcare support system. Another positive aspect of the Lawson workplace is a pervasive desire to foster female employees as top managers. Female management candidates are working energetically to realize this desire. I am hopeful that Lawson will not stop at simply creating a workplace where women can work in relative comfort, but will instead become a company in which growing numbers of women play roles on the frontlines of business.

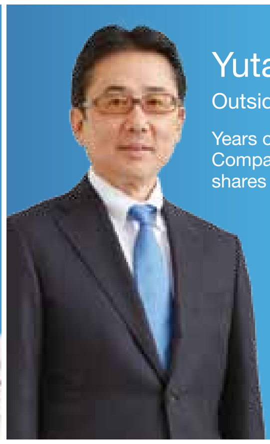
Remembering to show consideration for each and every stakeholder

With its network of over 12,000 stores across Japan, Lawson has the support of immense numbers of stakeholders, including individual store customers, franchise store owners and crews, and workers at boxed lunch processing facilities and distribution centers. For this reason, Lawson does not pursue economic value alone, but it also emphasizes social and environmental values in all its operations. As a company operating in widely dispersed locations, it must consider all i ts various stakeholders, not only its customers but everyone supporting its daily operations, when making major decisions. These include such decisions as conducting mergers and acquisitions, engaging in new businesses and undertaking any other challenges that involve risk. Convenience stores are integrated into the social infrastructure. Well-positioned to monitor people's movements directly, they can respond accurately to change by drawing on knowledge of local activities. Finally, as great as Lawson's social responsibilities may be, it is also a business with even greater dreams. I want to see Lawson continuing to take up challenges, showing full appreciation for its present circumstances.

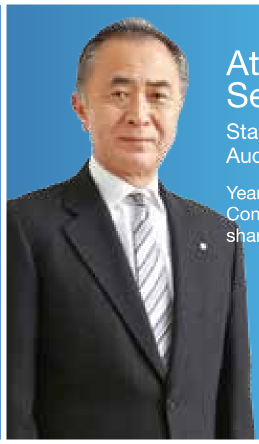
Genichi Tamatsuka
Chairman and CEO,
Representative Director
Years on Board: 4
Company's shares held: 3,700

Masakatsu Gonai
Member of the Board
Executive Vice President, Compliance & Risk Management
Years on Board: 2
Company's shares held: 1,300

Emi Osono
Outside Director
Years on Board: 4
Company's shares held: 200
Outside Independent



Yutaka Kyoya
Outside Director
Years on Board: 3
Company's shares held: 0
Outside



Atsuhiko Seki
Standing Corporate Auditor
Years as auditor: 6
Company's shares held: 1,200

Toshio Takahashi
Standing Corporate Auditor (Outside)
Years as auditor: 0
Company's shares held: 0
Newly appointed Outside Independent

Under the leadership of Chairman and CEO Tamatsuka and President and COO Takemasu, Lawson is building a management team that combines diversity with expertise.

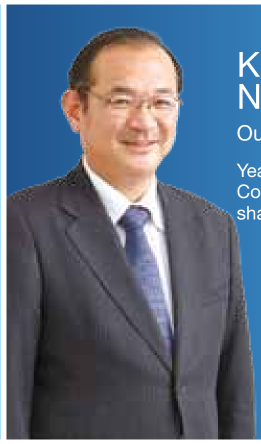
Lawson has a strong, flexible management team comprising the Chairman and CEO, President and COO, six Board members and four corporate auditors. The Executive Officer System separates and clarifies the responsibilities of the members responsible for executing business and those responsible for managing the corporation. Lawson limits the size of the Board to facilitate speedy business decision-making. Its commitment to diversity is reflected in its membership — three of the five outside directors are independent directors, and four of the eight outside directors (including corporate auditors) are female. The high percentage of outside directors, all with high levels of expertise and representing a broad range of backgrounds, enables the team to consider and confirm the validity and legitimacy of each executive decision objectively.

(As of June 1, 2016)
* Number of Company's shares held as of February 29, 2016

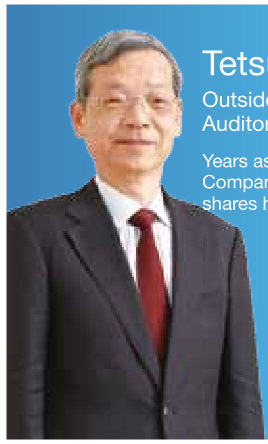
Sadanobu Takemasu
President and COO,
Representative Director
Years on Board: 2
Company's shares held: 400

Sakie Akiyama
Outside Director
Years on Board: 2
Company's shares held: 200
Outside Independent

Keiko Hayashi
Outside Director
Years on Board: 0
Company's shares held: 0
Newly appointed Outside Independent



Kazunori Nishio
Outside Director
Years on Board: 0
Company's shares held: 0
Newly appointed Outside



Tetsuo Ozawa
Outside Corporate Auditor
Years as auditor: 13
Company's shares held: 500
Outside Independent

Eiko Tsujiyama
Outside Corporate Auditor
Years as auditor: 5
Company's shares held: 500
Outside Independent

	Name	
Members of the Board	Genichi Tamatsuka	Genichi Tamatsuka has served as representative director for a number of companies based on his extensive experience and abundant know-how in corporate management.
	Sadanobu Takemasu	Sadanobu Takemasu has contributed to improving Lawson's performance and corporate value by orchestrating the business recovery of LAWSON STORE100, among other achievements.
	Masakatsu Gonai	Masakatsu Gonai has experience in reducing and predicting risks for the Lawson Group, promoting women's participation in the workplace and developing human resources.
	Emi Osono	Emi Osono is an academic with in-depth knowledge of global corporate management, corporate strategies and organizational behavior.
	Yutaka Kyoya	Yutaka Kyoya has a broad understanding of the life industries field, primarily as related to foods, acquired while working for Lawson partner Mitsubishi Corporation.
	Sakie Akiyama	Founder and CEO of Saki Corporation, Sakie Akiyama has extensive experience and expertise in corporate management acquired as an entrepreneur and manager.
	Keiko Hayashi	Founder of DoCLASSE, Keiko Hayashi has experience and expertise in corporate management and an in-depth knowledge of marketing.
	Kazunori Nishio	Kazunori Nishio has extensive knowledge of the consumer products industry with specialization in retail, gained through experience in the employ of Lawson partner Mitsubishi Corporation.
Corporate Auditors	Atsuhiko Seki	Atsuhiko Seki has expertise in retail and franchising and experience in supervising administrative departments as well as other knowledge and capabilities essential to the position of standing corporate auditor.
	Toshio Takahashi	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.
	Tetsuo Ozawa	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.
	Eiko Tsujiyama	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.

The neighborhood store that is closest to customers, Lawson is evolving continuously as we tackle the challenges facing our communities.

It all began in 1975, just over a decade after the Tokyo Summer Olympics of 1964, which had accelerated the development of railways, roads and other components of infrastructure. It was in this year, a time when people were seeking greater convenience in every facet of their lives, that Lawson came into being.
With the rapid development and changes that followed, the challenges facing society diversified as well. Lawson grew quickly on the foundation of its chain-store development and operation business as it took on the challenges facing various regions.
We will maintain this growth through a continuous pursuit of "Happiness and Harmony in Our Communities" as the closest store to community residents.

The first Lawson store in the Sakurazuka city of Toyonaka, Osaka Prefecture

24-hour

Growth as a conventional convenience store

Lawson had its start as a "store that stays open 24 hours a day all year round," providing both food and daily necessities that had previously been handled by separate stores. Enhancing its services—by installing ATMs and postboxes and accepting public utility payments, for example—LAWSON took root in its communities as a "neighborhood store."

Innovation

Evolution as a Manufacturing Retailer Based on a Small Commercial Area

Lawson responded to social changes such as the aging of society and advancement of women by establishing NATURAL LAWSON, a health-conscious convenience store, and LAWSON STORE100, a fresh food convenience store. These new-style stores led to expansion of the LAWSON store customer base by meeting the needs of women and elderly residents, which differed from those of its young male customers. Lawson's business model has since evolved through repeated experiments of this kind into a Manufacturing Retailer Based on a Small Commercial Area model that conducts customer-driven research and development (R&D) of products and services.

The "fourth component" of infrastructure

Contributing to communities as a neighborhood store

After the Great East Japan Earthquake, Lawson came to be recognized as the fourth component of infrastructure following electricity, gas and water supply services. In tune with the rise in health consciousness, it began to open stores with a stronger focus on health care and original merchandise development, designating its stores as "community health hubs." It has also introduced unique services, such as the Machikado Chubo in-store kitchen and MACHI café fresh-brewed coffee service. Having entered into the entertainment industry, meanwhile, Lawson engages in ticket and DVD sales, and even movie theater management. We will continue to contribute to our communities as vital neighborhood stores that meet the needs of customers.

▶ Social changes

Equal Employment Opportunity Act for Men and Women	Growth in number of double-income households	Acceleration of the advancement of women	Adoption of the Paris Agreement

Lawson seeks to become a new kind of convenience store.

Next-Generation LAWSON Convenience Store model

■ **Meeting daily life needs**
- Transitioning from a convenience store (24-hour operation, meeting urgent needs) to an essential part of the community (meeting daily demand)
- Realizing communities where everyone can lead a vibrant, healthy, convenient life every day

■ **Achieving high store productivity**
- Developing simplified operations that anyone can handle easily
- Making full use of the latest digital technologies and diversified human capital

■ **A Manufacturing Retailer Based on a Small Commercial Area model**
- Creating an integrated supply chain; visualization of manufacturing and distribution
- Improving efficiency by reforming operating procedures

- Contributing to extension of a healthy life expectancy
- Encouraging healthy eating habits
- Reducing time and labor spent on housework
- Creating a work environment that supports employees who give birth and raise children
- Revitalizing regions through the promotion of agriculture
- Contributing as a component of social infrastructure in times of disaster
- Improving conveniences for elderly and disadvantaged shoppers
- Mitigating climate change
- Popularizing and expanding cutting-edge environmental technologies
- Contributing to energy conservation
- Reducing waste
- Raising environmental awareness

Becoming a Next-Generation LAWSON Convenience Store

1,000-Day Action Plan

Communities are changing every day as the number of double-income households increases, the population ages at an accelerated rate and the number of neighborhood retailers decreases, among other phenomena. Lawson is responding to these changes and transitioning from a store that offers convenience into an essential part of our communities. We will continue to push forward by expanding our offering of products and services and making other advances. Besides continuing to meet customers' needs, we will tackle the important challenge of improving profitability through innovation to achieve sustainable growth.

Meanwhile, Lawson began implementing its 1,000-Day Action Plan in 2016. In our efforts to become an essential part of our communities, we are changing our operating frameworks, working styles and culture with the aim of becoming a leading company in execution by striving for innovation as "One Lawson." We will build a Next-Generation LAWSON Convenience Store model by making full use of cutting-edge IT technologies and Ponta card member purchase data, and developing store operations to incorporate diversified human capital and achieve further evolution of the Manufacturing Retailer Based on a Small Commercial Area model.

Impact of the declining birthrate	Rapidly aging society	Increasing consumption of renewable energy	Increasing frequency of extreme weather events

1975 »

2016 »

Lawson contributes to local 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. 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.

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 1996
30%

Empowerment of women
Increase in number of double-income households: compared to 1996
115%

Rapidly aging society
Increase in the population of residents aged 75 or older: Projected growth by 2025 compared to 1996
374%

Rise in health consciousness
Medical expenses: Projected growth by 2025 compared to 1996
272%

Rise in average global temperatures
Long-term global goals determined by the Paris Agreement of December 2015
2°C or less
compared with the pre-industrial era

Inputs

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

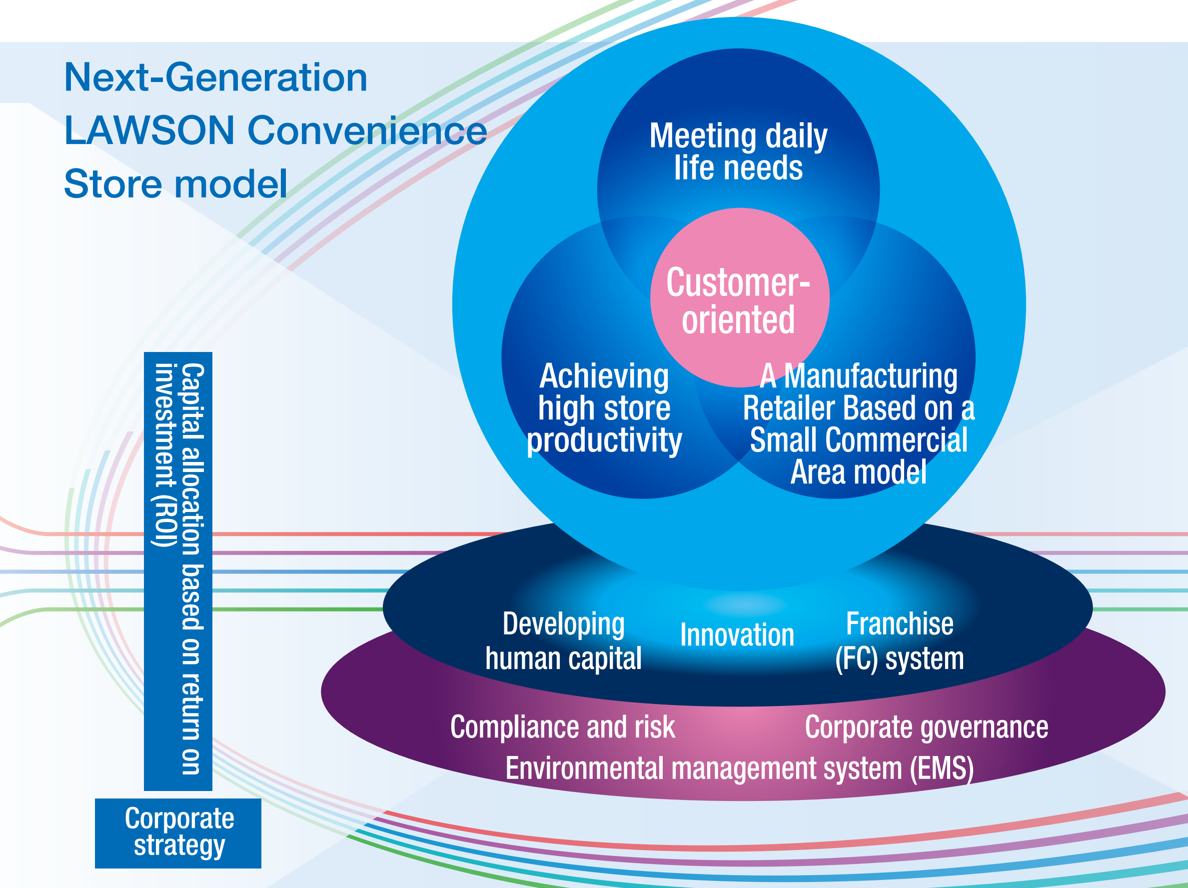
Manufacturing capital (IT and infrastructure)
Necessary tangible assets for conducting business activities, generally referred to as "infrastructure," including land, buildings, machinery and IT

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

Becoming an essential part of our communities



Developing human capital

Lawson operates a supportive personnel management system for the realization of its Corporate Philosophy. This encourages each individual to become self-motivated and innovative, and to acquire an understanding of the proper behavior of employees and of the appropriate approaches to fulfilling their duties to achieve their mission for the fiscal year. Seeking to create a corporate culture in which individuals can act independently, Lawson has introduced an employee behavior and skill level evaluation program into its personnel system in addition to clarifying the roles and responsibilities to be fulfilled in accordance with individual duties.

Innovation

Continuing to operate in consideration of the changing society, Lawson has conducted numerous advanced investments and experimental innovations, such as introducing healthcare-focused LAWSON stores, and LAWSON stores with on-site nursing care facilities. In 2015, moreover, Lawson introduced a semi-automatic ordering system based on analyses of Ponta card member purchasing data, which has led to realization of product offerings that match the needs of individual stores as well as reductions in order times. In the future, Lawson plans to go further in this direction by tackling construction of a new system that leverages the latest IT technologies to share highly accurate demand forecasts throughout the supply chain in real-time.

Franchise (FC) system

Lawson's franchise (FC) system is configured to enhance cooperation to enable the franchise stores, which are most familiar with their communities, and headquarters to grow together in a spirit of cooperative business. The system builds win-win relationships between franchise stores and headquarters through such activities as promotion of the management owner (MO) system. The MO system supports entrepreneurial franchise owners, who have a deep understanding of their communities, with training to give them the expertise they need to manage multiple stores.

Compliance and risk

In a society facing numerous challenges, including a declining birthrate, aging population and decrease in the number of retailers as well as various environmental challenges, new risks are emerging for the Lawson Group as it expands its sphere of business. The Group is responding by enhancing its internal controls and constructing a robust compliance and risk management framework. Besides establishing the Compliance and Risk Management Office and Information Security Management Office, the Group has assigned a CRO (compliance and risk management officer) to each department at corporate headquarters and in every area. This has provided a framework for rapid risk information assessment and countermeasure implementation.

Corporate governance

Lawson has led the competition in Japan by constructing a corporate governance system characterized by high mobility and transparency. The system separates the executive and managerial functions to clarify management responsibilities and introduces an executive officer system that enables a smaller number of directors to make quick, efficient business decisions. Eight of the 12 directors and auditors are from outside the Company, moreover, and six of the outside officers are independent officers. Lawson also considers the composition of the Board of Directors from the perspective of promoting diversity, which is reflected in the appointment of four women as directors and auditors.

Environmental management system (EMS)

Lawson seeks to create happiness and harmony in its communities (sustainable growth) through proactive business activities based on its Corporate Philosophy with its strong emphasis on consideration for society and the environment. We have implemented the ISO 14001 environmental management system based on our Environmental Policy. We employ the PDCA (plan, do, check, act) management method in promoting initiatives for realization of a sustainable society and pursuing regional community revitalization activities through our core business. Lawson is seeking to ensure that future generations inherit an abundant, bounteous Earth.

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

Contributing to local communities as a neighborhood store and a component of social infrastructure

The Company is building neighborhood LAWSON stores, where elderly customers without the means to travel long distances to shop and busy customers with time constraints can purchase food and other daily necessities conveniently. LAWSON stores have also introduced home delivery services for fresh food items and boxed lunches to provide customers with easier access. The stores also support their communities in other ways as components of social infrastructure. They are designed, for example, to serve as emergency evacuation sites in times of disaster.

Support for senior citizens and development of related environments

LAWSON stores have added nutritionally balanced pre-cut vegetables and prepared foods to their product offering to meet elderly customers' need for small but healthful meals. LAWSON has also introduced an initiative to expand the number of stores that sell pharmaceutical products and provide informal health consultation services. We are continuing efforts to keep personnel employed past the age of 60, meanwhile, as a contribution to creation of a social environment in which senior citizens are not isolated.

Consideration for the environment from every perspective, including our store, manufacturing and distribution operations

LAWSON's efforts to address environmental challenges from every angle include adoption of energy-efficient store equipment, use of innovative, lightweight containers and packaging materials, construction of waste-minimizing manufacturing platforms, introduction of highly efficient delivery methods, and expansion of our offering of environmentally friendly merchandise. We will continue to promote the introduction of new environmental and energy technologies, such as refrigeration and freezer systems employing natural refrigerants (CO_2), to contribute to realization of a sustainable society.

"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.

Responding to the lifestyle diversification through the advancement of women and other initiatives

At a time when customers' lifestyles are diversifying as increasing numbers of women remain in the workforce after marriage and childbirth, Lawson identifies changing trends and emerging needs and responds with appropriate products and services. We support the lives of a diverse range of customers, including single-person households and working women, by providing daily-life essentials through our neighborhood stores.

Developing stores and product lines dedicated to promoting health

Placing the highest priority on helping customers manage their daily diet to maintain health, LAWSON continues to develop stores and product offerings with a focus on customer health. These efforts include introducing product offerings that enable customers to select healthful items quickly and easily as well as stores with a health and wellness focus. We are working at the same time to promote customers' health by stocking pharmaceutical products, opening stores with dispensing pharmacies on the premises and reinforcing our cooperation with local municipalities.

Outcomes

Value provision for Lawson's multiple stakeholders

From boxed lunches and side dishes to a wide range of daily necessities, Lawson's product line includes everything essential for everyday life.

Today's society is seeing an increase in senior households, single-person and two-person households and double-income households. At the same time, shopping near home has become more difficult as the number of neighborhood stores has decreased. Our customers' lifestyles are changing, and their requirements for the convenience store are changing along with them.
With our product offering of 3,500 daily necessities, we aim to become an essential part of our communities.

A product offering for everyday needs

Lawson is a "neighborhood store" that responds to community needs, including the needs of people who have little time for housework because of their career or child-rearing responsibilities and people who want to shop more easily within walking distance of home. The peak hours have always been in the morning and noontime, when busy customers buy boxed lunches and soft drinks for breakfast or lunch, but increasing numbers of people have begun visiting the stores in the evening and nighttime hours to buy dinner or the next day's breakfast. We are required to stock a wide assortment of products for a diverse range of customers, from foodstuffs such as boxed lunches and rice balls, ready-to-eat pre-cut vegetables, side dishes, eggs, milk and frozen foods to detergents and many other non-food daily necessities. Since today's customers want options, moreover, we can no longer simply stock one type of soy sauce, for example, but must also offer dark, light, reduced-sodium and locally sourced varieties as well. This is why Lawson is increasing its product offering by 10% to 3,500 items. Our goal is to become an essential part of our communities, not only with our 24-hour operation but with our extensive selection of products as well.

Lawson Select, a commitment to taste and quality

We realize, however, that simply increasing our product offering will not give customers full satisfaction. We must also improve the taste and quality of every product from the consumer's perspective. We plan to create a full product lineup under our private Lawson Select brand, for example, ranging from side dishes packaged in small portions to Japanese foods using high-quality dashi broth and ingredients. We are working with food producers to develop delicious, superior-quality Lawson Select products.

Improved fixtures for an expanded product offering

Introducing our expanded lineup of 3,500 products to over 5,000 convenience stores with limited space will require Lawson to make capital expenditures exceeding 5 billion yen. We will add refrigerators and freezers to hold daily delivered foods such as milk and eggs for breakfast and frozen foods that are essential when preparing boxed lunches at home. We will also increase the height of the store shelves stocked with daily necessities.

Expanding our product offering

3,500 items

Commitment to high-quality pre-cut vegetables

Lawson's pre-cut vegetables (excluding some products and regions) are made from produce harvested according to the Nakashima-method, which involves growing healthful vegetables in healthy soil with a good mineral balance. Lawson is currently incorporating the Nakashima-method at its own "Lawson Farms."

Serving a compact city in Miyagi prefecture

The town of Yamamoto in Miyagi prefecture is currently constructing a new "compact city" to provide a convenient, comfortable community for the many citizens whose lives were impacted by the earthquake and tsunami. In February 2016, the Sakamoto Eki-mae LAWSON store became the first commercial facility to open in the community, of which it intends to become the center.

Capital investment to expand the product offering in fiscal 2016

Approx. 5,000 Stores

Over 5 billion yen

Lawson is continually developing new products and services to satisfy its communities’ needs.

Our responses to customer demands include fresh in-store preparation of boxed lunches, which are in high demand among senior citizens, for example, as well as providing the convenience of door-to-door order-taking services and 24-hour medicine sales.

Extra in-store efforts for great-tasting food

More than 3,000 LAWSON stores operate Machikado Chubo in-store kitchens, a service offering foods such as curry with rice, sandwiches and rice balls prepared in-store using white rice and pork cutlets. We also sell fast-food items such as *Genkotsu* croquettes and charcoal-broiled chicken, nice additions to a home-cooked meal, across the counter. These warm, freshly prepared fast-food items are popular with singles, seniors and housewives who want another tasty item on the table. We will continue our active development of products for customers who want to enjoy freshly prepared foods, a pleasure conventional convenience stores do not provide.

A Machikado Chubo pork cutlet sandwich

Machikado Chubo

3,160 stores

As of end February 2016

Mobile sales service

Lawson cooperates with Yoshinogari Council of Social Welfare in offering a mobile sales service for foods and daily necessities in Yoshinogari, Saga prefecture. Delivery staff visit senior citizen households to check on their health condition as part of the “Community Mimamori” elderly citizen support service. Lawson is seeking to create a mobile shopping community in which senior citizens can communicate with others while they shop, both in villages with shrinking and aging populations and in areas and facilities where opening a store is not an option.

Door-to-door order-taking, a delivery service for small commercial areas

Lawson established the Machi no Kurashi Support (SGLawson) service in collaboration with SG Holdings, the parent company of the Sagawa Express Co., Ltd. delivery service, for three main types of customer: those who do not live near a store; those who find it difficult to shop in the rain; and those who cannot find time to shop. Machi no Kurashi Support (support for community life) is a service in which personal advisors take (and subsequently fill) customers' orders at their homes from a selection of over 14,000 items, including products sold at LAWSON, Lawson Fresh, NATURAL LAWSON, Daichi wo Mamoru Kai and Radish Boya. We also provide agency and delivery of life-support services. We are continuing to promote this business to enable more people to benefit from the services, including people who have little time to shop or who find it difficult to travel far from home.

Number of items available through home delivery

Over 14,000

Trouble-free health protection with delicious products

As "community health hubs," LAWSON stores contribute to customers’ physical and emotional healthy by providing safe, reliable foods without compromising taste. This is why LAWSON led the convenience store industry in developing health-conscious products. We collaborated with manufacturers in developing a bran bread series comprising a wide range of low-carbohydrate products, including dinner breads, chocolate rolls and sesame sticks. In 2015, our Green Smoothie, which packs the vegetable content of a full meal (118 g[*1]) into a single tasty drink, became a hit product. The NATURAL LAWSON Smoothie Series,[*2] which includes the Green Smoothie, Purple Smoothie Maqui Berries and others, has proved enormously popular, racking up cumulative sales in excess of 42 million items since its launch. We are currently developing other original products, such as salads and vegetables for daily consumption and NATURAL LAWSON-branded healthful sweets. We expect sales of these health-conscious products to continue to grow.

*1 The recommended vegetable intake is at least 350 g a day, according to the Ministry of Health, Labour and Welfare’s Health Japan 21 Campaign (Kenko Nippon 21).
*2 Green Smoothie, Vegetable and Fruit Smoothie with Chia Seeds and Purple Smoothie with Maqui Berries

Bran Bread

Green Smoothie

Carbohydrates in bran bread
Joint development with manufacturers

Reduction of over 80%

Comparison with regular dinner rolls

Total Smoothie Series[*2] items sold

42 million

May 2015 – end February 2016

Supporting community health as a neighborhood store

Demand for medicines is rising at convenience stores, whose nearby locations and 24-hour operation enable them to respond to customers’ sudden fevers and other physical ailments. With over 80,000 stores in Japan, pharmacies and drugstores outnumber convenience stores. Many are privately operated individual stores or small regional chain stores. Lawson has opened 136 stores in partnership with these dispensing pharmacies and pharmacy chains to sell over-the-counter (OTC) pharmaceuticals. We plan to increase this number to create essential community health-support bases of a type only possible for convenience stores. We also want to support the lives and health of senior citizens, from active seniors to seniors requiring care, and their families. In 2015, this desire led to our opening of stores with nursing-care consultation windows. Lawson is building a unique convenience store model that supports the health of customers with a range of health-conscious foods, OTC pharmaceuticals, cooperative relationships with long-term care providers and other efforts.

Store with a dispensing pharmacy on the premises

Store with a nursing-care consultation window

Lawson as a Health & Productivity Stock

Lawson was selected for the Health & Productivity Stock Selection, which is awarded jointly by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange, for two consecutive years in 2015 and 2016. The Selection recognizes companies that integrate employee health management into their corporate management and strategies.

2016 健康経営銘柄

Number of stores stocking pharmaceuticals

136

As of end February 2016

We will establish systems that "anyone can operate easily," so that crews can provide heartfelt services while multitasking in stores whose operations are becoming increasingly complex.

Store crews play a crucial role in the Machikado Chubo in-store kitchen, which offers a selection of foods prepared right in the store, and MACHI café, in which customers receive personal coffee service. Lawson hires a diverse range of crew members, including large numbers of women, senior citizens and foreign citizens. We will reform our store operating systems to make full use of digital technologies and reexamine our logistics systems, among other improvements.

Systems that "anyone can operate easily," a prerequisite for expanding services

Lawson is adding more services in order to respond to a variety of lifestyle needs, including in-store prepared boxed lunches, home delivery services and door-to-door order-taking services. These make the store crews' jobs more complex, but we are also committed to offering heartfelt services such as MACHI café, in which crew members serve customers personally. The contraction of the working population means our crews are diversifying, moreover, to include homemakers, senior citizens and foreign nationals. This is why we require productivity reforms. We need to fundamentally reconsider the complex tasks involved and create store systems that "anyone can operate easily" while finding fulfillment in their jobs.

Optimization making full use of digital technology and logistics reforms

We employ digital technologies to optimize our operations so that store crews can concentrate on services that can only people can provide. Our semi-automatic ordering system, which supports ordering of ready-made food such as boxed lunches and rice balls, for example, can eliminate 40 minutes of labor every day by predicting demand based on sales trends and customer information gathered at individual stores. We will complete our installation of new system machines and work process reforms within the next three years. This will involve introducing tablets so that crews can perform tasks on the sales floor, shifting to cloud-computing to obtain real-time information, and optimizing cash register work with next-generation point-of-sales registers equipped with change-dispensing machines. We will also reform our logistics operations. This will include rationalizing delivery and shelf-stocking work by reducing the number of deliveries per day through such changes as implementing multiple-temperature deliveries and packaging products according to shelf layouts.

Supporting diversified crews to let them work with peace of mind

Optimizing and simplifying store operating systems will not be enough to enable every member of the LAWSON crews to work with vitality. Proper crew training is also essential. Lawson Staff (the Lawson Group's temporary staffing agency) offers cultural workshops and pre-employment in-store training for foreign exchange students who are struggling with language and cultural differences as well as for senior citizens who find complex tasks daunting. It also provides follow-up training for crews after they begin work. With the support of Lawson Staff, potential employees who want to work but feel uneasy can work for the Lawson Group "with a smile and peace of mind for many years," regardless of their age, gender or nationality.

Support for crew skill development

Lawson uses in-house testing to identify crew members who are knowledgeable about MACHI café and capable of communicating the commitment and joys of MACHI café. These employees receive recognition as "Fantasistas." There are currently 7,400 Fantasistas nationwide (as of end February 2016), all wearing black aprons and offering customers special, heartfelt cups of coffee. Lawson went a step further in fiscal 2014 by introducing a Grand Fantasista certification program. We certified 70 crew members to this special category in fiscal 2015, and 120 Grand Fantasistas are now cultivating stronger customer relations in their communities through their work at MACHI café.

System-related investments

15.8 billion yen

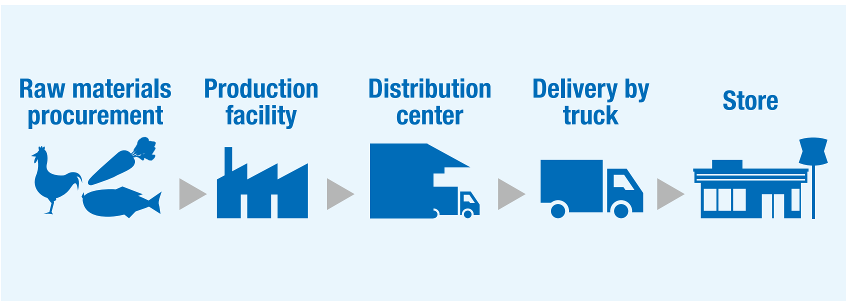
Performance as of fiscal 2015 year-end

Semi-automatic ordering system

40-minute working time reduction

We are constructing a business model as a manufacturing retailer that interacts symbiotically with society in everything from procurement of raw materials to manufacturing and distribution.

By becoming deeply involved in the manufacturing and distribution processes, including raw materials procurement with superior cost performance and high safety levels, Lawson can not only ensure the quality of the products it develops but also construct a supply chain that benefits society and contributes to environmental protection.



Developing and manufacturing high-quality products in an integrated supply chain

Customer needs are highly diverse. Senior citizens and women, two growing customer groups, for example, are looking for foods that are safe, reliable, healthful and delicious. Lawson listens to its customers and develops high-quality, reasonably priced original products from the consumer's perspective. We are devoting efforts to reforming our entire supply chain, moreover, from procurement of raw materials and manufacturing to distribution and sales. Approximately one-third of the products sold by LAWSON stores are our original products. SCI, INC., a Lawson subsidiary, handles the raw materials purchasing. This reduces costs without compromising quality and contributes to improving our product offering. Our production activities are conducted with the support of suppliers nationwide, including the facilities that produce our boxed lunches and rice balls. We are reinforcing our partnerships with three major food producers that have subsidiary suppliers in order to increase our involvement in the production process. We will also augment our involvement in manufacturing through our partnership with Mitsubishi Corporation. Other means of forwarding the evolution of our business model as a manufacturing retailer based on small commercial areas will include automation and optimization of our production lines and introduction of Ponta member-based demand-prediction systems into the production process. We intend to increase our profitability by achieving higher gross profit margins and offering high-quality products that satisfy our customers.

Sixth-order industrialization efforts making effective use of irregular vegetables

Katori Process Center Co., Ltd. is a sixth-order industrialization facility with Lawson Farm Chiba, Inc. central to its operations. (sixth-order: integrating 1) agriculture, 2) processing, and 3) distribution and sales). The center and farm are working together to use irregular vegetables efficiently by such means as cutting up vegetables of unusual shapes, sizes and appearance for use in salads and side dishes and selling them through LAWSON stores.

Fundamental reform of distribution including increased transparency

Distribution is an important link in the supply chain. Not only does it represent a substantial portion of our overall production costs, but the frequency and form of deliveries exert a significant impact on store productivity. The conventional convenience store distribution process prioritizes efficiency via high-frequency, small-lot distribution to small stores with small inventories. With a view to productivity, however, we must discover unconventional methods, such as reducing delivery frequency by delivering products of different temperatures in the same shipment, which offers the added advantage of reducing CO_2 emissions. Although we have generally looked for ways of shipping products efficiently from shipping centers to stores, moreover, we are starting to consider other approaches, such as e-commerce partnerships and home delivery services. In March 2016 we opened a Company-operated shipping center that handles products with three shipping temperatures: normal, refrigerated and frozen. We will make our processes transparent, something we can do with Company-operated businesses, and continue to implement fundamental reforms of the distribution process with the aim of constructing a business model as a manufacturing retailer based on small commercial areas.

CO_2 emissions from supply chain

4,868 thousand tons

Performance from April 2015 to March 2016

Number of shipping centers

Approx. **100** throughout Japan

We will become an essential presence in our communities by changing our operational frameworks as well as our working styles and corporate culture.

Lawson is supported by its *people*. All those with a shared commitment to our Corporate Philosophy—our franchise owners, store crews and diversified employees—work and act as one. We are proactively reforming our operational frameworks as well as our working styles and corporate culture.

Reforming our working styles and corporate culture

Implementing our 1,000-Day Action Plan quickly and steadily with the aim of "becoming an essential part of our communities" will require us to change our operational frameworks, working styles and corporate culture. Even if we change our operational frameworks with the help of digitalization and IT systems, however, everything will come down to our people in the end. This is why we are introducing Companywide operational reforms to change our working styles. We examined the supervisors' areas of responsibility and optimized their work procedures — by eliminating or outsourcing certain tasks, for example — to allow them to focus on their primary tasks. We are also updating our manuals and providing learning opportunities through practical training to provide opportunities for personnel to share successful case studies. We have created a new Vision and revised our Code of Conduct as a basis for changing our corporate culture. Working together as "One Lawson," we will accomplish our Corporate Philosophy of "Creating Happiness and Harmony in Our Communities," starting with our customers, neighborhoods and stores.

Lawson's original management owner system

Lawson headquarters maintains close communication with the franchise stores and respects the franchise owners' independence. This framework contributes to strengthening headquarters' relationship with management owners (MOs), who operate multiple stores as a small corporation. The MO system provides substantial support for Lawson's business expansion. Headquarters provides MOs with consulting to give them the know-how and management expertise they require for multiple-store management, and the MOs, in turn, provide ordinary franchise owners with advice on managing more than one store. As of end February 2016, there were 147 MOs operating a total of 1,436 Lawson stores in their respective communities.

Self-motivated and innovative human capital supporting the Company

A corporate culture is as important as a business model, which involves such factors as store IT systems and the supply chain. It is *people* who support and form the corporate culture, and Lawson knows that its *people* are its most important asset. To achieve continuous growth, a company requires a diverse range of personnel who are "self-motivated and innovative," and whose parameters are not limited to conventional thinking. Lawson actively employs a wide range of people, including women and foreign nationals, and provides supportive personnel management systems to assist them in their activities. Lawson University offers a varied curriculum to cultivate a culture in which *people*, including franchise owners, can take on new challenges.

Supervisors

1,017

As of end February 2016

Management Owners

147 MOs operating **1,436** stores

As of end February 2016

Action Plan based on the Act Concerning Promotion of Women's Career Activities

To ensure a work environment in which women can thrive, Lawson established an Action Plan based on the "Act Concerning Promotion of Women's Career Activities." Lawson is proactively promoting women's social advancement.

Workplace Initiatives Awards for promotion of self-motivated innovation

These awards recognize self-motivated, innovative individuals (or teams) who conceive innovations, however minor, that lead to improved efficiency in the workplace. Lawson wants every employee to be prepared to act autonomously.

自律型挑戦大賞

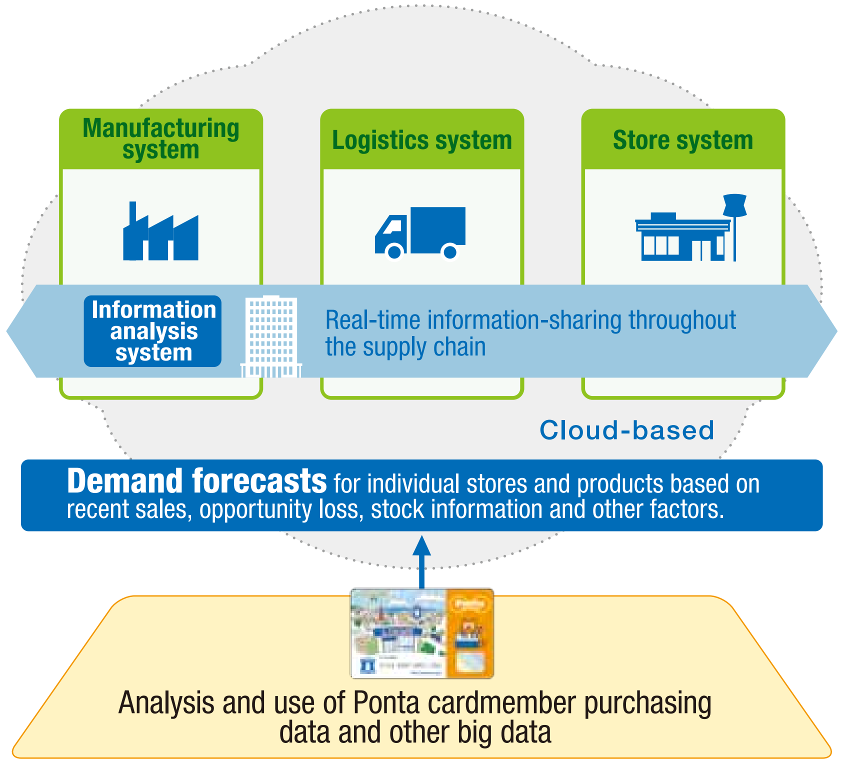
Percentage of women returning to work after maternity leave

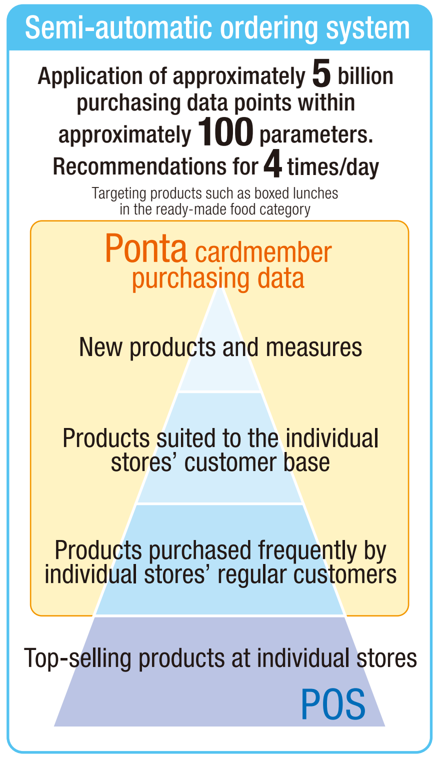
95.6%

Cumulative Performance from March 2000 to February 2016

We are implementing unprecedented, completely new systems employing cutting-edge IT technologies and Ponta cardmember purchasing data.

Lawson will eliminate waste and improve efficiency throughout the supply chain by taking full advantage of the latest digital technologies, including cloud computing and artificial intelligence, based on Ponta cardmember purchasing data and other big data at the Company's disposal.





Lawson has adopted cutting-edge IT technologies to improve efficiency in its store operations and throughout the supply chain. The Ponta point card program implemented at LAWSON stores, for example, has over 70 million cardmembers accounting for approximately 50% of Lawson's total sales. Analyses of this big data are employed in determining the product offering. The "semi-automatic ordering system" introduced in 2015, meanwhile, predicts demand for such target categories as boxed lunches, and proposes order sizes based on sales data for individual stores. Orders of the recommended sizes are delivered to the stores four times a day after the sales potential is taken into consideration. We are beginning to see such positive results as product offerings that match the needs of individual communities more closelyand shorter ordering times. In the future, Lawson plans to share demand forecasts in real-time with its boxed lunch producers and shipping centers and construct unprecedented new systems. These systems will contribute to such improvements as reduced waste of raw materials and unsold products and lower energy consumption as well as to enhanced operating efficiency throughout the supply chain.

Ponta cardmembers

Over **70** million customers

Cardmembers' purchase

50%

As of end February 2016

We will continue to marshal the concerted efforts of our Group to enrich customers' lives further.

"Seijo Ishii" food-lifestyle supermarkets serving customers who seek diversity in their lives

"NATURAL LAWSON" offering customers beauty and health products for use in daily life

"LAWSON STORE100" providing real value at 100 yen

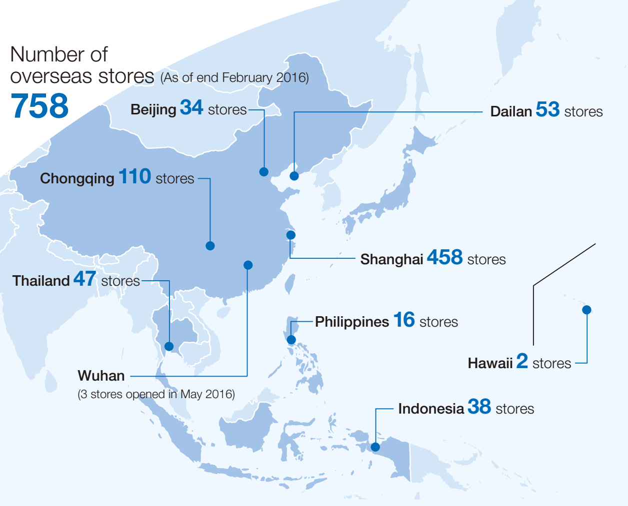
Lawson is developing "neighborhood stores" that meet community needs. Seijo Ishii has a particularly strong focus on promoting good taste. Developing safe food throughout the world, it opens unique retail outlets in station buildings and other such venues that set them apart from convenience stores. Seijo Ishii is also known, moreover, as a manufacturing retailer with centralized kitchen facilities and an import company. NATURAL LAWSON, meanwhile, features a unique merchandise assortment focusing on the keywords health and beauty, seasonal items and safety and peace of mind. It has produced such hit products as Green Smoothies and healthful confectioneries, and it is making progress in collaboration with Seijo Ishii, which has a similar merchandising concept. LAWSON STORE100 is clearly differentiated from conventional convenience stores by its focus on meeting the needs of the elderly and small households. In addition to stocking a large selection of fruits and vegetables in its commitment to freshness and quality, LAWSON STORE100 seeks to provide value by offering products in both normal portions and small packages at a uniform price of 100 yen.

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

Lawson began directing energy into its entertainment-related products and services in the 1990s with the aim of making customers' lives more fun. Today, it has developed its own comprehensive entertainment business, largely through its consolidated subsidiary Lawson HMV Entertainment, Inc., and become a leader in the entertainment distribution industry. Lawson's concert and sporting event ticket business maintains a top share in the ticket agency industry. Its music and video software sales also rank among Japan's largest in scale. The Company is involved in the movie business through its United Cinemas, moreover, which operates movie theaters across the country, as well as in planning and management of music distribution and production of various events. All these services are provided to make the lives of Lawson customers richer and more enjoyable.

Creating happiness and harmony across borders in communities worldwide

Ongoing changes in Asian lifestyles have engendered a growing need for timesaving convenience. We believe the Japanese convenience store can overcome challenges stemming from national and local differences and play a significant role in emerging Asian nations as well as in Europe and North America. Lawson will design stores to win the hearts of customers in every local community by grasping the needs of small areas. Lawson will create happiness and harmony across borders in communities worldwide.



Opening of the latest eco-friendly model store with a biomass energy-generation system, an industry first

Lawson has opened its most recent eco-friendly model store, the LAWSON Yumesaki Smart Interchange-mae store, in Himeji, Hyogo prefecture. This is Japan's first convenience store equipped with a biomass energy-generation system. The store is expected to consume approximately 70% (67.9%) less externally sourced energy as compared to fiscal 2010, the largest reduction in history.

Selection for GAP Initiative Award 2016

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 for their contribution to dissemination of GAP (good agricultural practices).

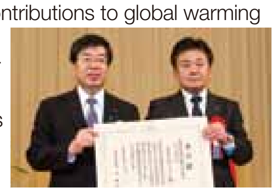
Participation in Rainforest Alliance Consortium planning

Lawson uses only coffee beans* grown on Rainforest Alliance Certified™ farms for its MACHI café fresh-ground coffee service. Motivated by a desire to popularize this certification, Lawson participated in planning the Rainforest Alliance Consortium, which was founded through cooperation among corporations that market coffee, tea, bananas and other certified products and Rainforest Alliance Japanese market representatives.

*Excluding the Single Original series and drip bags

Commendation from the Minister of the Environment's Commendation for Global Warming Prevention Activity for introduction of a CO_2 refrigeration system in Indonesia

Lawson received a commendation in the Global Contribution category of the 2015 Commendation for Global Warming Prevention Activity sponsored by the Ministry of the Environment. This award recognizes Lawson's considerable contributions to global warming prevention and energy conservation as well as to reduced emissions of air pollutants through the introduction of CO_2 refrigeration systems to its stores in Indonesia, which make full use of cutting-edge technologies.



Receipt of the Special Award in the *Ikumen* Company Award competition

Lawson became the first convenience store to be honored with the Special Award in the 2015 *Ikumen* Company Award competition by the Ministry of Health, Labor and Welfare. The Company received the award for its active support of male employees who are raising children, including its use of internal campaigns to foster a culture of respect for these employees.

IKUMEN AWARD 2015

Selection as a Nadeshiko Brand for third consecutive year

Since fiscal 2012, the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange have joined each other in designating listed companies that excel in promoting the success of female employees as Nadeshiko Brands. Lawson has been designated a Nadeshiko Brand for three years in a row, becoming the first company in the retail industry to achieve this distinction.

NADESHIKO BRAND 2016

Appointment of three new directors and auditors

Lawson has established a system that enables its 12 directors and auditors to make sound, speedy business decisions as a unified group. Effective May 2016, Keiko Hayashi (President & CEO, DoCLASSE) and Kazunori Nishio (Senior Vice President, Division COO, Retail Division, Mitsubishi Corporation) were newly appointed as directors, and Toshio Takahashi, who has experience in the employ of a major bank, was newly appointed as an auditor. The appointments were approved by the 41st General Meeting of Shareholders.

Introduction of family-friendly Machi-Ene community energy service

MC Retail Energy Co., Ltd., a joint venture between Lawson and Mitsubishi Corporation, introduced the Machi-Ene service in April 2016 to provide Kanto region households with "safe," "happy" and "easily understandable" electric power. This marks the first entry by a convenience store into the retail residential energy industry as an operator.

まちエネ

Responding responsibly to risks while creating business opportunities in a changing society

Masakatsu Gonai
Executive Vice President and Member, Board of Directors
CR Executive Officer and Personnel Officer

Main risks recognized by Lawson

1. **Risks related to changes in the business environment**
   Risks arising from changes in domestic or international economic conditions, economic trends and social structures, changes in consumer behavior in response to abnormal weather, and changes in competitive conditions with respect to other companies in the convenience store industry and retailers in other business categories
2. **Risks related to food safety, hygiene management and labeling**
   Risks of the unlikely occurrence of such serious causes for concern as food poisoning, contamination or erroneous representations of food products
3. **Risks related to the handling of personal information**
   Risks of personal information leaks as well as of unauthorized access to personal information
4. **Legal and regulatory risks**
   Risks arising from amendments to various laws and regulations as well as changes in administrative guidance policies in the stores' local communities
5. **Risks related to franchise operations**
   Risks of franchise contract cancellations due to deterioration of the relationship of trust between the Company and its franchise owners.
6. **Risks related to disasters**
   Risks of physical damage to Group stores, manufacturing plants, shipping centers and other facilities as well as disruptions occurring due to natural disasters such as earthquakes, tsunami, typhoons or blizzards
7. **Risks related to problems with IT systems**
   Risks of disruption of merchandise delivery or suspension of store operations due to IT system failures resulting from earthquakes or other natural disasters or from events such as infection by computer viruses
8. **Risks related to fluctuations in raw materials prices**
   Risks of rising raw materials prices due to such occurrences as surges in the price of crude oil, abnormal weather associated with climate change or other unpredictable events.

The Lawson Group has responded to customer needs by diversifying and reinforcing its business centered on convenience stores. At the same time, it is facing growing challenges, including an accelerated decline in the birthrate and an aging population, decreasing numbers of retailers, more frequent occurrences of extreme weather and other emerging risks. As the CR Executive Officer*1 confronting these circumstances, I am taking the lead in further enhancing the Group's internal control and in promoting development of a framework for rapid risk information assessment and countermeasure implementation, with an emphasis on attaining the requisite sensitivity to assure awareness of even the most minute details. This involves establishing a Compliance & Risk Management Office and an Information Security Management Office as well as assigning CROs*2 to each headquarters division and area to assist me in performing my duties. We have made considerable progress over the past two years, but we intend to continue working to strengthen our systems.

Among the wide range of risks facing us, we are particularly concerned with "food safety and hygiene management," "information security" and "disaster relief." We recognize providing safe food, the foundation of our business, protecting our valued customers' information, supporting our network of stores across Japan and continuing to deliver merchandise and services to local communities, even in the event of disaster, as our primary missions.

This year witnessed the occurrence of the 2016 Kumamoto earthquakes. We are continuing to support reconstruction efforts in the disaster areas today. At the same time, we have made proposals for improvement of deficiencies in preparedness that the earthquakes brought to light and are drawing on them to develop disaster prevention measures and increase future preparedness.

Turning now to issues on the global stage, countries around the world embraced the goal of reducing greenhouse gases that cause global warming by signing the Paris Agreement at COP 21 in Paris last year. This agreement to combine forces to limit the long-term rise in temperatures to 1.5-2.0°C is a significant achievement. It will also impose a substantial obligation on corporations. As a member of the convenience store industry, we view responding to environmental issues as a fundamental responsibility, especially in light of the burden placed on the environment by our 24-hour/day operation as a social lifeline. While working to resolve social issues, however, we must also continue our efforts to realize new opportunities to generate profits in our core businesses. As one of many examples, we have established a specialized subsidiary with responsibility for stabilizing procurement to prepare for the risk of shortages or sudden surges in raw materials prices due to extreme weather or economic trends. This offers the advantage of supplying safe, high-quality raw materials efficiently and reliably, thus supporting development of merchandise with higher added value.

The Lawson Group seen here will seek to achieve its Corporate Philosophy of "Creating Happiness and Harmony in Our Communities," not only responding to risks but also seeking creative solutions to social issues and boldly taking up challenges for generating business opportunities. In this way, we intend to realize our identity as a leading Company in both solution execution and new business creation.

*1: CR Executive Officer (executive officer of the Compliance and Risk Management Office): 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): Employees assigned to each department 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

Risk preparedness and responses

Responses to emergencies

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

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

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

Disaster preparedness and response

In cases of large-scale disasters, our initial response is to conduct safety checking of customers, crew, managers, franchise owners and employees at every store and corporate office. 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 at Corporate Headquarters, area 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 shipping centers.

At the same time, we seek to continue conducting business without suspending critical services (or to resume business quickly after a temporary suspension) to fulfill our mission of serving as an essential lifeline for society.

Disaster relief manual

Improvement of the information security framework

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

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

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

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

Crime prevention at stores

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

Actions taken as crime prevention measures

1. Promotion of security camera installation
Security cameras are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur.

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

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

A DVD on measures to prevent robberies and other crimes

A crime prevention self-check list

Disaster relief following the 2016 Kumamoto earthquakes

Immediately after the 2016 Kumamoto earthquakes, Lawson checked on the safety of its customers, franchise owners, managers, crew and others as well as on the nature of the damage. We dispatched support staff to the affected stores and distribution centers, and worked to continue our business operations as a community lifeline. Lawson also provided relief supplies at the request of the local government's disaster relief headquarters and organized a fundraising program.

Assuring continuity of business operations

Fundamental policies and objectives for maintaining business continuity (BC)

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

Three main goals for maintaining business continuity (BC)

● Fulfilling Lawson's mission as a "community lifeline"
We will endeavor to ensure uninterrupted provision of products and services to customers by keeping stores open whenever possible.

● Continuation of the franchise (FC) business
We will determine specific periods and methods for resuming operations and maintain the requisite level of FC headquarters operations.

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

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

Formulation of BCP guidelines

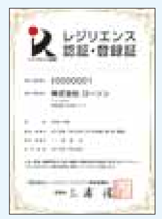
Lawson has formulated the "BCP Guidelines" as a practical action manual describing responses to emergency situations based on the Business Continuity Plan. The current guidelines summarize in an easy-to-understand manner appropriate responses by the responsible personnel to such hypothetical emergency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

BCP Guidelines

"Resilience certification"

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

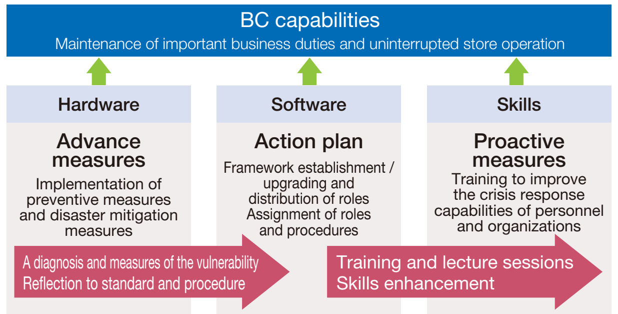
In the spirit of building national resilience against disasters, the government's National Resilience Promotion Office, Cabinet Secretariat established a system for "certifying groups contributing to the building of national resilience against disasters (resilience certification)." This system certifies 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.



Mechanism for enhancing BC capabilities

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

■ Mechanism for enhancing BC capabilities



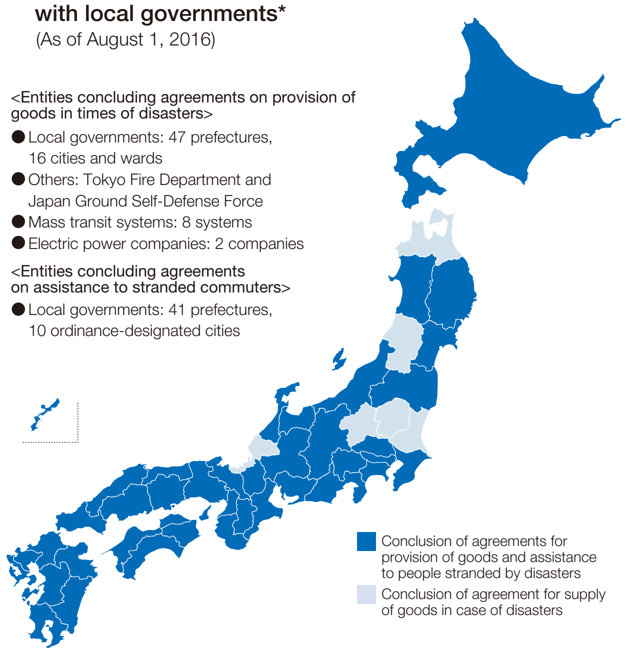
Cooperation with local governments at times of disaster

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

■ Status of disaster agreements concluded with local governments*
(As of August 1, 2016)

<Entities concluding agreements on provision of goods in times of disasters>
- Local governments: 47 prefectures, 16 cities and wards
- Others: Tokyo Fire Department and Japan Ground Self-Defense Force
- Mass transit systems: 8 systems
- Electric power companies: 2 companies

<Entities concluding agreements on assistance to stranded commuters>
- Local governments: 41 prefectures, 10 ordinance-designated cities



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

Internal control

Further details

http://lawson.jp/en/about/governance/

Basic policy regarding the internal control system

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

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

The main points of the revisions of the “Basic Policy for Maintaining the Internal Control System” implemented in fiscal 2016 are described at below.

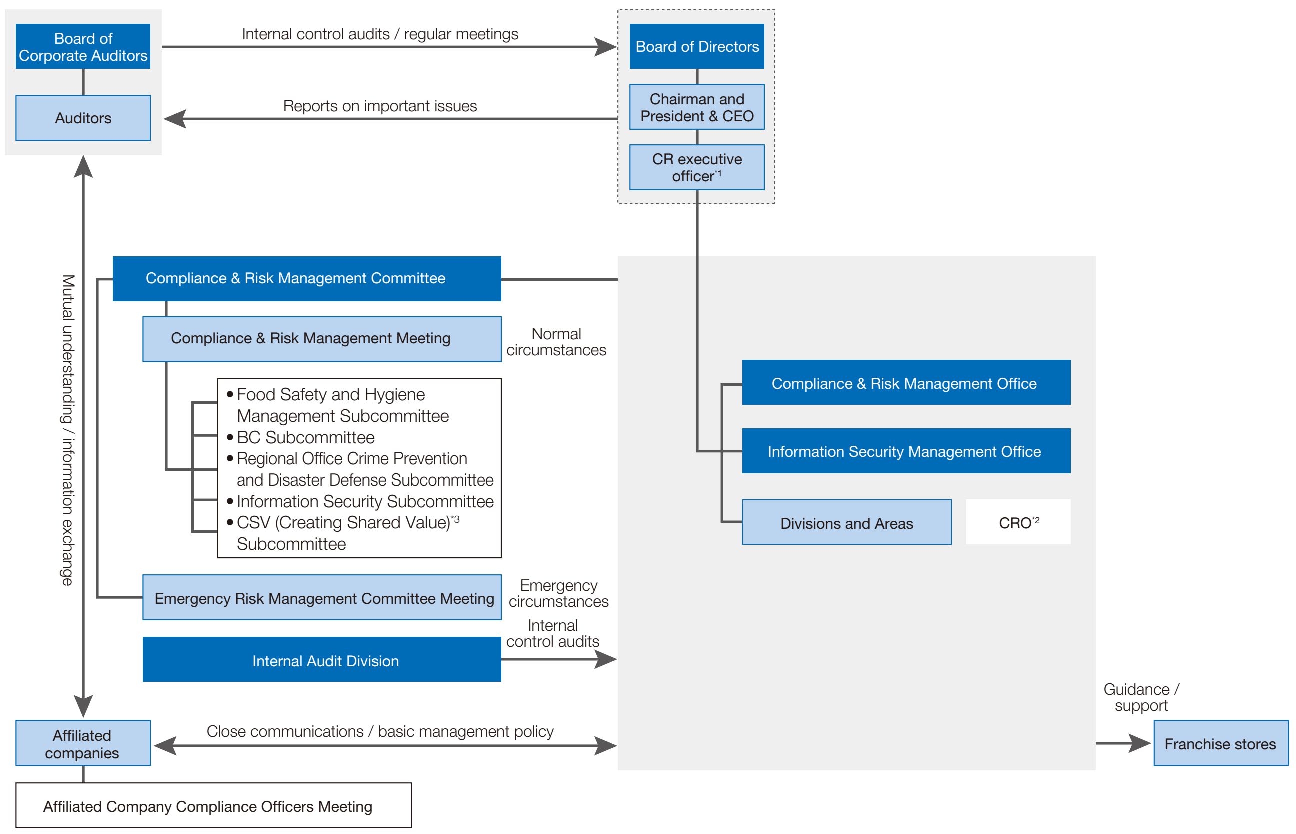
Thorough dissemination of information concerning important laws and regulations

Among the wide-ranging laws and regulations requiring compliance, including the Antimonopoly Act, Subcontract Proceeds Act and Act against Unjustifiable Premiums and Misleading Representations, labor laws require clarification and dissemination, in particular.

Raising the profile of the Consultation and Report Office

Lawson has clarified appropriate actions to improve dissemination of reports to improve awareness and understanding of the previously established Consultation and Report Office (internal report office).

Lawson’s internal control system (as of June 1, 2016)



*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

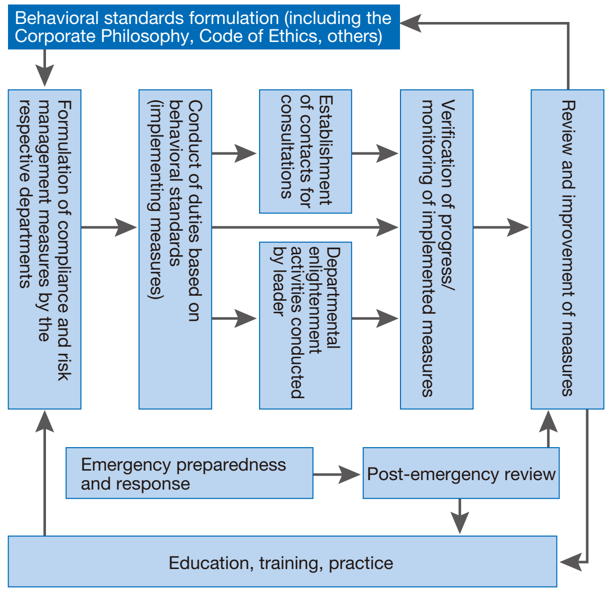
*2 CROs (compliance and risk management officers): Persons responsible for compliance in the various divisions who support the CR executive officer and assume overall responsibility for the development and execution of a frameworks for identifying misconduct and problems concerning legal compliance and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

*3 CSV (Creating Shared Value)

Lawson’s compliance and risk management system

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

Management organization



Formulation of action guidelines and standards

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

Lawson Group CR Handbook

Appointment of CR promotion officers

We have appointed an 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.

Consultation and notification system establishment

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

Reinforced operational management and monitoring

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

The subcommittees collaborate with the 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 also been appointed at the Group companies, and Lawson holds meetings of affiliated companies’ compliance officers. Besides formulating the Code of Ethics and providing training to heighten employee awareness, we conduct the same employee awareness surveys and questionnaires as for business partners at our Group companies. In addition, the Corporate Auditors Office conducts audits of operational duties at Group companies, and the companies’ boards of auditors convene meetings to provide guidance and assistance in establishing and improving their compliance and risk management frameworks.

A meeting of affiliated company compliance officers

Lawson's social and environmental initiatives

Further details ▶
http://lawson.jp/en/csr/environmental_management/

Social and environmental initiatives in our core business

Operating in accordance with its Corporate Philosophy, the Lawson Group pursues positive business activities with consideration always given to society and the environment with the aim of "Creating Happiness and Harmony in Our Communities" (sustainable growth). Our Environmental Policy serves as the foundation for these activities as well as their driving force. Based on this policy, we are seeking to pass on the blessings of our abundant Earth to future generations 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.

In pursuing these activities, we share our philosophy not only among our Group companies, but also with business partners with the aim of enhancing our corporate value.

Lawson Group Environmental Policy

Our basic principles

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

Our principles

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

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 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 Certification Test for Environmental Specialists (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 bi-monthly meetings (monthly meetings as of fiscal 2016) 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.

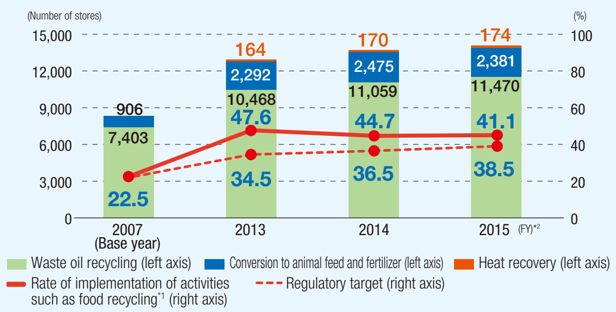
Reduction and recycling of food waste

Food waste discarded daily by individual LAWSON stores includes 7.8 kg of boxed lunches with expired sell-by dates*1 (surplus food) and 2.3 kg of cooking oil (waste oil) used in fast-food preparation, a total of 10.1 kg*2. Lawson's activities are intended primarily to suppress waste generation and encourage recycling (recycling of waste oil, conversion of surplus food into animal feed and fertilizer) to reduce the volume of waste foods. These efforts led to a food-recycling ratio of 41.1% in fiscal 2015, well above the regulatory target of 38.5%.

*1 Sell-by date: A date determined voluntarily in advance on which products are removed from the shelves to ensure that customers purchase them while they are still assured safe.

*2 The weights for food waste are the actual results of food-recycling efforts conducted by approximately 2,400 stores.

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., or Lawson Kochi, Inc.

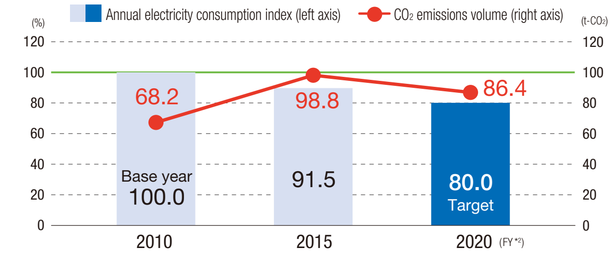
*2 Calculated for April 1 to March 31 to coincide with the administrative fiscal year.

Constructing energy-efficient stores

Lawson is working to reduce electricity consumption by its stores to conserve energy and reduce CO_2 emissions. We have declared a medium-term energy-efficiency goal of reducing per-store electricity consumption by 20% in fiscal 2020 compared with fiscal 2010. We are therefore actively introducing energy-saving facilities such as cooling equipment and air conditioners and LED lighting to the stores. Of particular note, we are installing freezing and refrigeration systems that use CFC-free refrigerants (CO_2 refrigerants) boasting a global warming coefficient about 1/4,000 that of chlorofluorocarbons (CFCs). Having achieved a high 12% reduction in electricity consumption and excellent energy-saving effects at all the stores, Lawson has proactively promoted the installation of these facilities in stores opened since August 2014. As of end February 2015, they were installed in a total of 1,300 stores, including existing stores.

We will continue to open experimental stores with new facilities and equipment installed, verify energy conservation effects and pursue further energy conservation and CO_2 reductions. We comply with the Ten Energy-saving Rules, meanwhile, cleaning the filters, maintaining recommended heating and cooling temperature settings, and improving the operating efficiency of our main cooling and climate-control equipment to reduce wasteful overall electricity consumption by stores.

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



*1: CO_2 emissions derived using adjusted coefficients for receiving-end terminals published by the Federation of Electric Power Companies of Japan. The figures for fiscal 2015 and 2020 are estimated based on coefficients for fiscal 2014.

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

CO_2 emissions in the supply chain

Further details ▶
http://lawson.jp/en/csr/energy_saving/stores/

In order to reduce its impact on the environment to the greatest extent possible, the Lawson Group is working to conserve energy, limit resources consumption and reduce waste at every stage in the supply chain.

Among our efforts, we adopted a third-party verification program in fiscal 2011 to acquire a more accurate understanding of CO_2 emissions throughout the supply chain. External investigative bodies examined local sites and documents based on ISO14064-3 to determine electricity consumption by the stores and gasoline use by Company cars as well as CO_2 emissions from procured raw materials. The results were published in a Greenhouse Gas Emission Verification Statement.

Lawson's supply chain

* Numbers ❶ – ❼ correspond to those in the pie chart below.

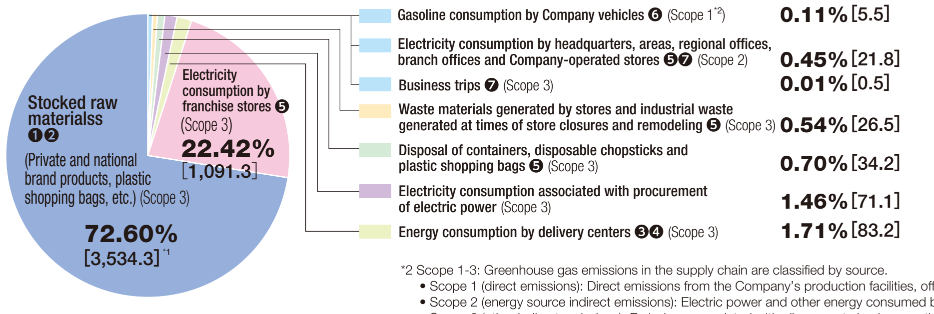
CO_2 emissions from our supply chain in fiscal 2015

Total CO_2 emissions

Approximately 4,868.4 thousand tons

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

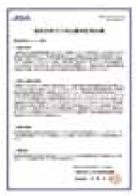
*1 Figures in brackets [ ] indicate CO_2 emissions (thousand tons)



*2 Scope 1-3: Greenhouse gas emissions in the supply chain are classified by source.
- Scope 1 (direct emissions): Direct emissions from the Company's production facilities, offices, etc.
- Scope 2 (energy source indirect emissions): Electric power and other energy consumed by the Company
- Scope 3 (other indirect emissions): Emissions associated with all corporate business activities

● CO_2 emissions calculation rules

Scope of inspection	Use of Company vehicles, LAWSON, NATURAL LAWSON, LAWSON STORE100 and LAWSON MART (13,067 stores), purchased goods and services for store sales
Target period	From April 1, 2015 to March 31, 2016 (administrative year)
Target items	Gasoline consumption by Company vehicles, electricity consumption by stores and CO_2 emissions from purchased goods and services



Greenhouse Gas Emission Verification Statement

Social and environmental preservation costs

Test period: March 1, 2015 - February 29, 2016 Scope of compilation: Lawson headquarters and franchise stores*1 (Thousand yen)

Classification		Descriptions of principal activities	Investment amount	Expense amount	Effects
(1) Business area costs	(1)-1 Pollution prevention costs	Maintenance and management of septic tanks at new stores	0	169,217	Prevention of water contamination
	(1)-2 Global environmental preservation costs	Implementation of energy-efficient equipment, CO_2 offsetting activities	10,457,169	131,323	CO_2 reduction
	(1)-3 Resources recycling costs	Waste materials-related expenses*2	0	6,347,944	Compliance with laws and regulations
(2) Upstream and downstream costs		Containers and Packaging Recycling Law-related expenses	0	589,239	Compliance with laws and regulations
(3) Management operations costs		Preparation of environmental reports, ISO 14001 assessment expenses	0	6,399	Promotion, dissemination and education related to environmental activities
(4) Research and development costs		Energy-conserving stores' research expenses	0	5,161	CO_2 reduction
(5) Social activity costs		Afforestation activities, cleaning activities, donations to non-profit organizations	0	28,475	Biodiversity preservation, regional beautification
Total			10,457,169	7,277,758	

*1 Includes domestic area franchise and LAWSON STORE100 and LAWSON MART stores

*2 Expenses for waste disposal and recycling at stores are estimated based on values for standard stores employed as sample figures.

Promoting diversity

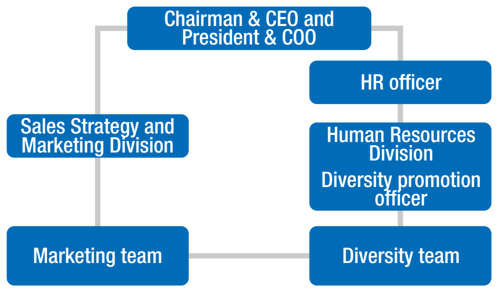
Contributing to the success of diversified human capital, including female employees and employees of foreign nationalities; encouraging male employees to take paternity leave

Lawson promotes diversity in order to create an organization in which employees with a wide range of values can reach 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.

Seeking to become a company whose female employees can 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 they 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. We are also committed to raising awareness in male employees. One example is an initiative for encouraging male employees to take paternity leave, which contributed to raising the ratio of paternity leave-taking to 70%. We have now set a new target of 80%.

<System for promoting diversity>



Honored with Ministry of Health, Labor and Welfare Ikumen Company Award Special Award

Ikumen promotion posters displayed in every office

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

Activities contributing to the health of employees and franchise owners

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

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

As part of its efforts to promote health, Lawson established Lawson Healthcare Points in April 2015 as a health business to manage day-to-day health. This program awards members with up to 10,000 Ponta points (worth 10,000 yen) for achieving health-related goals. Within three months of its introduction, 95% of all Lawson employees had registered and begun participating in the program, whose effects included an increase in the ratio of employees making exercise a habit. Lawson is continuing to conduct this program as one initiative to promote health among its employees in 2016.

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

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.

- Subsidies for use of sports facilities
- Assistance program for correspondence education and health management
- Convenient travel and accommodation services
- Assistance programs for child-rearing and nursing care
- Health promotion and parent/child events, seminars for women, etc.
- Celebration and condolence allowance programs
- Insurance programs for franchise stores
- Discounts and preferential treatment at daily life-related facilities, including dining, leisure, entertainment, childcare and nursing care facilities

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

Lawson's corporate governance

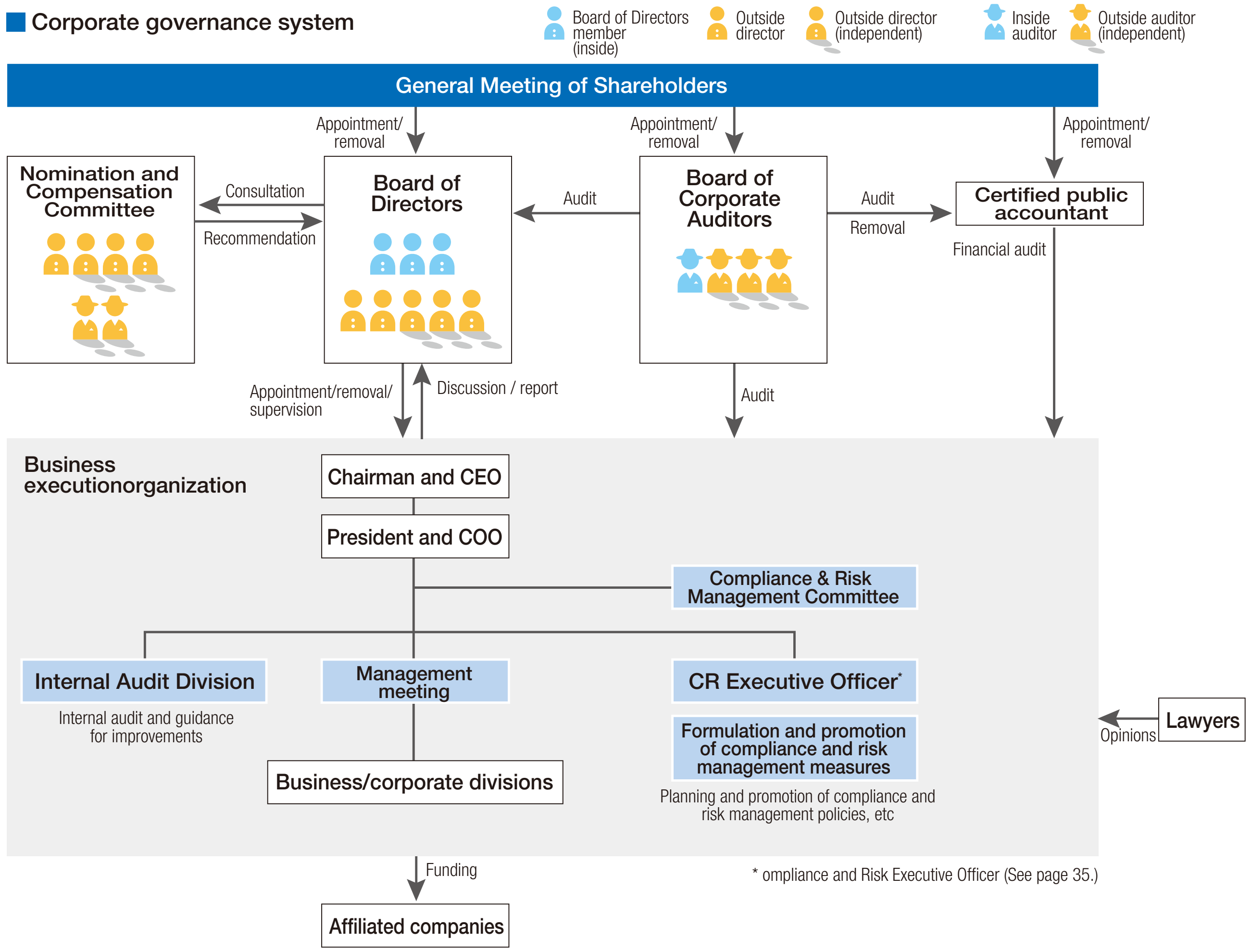
Further details ▶
http://lawson.jp/en/about/governance/

Characteristic features of the corporate governance

Since 2002, Lawson's Board of Directors has comprised 10 or fewer members. Notably, eight of the total of 12 directors and auditors are from outside the company, and six of these are independent officers. In consideration of diversity, moreover, four women have been appointed to the position of director or auditor, a reflection of Lawson's commitment to reinforcing its corporate governance system from various perspectives.

The Compensation Committee was reorganized into the Nomination and Compensation Committee in accordance with a resolution passed at a meeting of the Board of Directors following the General Meeting of Shareholders on May 27, 2014. The Committee comprises four outside directors and two outside auditors. As a company with a board of auditors, Lawson has a dual checking function involving supervision of business execution by the Board of Directors and auditing of the directors' business execution by the auditors.

Corporate governance system



* ompliance and Risk Executive Officer (See page 35.)

Corporate Governance Code

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.

[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

Lawson’s corporate governance

Basic policy for determining directors’ compensation

Lawson’s policy is to design its remuneration system in a manner that links directors’ compensation with return 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 allocation.

A + B = Directors' compensation

A Base compensation

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

Fixed compensation: A fixed amount commensurate with the position determined based on internal rules
Variable compensation: Performance-based remuneration linked to the Company’s performance, including EPS (earnings per share), in the fiscal period concerned. (To ensure linkag 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 outside directors, 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 2015)

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

Category	Total compensation	Total by type of compensation		Number of eligible officers
		Basic compensation	Stock options	
Directors (excluding outside directors)	205	137	68	3
Auditors (excluding outside auditors)	24	24	—	1
Outside officers	101	86	15	8
Total	331	247	84	12

(Note) There were 8 directors and 4 auditors as of end February 2016.

(millions of yen)

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

Full name	Director category	Company category	Amount by type of consolidated compensation		Total consolidated compensation
			Basic compensation	Stock options	
Genichi Tamatsuka	Director	Reporting company	68	42	111

(millions of yen)

Director nomination policy and procedures/appointment standards/independence standards

Lawson has established officer appointment standards as criteria for appointing directors or auditors.

The Nomination and Compensation Committee serves as an advisory body that makes recommendations to the Board of Directors concerning the nomination of candidates for the position of director.

The six members of this committee, which has a high degree of independence, are all outside officers (five of whom are independent officers).

Note that candidates for auditor are individuals with the financial, accounting, risk management and/or legal knowledge and expertise required to fulfill auditors’ duties whose candidacy is approved by the Board of Corporate Auditors.

Appointment criteria for outside officers

Persons with a wealth of experience and expertise in corporate management or specialized fields who can ensure sufficient time to fulfill the duties involved are invited to serve as directors or auditors.
(1) Possessed of a wealth of experience and expertise in corporate management or specialized fields
(2) Able to ensure sufficient time to conduct the duties of a director or auditor

Judgment criteria regarding independence

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

Overview of liability limitation agreement

Lawson concludes agreements with its directors (excluding operational executive directors) and auditors to limit liability as stipulated in Article 423, paragraph 1 of the Companies Act. The amount of the compensation liability limitation based on this agreement is considered to be the total amount stipulated in Article 425, paragraph 1 of the Act.

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 38).

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.

Special circumstances with the potential to seriously impact corporate governance

Mitsubishi Corporation holds 33.5% of Lawson’s total voting rights, making Lawson an equity method affiliate of Mitsubishi Corporation (as of end February 2016). Based on a comprehensive business alliance, Mitsubishi Corporation cooperates with Lawson in human resources exchanges and raw materials procurement as well as sharing of information on retail properties and others. As a listed company, however, Lawson makes management decisions independently.

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

		Board of Directors	Board of Corporate Auditors
Number of Meetings held		14	16
Attendance rate	Outside directors	89%	—
	Outside auditors	93%	100%

General Meeting of Shareholders

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

Since 2001, shortly after its public listing in 2000, Lawson has conducted early mailings of notices of shareholders’ meetings in both Japanese and English and introduced voluntary disclosure on its website. Lawson began on-demand Internet distribution the following year. Also in this connection, Lawson always responds quickly to system introduction and reform, as seen in its digitization of voting and timely disclosures of voting results on its own initiative in an effort to deepen shareholders’ understanding of its management.

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

Promotion of IR activities

Lawson has established an IR Department that engages in constant dialog with investors concerning its management strategies and financial performance. In addition to conducting semiannual financial results briefings for analysts and institutional investors, the department announces fourth-quarter results in telephone conferences with the CFO and works to conduct timely disclosure. It emphasizes fairness throughout, posting disclosure information, other important information and financial results briefing materials promptly on the website, while working quickly to disclose information in English for foreign investors. These disclosure policies are also published on the website as “Basic Principles Concerning Information Disclosure.”

Lawson has received positive evaluations from the capital markets for its clear presentation of its corporate strategy emphasizing sustainability and capital efficiency as well as for the proactive disclosure approach it has developed in accordance with the concept of “creation and improvement of shareholders’ value.”

Major awards:

○ FY 2015: Companies Selected by Securities Analysts for Superior Disclosure Policies
The Securities Analysts Association of Japan
No. 1 retailer evaluation (4th consecutive year, 9th award)

○ FY 2014: WICI, 2nd WICI Japan Award for Excellence in Integrated Reporting, Top Company Award (2nd consecutive year)

○ FY 2013: Japan Investor Relations Association, 18th Excellent Company Award
Nikkei, Inc., 2013 Nikkei Annual Report Awards, honorable mention

Executive Officers

As of March 1, 2016

Senior Executive Vice President	**Masahiro Oyama**	Senior Vice President	**Ken Sakamoto**
Senior Executive Vice President	**Masaharu Kamo**	Senior Vice President	**Yasuhiko Hirokane**
Executive Vice President	**Yutaka Yoshitake**	Senior Vice President	**Kazuya Nobe**
Executive Vice President	**Katsuyuki Imada**	Senior Vice President	**Tatsushi Sato**
Executive Vice President	**Jun Miyazaki**	Senior Vice President	**Hajime Kawamura**
Senior Vice President	**Norikazu Nishiguchi**	Senior Vice President	**Motonobu Miyake**
Senior Vice President	**Yuichi Wada**	Senior Vice President	**Atsushi Maeda**
Senior Vice President	**Tetsu Yamada**	Senior Vice President	**Akihito Watanabe**
Senior Vice President	**Shuichi Imagawa**	Senior Vice President	**Yasuhiro Iseki**
Senior Vice President	**Takaki Mizuno**	Senior Vice President	**Taiki Hasegawa**
Senior Vice President	**Shigeaki Kawahara**	Senior Vice President	**Takuya Shiraishi**

(Excluding directors additional post)

Related sites

For details concerning basic principles concerning information disclosure
http://lawson.jp/en/about/

For details concerning trade policies
http://lawson.jp/en/about/purchasing_policy/

Lawson Group Overview

As of February 29, 2016/Consolidated
(Representative as of June 1, 2016)

Company name	Lawson, Inc.
Headquarters	East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan
Chairman and CEO, Representative Director	Genichi Tamatsuka
President and COO, Representative Director	Sadanobu Takemasu
Established	April 15, 1975
Capital	¥58,506.644 million
Number of employees	8,294
Business activities	Franchise chain development of LAWSON, NATURAL LAWSON and LAWSON STORE100
Net sales for all stores	¥2,049.5 billion
Number of stores	12,515 (stores in Japan)
Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing), Indonesia, Hawaii, Thailand, Philippines

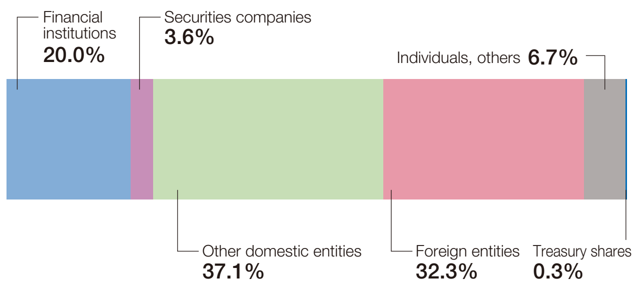
Note: Net sales for all stores is the sum of total sales by the domestic convenience store business, overseas business and Seijo Ishii stores (consolidated subsidiaries only). For the Seijo Ishii business, only the total for its company-operated stores is included.
The total number of stores in Japan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

Share information

As of February 29, 2016/Non-consolidated

Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	25,934
Stock exchange listings	Tokyo Stock Exchange (1st Section)
Stock transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Distribution of shareholders by type



Major shareholders (Top 10)

	Shareholder name	Number of shares held (Thousands)	Percentages of total shares held
1	Mitsubishi Corporation	33,500	33.4
2	Japan Trustee Services Bank, Ltd. (Trust account)	4,134	4.1
3	The Master Trust Bank of Japan, Ltd. (Trust account)	3,457	3.4
4	Nomura Securities Co., Ltd.	2,150	2.1
5	NTT DOCOMO, INC.	2,092	2.1
6	STATE STREET BANK WEST CLIENT - TREATY 505234	1,675	1.7
7	STATE STREET BANK AND TRUST, BOSTON AS TRUSTEE FOR MAWER INVESTMENT MANAGEMENT LTD.	1,564	1.6
8	National Mutual Insurance Federation of Agricultural Cooperatives	1,001	1.0
9	HSBC BANK PLC STATE OF KUWAIT INVESTMENT AUTHORITY, KUWAIT INVESTMENT OFFICE	905	0.9
10	THE BANK OF NEW YORK MELLON SA/NV 10	905	0.9

Main Lawson Group companies

As of February 29, 2016/Consolidated

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

*Company Name was changed from Lawson Mart, Inc. March 1, 2016

Store network expansion area

As of February 29, 2016

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

Main businesses and services

As of February 29, 2016

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

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

LAWSON STORE 100
A store that contributes to savings and an easy, convenient daily life by selling a range of products such as perishable foods, prepared foods and daily necessities at a uniform price of 100 yen (108 yen, including tax)
Operating company
Lawson Store100, Inc. (Company name was changed March 1, 2016)

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

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

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

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

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

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

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

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

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

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

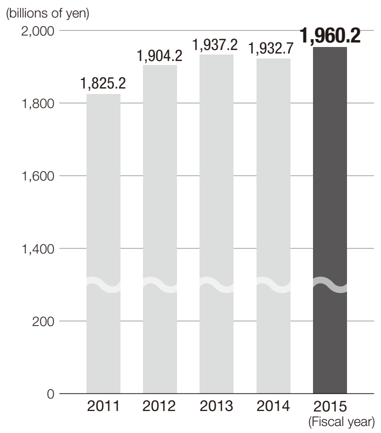
宅配も、お家のお困りごとにも。マチの暮らしサポート SGH × LAWSON
Delivery of products handled by the Lawson Group and home-delivery items handled by Sagawa Express Co., Ltd. and other services related to shopping and housing/living with Lawson stores as the starting point.
Operating company
SG Lawson Co., Ltd.

Eleven-Year Financial Summary

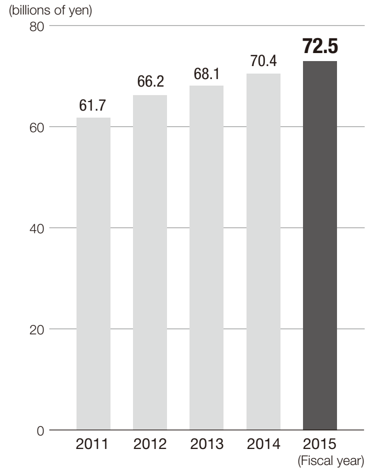
(Fiscal year)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2015
	(Millions of yen)					(Millions of yen)						(Thousands of U.S. dollars [1])
For the year:												
Gross operating revenues												
Franchise commissions from franchise stores	¥ 261,681	¥ 247,681	¥ 242,079	¥ 230,003	¥ 215,574	¥ 197,673	¥ 185,656	¥ 186,928	¥ 177,443	¥ 174,325	¥ 170,785	$ 2,303,124
Net sales	227,606	174,044	168,159	192,942	208,063	192,330	233,694	119,944	84,266	75,858	66,646	2,003,221
Other	94,166	76,188	75,010	64,500	55,320	51,275	47,842	42,604	39,468	32,870	30,627	828,781
Total operating revenues	583,453	497,913	485,248	487,445	478,957	441,278	467,192	349,476	301,177	283,053	268,058	5,135,126
Operating profit	72,542	70,482	68,127	66,246	61,769	55,541	50,276	49,186	46,610	44,513	43,867	638,462
Net profit	31,381	32,687	37,966	33,183	24,885	25,387	12,562	23,807	22,119	20,983	22,025	276,193
Net cash provided by operating activities	112,205	110,568	81,503	85,189	86,357	72,210	40,696	51,717	55,771	47,596	46,933	987,546
Net cash used in investing activities	(68,657)	(100,434)	(47,924)	(54,196)	(52,912)	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(55,282)	(604,269)
Net cash used in financing activities	(50,201)	(3,289)	(39,650)	(31,980)	(27,545)	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(7,795)	(441,832)
Capital expenditures	106,747	141,251	84,032	77,361	74,572	50,326	71,399	42,907	64,413	49,822	54,417	939,509
Depreciation and amortization [2]	49,293	41,826	47,889	43,886	37,846	33,084	27,468	20,879	21,469	21,352	20,896	433,841
At year-end:												
Total assets	¥ 803,212	¥ 764,614	¥ 620,993	¥ 579,810	¥ 531,454	¥ 476,037	¥ 448,132	¥ 436,096	¥ 397,108	¥ 398,258	¥ 375,107	$ 7,069,284
Net assets	272,997	263,798	250,498	230,182	214,663	208,467	198,136	201,167	188,574	199,493	175,184	2,402,720
Shareholders' equity ratio	32.9%	33.5%	39.5%	39.1%	39.7%	42.7%	42.8%	44.8%	46.6%	49.0%	46.7%	
Cash and cash equivalents	69,793	76,755	68,760	72,766	73,670	67,712	54,843	83,982	62,823	75,547	60,441	614,267
Total number of stores in Japan	12,395	12,276	11,606	11,130	10,457	9,994	9,761	9,527	8,587	8,564	8,366	
Number of employees (full-time)	8,294	7,606	6,336	6,404	6,475	5,703	5,236	5,186	3,735	3,614	3,585	
Per share data:												
Net profit (yen/ U.S. dollars [1])	¥ 314	¥ 327	¥ 380	¥ 332	¥ 249	¥ 255	¥ 127	¥ 240	¥ 215	¥ 202	¥ 216	$ 2.76
Cash dividends (yen/ U.S. dollars [1])	245	240	220	200	180	170	160	160	110	100	90	2.14
Payout ratio	78.1%	73.4%	57.9%	60.2%	72.2%	66.8%	126.3%	66.6%	51.2%	49.6%	41.8%	
Financial data:												
Return on equity (ROE)	12.0%	13.0%	16.1%	15.2%	12.0%	12.8%	6.5%	12.5%	11.6%	11.3%	13.1%	
Return on assets (ROA)	4.0%	4.7%	6.3%	6.0%	4.9%	5.5%	2.8%	5.7%	5.6%	5.4%	6.0%	
Net sales of all stores (Domestic convenience store business):												
Net sales by store format												
Franchise stores [3]	¥ 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	¥ 1,295,704	$ 16,549,859
Company-operated stores	79,872	105,019	126,873	156,339	173,820	183,205	232,459	124,614	83,321	75,151	66,027	702,975
Net sales by product category [3]												
Processed foods	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	682,006	9,095,661
Fast foods	463,432	429,212	408,672	372,706	345,226	321,851	324,197	332,894	327,501	324,993	312,289	4,078,759
Daily delivered foods	276,886	277,210	275,437	271,920	263,101	264,166	239,088	186,109	162,625	155,575	150,917	2,426,948
Non-food products	186,500	192,020	192,726	196,506	194,546	199,348	200,544	195,453	198,230	200,907	216,519	1,641,436
Net sales of all stores	¥ 1,960,267	¥ 1,932,798	¥ 1,937,292	¥ 1,904,254	¥ 1,825,253	¥ 1,682,782	¥ 1,666,136	¥ 1,558,781	¥ 1,415,106	¥ 1,386,630	¥ 1,361,731	$ 17,252,834
Ratio of operating profit to net sales of all stores	3.5%	3.6%	3.5%	3.5%	3.4%	3.3%	3.0%	3.2%	3.3%	3.2%	3.2%	

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 29, 2016 ($1 = ¥113.62).
2. These figures include depreciation and amortization of intangible assets.
3. These figures include sales reported by franchise stores and are unaudited.

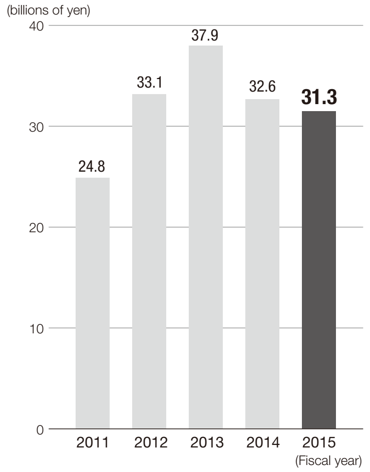
Net sales of all stores (Domestic convenience store business)



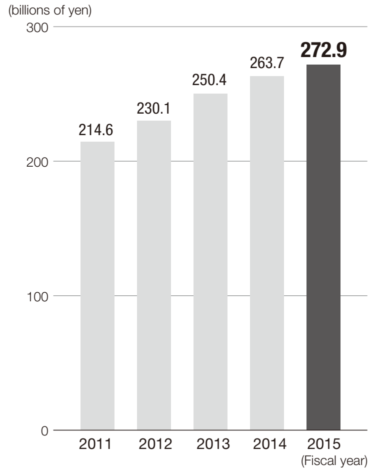
Operating profit



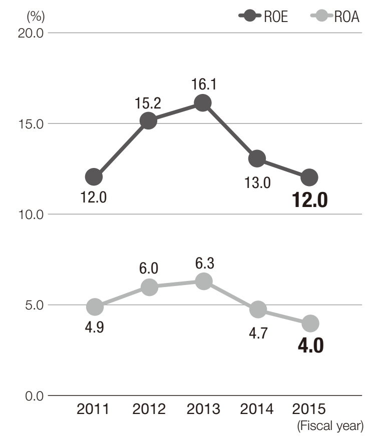
Net profit



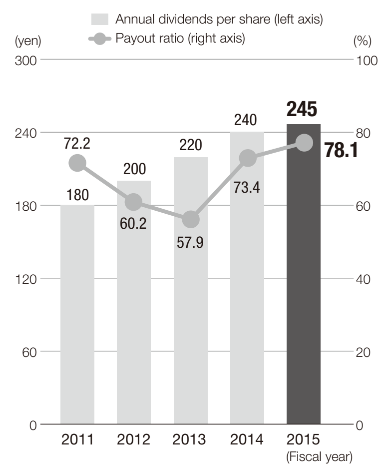
Total assets



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



Payout ratio and dividends



Management's Discussion and Analysis

Industry Trends

The Japanese economy enjoyed a moderate recovery in fiscal 2015 partly thanks to economic policies by the Japanese government. However, sharp falls in stock market prices after the turn of the year to 2016, coupled with future uncertainty about downside risk for the world economy, put a brake on consumer spending, keeping the retail industry mired in challenging situations.

Amidst these developments, the country's convenience store industry achieved a market expansion in the calendar year 2015 (January to December) as three top chain operators opened new stores aggressively. Industry-wide sales were buoyant, amounting to 10,995.7 billion yen, up 5.5% from the previous year. The total number of stores as of the end of December 2015 stood at 54,505, up 3.4% year on year. Net sales of existing stores for 2015 rose 0.9% compared to the previous year, the first year-on-year gain in four years, with leading chain operators posting a sales recovery, helped partly by a favorable comparison base effect as demand slumped after the consumption tax hike in April 2014.

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

(Billions of yen)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005 [2]
Total retail industry annual sales	**140,666**	141,219	138,897	137,585	135,157	136,479	132,961	136,019	135,417	134,911	134,828
Convenience store sector annual sales	**10,995**	10,423	9,872	9,477	8,775	8,114	7,981	7,943	7,490	7,399	7,360
Convenience store share	**7.8%**	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%	5.5%	5.5%	5.5%

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

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

(Billions of yen)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Lawson	**2,049**	1,961	1,945	1,907	1,826	1,683	1,666	1,559	1,415	1,387	1,362
Seven-Eleven Japan	**4,291**	4,008	3,781	3,508	3,281	2,948	2,785	2,763	2,574	2,534	2,499
FamilyMart	**2,006**	1,860	1,722	1,585	1,535	1,440	1,274	1,246	1,122	1,069	1,032
Circle K Sunkus	**975**	944	951	947	980	923	902	940	902	911	920
Total of the top 4 chains	**9,321**	8,773	8,399	7,947	7,622	6,994	6,627	6,508	6,013	5,901	5,813
Total market share of the top 4 chains	**84.8%**	84.2%	85.1%	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%

Source: Data published by each company
Note: 1. The figures for the top four chains are on a fiscal-year basis, while the total market share of the top four chains is the proportion in convenience store sector annual sales on a calendar-year basis.

■ Number of convenience stores

(Stores)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Number of convenience stores	**54,505**	52,725	50,234	47,801	43,373	42,347	41,724	40,745	40,405	40,183	39,600

Source: "2015 JFA Franchise Chain Statistics," Japan Franchise Association. The number of convenience stores is on a calendar-year basis.

■ Non-consolidated operating results

(Millions of yen)

(Fiscal year)	2015	As a percentage of all stores	2014		2013		2012		2011	
Net sales of all stores	**1,960,267**	**100.0%**	1,932,798	100.0%	1,758,656	100.0%	1,693,435	100.0%	1,621,328	100.0%
Gross operating revenues	**333,856**	**17.0%**	316,340	16.4%	298,779	17.0%	282,752	16.7%	272,498	16.8%
Gross operating profit	**308,889**	**15.7%**	293,938	15.2%	275,442	15.7%	258,061	15.2%	244,462	15.1%
Selling, general and administrative expenses	**251,642**	**12.8%**	232,972	12.1%	213,999	12.2%	198,730	11.7%	188,199	11.6%
Advertising and promotional expenses	**14,705**	**0.7%**	8,227	0.4%	9,023	0.5%	10,691	0.6%	11,144	0.7%
Personnel expenses	**39,248**	**2.0%**	36,691	1.9%	35,852	2.0%	34,931	2.1%	35,891	2.2%
Facility expenses	**142,073**	**7.2%**	132,941	6.9%	123,444	7.0%	113,321	6.7%	104,215	6.4%
Other SG&A expenses	**55,616**	**2.8%**	55,112	2.9%	45,680	2.6%	39,784	2.3%	36,948	2.3%
Operating profit	**57,247**	**2.9%**	60,966	3.2%	61,443	3.5%	59,331	3.5%	56,263	3.5%
Recurring profit	**54,983**	**2.8%**	61,649	3.2%	62,171	3.5%	59,459	3.5%	56,110	3.5%
Net profit	**21,802**	**1.1%**	26,200	1.4%	33,625	1.9%	30,314	1.8%	22,462	1.4%

Management Policies for Fiscal 2015

We continued to pursue business activities with the aim of realizing the Lawson Group's corporate philosophy of "Creating Happiness and Harmony in Our Communities." In particular, we bolstered the foundation of our convenience store business such as store capabilities, product offering, and our relationship with franchise store owners. At the same time, we pursued Lawson's true nature in areas such as over-the-counter fast foods, health, home convenience, and entertainment while responding to social (community) changes including low birth rate, aging population, and labor participation by women.

Overview of Merchandise and Services

In June 2015, Lawson marked the 40th anniversary of its founding, in commemoration of which we rolled out commemorative merchandise consisting chiefly of those in major categories. Moreover, taking this opportunity, we fundamentally reviewed our merchandise creation processes, launching the the Passionate and Delicious project, an initiative to develop merchandise attaching particular importance to raw materials, production methods, and taste. In this project, we continued to launch merchandise items attaching importance to such elements, including Niigata Koshihikari Red Salmon Bento, gaining the support of many customers.

Starting from April 2015, we commenced sales of donuts over the counter with approx. 9,700 stores offering this service as of the end of fiscal 2015. Meanwhile, in a move to respond to everyday needs of customers, we upgraded the assortment of merchandise such as ready-made meals and frozen foods under the private Lawson Select brand.

We also put efforts into providing merchandise friendly to customer health as "Community Health Hubs." In particular, Green Smoothie, a Natural Lawson brand item allowing the customer to easily consume a meal's worth of vegetables, was received well by many customers composed mainly of female and highly health-conscious consumers. As a result, Green Smoothie became a hit product posting a series sales volume of over 27 million units within 10 months from launch, on a cumulative basis. Meanwhile, Lawson Farms, in which we made equity participation, reach 23 in number 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 addition to these merchandise-upgrading efforts, Lawson began to accept the UnionPay credit card for over-the-counter payment, starting from September 2015. Moreover, in November 2015, we launched the Osaifu Ponta service, based on a Ponta card equipped with a prepaid payment function. Starting from December 2015, collaboration with the d Point Card and WAON was initiated, among other steps to deliver improved convenience to customers.

The sales promotion initiatives we carried out during fiscal 2015 comprised those highly capable of attracting customers such as the Rice Ball 100 Yen Sale event and the Speed Lottery, a lottery program in which Lawson leveraged its strength in the entertainment field.

Overview of Store Operations

In store operations, Lawson implemented business reforms in order to realize a store environment loved by customers, including a move to offer enhanced store guidance to franchise stores and revise their merchandise order placement procedure, based principally on 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.

By the end of fiscal 2015, a semi-automatic ordering system for the ready-made meal category was introduced to almost all LAWSON stores. Moreover, we continued to frontload the introduction to existing stores of a new franchise contract designed to offer greater assistance to franchise stores, a move that began to bring about benefits such as rising sales. We will continue with our endeavors to create a store environment that stimulates latent customer needs and offers a merchandise assortment always meeting customer needs.

Overview of Store Development

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

In November 2015, under a capital and business alliance contract between Lawson, Inc. and Poplar Co., Ltd., two Poplar brand stores run by the latter were opened as LAWSON-Poplar stores. Moreover, in February 2016, Lawson, Inc. entered into a mega-franchise contract with SAVE ON Corp. to convert approx. 50 SAVE ON stores, among those currently in operation in Yamagata, Fukushima, and Ibaraki Prefectures, into LAWSON stores from April 2016 onwards, on a step-by-step basis.

Through partnerships with prescription drug pharmacy and drug store chains, we continued to expand healthcare-focused stores offering a merchandise assortment of around 5,500 items, twice as many as 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 136 as of the end of February 2016 (of which 38 stores were Pharmacy Lawson stores equipped with drug-dispensing pharmacies).

Meanwhile, we strived to build a Next-Generation LAWSON Convenience Store model that meets customer needs associated with social changes such as an aging population and rising health consciousness. The number of LAWSON stores equipped with a care (nursing care) service facility incorporating a nursing care consultation counter and salon space, a store category launched in fiscal 2015, reached five as of the end of February 2016.

As for LAWSON STORE100, we continued to shut down unprofitable stores under the business revival plan with the number of shutdowns for fiscal 2015 totaling 345 (including conversions into LAWSON stores). Concerning the remaining 809 stores under the LAWSON STORE100 brand, we: 1) sought to 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 2015 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 967 and 859 stores, respectively, with the total number of stores in the country reaching 11,880 as of the end of February 2016. 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 132 with 192 LAWSON chain stores run by equity-method affiliate Lawson Minami-Kyushu, Inc. in Kagoshima Prefecture and 191 LAWSON chain stores by equity-method affiliate Lawson Okinawa, Inc. in Okinawa Prefecture as of the end of February 2016.

■ Number of stores in the convenience store business in Japan

(Stores)

(Fiscal year)	2015	2014	2013	2012	2011
Total number of stores	**12,395**	12,276	11,606	11,130	10,457
Openings	**1,007**	1,010	869	938	766
Closings	**888**	422	393	265	303
Net increase	**119**	588	476	673	463

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., and Lawson Kumamoto, Inc.

■ Number of convenience stores in Japan

(Stores)

(Fiscal year)	2015[4]		Net increase in the term[3]	2014[3]		2013[2]	
	Stores	Share	Stores	Stores	Share	Stores	Share
Lawson, Inc.							
Company-operated stores							
LAWSON	**166**	**1.3%**	43	123	1.0%	112	1.0%
NATURAL LAWSON	**30**	**0.2%**	-2	32	0.3%	32	0.3%
Franchise stores							
Type B	**1,191**	**9.6%**	-95	1,286	10.5%	1,207	10.4%
Type G	**1,821**	**14.7%**	-167	1,988	16.2%	2,081	17.9%
Type C	**7,759**	**62.6%**	523	7,236	58.9%	6,630	57.1%
NATURAL LAWSON	**104**	**0.8%**	20	84	0.7%	73	0.6%
LAWSON STORE100[1]	**809**	**6.5%**	-342	1,151	9.4%	1,202	10.4%
Subtotal	**11,880**	**95.8%**	-20	11,900	96.9%	11,337	97.7%
Lawson Kochi, Inc.							
Company-operated stores	**5**	**0.0%**	5	–	–	–	–
Franchise stores	**127**	**1.0%**	127	–	–	–	–
Subtotal	**132**	**1.1%**	132	–	–	–	–
Lawson Minami-Kyushu, Inc.							
Company-operated stores	**1**	**0.0%**	–	1	0.0%	3	0.0%
Franchise stores	**191**	**1.5%**	-10	201	1.6%	79	0.7%
Subtotal	**192**	**1.5%**	-10	202	1.6%	82	0.7%
Lawson Okinawa, Inc.							
Company-operated stores	**2**	**0.0%**	–	2	0.0%	1	0.0%
Franchise stores	**189**	**1.5%**	17	172	1.4%	162	1.4%
Subtotal	**191**	**1.5%**	17	174	1.4%	163	1.4%
Total number of convenience stores in Japan	**12,395**	**100.0%**	119	12,276	100.0%	11,606	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.

Our Home Convenience Service Initiative

With regard to our home convenience service initiative, Lawson, Inc. in June 2015 established a joint venture company with SG HOLDINGS, CO., LTD., whose core company is SAGAWA EXPRESS CO., LTD. This joint venture, at some LAWSON stores in Setagaya-ku, Tokyo, Japan, launched the service of delivering goods to customers' homes while taking orders with each store serving as the delivery starting point. Meanwhile, in September 2015, Lawson, Inc. rolled out the At-Convenience Store Receipt Service that allows merchandise bought via online shopping mall Rakuten to be received by the customer at LAWSON stores across the country.

Through partnering with a wider scope of companies, we will continue to build the Open Platform utilizing the service network for LAWSON store-based order intake, merchandise receipt, and home delivery, and provide improved convenience to customers.

■ Types of Lawson contracts

(Previous contracts)

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

(New contracts)

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

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

■ LAWSON STORE100 contracts

Contract type		VL-J	VL-B
Land and buildings		Provided by headquarters	A franchise store uses its own land and building
Contract stores		Stores already being operated by the company as LAWSON STORE100	Land and building owned by a franchise store
Contract term		10 years from the opening day	10 years from the opening day
Necessary expenses	Payment by a franchise store at time of contract [4]	¥2.55 million (consumption tax included) Breakdown Franchise fee ¥1.05 million (consumption tax included) Contract fee ¥262,500/Training expenses ¥262,500/Store opening preparation commission ¥525,000 Investment ¥1.5 million (including payment for some merchandise purchased on behalf of the store)	
	Other expenses	Store opening preparation expenses: Approx. ¥500,000 (e.g., change, licensing fee for operation)	
Investment	Store construction and interior decoration	Borne by headquarters	Borne by a franchise store
	Business fixtures	Provided by headquarters	
Minimum guarantee [5]		¥20.4 million per year	¥22.2 million per year
Headquarters income [5]		[Sliding scale] The following percentage of gross profit (monthly): ¥1–¥3,000,000: Gross profit x 27% ¥3,000,001–¥3,500,000: Gross profit x 68% ¥3,500,001–¥4,500,000: Gross profit x 62% ¥4,500,001 or greater: Gross profit x 48%	Gross profit x 27%
Support to franchise stores (Operating expenses of a franchise store partially borne by headquarters)		Headquarters will bear the following percentage of clearance and disposal costs according to their proportion in monthly merchandise sales: • Greater than 1.5% up to 2.0%: 30% • Greater than 2.0%: 60% Headquarters will pay up to ¥100,000 a month.	—

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

Overview of Sales Figures

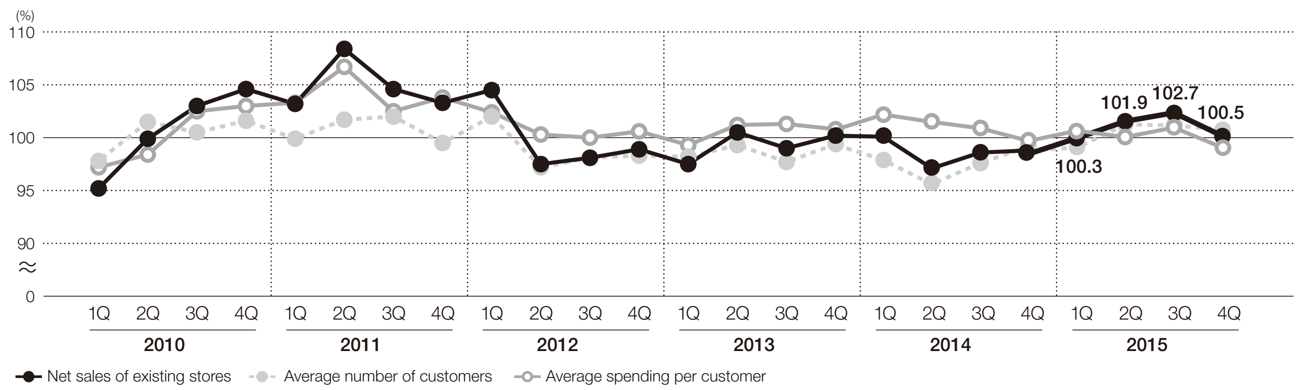
Net Sales

Net sales of all LAWSON stores (consolidated) for fiscal 2015 amounted to 2,049,500 million yen (up 4.5% from the previous fiscal year). This year-on-year sales growth was achieved as the number of LAWSON stores in Japan increased to 12,515 (including the stores of all Group companies and those of the Seijo Ishii business), a gain of 132 compared to the previous fiscal year, among other factors.

Sales of existing stores for fiscal 2015 (consolidated basis) grew 1.4% from the previous fiscal year due to the fact that: 1) combined total existing store sales of LAWSON and NATURAL LAWSON rose 1.4% year on year as the number of customers recovered thanks to aggressive advertising; and 2) existing store sales of LAWSON STORE 100, for which a business revival plan was implemented, increased 1.8% year on year.

Regarding consolidated results by product category, sales of fast foods increased by 9.2% from the previous fiscal year. Sales of daily delivered foods also contributed to the Group's overall performance, growing by 3.6% from the previous fiscal year.

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



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

(Fiscal year)	2015	2014	2013	2012	2011
Net sales of existing stores (YoY)	**101.4%**	99.0%	99.8%	100.0%	105.4%
Average number of customers	**100.9%**	98.0%	99.0%	99.4%	101.0%
Average spending per customer	**100.4%**	101.0%	100.8%	100.6%	104.3%

* The total of LAWSON and NATURAL LAWSON.

Sales of rice-based foods in the fast food category increased from the previous fiscal year, helped by new products rolled out under the Passionate and Delicious project as well as sales promotion measures such as the Rice Ball 100 Yen Sale event and TV commercials. Sales of over-the-counter fast foods in the same category grew markedly from the previous fiscal year as sales of MACHI Cafe products, for which the café latte price was revised, remained strong throughout the fiscal year and over-the-counter donut sales service was introduced to almost all Group stores.

Sales of delicatessen items in the fast food category and daily delivered foods in the daily delivered food category increased significantly from the previous fiscal year as we stepped up efforts on these products throughout fiscal 2015 in a move to bolster our initiative to assist consumers' living. These efforts took the form of: 1) revising salad packages for improved buyer convenience; 2) enlarging the sales space for Lawson Select products; and 3) implementing sales promotion measures in an aggressive manner.

Sales of chilled beverages in the daily delivered food category grew from the previous fiscal year, driven by cup beverage items under the NATURAL LAWSON brand, for which cumulative sales of smoothie series such as Green Smoothie exceeded 27 million units.

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

(Millions of yen)

(Fiscal year)	2015		2014		2013		2012		2011	
Fast foods (share)	**463,432**	**23.6%**	429,212	22.2%	408,672	21.1%	373,385	19.6%	345,424	18.9%
Daily delivered foods (share)	**276,886**	**14.1%**	277,210	14.4%	275,437	14.2%	272,312	14.3%	263,180	14.4%
Processed foods (share)	**1,033,449**	**52.7%**	1,034,355	53.5%	1,060,455	54.7%	1,064,133	55.8%	1,022,619	56.0%
(Cigarettes) (share)	**476,176**	**24.3%**	482,750	25.0%	459,100	23.7%	496,971	26.1%	470,666	25.8%
Total food sales (share)	**1,773,767**	**90.4%**	1,740,778	90.1%	1,744,564	90.1%	1,709,830	89.7%	1,631,223	89.3%
Non-food products (share)	**186,500**	**9.5%**	192,020	9.9%	192,726	9.9%	196,716	10.3%	194,587	10.7%
Net sales of all stores (share)	**1,960,267**	**100.0%**	1,932,798	100.0%	1,937,292	100.0%	1,906,547	100.0%	1,825,810	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 31.3%, flat compared to the previous fiscal year and in line with plan. However, the gross profit margin for non-cigarette products declined by 0.5 percentage points from the previous fiscal year, which was attributable to the fact that: 1) post-price revision sales of café latte remained strong throughout fiscal 2015; 2) the gross profit margin for the over-the-counter fast food category declined as donut sales service was introduced to a higher number of stores; and 3) sale and campaign events were held frequently with a focus on flagship product categories.

Notes: * The total of LAWSON and NATURAL LAWSON.

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

(Fiscal year)	2015	2014	2013	2012	2011
Fast foods	**38.4%**	38.9%	38.9%	38.4%	38.2%
Daily delivered foods	**34.0%**	34.1%	34.1%	34.4%	34.5%
Processed foods	**24.0%**	24.1%	24.0%	23.9%	23.8%
Non-food products	**49.7%**	48.9%	47.7%	45.6%	43.4%
Gross profit margin	**31.3%**	31.3%	31.0%	30.5%	30.1%

■ Third party bill settlement services (Non-consolidated)

(Fiscal year)	2015	2014	2013	2012	2011
Bill settlements (millions of yen)	**2,088,693**	2,073,049	1,979,384	1,879,679	1,725,788
Number of transactions (millions)	**198.3**	198.9	196.1	190.4	177.7
Commission revenues (millions of yen)	**10,671**	10,779	10,585	10,192	9,488

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-related business.

With regard to entertainment-related business, Lawson HMV Entertainment, which forms the core of the business, posted a solid performance led by an increase in ticket sales and continued to secure the top position in the ticketing industry. The number of HMV stores that sell music CDs and DVDs totaled 53 as of the end of February 2016 following the November 2015 launch in Shibuya, Tokyo of HMV&BOOKS TOKYO as HMV's largest entertainment store complex integrating book and music services. Furthermore, United Cinema Co., Ltd. operates a total of 342 screens at its cinemas nationwide (including screens operated on commission). We will strive to offer an even wider selection of products and services to better respond to customer needs by, for example, expanding our ticketing business.

Regarding the Seijo Ishii business, Seijo Ishii, operated by SEIJO ISHII CO., LTD., is a chain of small supermarkets that strives to develop and manufacture high-value-added products. The company-operated stores of Seijo Ishii totaled 120 as of the end of February 2016. During fiscal 2015, Seijo Ishii posted strong sales of coconut oil and chia seed items whose health effects were featured in TV programs and through other media. 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. 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.

With regard to the overseas business, the Group operates LAWSON stores in Shanghai, Chongqing, Dalian, and Beijing in the People's Republic of China. In Thailand, Saha Lawson Co., Ltd., a joint venture with such companies as the SAHA Group, a leading distributor of consumer goods in Thailand, operates stores under the store brand of LAWSON 108 and 108SHOP. In Hawaii in the United States, Lawson USA Hawaii, Inc. operates LAWSON stores. In Indonesia, PT MIDI UTAMA INDONESIA Tbk also operates LAWSON stores. Moreover, in the Philippines, the first LAWSON store was opened in March 2015 upon Lawson, Inc. completing equity participation in PG Lawson Company, Inc., a joint venture with Puregold Price Club, Inc., a leading retailer in the country.

Lawson ATM Networks, Inc., which operates the financial services-related business, continued contributing to consolidated results owing to an increase in the number of ATMs installed at LAWSON stores. In the fiscal year under review, we expanded new partnerships with financial institutions, bringing the total number of our financial institution partners, including online banks, to 80 nationwide (up nine from the end of the previous fiscal year), and the number of ATMs installed nationwide to 11,201 (up 434 from the end of the previous fiscal year) as of the end of February 2016. Starting from September 2015, we introduced, on a step-by-step basis, new-model ATMs enabling the customer to withdraw Japanese yen cash with the UnionPay card with the result that use of the card became allowed at all LAWSON ATMs.

Items of the Consolidated Statement of Income

Gross Operating Revenues

For the year ended February 29, 2016, gross operating revenues consisting of net sales, franchise commissions from franchise stores, and "Other" stood at 583.4 billion yen, an increase of 85.5 billion yen, or 17.2%, compared to the year-ago period, and 4.4 billion yen in excess of the plan. Of these items, net sales amounted to 227.6 billion yen, higher year on year, which was attributable to the fact that revenues of company-operated store-centric SEIJO ISHII CO., LTD., of which only fourth-quarter accounts were consolidated for the previous fiscal year, and United Cinema Co., Ltd., of which only four-month accounts were consolidated for the previous fiscal year, were fully included in the consolidated statement of income of Lawson, Inc. Franchise commissions from franchise stores totaled 247.6 billion yen, increased from the year-ago period , thanks to the strong sales of LAWSON stores.

For the fiscal year under review, "Other" stood at 94.1 billion yen.

Selling, General, and Administrative Expenses

For the year under review, consolidated selling, general, and administrative expenses stood at 354.9 billion yen, an increase of 55.6 billion yen compared to the year-ago period, and approx. 1.3 billion yen in excess of the plan. Of the increase of 55.6 billion yen, 18.6 billion yen is accounted for by non-consolidated accounts. The remainder totaling 37.0 billion yen is attributable to the fact that selling, general, and administrative expenses of SEIJO ISHII CO., LTD., of which only fourth-quarter accounts were consolidated for the previous fiscal year, and United Cinema Co., Ltd., of which only four-month accounts were consolidated for the previous fiscal year, were fully included in the consolidated selling, general, and administrative expenses of Lawson, Inc. for the year under review.

Non-consolidated selling, general, and administrative expenses amounted to 251.6 billion yen, an increase of 18.6 billion yen, or 8.0%, compared to the year-ago period, and approx. 0.5 billion yen short of the plan.

Non-consolidated advertising and promotional expenses stood at 14.7 billion yen, an increase of 6.4 billion yen compared to the year-ago period. The cost to support franchise stores to sustain the amount of inventory, a component of our new franchise contract package, was not included in advertising and promotional expenses for accounting purposes, and grew by 0.7 billion yen compared to the year-ago period. Separately, of the revenues of SCI, Inc., the amount used as cooperation money for assisting franchise owners increased by 1.9 billion yen compared to the year-ago period.

Non-consolidated personnel expenses amounted to 39.2 billion yen, an increase of 2.5 billion yen compared to the year-ago period and 0.3 billion yen above of the plan, which was attributable to a growth in the number of employees, among other factors. Non-consolidated information technology (IT) costs stood at 11.3 billion yen, a decrease of 1.4 billion yen compared to the year-ago period and 0.7 billion yen short of the plan. Non-consolidated facilities costs totaled 135.6 billion yen, an increase of 8.2 billion yen compared to the year-ago period on the back of the rising number of stores, yet came in 1.6 billion yen short of the plan due to the fact that the targeted number of new store openings fell short of the plan.

The remainder of non-consolidated costs and expenses grew by 2.9 billion yen compared to the year-ago period, yet came in 2.5 billion yen short of the plan, which was attributable to the fact that the targeted number of new store openings fell short of the plan and that expenses for new franchise contracts were low as unit electricity rates declined.

■ Breakdown of Selling, General, and Administrative expenses

(Millions of Yen)

(Fiscal Year)	2015	2014	2013	2012	2011
Personnel expenses	68,994	60,847	58,990	60,013	60,887
Percentage composition	19.4%	20.3%	20.3%	21.7%	23.3%
Advertising and promotional expenses	29,461	16,718	17,734	16,607	14,146
Percentage composition	8.3%	5.6%	6.1%	6.0%	5.4%
Rent	108,795	96,877	89,485	84,578	78,483
Percentage composition	30.6%	32.3%	30.8%	30.6%	30.1%
Equipment lease	2,763	3,579	4,494	5,914	8,205
Percentage composition	0.8%	1.2%	1.5%	2.1%	3.1%
Depreciation and amortization	49,157	41,788	47,889	43,886	37,846
Percentage composition	13.8%	14.0%	16.5%	15.9%	14.5%
Depreciation of property and store equipment*	40,270	32,959	37,872	34,030	28,999
Percentage composition	11.3%	11.0%	13.0%	12.3%	11.1%
Amortization of intangible assets	8,886	8,830	10,017	9,856	8,847
Percentage composition	2.5%	3.0%	3.5%	3.6%	3.4%
Other	95,791	79,506	71,892	65,315	61,375
Percentage composition	27.0%	26.6%	24.8%	23.7%	23.5%
Total	354,961	299,315	290,483	276,314	260,942
Percentage composition	100.0%	100.0%	100.0%	100.0%	100.0%

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

Operating Profit

Operating profit for fiscal 2015 stood at 72.5 billion yen, an increase of 2.0 billion yen, or 2.9%, compared to the year-ago period, despite higher advertising and promotional expenses and other expenses as: 1) net sales of existing stores grew by 1.4% compared to the year-ago period; 2) the non-consolidated number of stores grew by 108 year on year; and 3) good contribution was made by consolidated subsidiaries that joined the Group in fiscal 2014, such as SEIJO ISHII CO., LTD. and United Cinema Co., Ltd. The operating profit margin for all Lawson chain stores was at 3.5%, flat compared to the year-ago period.

Recurring Profit

Recurring profit for the year under review stood at 69.6 billion yen, a decrease of 2.0 billion yen, or 2.9%, compared to the year-ago period, albeit 0.7 billion yen in excess of the plan as non-operating loss amounted to 2.9 billion yen (compared to non-operating income of 1.2 billion yen for the year-ago period), which was attributable to foreign exchange loss caused by the yen's appreciation and to increased loss on lease contract termination stemming from store shutdowns.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests for fiscal 2015 amounted to 55.4 billion yen, a decrease of 2.9 billion yen, or 5.1%, compared to the year-ago period as the Company recorded 14.2 billion yen in extraordinary losses mainly due to greater impairment of stores. In view of the operating environment changing recently at an accelerating pace, we began to apply more precise standards for stores subject to impairment, starting from the fourth quarter of fiscal 2015. Consequently, impairment of stores for the year under review grew compared to the year-ago period since we recorded impairment losses under the new and old standards.

Net Income

As a result, net income for the year under review stood at 31.3 billion yen, a decrease of 1.3 billion yen, or 4.0%, compared to the year-ago period. Net income per share amounted to 313.81 yen.

Items of the Consolidated Balance Sheet

● **Consolidated Balance Sheet**

Current Assets

Current assets as of February 29, 2016 stood at 224.2 billion yen, an increase of 0.5 billion yen, or 0.2%, compared to the end of the previous fiscal year. This was attributable mainly to the fact that accounts receivable-other increased by 9.0 billion yen, or 15.4%, year on year to 67.7 billion yen as transactions by SCI, Inc. grew in value and that cash and deposits decreased by 6.9 billion yen, or 9.0%, year on year to 69.7 billion yen

Non-current assets

Non-current assets as of February 29, 2016 amounted to 579.0 billion yen, an increase of 38.0 billion yen, or 7.0%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that property and store equipment grew by 28.3 billion yen, or 10.3%, compared to the end of the previous fiscal year. As a result, total assets as of February 29, 2016 stood at 803.2 billion yen, an increase of 38.5 billion yen, or 5.0%, compared to the end of the previous fiscal year.

Current Liabilities

Current liabilities as of February 29, 2016 stood at 319.6 billion yen, an increase of 18.5 billion yen, or 6.1%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that accounts payable-other grew by 13.6 billion yen, or 31.4%, as transactions by SCI, Inc. increased in value.

Long-term Liabilities

Long-term liabilities as of February 29, 2016 amounted to 210.6 billion yen, an increase of 10.8 billion yen, or 5.4%, compared to the end of the previous fiscal year, which was mainly attributable to the fact that lease obligations grew by 11.8 billion yen, or 15.6%, compared to the end of the previous fiscal year. As a result, total liabilities as of February 29, 2016 stood at 530.2 billion yen, an increase of 29.3 billion yen, or 5.8%, compared to the end of the previous fiscal year.

Net Assets

Net assets as of February 29, 2016 amounted to 272.9 billion yen, an increase of 9.1 billion yen, or 3.5%, compared to the end of the previous fiscal year. Retained earnings totaled 154.6 billion yen, an increase of 7.4 billion yen as the Company recorded 31.3 billion yen in net income and paid out 24.2 billion yen in dividends. As a result, the shareholders' equity ratio as of February 29, 2016 stood at 32.9% (compared to 33.5% 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 29, 2016, accounts receivable-due from franchise stores stood at 30.5 billion yen, a decrease of 6.5 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 29, 2016, accounts receivable-other amounted to 67.7 billion yen, an increase of 9.0 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 29, 2016 stood at 40.8 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 29, 2016 totaled 92.4 billion yen, a decrease of 7.1 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 29, 2016 totaled 1.9 billion yen, an increase of 0.4 billion yen compared to the end of the previous fiscal year.

Money Held as Agent

Money held as agent is composed chiefly of money received for utility bill agent payment service and money received as the price of tickets for concerts and so forth. The agency payment service handling amount stood at 2,088.6 billion yen, an increase of 0.8% compared to a year-ago period, supported by the rising number of transactions and payee companies, in continuation of the growth trend. Money held as agent as of February 29, 2016 amounted to 101.9 billion yen, a decrease of 1.7 billion yen compared to the end of the previous fiscal year.

Guarantee Deposits Received from Franchise Stores and Other

Guarantee deposits received from franchise stores and other represent guarantee money deposited to the headquarters by franchise owners in the type G agreement with Lawson, Inc. On March 1, 2012, the Company's new franchise contract package type Cn agreement came into effect, causing it to cease to conclude any type G agreement anew. As of February 29, 2016, guarantee deposits received from franchise stores and other totaled 27.5 billion yen, a decrease of 2.4 billion yen compared to the end of the previous fiscal year, which was attributable to reimbursements made to franchise stores as a result of agreement renewals and terminations.

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

Total capital expenditures for the year ended February 29, 2016 stood at 106.7 billion yen, an increase of 34.5 billion yen compared to a year-ago period. Investments in new stores amounted to 40.4 billion yen, a decrease of 8.5 billion yen compared to a year-ago period as the number of store openings was lower year-on-year and due to an unfavorable comparison base effect after a period of our initiative to encourage owners of other convenience store chains to migrate to the LAWSON store format. Investments in existing stores totaled 6.7 billion yen, an increase of 0.8 billion yen compared to a year-ago period. IT-related investments came to 15.8 billion yen, an increase of 7.6 billion yen compared to a year-ago period due mainly to the introduction of a semi-automatic ordering system, an overhaul of our ticketing system and the introduction of new model ATMs. Lease transactions stood at 38.0 billion yen, an increase of 5.2 billion yen compared to a year-ago period. New investments and advances amounted to 4.1 billion yen, a decrease of 38.4 billion yen compared to a year-ago period, due primarily to the fact that, in FY2014, the Company acquired shares in SEIJO ISHII CO., LTD.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures

(Millions of Yen)

(Fiscal Year)	2015	2014	2013	2012	2011
New store investments	**40,460**	49,014	32,230	33,133	21,596
Existing store investments	**6,727**	5,840	7,078	8,769	10,241
IT-related investments	**15,882**	8,218	5,362	5,907	7,744
Other investments	**1,466**	2,752	2,067	3,238	630
Sub-total investments	**64,535**	65,823	46,736	51,047	40,211
Investments and advances	**4,122**	42,610	5,189	1,550	12,401
Leases*	**38,089**	32,818	32,107	24,765	21,960
Total	**106,747**	141,251	84,032	77,361	74,572

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

■ Breakdown of depreciation and amortization

(Millions of Yen)

(Fiscal Year)	2015	2014	2013	2012	2011
Depreciation of property and store equipment*	**40,396**	32,977	37,872	34,030	28,999
Amortization of intangible assets	**8,897**	8,849	10,017	9,856	8,847
Total depreciation and amortization	**49,293**	41,826	47,889	43,886	37,846

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

Cash Flows

Net cash provided by operating activities for the year ended February 29, 2016 stood at a cash inflow of 112.2 billion yen, a cash increase of 1.6 billion yen compared to a year-ago period, due mainly to an increase in liability for employees' retirement benefits.

Net cash used in investing activities for the year ended February 29, 2016 amounted to a cash outflow of 68.6 billion yen, a cash increase of 31.7 billion yen compared to a year-ago period, which was due, among others, to the absence of expenditure for subsidiary stock acquisition involving change to the scope of consolidation.

Net cash used in financing activities for the year ended February 29, 2016 amounted to a cash outflow of 50.2 billion yen, a cash decrease of 46.9 billion yen compared to a year-ago period, which was due to the absence of a cash inflow from long-term loans.

As a result, cash and cash equivalents as of February 29, 2016, stood at 69.7 billion yen, a decrease of 6.9 billion yen compared to February 28, 2015.

Capital Policy: Dividend and Treasury Stock Retirement

To return profits to shareholders is deemed by the Company to be one of its top priority business management policies. Thus, management runs the organization with due regard to the levels of capital cost reflecting what investors expect from the Company in terms of investment returns.

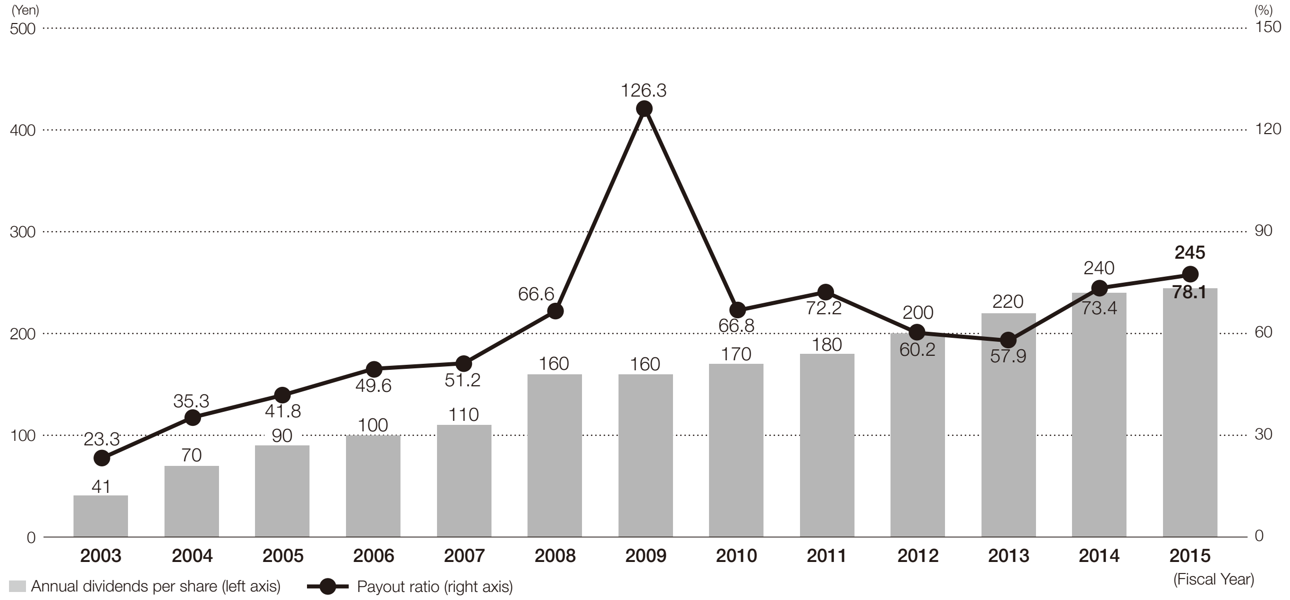
For this reason, we use ROE (Return on Equity), one of the return on capital metrics, as the Company's top priority business management indicator in an effort to selectively pursue businesses offering ROI above the cost of capital.

The Company holds internal reserves required to make investments towards achieving corporate growth that is sustainable in the medium- to long-term, and continues to preserve the stability of its financial position. Based on a rigorous selection process, we will make investments offering the prospect of superior investment returns, and strive to grow cash flows from operating activities in a sustainable manner while continuing to generate free cash flows. Moreover, based on a capital composition deemed appropriate by management, the Company will distribute dividends of surplus, purchase its own shares as treasury stock and retire them while striving to achieve return on capital above the cost of capital, thereby aiming to attain ROE of 20% in the medium-term.

The Company's dividend policy does not have any specific dividend payout ratio target. Through the process of making investments necessary for its sustainable growth, the Company aims to increase its dividend payments consistently as a means of distributing its ample free cash flows to shareholders. The fundamental concept of its capital policy is that such process will allow the organization to improve return on capital without needlessly holding surplus cash internally. For the year ending February 28, 2017, the Company intends to pay a per-share dividend of 250 yen, an increase of 5 yen compared to the fiscal year 2015.

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

■ Annual dividends per share & payout ratio



Overview of major consolidated subsidiaries and equity method affiliates

Consolidated financial results for the year ended February 29, 2016 include the financial results of 21 group companies comprising 18 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 Mart, Inc. (consolidated subsidiary)

Established on November 14, 2013, Lawson Mart, Inc. ("Lawson Mart") succeeded to the operational functions of Ninety-nine Plus, Inc., including its store operation and product development, on February 1, 2014 through an absorption-type company split.

The former succeeded to the latter's store-related assets including franchise agreements for the LAWSON STORE 100 (including Lawson Mart). During the year ended February 29, 2016, Lawson Mart planned and steadily implemented a business revival plan to close down approx. 300 stores, concentrate its store areas and overhaul its product strategy, among other steps. LAWSON STORE 100 will meet the needs of a wide range of customers from children to senior citizens, with a focus on single person and homemaker customers, by offering three types of value, the "diverse merchandise assortment" of a supermarket, the "convenience" of a convenience store and the easy-to-understand "standardized prices" of a 100-yen shop. Effective March, 2016, Lawson Mart changed its corporate name to Lawson Store100, Inc.

■ Lawson Mart, Inc. (Millions of Yen)

(Fiscal Year)	2016.2	2015.2	2014.2
Gross operating revenues	50,675	78,232	6,667
Operating profit	375	1,763	100
Net income	286	985	52

*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 29, 2016, SCI's handling amount stood at 191.2 billion yen, an increase of 103.6 billion yen compared to a year-ago period, as the company broadened its handling domains. Operating profit amounted to 2.3 billion yen, an increase of 109.5% compared to a year-ago period.

■ SCI, Inc. (Millions of Yen)

(Fiscal Year)	2016.2	2015.2	2014.2	2013.2
Gross operating revenue	191,299	87,638	74,460	33,842
Operating profit	2,365	1,128	509	325
Ordinary profit	2,369	1,128	510	325
Net income	1,423	687	300	197

*Consolidated starting from September 2012

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 29, 2016, Lawson Okinawa, Inc. had a total of 191 stores at the period-end date, and operating profit stood at 1.4 billion yen, an increase of 18.9% 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)	2016.2	2015.2	2014.2	2013.2	2012.2
Gross operating revenues	5,605	4,674	4,199	3,954	3,659
Operating profit	1,407	1,183	1,051	924	780
Net income	954	738	792	799	1,049

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 29, 2016, Lawson Minamikyushu had a total of 192 stores at the period-end date, and operating profit stood at a negative 500 million yen. 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)	2016.2	2015.2
Gross operating revenues	3,756	3,595
Operating profit (loss)	(183)	(422)
Net income (loss)	(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. This turned LAWSON stores in Kochi Prefecture into its biggest convenience store chain in the number of stores. For the year ended February 29, 2016, the number of LAWSON stores in the prefecture stood at 132 at the period-end date, and the operating profit of Lawson Kochi, Inc. amounted to 400 million yen.

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)	2016.2
Gross operating revenues	4,208
Operating profit	430
Net income	286

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

SEIJO ISHII CO., LTD. (consolidated subsidiary)

Supermarket operator SEIJO ISHII CO., LTD. ("Seijo Ishii") is a firm that has achieved outstanding brand appeal by using its superior merchandising skills to deliver high added value, with the aim of becoming a company that is "committed to ensuring food quality excellence and helping create a better world to live in." Its existing network of "SEIJO ISHII" brand supermarkets, renowned for quality, consists of 120 stores located mainly in the Kanto area (as of February 29, 2016).

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

For the year ended December 31, 2015, Seijo Ishii recorded strong sales, driven by coconut oil and chia seed items the health effects of which were featured in TV programs and through other media, posting an operating profit of 5.7 billion yen, an increase of 274.5% compared to a year-ago period, which reflects the fact that the previous fiscal year's results included only the three month-operating profit.

■ SEIJO ISHII CO., LTD. (Millions of Yen)

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

*Consolidated starting from October 2014

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 29, 2016, Lawson HMV Entertainment's operating profit stood at 2.4 billion yen, a decrease of 20.2% compared to a year-ago period, mainly because its profitability deteriorated due to an intensifying competition for winning ticketing mandates for major concerts in spite of strong sales of tickets such as theme park admission tickets.

* 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)	2016.2	2015.2	2014.2	2013.2	2012.2
Gross operating revenues	50,205	46,018	45,314	45,481	25,545
Operating profit	2,469	3,094	2,819	2,446	1,650
Net income	1,644	2,918	2,450	2,450	2,073

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 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 29, 2016, stood at 6.1 billion yen, an increase of 4.2% compared to a year-ago period, as the company installed a growing number of ATMs at Lawson stores.

During the year, Lawson ATM Networks continued to add to its list of ATM service partner banks, bringing the total to 80 banks based in Japan, including online banks, as of February 29, 2016, an increase of nine banks compared to a year ago. The number of ATMs in operation at Lawson stores nationwide totaled 11,201, an increase of 434 year-on-year.

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

(Fiscal Year)	2016.2	2015.2	2014.2	2013.2	2012.2
Gross operating revenues	**24,688**	23,567	24,188	23,975	23,063
Operating profit	**6,188**	5,935	6,089	4,753	3,640
Net income	**3,877**	3,605	3,690	2,712	1,993

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.

UC is Japan's third-largest cinema operator running 38 cinemas in the country (including partner cinemas) with 342 screens in combined total as of February 29, 2016. Thus, 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.

Operating profit of UC for the year ended February 29, 2016 stood at 2.3 billion yen, an increase of 1,507% compared to a year-ago period. This sharp year-on-year gain resulted from the fact that the previous year's financial results included only the four-month operating profit and that the financial results for the year under review included the 14-month operating profit as UC's fiscal year was revised into one ending on the last day of February of each year, in a move to make the period identical to the fiscal year of Lawson, Inc.

■ United Cinemas Co., Ltd. (Millions of Yen)

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

*Consolidated starting from September 2014

Shanghai Hualian Lawson, Inc. (consolidated subsidiary)

We were the first Japanese convenience store company to gain a foothold in China with our first store opening in 1996. We established 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 94.0% as of February 28, 2015.

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 458 as of February 29, 2016.

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

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

(Fiscal Year)	2015.12	2014.12	2013.12	2012.12	2011.12
Gross operating revenues	**8,532**	1,360	1,290	903	4,917
Operating profit (loss)	**(756)**	(646)	(404)	(574)	(283)
Net income (loss)	**(1,100)**	(925)	(1,568)	(2,034)	(443)

*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 33 million people (2014 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 (2014 JETRO survey). This double-digit economic growth rate exceeds the national average and that of coastal cities such as Shanghai. It is against this backdrop that potential demand for convenience stores in China's fast-growing inland cities is increasing.

We established Chongqing Lawson, Inc. in April 2010 to gain a foothold in inland China as the first Japanese convenience store company to operate there at the invitation of the city. The first local Lawson store was opened in July the same year as a store equipped with a staff training facility. The Lawson store network has continued to grow steadily since, bringing the total store count to 110 as of February 29, 2016.

■ Chongqing Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2015.12	2014.12	2013.12	2012.12	2011.12
Gross operating revenues	**4,400**	3,474	1,843	977	258
Operating profit (loss)	**(778)**	(904)	(840)	(671)	(243)
Net income (loss)	**(973)**	(1,047)	(833)	(775)	(249)

Dalian Lawson, Inc. (consolidated subsidiary)

With a population of some six million (2014 JETRO survey), Dalian is the biggest port city in Northeast China. Following an invitation by the city of Dalian to commence convenience store operations there, we established Dalian Lawson, Inc. in September 2011 as a joint venture with local enterprise Dalian Acasia Fast Foods Co., 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 53 as of February 29, 2016.

In the city of Beijing, we established Beijing Lawson, Inc. (non-consolidated company) in May 2013. The company opened 15 stores in the year ended February 29, 2016, bringing the total number of stores to 34 as of the date.

■ Dalian Lawson, Inc. (Millions of Yen)

(Fiscal Year)	2015.12	2014.12	2013.12	2012.12	2011.12
Gross operating revenues	**1,503**	995	516	176	4
Operating profit (loss)	**(313)**	(313)	(227)	(163)	(21)
Net income (loss)	**(345)**	(338)	(211)	(196)	(27)

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 47 as of February 29, 2016.

■Saha Lawson Co., Ltd. (Millions of Yen)

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

*Consolidated starting from January 2013

Outlook for Fiscal 2016

With the aim of becoming an essential part of our communities, we launched the 1000-Day Action Plan viewing three years from fiscal 2016, ending February 28, 2017, as a significant period that will greatly influence our future, at a time when the external environment is changing markedly. We will evolve our business model as the Manufacturing Retailer Based on Small Commercial Areas, achieving unprecedented superior store productivity, thereby building a Next-Generation LAWSON Convenience Store model that meets customers' needs in all aspects of their living.

Merchandise assortment expansion through capital expenditure

To meet daily customer needs, we in fiscal 2016 will engage in capital expenditure programs for LAWSON stores with a strong focus on the first half of the year, expanding our merchandise assortment to 3,500 items, an increase of about 10% compared to the previous level. Specifically, we will conduct large-scale renovations involving the installation of more refrigerated showcases as well as the introduction of flatbed freezers and higher shelves. Covering merchandise assortment assistance to franchise stores as well, we plan to spend relevant expenses mainly during the first half of fiscal 2016. For the year, we aim to achieve a 1.0% year-on-year growth in net sales of existing stores by having an increased number of items bought by customers, based on our merchandise assortment enhancement efforts.

Initiative towards Next-Generation LAWSON Convenience Store

In fiscal 2016, we will put a three temperature-range logistics center into operation and begin to develop an unprecedented cloud computing-based system. While evolving our platform-creating initiatives launched in fiscal 2015 such as semi-automatic ordering systems, we will proceed with the 1000-Day Action Plan towards building the Next-Generation LAWSON Convenience Store model.

New store opening plan focusing on location and profitability prospect

During fiscal 2016, the Company plans to open 1,200 new LAWSON stores, including those run by merchants migrating to the LAWSON store format under a new partnership agreement. While working harder to promote store relocation to better locations, we will close down 500 LAWSON stores in the year, bringing our net store increase to 700 for fiscal 2016. To stably secure high-quality franchise store owners, we put in place the LAWSON Store Manager System, starting from fiscal 2015. The 1,200 new LAWSON stores planned to be opened include approximately 100 to 200 openings as company-operated stores intended to be converted into franchise stores in the future.

Optimization of gross profit margin and costs

For fiscal 2016, we aim to achieve a gross profit margin of 31.6%, an increase of 0.3 percentage points compared to a year-ago period. We intend to attain improved gross profit margin by expanding sales of ready-made food category items, merchandise with a higher gross profit margin, through having the semi-automatic ordering system take hold in the organization and bolstering our customer living-related assistance service.

Selling, general and administrative expenses for fiscal 2016 will likely grow approximately 10% to 15% year-on-year mainly due to projected increases in: 1) facility costs resulting from new store openings; 2) franchise store assisting costs, designed to help realize a merchandise assortment that meets customers' everyday needs; and 3) advertising costs. This will be coupled with the effects of higher pro forma standard tax.

Income contribution by consolidated subsidiaries

For fiscal 2016, LAWSON STORE 100, in a shift from its business revival to growth stages, is projected to achieve profitability, posting 600 million yen in operating profit on an entire business basis, including the Business Division. Meanwhile, SEIJO ISHII CO., LTD. will likely record an operating profit gain of 1.7 billion yen year-on-year as its sales and profit growth trend continues as in a year-ago period, coupled with the fact that the company's fiscal 2016 will be a 14-month period due to its financial closing month being changed from December to February of each year.

Business performance outlook for fiscal 2016

For fiscal 2016 ending February 28, 2017, consolidated operating profit is projected at 76.0 billion yen, an increase of 4.8% year on year. Costs to be assumed in the year's first half will likely be heavy as the period in which the initiative to step up our customer living assisting service will be implemented in a concentrated manner. This will presumably cause non-consolidated operating profit for this period to decline year-on-year before rising year-on-year in the second half of fiscal 2016, a period in which the benefits of the measures involved will likely materialize. For fiscal 2016, net profit is projected at 35.5 billion yen, an increase of 13.1% year-on-year, and ROE at 13.2%, an increase of 1.2 percentage points year-on-year.

Consolidated Balance Sheet

Lawson, Inc. and Consolidated Subsidiaries
February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2016	2015	2016
CURRENT ASSETS :			
Cash and cash equivalents	¥69,793	¥76,755	$614,267
Time deposits	4	4	35
Accounts receivable:			
Due from franchised stores (Notes 4)	30,547	37,052	268,852
Other	67,736	58,667	596,163
Allowance for doubtful accounts	(8)	(2,579)	(70)
Inventories	17,977	17,044	158,220
Deferred tax assets (Note 15)	4,525	5,300	39,826
Other	33,635	31,400	296,031
Total current assets	224,209	223,643	1,973,324
PROPERTY AND STORE EQUIPMENT :			
Land (Notes 6 and 7)	9,794	9,640	86,200
Buildings (Note 6)	331,133	318,679	2,914,390
Furniture, fixtures, and equipment (Note 6)	73,627	74,271	648,011
Lease assets	179,244	154,932	1,577,574
Other (Note 6)	619	572	5,448
Total	594,417	558,094	5,231,623
Accumulated depreciation	(291,655)	(283,657)	(2,566,934)
Net property and store equipment	302,762	274,437	2,664,689
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	10,120	8,334	89,069
Investments in associated companies	15,600	11,447	137,300
Long-term loans receivable	40,886	37,233	359,849
Goodwill (Note 6)	46,310	48,189	407,587
Software (Note 6)	26,377	18,800	232,151
Trademark right	11,381	11,990	100,167
Lease deposits	92,495	93,206	814,073
Deferred tax assets (Note 15)	22,017	26,252	193,778
Other (Note 6)	11,915	12,204	104,866
Allowance for doubtful accounts	(860)	(1,121)	(7,569)
Total investments and other assets	276,241	266,534	2,431,271
TOTAL	¥803,212	¥764,614	$7,069,284

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2016	2015	2016
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 8 and 19)	¥112,225	¥103,459	$987,722
Due to franchised stores (Note 9)	1,998	1,508	17,585
Other	59,407	48,990	522,857
Short-term bank loans (Note 10)	1,990	1,740	17,515
Current portion of long-term debt (Note 10)	24,473	20,523	215,393
Income taxes payable	8,501	13,301	74,820
Money held as agent	101,909	103,634	896,928
Other	9,104	7,914	80,127
Total current liabilities	319,607	301,069	2,812,947
LONG-TERM LIABILITIES :			
Net defined benefit liability (Note 11)	12,187	12,959	107,261
Allowance for retirement benefits to executive officers and audit and supervisory board members	413	368	3,635
Long-term debt (Note 10)	145,623	134,599	1,281,667
Asset retirement obligations (Note 12)	24,665	21,530	217,083
Other	27,720	30,291	243,971
Total long-term liabilities	210,608	199,747	1,853,617
EQUITY (Note 13) :			
Common stock—authorized, 409,300,000 shares in 2016 and 2015; issued, 100,300,000 shares in 2016 and 2015	58,507	58,507	514,936
Capital surplus	47,697	47,697	419,794
Stock acquisition rights	307	223	2,702
Retained earnings	154,609	147,177	1,360,755
Treasury stock—at cost, 301,897 shares in 2016 and 301,084 shares in 2015	(1,280)	(1,272)	(11,266)
Accumulated other comprehensive income:			
Net unrealized loss on available-for-sale securities	801	(394)	7,050
Land revaluation difference (Note 7)	(566)	(566)	(4,982)
Foreign currency translation adjustments	5,531	5,493	48,680
Defined retirement benefit plans	(906)	(519)	(7,974)
Total	264,700	256,346	2,329,695
Minority interests	8,297	7,452	73,025
Total equity	272,997	263,798	2,402,720
TOTAL	¥803,212	¥764,614	$7,069,284

Consolidated Statement of Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥261,681	¥247,681	$2,303,124
Net sales	227,606	174,044	2,003,221
Other	94,166	76,188	828,781
Total operating revenues	583,453	497,913	5,135,126
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 19)	155,949	128,116	1,372,549
Selling, general, and administrative expenses	354,962	299,315	3,124,115
Total costs and operating expenses	510,911	427,431	4,496,664
Operating income	72,542	70,482	638,462
OTHER (EXPENSES) INCOME:			
Interest expense—net	(1,072)	(658)	(9,436)
Compensation income	646	366	5,686
Foreign exchange gains (losses)	(914)	1,585	(8,044)
Loss on cancellation of leases	(1,953)	(1,168)	(17,189)
Store equipment related income	318	118	2,799
Equity in earnings of unconsolidated subsidiaries and associated companies	293	365	2,579
Loss on sales of non-current assets	(229)	(250)	(2,016)
Loss on disposal of property and store equipment	(4,342)	(2,967)	(38,215)
Loss on liquidation of business		(1,520)	
Impairment of long-lived assets (Note 6)	(10,542)	(8,263)	(92,783)
Other—net	655	281	5,765
Other expenses—net	(17,140)	(12,111)	(150,854)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	55,402	58,371	487,608
INCOME TAXES (Note 15):			
Current	19,234	24,939	169,284
Deferred	4,032	312	35,486
Total income taxes	23,266	25,251	204,770
NET INCOME BEFORE MINORITY INTERESTS	32,136	33,120	282,838
MINORITY INTERESTS IN NET INCOME	(755)	(433)	(6,645)
NET INCOME	¥31,381	¥32,687	$276,193

	Yen		U.S. Dollars
	2016	2015	2016
PER SHARE OF COMMON STOCK (Notes 2.u and 21):			
Net income—basic	¥313.82	¥327.08	$2.76
Net income—diluted	313.57	326.65	2.76
Cash dividends applicable to the year	245.00	240.00	2.14

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME BEFORE MINORITY INTERESTS	¥32,136	¥33,120	$282,838
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	1,195	(300)	10,518
Land revaluation difference		1	
Foreign currency translation adjustments	(16)	962	(141)
Remeasurements of defined benefit plans	(387)		(3,406)
Share of other comprehensive income in associated companies		1,441	
Total other comprehensive income	792	2,104	6,971
COMPREHENSIVE INCOME	¥32,928	¥35,224	$289,809
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥32,227	¥34,762	$283,639
Minority interests	701	462	6,170

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 29, 2016

Thousands of Shares/Millions of Yen

	Common Stock					Treasury Stock		Accumulated Other Comprehensive Income						
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount	Net Unrealized Loss on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2014	100,300	¥58,507	¥47,741	¥557	¥138,142	(396)	¥ (1,556)	¥ (94)	¥ (567)	¥3,118		¥245,848	¥4,650	¥250,498
Net income					32,687							32,687		32,687
Year-end cash dividends, ¥110 per share					(10,989)							(10,989)		(10,989)
Interim cash dividends, ¥120 per share					(11,990)							(11,990)		(11,990)
Change of scope of equity method					(608)							(608)		(608)
Reversal of land revaluation difference					(1)							(1)		(1)
Purchase of treasury stock						(40)	(290)					(290)		(290)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(45)		(64)	135	573					464		464
Disposal of treasury stock			1			0	1					2		2
Others—net				(334)				(300)	1	2,375	¥ (519)	1,223	2,802	4,025
BALANCE, FEBRUARY 28, 2015 (MARCH 1, 2015, as previously reported)	100,300	58,507	47,697	223	147,177	(301)	(1,272)	(394)	(566)	5,493	(519)	256,346	7,452	263,798
Cumulative effects of changes in accounting policies					1,412							1,412		1,412
BALANCE, MARCH 1, 2015 (as restated)	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					**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 consolidation					**(1,111)**							**(1,111)**		**(1,111)**
Reversal of land revaluation difference														
Purchase of treasury stock						**(1)**	**(8)**					**(8)**		**(8)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)														
Disposal of treasury stock			**0**			**0**	**0**					**0**		**0**
Others—net				**84**				**1,195**		**38**	**(387)**	**930**	**845**	**1,775**
BALANCE, FEBRUARY 29, 2016	**100,300**	**¥58,507**	**¥47,697**	**¥307**	**¥154,609**	**(302)**	**¥ (1,280)**	**¥801**	**¥ (566)**	**¥5,531**	**¥ (906)**	**¥264,700**	**¥8,297**	**¥272,997**

Thousands of U.S. Dollars (Note 1)

						Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Loss on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28, 2015 (MARCH 1, 2015, as previously reported)	$514,936	$419,794	$1,963	$1,295,344	$ (11,195)	$ (3,468)	$ (4,982)	$48,345	$ (4,568)	$2,256,169	$65,587	$2,321,756
Cumulative effects of changes in accounting policies				12,427						12,427		12,427
BALANCE, MARCH 1, 2015 (as restated)	514,936	419,794	1,963	1,307,771	(11,195)	(3,468)	(4,982)	48,345	(4,568)	2,268,596	65,587	2,334,183
Net income				**276,193**						**276,193**		**276,193**
Year-end cash dividends, $1.06 per share				**(105,615)**						**(105,615)**		**(105,615)**
Interim cash dividends, $1.08 per share				**(107,816)**						**(107,816)**		**(107,816)**
Change of scope of consolidation				**(9,778)**						**(9,778)**		**(9,778)**
Reversal of land revaluation difference												
Purchase of treasury stock					**(71)**					**(71)**		**(71)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)												
Disposal of treasury stock		**0**			**0**					**0**		**0**
Others—net			**739**			**10,518**		**335**	**(3,406)**	**8,186**	**7,438**	**15,624**
BALANCE, FEBRUARY 29, 2016	**$514,936**	**$419,794**	**$2,702**	**$1,360,755**	**$ (11,266)**	**$7,050**	**$ (4,982)**	**$48,680**	**$ (7,974)**	**$2,329,695**	**$73,025**	**$2,402,720**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥55,402	¥58,371	$487,608
Adjustments for:			
Income taxes paid	(23,984)	(26,176)	(211,090)
Depreciation and amortization	49,293	41,826	433,841
Impairment of long-lived assets	10,542	8,263	92,783
Reversal of allowance for doubtful accounts	(312)	(171)	(2,746)
Loss on disposal of property and store equipment	4,342	2,967	38,215
Changes in assets and liabilities:			
Increase in accounts receivable	(6,312)	(8,025)	(55,554)
Increase in accounts payable	21,952	26,289	193,205
(Decrease) Increase in money held as agent	(1,725)	15,610	(15,182)
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	742	1,684	6,531
Other—net	2,265	(10,070)	19,935
Total adjustments	56,803	52,197	499,938
Net cash provided by operating activities	¥112,205	¥110,568	$987,546
Net cash provided by operating activities—(Forward)	¥112,205	¥110,568	$987,546
INVESTING ACTIVITIES:			
Payments into time deposits	(1,301)	(11,204)	(11,450)
Proceeds from withdrawal of time deposits	1,301	19,204	11,450
Purchases of property and store equipment	(40,884)	(41,053)	(359,831)
Purchases of software and other intangible assets	(15,609)	(7,902)	(137,379)
Increase in long-term loans receivable	(3,632)	(4,633)	(29,590)
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(41,381)	
Acquisition of associated companies	(3,362)	(3,335)	(31,966)
Other—net	(5,170)	(10,130)	(45,503)
Net cash used in investing activities	(68,657)	(100,434)	(604,269)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(26,165)	(42,122)	(230,285)
Cash dividends paid	(24,250)	(22,979)	(213,431)
Proceeds from stock issuance to minority shareholders		2,000	
Proceeds from long-term debt		59,000	
Other—net	214	812	1,884
Net cash used in financing activities	(50,201)	(3,289)	(441,832)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(453)	1,150	(3,986)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,106)	7,995	(62,541)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	76,755	68,760	675,541
CASH AND CASH EQUIVALENTS IN SUBSIDIARIES RESULTING IN CHANGE IN SCOPE OF CONSOLIDATION	144		1,267
CASH AND CASH EQUIVALENTS, END OF YEAR	¥69,793	¥76,755	$614,267

See notes to consolidated financial statements.

Notes to Consolidated Financial Statement

Lawson, Inc. and Consolidated Subsidiaries
Year Ended February 29, 2016

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 2015 financial statements to conform to the classifications used in 2016.

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 ¥113.62 to $1, the approximate rate of exchange at February 29, 2016. 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 33,500 thousand shares of common stock of the Company (including indirect holdings) as of February 29, 2016, which represents 33.4% of the total voting rights of the Company. Accordingly, Mitsubishi is a principal shareholder.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation— The consolidated financial statements include the accounts of the Company and its eighteen (fifteen in 2015) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

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

Investments in three (two in 2015) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

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

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

b. Fiscal year end of the consolidated subsidiaries— The fiscal year end of SEIJO ISHII CO., LTD., Chongqing Lawson, Inc., Shanghai Hualian Lawson, Inc., Dalian Lawson, Inc., Lawson (China) Holdings, Inc., Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd., Zhejiang Lawson, Inc. and Saha Lawson 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 the fiscal year end and the consolidated fiscal year end are adjusted as required for consolidation.

Effective February 29, 2016 Lawson HMV Entertainment United Cinema Holdings, Inc., United Entertainment Holdings Co., Ltd. and United Cinemas Co., Ltd. changed their fiscal year end from March 31, 2016 to February 29, 2016. Thus, their accounting period is 14 months (from January 1, 2015 to February 29, 2016) in this current consolidated fiscal year. The impact of this change on gross operating revenue, operating income, ordinary income, and income before income taxes and minority interests for this consolidated fiscal year is immaterial.

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 of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

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 R&D; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

e. Business Combination— In October 2003, the Business Accounting Council issued a Statement of

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

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required the R&D costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

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

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

The franchise agreement usually provides that the franchised store shall make a cash payment to the Company in the amount of ¥3 million upon commencement. Upon receipt of such payment, ¥1.5 million is credited to income of the Company as "Operating revenues—franchise commissions from franchised stores" for services related to the opening of the LAWSON store. The remaining amount received by the Company is credited to the "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.
As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures, and equipment designed for the LAWSON stores. In some cases, franchisees may also be provided with the land or buildings for the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

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 and 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 quotation. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

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

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 right— Trademark right is 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— In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

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

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

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 "Minority 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 99,998 thousand shares for 2016 and 99,931 thousand shares for 2015.

Diluted net income per share for the years ended February 29, 2016 and February 28, 2015, 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 29, 2016. In order to conform with the presentation for the year ended February 29, 2016, 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 28, 2015, as stated below.

(Consolidated Balance Sheet)
In the "LONG-TERM LIABILITIES" section, "Guarantee deposits received from franchised stores and other" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Long-term guarantee deposited" is now presented in "Other." To reflect this change in method of presentation, the consolidated balance sheet for the previous fiscal year have been reclassified.
As a result, in the "LONG-TERM LIABILITIES" section, the 29,993 million yen that had previously been presented as "Long-term guarantee deposited" in the Consolidated Balance Sheet for the previous fiscal year is now included in "Other."

(Consolidated Statement of Income)
In the "OTHER (EXPENSES) INCOME" section, "Share of profit of entities accounted for using equity method" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Share of profit of entities accounted for using equity method" is now separately presented. 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 (EXPENSES) INCOME" section, the 365 million yen that had previously been presented as "Other" in the Consolidated Statement of Income for the previous fiscal year is now presented as "Share of profit of entities accounted for using equity method."

In the "OTHER (EXPENSES) INCOME" section, "Store equipment related income" was included in "Other" in the previous fiscal year. Due to an increase in financial materiality, "Store equipment related income" is now separately presented. 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 (EXPENSES) INCOME" section, the 118 million yen that had previously been presented as "Other" in the Consolidated Statement of Income for the previous fiscal year is now presented as "Store equipment related income."

In the "OTHER (EXPENSES) INCOME" section, "Loss on sales of non-current assets" was included in "Other" in the previous fiscal year. In order to clarity the consolidated statement of income in the current fiscal year, "Loss on sales of non-current assets" is now separately presented. 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 (EXPENSES) INCOME" section, the 250 million yen that had previously been presented as "Other" in the Consolidated Statement of Income for the previous fiscal year is now presented as "Loss on sales of non-current assets."

(Consolidated Statement of Cash Flows)
In the "Cash flow from operating activities" section, "Increase in inventories" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Increase in inventories" is now included in "Other." 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 operating activities" section, the (2,589) million yen that had previously been presented as "Increase in inventories" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

In the "Cash flow from operating activities" section, "Decrease in guarantee deposits received from franchised stores and other" was presented separately in the previous fiscal year. In order to clarify the consolidated statement of cash flows in the current fiscal year, "Decrease in guarantee deposits received from franchised stores and other" is now included in "Other." 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 operating activities" section, the (2,308) million yen that had previously been presented as "Decrease in guarantee deposits received from franchised stores and other" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

In the "Cash flow from investing activities" section, "Purchase of investment securities" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Purchase of investment securities" is now included in "Other." 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 (6,507) million yen that had previously been presented as "Purchase of investment securities" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

In the "Cash flow from investing activities" section, "Decrease (increase) in short-term loans receivable" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Decrease (increase) in short-term loans receivable" is now included in "Other." 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 3,135 million yen that had previously been presented as "Decrease (increase) in short-term loans receivable" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

In the "Cash flow from investing activities" section, "Purchase of long-term prepaid expenses" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Purchase of long term prepaid expenses" is now included in "Other." 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 (3,806) million yen that had previously

been presented as "Purchase of long-term prepaid expenses" in the Consolidated Statement of Cash Flows for the previous fiscal year is now included in "Other."

w. New Accounting Pronouncements

Accounting Standards for Business Combinations and Consolidated Financial Statements— In September, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

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

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

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

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

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

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance for (a), (b), (c) and (e) above from March 1, 2016, and for (d) above for a business combination which will occur on or after March 1, 2016, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

Tax Effect Accounting— On December 28, 2015, 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, 2017, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3 CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter "Accounting Standard Retirement Benefits") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015, hereinafter "Guidance Retirement Benefits") from this fiscal year including stipulations stated in the main clause of paragraph 35 of Accounting Standard Retirement Benefits, and the main clause of paragraph 67 of Guidance Retirement Benefits. The Company reviewed the calculation method of retirement benefit liabilities and service cost and changed the method of attributing the expected benefit to periods from a straight-line basis to benefit formula basis. The method for calculating the discount rate was changed from the method in which bond duration, a base used for calculating the discount rate, was decided based on the number of years that approximates the average remaining service period of the employees, to the method in which multiple discount rates are calculated in accordance with the expected payment period of retirement benefits.

The application of such as accounting standards for retirement benefits has followed the transitional treatment stipulated in paragraph 37 of Accounting Standard Retirement Benefits, and the impact due to change of calculation method of retirement benefit liabilities and service cost was charged to Retained earnings at the beginning of this consolidated fiscal year.

As a result, net defined benefit liability as of the beginning of this fiscal year decreased by ¥2,130 million, while retained earnings increased by ¥1,411 million. The impact of this change on operating income, ordinary income, and income before income taxes and minority interests for this fiscal year was immaterial.

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 29, 2016 and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Non-current—Marketable and other equity securities	**¥9,848**	¥8,101	**$86,675**
Non-current—Corporate bonds	**272**	233	**2,394**

The costs and aggregate fair values of marketable and investment securities as of February 29, 2016 and February 28, 2015, were as follows:

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

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

	Thousands of U.S. Dollars			
February 29, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	**$55,158**	**$9,232**		**$64,390**

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended February 29, 2016, and February 28, 2015, were as follows:

February 29, 2016

Not applicable.

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

6 LONG LIVED ASSETS

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

The Companies recognized an impairment loss in the following asset categories for the years ended February 29, 2016, and February 28, 2015:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	2016	2015	2016
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	¥1,905	¥1,308	$16,766
		Osaka	1,621	771	14,267
		Others	6,509	4,240	57,288
Other	Land			29	
	Software		507	17	4,462
	Goodwill			1,898	
Total			¥10,542	¥8,263	$92,783

The above noted assets which incurred impairment losses for the years ended February 29, 2016, and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Buildings	¥5,977	¥3,659	$52,605
Furniture, fixtures, and equipment	608	464	5,351
Lease assets	3,131	2,172	27,557
Land	57	29	502
Goodwill		1,898	
Software	680	17	5,985
Other	89	24	783
Total	¥10,542	¥8,263	$92,783

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or an expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rate used was mainly 4.8% for the years ended February 29, 2016, and February 28, 2015.

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 29, 2016, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥308 million ($2,711 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 29, 2016, and February 28, 2015, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Accounts payable—trade for franchised stores	¥92,265	¥83,386	$812,049
Accounts payable—trade for the Company-operated stores	19,960	20,073	175,673
Total	¥112,225	¥103,459	$987,722

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 29, 2016, and February 28, 2015, consisted of notes to banks.

The annual interest rates applicable to the short-term bank loans were 0.53% and 0.33% at February 29, 2016, and February 28, 2015, respectively.

Long-term debt at February 29, 2016, and February 28, 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Loans from banks, due serially to 2020 with a weighted-average interest rate of 0.26% (2016)	**¥58,137**	¥59,000	**$511,679**
Obligations under finance leases	**111,959**	96,122	**985,381**
Less current portion	**(24,473)**	(20,523)	**(215,393)**
Long-term debt, less current portion	**¥145,623**	¥134,599	**$1,281,667**

The aggregate annual maturities of the current portion of long-term debt and long-term debt, excluding finance leases, at February 29, 2016, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥575	$5,061
2018	575	5,061
2019	575	5,061
2020	56,412	496,496
Total	¥58,137	$511,679

The aggregate annual maturities of finance lease obligations at February 29, 2016, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2017	¥23,898	$210,333
2018	22,106	194,561
2019	19,723	173,587
2020	16,651	146,550
2021 and thereafter	29,581	260,350
Total	¥111,959	$985,381

As of February 29, 2016, the carrying amounts of assets pledged as collateral for short-term bank loans and the current portion of long-term debt of ¥1,575 million ($13,862 thousand) and long-term debt of ¥7,563 million ($66,564 thousand), were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2016	2016
Cash and cash equivalents	¥2,399	$21,114
Shares of consolidated subsidiaries (Amount before elimination)	16,615	146,233
Total	¥19,014	$167,347

11 EMPLOYEES' RETIREMENT BENEFITS

For employees' retirement benefits, the Company and some 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 29, 2016

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

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year (as previously reported)	¥18,348	$161,486
Cumulative effects of changes in accounting policies	(2,131)	(18,756)
Balance at beginning of year (as restated)	16,217	142,730
Current service cost	1,503	13,228
Interest cost	93	819
Actuarial losses	663	5,835
Benefits paid	(931)	(8,194)
Prior service cost	4	35
Others	3	27
Balance at end of year	¥17,552	$154,480

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

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,589	$49,190
Actuarial gains	1	9
Balance at end of year	¥5,590	$49,199

(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	¥16,241	$142,941
Plan assets	(5,590)	(49,199)
	10,651	93,742
Unfunded defined benefit obligation	1,312	11,548
Net liability arising from defined benefit obligation	¥11,963	$105,290

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥11,963	$105,290
Net liability arising from defined benefit obligation	¥11,963	$105,290

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

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,503	$13,228
Interest cost	93	819
Recognized actuarial losses	91	801
Amortization of prior service cost	13	114
Others	96	845
Net periodic benefit costs	¥1,796	$15,807

(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	Thousands of U.S. Dollars
Prior service cost	¥9	$79
Actuarial losses	(571)	(5,025)
Total	¥ (562)	$(4,946)

(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	Thousands of U.S. Dollars
Unrecognized prior service cost	¥21	$185
Unrecognized actuarial losses	1,283	11,292
Total	¥ 1,304	$11,477

(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 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	Thousands of U.S. Dollars
Periodic benefit cost	¥436	$3,837

Year Ended February 28, 2015

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

	Millions of Yen
Balance at beginning of year	¥17,417
Current service cost	1,405
Interest cost	209
Actuarial losses	86
Benefits paid	(804)
Others	35
Balance at end of year	¥ 18,348

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

	Millions of Yen
Balance at beginning of year	¥5,588
Actuarial gains	1
Balance at end of year	¥5,589

(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	¥17,053
Plan assets	(5,589)
	11,464
Unfunded defined benefit obligation	1,295
Net liability arising from defined benefit obligation	¥12,759

	Millions of Yen
Liability for retirement benefits	¥12,759
Net liability arising from defined benefit obligation	¥12,759

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

	Millions of Yen
Service cost	¥1,405
Interest cost	209
Recognized actuarial losses	114
Amortization of prior service cost	5
Others	(9)
Net periodic benefit costs	¥1,724

(5) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2015

	Millions of Yen
Unrecognized prior service cost	¥29
Unrecognized actuarial losses	712
Total	¥741

(6) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

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

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

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

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

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

	Millions of Yen
Periodic benefit cost	¥331

12 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance at beginning of year	**¥21,553**	¥17,885	**$189,694**
Additional provisions associated with the acquisition of property, plant, and equipment	**1,961**	1,711	**17,259**
Reconciliation associated with passage of time	**400**	343	**3,520**
Reduction associated with settlement of asset retirement obligations	**(1,836)**	(832)	**(16,159)**
Additional provisions associated with the newly consolidated subsidiary		2,445	
Additional provisions associated with changes in accounting estimates	**2,643**		**23,262**
Total	**24,721**	21,552	**217,576**
Less current portio	**(56)**	(22)	**(493)**
Asset retirement obligations, less current portion	**¥24,665**	¥21,530	**$217,083**

Changes in accounting estimates were recorded as it became evident that the estimate of the discounted cash flows required for future asset retirement would change, which resulted from certain events. A reconciliation has been prepared for the change, which resulted in an increase of the asset retirement obligation for the year ended February 29, 2016, by ¥2,643 million ($23,262 thousand).

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 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 under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

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

14 STOCK OPTIONS

The Company has stock option plans as an incentive for directors, executive officers, and selected employees. The stock options outstanding as of February 29, 2016, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	ExercisePrice	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 ($0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 ($0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 ($0.01)	From September 6, 2007 to August 20, 2027
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 ($0.01)	From January 17, 2009 to December 15, 2028
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 ($0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 ($0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 ($0.01)	From February 18, 2012 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 ($0.01)	From April 12, 2013 to March 26, 2033
13th Stock Option	7 directors	25,400 shares	2014.4.10	¥1 ($0.01)	From April 10, 2014 to March 23, 2034
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

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
Year Ended February 28, 2015											
Non-vested											
February 28, 2014—Outstanding											
Granted									25,400		
Canceled											
Vested									25,400		
February 28, 2015—Outstanding											
Vested											
February 28, 2014—Outstanding	15,000	21,300	18,000	26,400	21,500	18,900	27,000	26,900			
Vested									25,400		
Exercised	11,200	11,400	11,400	17,200	15,200	13,000	19,900	18,400	18,100		
Canceled											
February 28, 2015—Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300		
Year Ended February 29, 2016											
Non-vested											
February 28, 2015—Outstanding											
Granted										12,400	1,100
Canceled											
Vested										12,400	1,100
February 29, 2016—Outstanding											
Vested											
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
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Average stock price at exercise											
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146	¥6,251	¥ 6,310
		($27.97)	($25.10)	($30.60)	($23.34)	($23.67)	($29.39)	($48.55)	($45.29)	($55.02)	($55.54)

The assumptions used to measure the fair value of the 14th and 15th stock options were as follows:

	14th Stock Option	15th Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	23.61%	23.64%
Estimated remaining outstanding period	10 years	10 years
Estimated dividend	¥230 per share	¥230 per share
Risk-free interest rate	0.33%	0.49%

15 INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal statutory tax rate of approximately 38.0% and 35.6% for the years ended February 29, 2016 and February 28, 2015,respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 29, 2016 and February 28, 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets:			
Accrued enterprise taxes	**¥727**	¥1,063	**$6,399**
Accrued employees' bonuses	**1,244**	1,031	**10,949**
Excess of depreciation	**13,388**	14,839	**117,831**
Excess of amortization of software	**517**	348	**4,550**
Employees' retirement benefits	**5,761**	6,584	**50,704**
Allowance for doubtful accounts	**285**	1,011	**2,508**
Impairment loss	**4,149**	3,560	**36,517**
Tax loss carryforwards	**14,073**	13,520	**123,860**
Other	**3,848**	7,578	**33,867**
Less valuation allowance	**(13,816)**	(13,759)	**(121,598)**
Total	**30,176**	35,775	**265,587**
Deferred tax liabilities—Trademark right	**3,634**	4,223	**31,983**
Net deferred tax assets	**¥26,542**	¥31,552	**$233,604**

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:

	2016	2015
Normal effective statutory tax rate	**35.6%**	38.0%
Change in valuation allowance	**(0.9)**	1.9
Expenses not deductible for income tax purposes	**0.5**	0.4
Per-capita inhabitant tax	**0.6**	0.5
Difference in tax rates of foreign consolidated subsidiaries	**0.8**	1.3
Reduction of ending deferred tax balance due to change in statutory tax rate	**4.1**	1.1
Amortization of goodwill	**1.7**	0.9
Impairment loss of goodwill		1.2
Effect of net operating loss carried forward resulting from liquidation of consolidated subsidiaries		(1.4)
Other—net	**(0.4)**	(0.6)
Actual effective tax rate	**42.0%**	43.3%

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015. As a result, the normal effective statutory tax rate to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences in the fiscal years beginning on or after March 1, 2016, changed from 35.6% to 33.1%, and in the fiscal years beginning on or after March 1, 2017, changed from 35.6% to 32.3%.
The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥2,332 million ($20,525 thousand), to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥2,310 million ($20,331 thousand) and to decrease accumulated other comprehensive income defined retirement benefit plans by ¥21 million ($185 thousand).

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016. As a result, the normal effective statutory tax rate to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences in the fiscal years beginning on or after March 1, 2017, in the fiscal years beginning on or after March 1, 2018, changed from 32.3% to 30.9%, and in the fiscal years beginning on or after March 1, 2019, changed from 32.3% to 30.6%.
The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥1,041 million ($9,162 thousand), to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥1,020 million ($8,977 thousand) and to decrease accumulated other comprehensive income defined retirement benefit plans by ¥20 million ($176 thousand).

At February 29, 2016, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥26,363 million ($232,028 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
2019	¥367	$3,230
2020	9,969	87,740
2021	4,975	43,786
2022	8,510	74,899
2023	442	3,890
2024	1,638	14,416
2025	462	4,067
Total	¥26,363	$232,028

16 SUPPLEMENTAL INFORMATION FOR CASH FLOWS

(1) Finance lease assets and finance lease obligations regarded as noncash transactions incurred for the year ended February 29, 2016, amounted to ¥38,159 million ($335,848 thousand).

(2) Asset retirement obligations regarded as noncash transactions incurred for the year ended February 29, 2016, amounted to ¥4,604 million ($40,521 thousand).

17 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrealized loss on available-for-sale securities			
Gains(Losses) arising during the year	**¥1,587**	¥ (432)	**$13,968**
Reclassification adjustments to profit or loss	**239**	(23)	**2,103**
Amount before income tax effect	**1,826**	(455)	**16,071**
Income tax effect	**(631)**	155	**(5,553)**
Total	**¥1,195**	¥(300)	**$10,518**
Land Revaluation Difference			
Adjustments arising during the year		¥1	
Total		¥1	
Foreign currency translation adjustments			
Adjustments arising during the year	**¥ (16)**	¥2,089	**$ (141)**
Reclassification adjustments to profit or loss		(1,127)	
Total	**¥ (16)**	¥962	**$ (141)**
Remeasurements of defined benefit plans			
Losses arising during the year	**¥ (662)**		**$ (5,826)**
Reclassification adjustments to profit or loss	**100**		**880**
Amount before income tax effect	**(562)**		**(4,946)**
Income tax effect	**175**		**1,540**
Total	**¥ (387)**		**$ (3,406)**
Share of other comprehensive loss in associated companies			
Losses arising during the year		¥ (31)	
Reclassification adjustments to profit or loss		1,472	
Total		¥1,441	
Total other comprehensive income	**¥792**	¥2,104	**$6,971**

18 SEGMENT INFORMATION

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

(a) Description of reportable segments

The Company's financial information is provided separately by reporting segment and is subject to regular review by the board of directors with regard to the allocation of managerial resources and performance evaluation. The Company primary operates primary 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 undertaking the direct management of stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Mart, 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 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.

Due to its increase in importance, Seijo Ishii Business, which was included in Others, has been reclassified as a reporting segment from the current consolidated fiscal year. Based on this change, for segment information of previous fiscal year, it stated by classification after the change and "(c) Information about sales, profit (loss), assets and other items" of previous fiscal year.

(b) Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

The accounting policies of each reportable segment are basically consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

As described in Note 3, due to the change of calculation method for retirement benefit liabilities and service cost, the calculation method for retirement benefit liabilities and service cost for reporting segments has been changed from the current fiscal year.

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						
	2016						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consol-idated
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**
Payment for 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**

	Millions of Yen						
	2015						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consol-idated
Sales:							
Sales to external customers	¥392,463	¥17,879	¥50,688	¥36,883	¥497,913		¥497,913
Intersegment sales or transfers	2,917	2	1,413	1,168	5,500	¥ (5,500)	
Total	¥395,380	¥17,881	¥52,101	¥38,051	¥503,413	¥ (5,500)	¥497,913
Segment profit	¥63,864	¥1,358	¥2,588	¥2,663	¥70,473	¥9	¥70,482
Segment assets	707,340	69,569	58,323	46,395	881,627	(117,013)	764,614
Other:							
Depreciation	36,927	448	839	2,219	40,433		40,433
Amortization of goodwill	409	359	433	192	1,393		1,393
Payment for associated companies	3,806				3,806		3,806
Increase in property, plant, and equipment and intangible assets	45,039	307	1,085	2,524	48,955		48,955

	Thousands of U.S. Dollars						
	2016						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consol-idated
Sales:							
Sales to external customers	$3,477,002	$607,235	$648,117	$402,772	$5,135,126		$5,135,126
Intersegment sales or transfers	31,509		12,330	10,192	54,031	$ (54,031)	
Total	$3,508,511	$607,235	$660,447	$412,964	$5,189,157	$ (54,031)	$5,135,126
Segment profit	$528,023	$44,332	$35,874	$30,162	$638,391	$71	$638,462
Segment assets	6,503,045	572,223	568,201	472,452	8,115,921	(1,046,637)	7,069284
Other:							
Depreciation	358,819	15,455	12,102	22,804	409,180		409,180
Amortization of goodwill	5,246	12,647	5,853	915	24,661		24,661
Payment for associated companies	41,771				41,771		41,771
Increase in property, plant, and equipment and intangible assets	426,580	4,585	38,259	27,786	497,210		497,210

Notes: 1. The name of the Entertainment & Home Convenience Business has been changed to the Entertainment-related Business.
2. The "others" category refers to business segments that do not fall under the main reporting segments and includes Financial Services-related Business operated by Lawson ATM Networks, Inc., Overseas Business operated by Shanghai Hualian Lawson, Inc. and others.
3. Reconciliation to segment profit and segment assets is the balance of elimination of intra-segment transactions
4. The segment profit is adjusted against the consolidated operating income.

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

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

	Millions of Yen						
	2015						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consolidated
Loss on impairment of long-lived assets	¥5,832		¥238	¥2,193	¥8,263		¥8,263

	Thousands of U.S. Dollars						
	2016						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consolidated
Loss on impairment of long-lived assets	$80,576	$704	$5,017	$6,486	$92,783		$92,783

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

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

	Millions of Yen						
	2015						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consolidated
Goodwill at February 28, 2015	¥8,789	¥28,384	¥9,857	¥1,159	¥48,189		¥48,189

	Thousands of U.S. Dollars						
	2016						
	Reportable Segments						
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Other	Total	Reconcil-iations	Consolidated
Goodwill at February 29, 2016	$75,594	$237,168	$80,901	$13,924	$407,587		$407,587

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 29, 2016 and February 28, 2015, were as follows:

(1) Transactions between the Company and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	**¥50,022**	¥45,736	**$440,257**
Purchases	**614,452**	582,268	**5,407,956**

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

(2) Transactions between subsidiary and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable-Other	**¥8,015**	¥341	**$70,542**
Sales of processed food,etc.	**67,163**	1,385	**591,120**

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 was 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 necessary for 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 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.

	Millions of Yen		
February 29, 2016	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)**
Investments securities	**7,316**	**7,316**	
Lease deposits	**92,121**	**89,375**	**(2,746)**
Total	**¥308,341**	**¥305,581**	**¥ (2,760)**
Accounts payable	**¥173,630**	**¥173,630**	
Money held as agent	**101,909**	**101,909**	
Long-term debt (include current portion of long-term debt)	**170,096**	**170,711**	**¥615**
Total	**¥445,635**	**¥446,250**	**¥615**

	Millions of Yen		
February 28, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥76,755	¥76,755	
Time deposits	4	4	
Accounts receivable	93,222	93,222	
Investments securities	5,575	5,575	
Lease deposits	92,719	89,755	¥ (2,964)
Total	¥268,275	¥265,311	¥ (2,964)
Accounts payable	¥153,957	¥153,957	
Money held as agent	103,634	103,634	
Long-term debt (include current portion of long-term debt)	155,122	155,006	¥(116)
Total	¥412,713	¥412,597	¥(116)

February 29, 2016	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$614,267	$614,267	
Time deposits	35	35	
Accounts receivable	864,953	864,953	
Long-term loans receivable	359,365	359,241	$ (124)
Investments securities	64,390	64,390	
Lease deposits	810,782	786,614	(24,168)
Total	$2,713,792	$2,689,500	$(24,292)
Accounts payable	$1,528,164	$1,528,164	
Money held as agent	896,928	896,928	
Long-term debt (include current portion of long-term debt)	1,497,060	1,502,473	$5,413
Total	$3,922,152	$3,927,565	$5,413

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 2016	Millions of Yen 2015	Thousands of U.S. Dollars 2016
Investments in equity instruments that do not have a quoted market price in an active market	¥1,412	¥1,313	$12,428
Investments in unconsolidated subsidiaries and affiliated companies	15,600	11,447	137,300
Others	1,392	1,446	12,251

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

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

Millions of Yen 2015	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥76,755			
Time deposits	4			
Accounts receivable	95,719			
Lease deposits	4,859	¥19,402	¥24,240	¥44,705
Total	¥177,337	¥19,402	¥24,240	¥44,705

Thousands of U.S. Dollars 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	$614,267			
Time deposits	35			
Accounts receivable	865,015			
Long-term loans receivable	3,089	$126,976	$112,912	$116,872
Lease deposits	46,955	184,712	195,018	387,388
Total	$1,529,361	$311,688	$307,930	$504,260

21 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 29, 2016 and February 28, 2015, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 29, 2016	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥31,381	99,998	¥313.82	$2.76
Effect of dilutive securities—Stock options		78		
Diluted EPS—Net income for computation	¥31,381	100,076	¥313.57	$2.76

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

22 SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 24, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥122.5 ($1.08) per share	¥12,250	$107,816

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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 29, 2016, 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 29, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 24, 2016

Member of
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