

3. Forecast consolidated performance for 2014 fiscal year (from March 1, 2014 to February 28, 2015)

Note: Percentages for gross operating revenue, operating income, ordinary income and net income show increase (decrease) from previous year.

	Gross operating revenue		Operating income		Ordinary income		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
2014 fiscal year	487,000	0.4	75,000	10.1	73,900	7.3	38,900	2.5

Reference: Forecast net profit per share for the 2014 fiscal year: 389.00 yen

Note: Revision of forecast for consolidated performance published in the most recent: None

4. Notes

(1) Change in important subsidiaries during this quarterly consolidated period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): None

Added: None

Excluded: None

(2) Adoptions of special accounting methods in presentation of quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, retrospective restatements

1. Changes of accounting policies associated with revision in accounting standards: None

2. Other changes: Yes

3. Changes in accounting estimates: Yes

4. Retrospective restatements: None

(4) Number of issued shares:

1. The number of the stocks issued in the end of term

November, 2014: 100,300,000 February, 2014: 100,300,000

2. The number of treasury shares in the end of term

November, 2014: 300,985 February, 2014: 395,953

3. Average number of shares during the term

November, 2014: 99,909,709 November, 2013: 99,896,486

Note: Disclosure of progress of quarterly review procedures

At the time of disclosure of this quarterly flash report, review procedures for quarterly earnings reports based on the Financial Instruments and Exchange Act were being performed.

Note: Terms of use for financial forecasts, and other special notes

Forward-looking statements presented in this material such as financial forecasts are based on currently available information and certain presumptions deemed to be reasonable as of the date of announcement. They are not intended to guarantee the Company's achievement. Actual results may differ significantly from these forecasts due to many factors. For preconditions of these financial forecasts and notes concerning their use, please refer to "1. Qualitative Information Regarding Quarterly Financial Results, (3) Explanation Regarding Forward-looking Information Such As Forecast Consolidated Performance" on page 7.

1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation Regarding Consolidated Operating Results

During the third quarter of fiscal 2014, nine months from March 1 to November 30, 2014, the Lawson Group (hereinafter, the “Group”) continuously implemented measures to reinforce its social infrastructure function that provides essential items and services at the local level with the aim of realizing the Group’s corporate philosophy of “Creating Happiness and Harmony in Our Communities.”. Based on its analysis of purchase data retrieved from the multi-partner loyalty program, Ponta, the Group focused on customer relationship management (CRM)*¹ and supply chain management (SCM)*² in order to offer a merchandise assortment that meets the specific needs of customers in each neighborhood.

*¹ CRM: A marketing management method for providing merchandise and services that meet the specific needs of customers.

*² SCM: A business administration method for comprehensively managing all stages of business, from procurement to sales, to streamline and optimize the entire business process.

As a result, for the third quarter of fiscal 2014 on a consolidated basis, due to an increase in the number of franchised stores and a decrease in the number of company-operated stores, although operating revenue increased by ¥7,129 million, net sales decreased by ¥14,703 million, and gross operating revenue decreased to ¥362,461 million down 2.0% year on year from corresponding period of the previous fiscal year. In accordance with this, cost of sales also decreased by ¥11,225 million. Selling, general, and administrative expenses decreased by ¥1,350 million to ¥215,915 million down 0.6% year on year due to a decrease of depreciation, etc. As a result, operating income increased by ¥5,000 million, up 9.1% year on year, to ¥59,773 million. Ordinary income increased by ¥4,637 million up 8.4% year on year, to ¥59,700 million. Net income increased by ¥2,481 million, up 8.1% year on year, to ¥32,949 million.

Operating results by business segment are as follows.

(Domestic Convenience Store Business)

[Merchandising and Service Strategies]

On the merchandise front, we strengthened merchandise assortment throughout the year by expanding our lineup of ready-made meals, including carbohydrate-based foods such as lunch boxes, rice balls and sandwiches, and over-the-counter fast foods, in order to enhance satisfaction of customers visiting our stores.

We reviewed coffee sizes and prices offered on the menu at “MACHI Café”, an in-store café offering freshly brewed coffee, and newly introduced “Blend Coffee” and “Iced Coffee” in S size at a price of 100 yen, including tax. The number of stores equipped with “MACHI café” further expanded to 9,726 stores as of the end of November 2014. In addition, we released “Ougon Chicken Umashio”, a new fried chicken product flavored with rock salt, steamed at low temperature to maintain a tender and juicy texture, and finished with an ultimately thin crust. The product became a huge hit following our conventional “Ougon Chicken” offering. We proceeded with the installation of our in-store kitchen facility “Machikado Chubo”, where such items as “Thick Pork Katsu Sandwiches” and “Machikado Chubo Curry” are cooked. The number of stores equipped with the facility

reached 2,817 as of the end of November 2014.

In the dessert category, our “Pure Series” simple dessert made with a minimum number of carefully selected ingredients to bring out their inherent flavors continued to be popular among customers.

In addition to “Bran Bread”^{*3} for carbohydrate-conscious consumers, the Group also started selling “Soba [buckwheat] Noodles Containing Dietary Fiber”, “Special Bread (two slices)”, and “Karada Ouen [healthy] Rolls (two)”, which have been approved as food for specified health uses (FOSHU) in recognition of their “Suppress Increases in Glucose Levels After Meals” ability. Moreover, as a “Health Station in Town”, we are also continuing to reinforce our lineup of health-oriented products that are “Safe, Reliable, and Delicious”, including “Pre-cut Vegetables” made with vegetables produced based on the “Nakashima Farming Method”^{*4}, one of the most prominent mineral farming methods in Japan. Based on these initiatives, we will further boost Lawson’s corporate brand image as a “Health-promoting Company”.

In addition to the strengthening of these product line-up, we are increasing our lineup of “Gift Cards”^{*5} offered at our stores. Among them, “Variable Cards” launched ahead of other convenience chains, whose value can be specified at purchase, is especially popular.

^{*3} Bran: The external layer of wheat. Contains abundant nutrition including dietary fiber, iron, calcium, magnesium, zinc, and copper. The food is noted for its low level of carbohydrate.

^{*4} Nakashima Farming Method: A cultivation method that supplies appropriate nutrients in accordance with the growth status of crops and the nutritional balance of the soil (mineral balance). Uses techniques for developing healthy soil based on diagnosis of soil conditions in conjunction with techniques to control the growth process of crops to maintain healthy growth.

^{*5} Gift cards: Collective term for prepaid cards that can be used for online transactions.

[Breakdown of Sales by Merchandise Category at Chain Stores in Domestic Convenience Store Business]

Fiscal period Product group	Previous 3rd Quarter March 1, 2013 to November 30, 2013		Current 3rd Quarter March 1, 2014 to November 30, 2014	
	Sales (Millions of yen)	Percentage of total (%)	Sales (Millions of yen)	Percentage of total (%)
Processed foods	811,429	55.0	790,251	53.8
Fast foods	310,334	21.1	324,630	22.1
Daily delivered foods	208,883	14.2	212,132	14.4
Nonfood products	143,431	9.7	143,005	9.7
Total	1,474,078	100.0	1,470,020	100.0

As for sales promotions, we continued to strengthen the point-reward campaign targeting Ponta members. Total number of Ponta members reached 66 million as of the end of November 2014, including members that joined through other participating companies. The sales ratio of Ponta members reached approximately 50%.

[Store Operations]

In store operations, we continued to reinforce adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) offering a merchandise assortment focused on basic items with high demand; and (3) keeping our stores and communities clean, in addition to expanding our lineup of health-conscious products. Notably, with the increasing number of stores equipped with “MACHI Café”, store employees are more capable of offering products and services in a caring manner through better communication with customers. We strived to further improve the quality of stores by clarifying the customer service goals to be pursued by store employees and fostering leaders among them.

We will continue to promote merchandise assortments that best suit customers in each neighborhood by leveraging store-by-store analysis reports on Ponta members’ purchase data, shelf allocation tailored to the locational characteristics of each store, and sharing of best practices presented at monthly area-based meetings where we discuss area strategies with franchise store owners.

[Store Development and Store Format Strategy]

In opening new stores, the Group prioritized profitability based on its proprietary return on investment (ROI)-focused store development standard. With regard to store format strategy, we increased the number of LAWSON MART stores, which were developed based on LAWSON STORE100, to 38 as of the end of November 2014.

Furthermore, Lawson, Inc. signed a letter of intent on October 1, 2014 with convenience store operator Poplar Co., Ltd. to form a capital and business alliance between the two companies. The details of the partnership are currently under discussion. In addition, on October 28, 2014, a basic agreement was concluded to establish a joint venture with SUNNY MART Co., Ltd., the parent company of Three-F Chu-Shikoku Co., Ltd., which is a regional operating company of Three-F Co., Ltd. We are planning to replace all store signs of stores operated under the joint venture with LAWSON signs by the spring of 2015.

Since the deregulation of pharmaceutical sales in 2009, the Group has been striving to expand the number of stores offering over-the-counter (OTC) pharmaceuticals by proactively hiring and fostering registered drug sellers. Furthermore, by building partnerships in local area, in addition of healthcare items including OTC pharmaceuticals, cosmetics, and daily necessities, the stores offer a merchandise assortment of around 5,000 items, twice as many as conventional Lawson stores. Moreover, the number of Pharmacy Lawson stores equipped with drug-dispensing pharmacies reached 39 as of the end of November 2014. Through such initiatives, the Group will continue to respond to changes in customer needs resulting from the aging of the population and an increase in the number of working women.

As a result, the total number of LAWSON, NATURAL LAWSON, and LAWSON MART (including LAWSON STORE100) stores opened and closed during the third quarter of the fiscal year (nine months) under review stood at 702 and 319 stores, respectively, with the total number of stores in Japan reaching 11,704 as of the end of November 2014.

[Change in the Total Number of Domestic Stores]

	Total stores as of February 28, 2014	Change during fiscal year	Total stores as of November 30, 2014
LAWSON	10,108	327	10,435
NATURAL LAWSON	107	5	112
LAWSON STORE100/ LAWSON MART	1,202	(45)	1,157
Total	11,417	287	11,704

Note: Small stores are included in this figure.

[Number of LAWSON stores by prefecture (As of November 30, 2014)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	621	Ibaraki	146	Kyoto	321	Ehime	187
Aomori	206	Tokyo	1,579	Shiga	153	Tokushima	126
Akita	186	Kanagawa	847	Nara	132	Kochi	67
Iwate	162	Shizuoka	216	Wakayama	123	Fukuoka	436
Miyagi	224	Yamanashi	109	Osaka	1,024	Saga	67
Yamagata	76	Nagano	148	Hyogo	629	Nagasaki	104
Fukushima	102	Aichi	564	Okayama	143	Oita	166
Niigata	130	Gifu	148	Hiroshima	176	Kumamoto	136
Tochigi	135	Mie	108	Yamaguchi	122	Miyazaki	100
Gunma	91	Ishikawa	101	Tottori	108	Total(domestic)	11,704
Saitama	501	Toyama	188	Shimane	114		
Chiba	454	Fukui	106	Kagawa	122		

Note: Small stores are included in this figure.

In addition to the above, Lawson Minamikyushu, Inc. operates 205 LAWSON chain stores in Kagoshima Prefecture and Lawson Okinawa, Inc. operates 172 LAWSON chain stores in Okinawa Prefecture as of the end of November 2014.

(Other Businesses)

In addition to domestic convenience store business, the Group is involved in overseas business, Entertainment & Home Convenience business, financial services-related business, Seijo Ishii business and other businesses.

With regards to overseas business, the Group's operating companies, 4 companies shown in the following table, opened LAWSON stores in Shanghai, Chongqing, Dalian, and Beijing in the People's Republic of China. In Indonesia, PT MIDI UTAMA INDONESIA Tbk, operates LAWSON stores. In Thailand, Saha Lawson Co., Ltd., a joint venture between LAP and the SAHA Group, Thailand's leading distributor of consumer goods, operates stores under the store brand of LAWSON 108 and 108SHOP. In addition, in Hawaii in the United States, Lawson USA Hawaii, Inc. operates LAWSON stores.

[Distribution of LAWSON Brand Stores Overseas by Region]

Company	Country/region	Total stores As of February 28, 2014	Change during fiscal year	Total stores As of November 30, 2014
Shanghai Hualian Lawson, Inc.	Shanghai, China	289	43	332
Chongqing Lawson, Inc.	Chongqing, China	77	21	98
Dalian Lawson, Inc.	Dalian, China	18	8	26
Beijing Lawson, Inc.	Beijing, China	5	9	14
Saha Lawson Co., Ltd.	Bangkok, Thailand	29	2	31
PT MIDI UTAMA INDONESIA Tbk	Capital City of Jakarta and its suburbs, Indonesia	61	(12)	49
Lawson USA Hawaii, Inc.	Hawaii, U.S.A.	4	—	4
Total		483	71	554

Note: Saha Lawson Co., Ltd. operates 181 108SHOP brand stores as of the end of November 2014 in addition to the above LAWSON 108 stores. PT MIDI UTAMA INDONESIA Tbk operates 785 stores other than LAWSON brand stores.

With regards to Entertainment & Home Convenience business, Lawson HMV Entertainment, which forms the core of entertainment related business, posted a solid performance led by an increase in ticket sales and continued to secure top position in the ticketing industry. The number of HMV stores that sell music CDs and DVDs totaled 53 as of the end of November 2014. Starting from the third quarter under review, the Group began to incorporate into the consolidated statements of income the operating results of United Entertainment Holdings Co., Ltd. and United Cinemas Co., Ltd, which have been acquired through a subsidiary.

Furthermore, we entered into a partnership with Amazon Japan K.K. in November 2014 and launched a new service in Shizuoka Prefecture, which enables customers to pick up items ordered online from Amazon at Lawson stores. We will strive to enhance customer convenience by additionally partnering with other companies to establish an “Open Platform” based on the networks of Lawson stores that offer a range of services encompassing ordering, collection, and home delivery.

Lawson ATM Networks, Inc., which operates a financial services-related business, posted a solid performance owing to an increase in the number of ATMs installed, along with a rise in the number of transactions. We started providing new financial services for Aeon Bank, Japan Net Bank, Aomori Bank in October, Aichi Bank in November bringing the total number of our financial institution partners to 72 nationwide, including online banks, and the number of ATMs installed nationwide to 10,591 (up 473 year on year) as of the end of November 2014.

Finally, on October 31, 2014, Lawson, Inc. acquired all shares of Seijo Ishii Co., Ltd., which operates Seijo Ishii, a chain of small supermarkets that seeks to develop and manufacture high-value-added products. By leveraging the business infrastructure of the Lawson Group, we aim to further reinforce Seijo Ishii’s strengths and contribute to its enhancement of corporate value. At the same time, we will strive to strengthen our domestic convenience store business by absorbing Seijo Ishii’s knowhow acquired as a manufacturing retailer and expertise in product selection and presentation, including its central kitchen function.

(2) Explanation Regarding Consolidated Financial Position

As of November 30, 2014, total current assets stood at ¥255,215 million yen, climbing ¥59,430 million from February 28, 2014, the end of the previous fiscal year. This reflected an increase of ¥35,058 million in cash and deposits mainly due to syndicate loan involved by business combination, and a rise of ¥7,528 million in merchandise because of business combination and starting our wholesale business. Non-current assets grew ¥100,180 million from February 28, 2014 to ¥525,389 million, mainly owing to an increase of ¥45,633 million in goodwill resulting from business combination and ¥32,385 million in property and store equipment resulting from opening of new stores. Consequently, total assets climbed ¥159,611 million from the end of the previous fiscal year to ¥780,604 million.

As of November 30, 2014, total current liabilities increased ¥73,905 million from the end of the previous fiscal year to ¥320,612 million, mainly reflecting an increase of ¥22,165 million in current portion of long-term loans payable resulting from business combination, an increase of ¥21,096 million in accounts payable-trade owing to a rise in the number of stores and total procurement value across the entire chain, as well as a growth of ¥16,377 million in deposits received owing to third party bill settlement. Non-current liabilities stood at

¥196,802 million, growing ¥73,014 million from February 28, 2014, mainly owing to an increase of ¥58,425 million in long-term loans payable due to syndicate loan involved by acquiring consolidated subsidiaries. Consequently, total liabilities increased ¥146,919 million from the end of the previous fiscal year to ¥517,414 million.

As of November 30, total net assets stood at ¥263,190 million, climbing ¥12,692 million from February 28, 2014. This was mainly due to an increase resulting from third quarter net income of ¥32,949 million, a decrease resulting from payment of ¥22,979 million in dividends, and a growth of ¥9,298 million in retained earnings. Consequently, shareholders' equity ratio amounted to 32.7%, down from 39.5% as of the end of the previous fiscal year.

(3) Explanation Regarding Forward-looking Information Such As Forecast Consolidated Performance

The financial forecasts announced on October 7, 2014 remain unchanged.

2. Matters Related To Summary Information (Notes)

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): Not Applicable

(2) Adoptions of accounting methods particular to presentation of quarterly financial statements:
Not Applicable

(3) Changes in accounting policies, changes in accounting estimation, retrospective restatement
(Changes in accounting policies that are difficult to differentiate from changes in accounting estimation)

Lawson, Inc. and its domestic consolidated subsidiaries had previously adopted the declining-balance method as the depreciation method for property, store and equipment (excluding lease assets). Starting from the first quarter of the consolidated fiscal year under review, however, the depreciation method was changed to the straight-line method.

Under the Lawson Group's policy of placing emphasis on existing stores, the Group adopted a strategy of enhancing their competitiveness through such initiatives as capitalizing on membership card data, and started restructuring of group businesses. Accordingly with this opportunity, the depreciation method for property, store and equipment was reviewed. As a result, it was considered appropriate to allocate equal amounts of depreciation (straight-line method) because the number of customers is expected to remain at the current level even if store assets age with the passage of time, and the degree of facility usage, a major factor that reduces economic value, is proportionate to the number of customers.

Based on this change, operating income, ordinary income, and income before income taxes and minority interests for the third quarter of the consolidated fiscal year under review have increased respectively by ¥6,835 million compared with the figures based on the conventional declining-balance method.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

As of February 28, 2014 and November 30, 2014

(Millions of yen)

	As of February 28, 2014	As of November 30, 2014
Assets		
Current assets:		
Cash and deposits	76,763	111,822
Accounts receivable — due from franchised stores	32,186	36,940
Merchandise	9,596	17,125
Accounts receivable — other	54,193	57,804
Deferred tax assets	4,481	3,323
Other	20,956	30,637
Allowance for doubtful accounts	(2,393)	(2,438)
Total current assets	195,784	255,215
Non-current assets:		
Property and store equipment:		
Buildings and structures	265,952	307,784
Accumulated depreciation	(137,117)	(158,507)
Buildings and structures, net	128,835	149,276
Vehicles, tools, furniture and fixtures	65,944	73,376
Accumulated depreciation	(53,861)	(59,260)
Vehicles, tools, furniture and fixtures, net	12,083	14,116
Lease assets	126,056	149,038
Accumulated depreciation	(45,289)	(58,314)
Lease assets, net	80,767	90,724
Others	11,751	12,167
Accumulated depreciation	—	(462)
Others, net	11,751	11,704
Total property and store equipment	233,436	265,822
Intangible assets:		
Software	18,262	16,999
Goodwill	9,719	55,353
Other	497	679
Total intangible assets	28,480	73,032
Investments and other assets:		
Long-term loans receivable	33,727	36,198
Guarantee deposits	86,150	92,905
Deferred tax assets	21,627	28,306
Other	22,751	30,293
Allowance for doubtful accounts	(965)	(1,169)
Total investments and other assets	163,291	186,535
Total non-current assets	425,208	525,389
Total assets	620,992	780,604

(Millions of yen)

	As of February 28, 2014	As of November 30, 2014
Liabilities		
Current liabilities:		
Accounts payable—trade	89,171	110,267
Accounts payable—due to franchised stores	1,405	1,348
Short-term loans payable	680	1,830
Current portion of long-term loans payable	—	22,165
Lease obligations	16,585	19,020
Accounts payable—other	29,344	41,519
Income taxes payable	14,330	8,467
Deposits received	87,585	103,963
Provision for bonuses	2,372	2,272
Other	5,232	9,756
Total current liabilities	246,706	320,612
Non-current liabilities:		
Long-term loans payable	—	58,425
Lease obligations	61,666	74,097
Provision for retirement benefits	11,082	11,949
Provision for retirement benefits to executive officers and audits & supervisory board members	408	398
Asset retirement obligations	17,874	21,142
Other	32,755	30,789
Total non-current liabilities	123,788	196,802
Total liabilities	370,494	517,414
Net assets		
Shareholders' equity:		
Capital stock	58,506	58,506
Capital surplus	47,741	47,696
Retained earnings	138,141	147,440
Treasury shares	(1,556)	(1,271)
Total shareholders' equity	242,832	252,371
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	(93)	33
Revaluation reserve for land	(567)	(566)
Foreign currency translation adjustment	3,118	3,746
Total accumulated other comprehensive income	2,456	3,213
Subscription rights to shares	557	223
Minority interests	4,650	7,381
Total net assets	250,497	263,190
Total liabilities and net assets	620,992	780,604

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

For the third quarter of the fiscal year (From March 1, 2014 to November 30, 2014)

(Millions of yen)

	From March 1, 2013 to November 30, 2013	From March 1, 2014 to November 30, 2014
Gross operating revenue	370,035	362,461
Net sales	130,177	115,473
Cost of sales	97,996	86,771
Gross profit	32,180	28,702
Operating revenue:		
Income from franchised stores	184,707	189,136
Other	55,151	57,851
Total operating revenue	239,858	246,987
Operating gross profit	272,039	275,689
Selling, general and administrative expenses	217,266	215,915
Operating income	54,773	59,773
Non-operating income:		
Interest income	622	615
Foreign exchange gains	290	577
Penalty income	99	542
Other	1,106	665
Total non-operating income	2,118	2,401
Non-operating expenses:		
Interest expense	968	1,057
Loss on cancel of lease contracts	461	768
Other	399	648
Total non-operating expenses	1,829	2,474
Ordinary income	55,062	59,700
Extraordinary income:		
Gain on sales of investment securities	403	369
Gain on change in equity	—	756
Total extraordinary income	403	1,126
Extraordinary losses:		
Loss on retirement of non-current assets	1,832	1,817
Impairment loss	2,075	2,687
Other	415	224
Total extraordinary losses	4,322	4,729
Income before income taxes and minority interests	51,143	56,097
Income taxes - current	19,906	20,362
Income taxes - deferred	573	2,437
Income taxes	20,480	22,799
Income before minority interests	30,663	33,297
Minority interests in income	194	347
Net income	30,468	32,949

Consolidated Statement of Comprehensive Income

For the third quarter of the fiscal year (From March 1, 2014 to November 30, 2014)

	(Millions of yen)	
	From March 1, 2013 to November 30, 2013	From March 1, 2014 to November 30, 2014
Income before minority interests	30,663	33,297
Other comprehensive income		
Valuation difference on available-for-sale securities	(203)	126
Revaluation reserve for land	—	1
Foreign currency translation adjustment	1,743	787
Share of other comprehensive income of associates accounted	(676)	(159)
Total other comprehensive income	863	755
Comprehensive income	31,526	34,053
Comprehensive income attributable to		
Owners of the parent	31,414	33,706
Minority interests	112	346

(3) Notes to consolidated financial statements

(Notes Concerning Going Concern Assumption)

Not Applicable.

(Notes to Significant Changes in the amount of Shareholders' Equity)

Not Applicable.