

We offer solutions to issues in communities to realize harmony with society

The convenience store business model has potential to cope with various social challenges because of its accessibility within local communities. Keeping this in mind, Lawson has contributed for years, taking advantage of our decentralized business operation. We have addressed community issues in numerous projects, leveraging our personnel training to foster autonomous thinking, as well as implementing a branch system combined with local empowerment. In the aftermath of the Great East Japan Earthquake of 2011, Lawson's presence was indispensable in local communities. People's lives were thrown into disaster. Our business operations formed an important part of community infrastructure, not only serving as a lifeline, but helping communities to recover and rebuild. This also served as a significant opportunity for both our stakeholders and me to see our presence in a fresh light.

Other critical challenges in an ever-changing society demand our response. In 2013, the ratio of working women in their twenties to thirties reached a record high. On the other hand, the birth rate keeps dwindling and the population is aging at an accelerating rate. In order to mitigate atmospheric conditions, we need to reduce carbon dioxide emissions. Using less electricity helps us prepare for a potential energy crisis. We will keep sharing our corporate philosophy with our stakeholders, deepening mutual trust, and innovating business models to respond to the needs of a more sophisticated and diversified society.

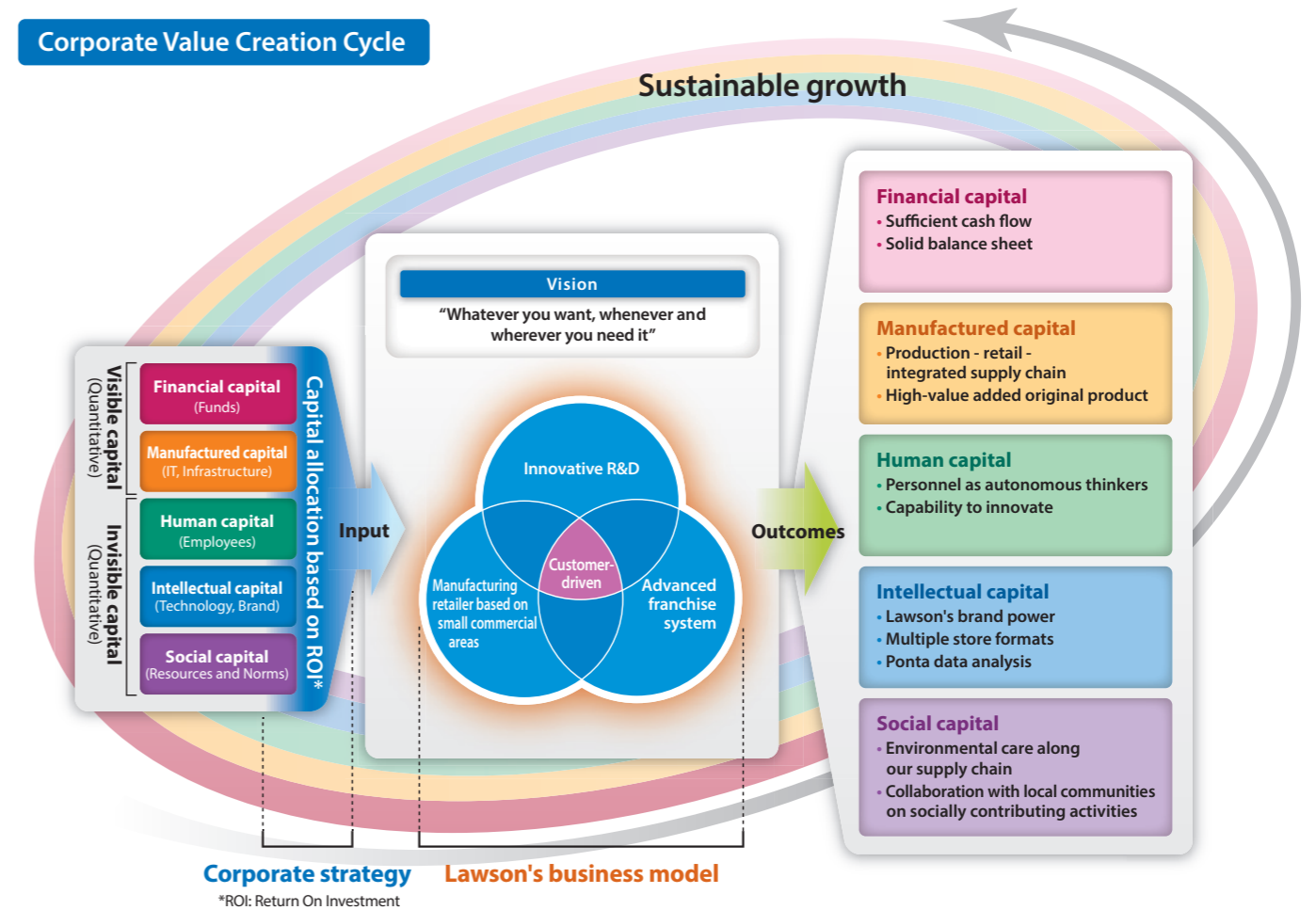
Lawson's actions addressing challenges in local communities

Challenges in local communities	Lawson's actions
Issues arising from changes in society	
More women in the workforce	<ul style="list-style-type: none"> Strengthen product and service lines targeting female customers Product lines to support working women: ready-made meals and ingredients for easier meal preparation Support our employees on childcare leave
Aging society	<ul style="list-style-type: none"> Strengthen product and service lines for senior customers Continued employment of people over sixty
Shrinking employment opportunities for young people	<ul style="list-style-type: none"> Salary upgrade for younger employees Entrepreneur incubator for eligible store workers
Decreasing vitality of local communities	<ul style="list-style-type: none"> Develop product and service lines to revitalize local communities Disaster procurement agreement with municipalities Participate in community Safety Station activities
Physically challenged and elderly have difficulty going out to shop	<ul style="list-style-type: none"> Promote home delivery service Food vans deliver orders to marginal villages
Escalation of national medical costs and increase in lifestyle-related diseases	<ul style="list-style-type: none"> Enhance health-supporting product lines Promote the idea that "food is medicine" Support employee health management
Global environmental change	
Power shortages	<ul style="list-style-type: none"> Implement solar power system Implement energy saving devices Promote power saving in stores and offices
Global warming	<ul style="list-style-type: none"> Implement energy saving devices Unfolding carbon dioxide offset activity Improve fuel efficiency of delivery vans Support Lawson Green Fund and tree-planting activities
Increasing waste	<ul style="list-style-type: none"> Ordering system which enables waste reduction Establish recycling system
Long-term depletion of natural resources including oil	<ul style="list-style-type: none"> Bring Your Own Bag, Chopsticks campaigns to reduce plastic shopping bag, disposable chopsticks use Conscious choice of eco-friendly containers
Response to large-scale disaster	<ul style="list-style-type: none"> Implement Business Continuity Plan (BCP) Disaster procurement agreement with municipalities Implement disaster relief fund

Realizing sustainable business growth
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 Corporate Philosophy
 Creating Happiness and Harmony in Our Communities

Corporate value creation through optimal capital allocation and business model that is customer-driven

Our corporate strategy and business model are what sustain growth in corporate value. We will realize optimal allocation of visible and invisible capital to deliver the highest capital efficiency. Visible capital is goods and money depicted in financial statements. Invisible capital is what is not shown, such as human capital. We also strive for on-going improvement of our business model, which enables us to add value, continuously enriching intracompany capital and social capital. Instrumental to this process are innovative R&D (research and development), manufacturing retailer based on small commercial areas, and an advanced franchise system. We call this process of shaping the business model around the corporate strategy, "Corporate Value Creation Cycle."



In this chart, we see accumulated value within Lawson as "capital." For comprehensive understanding of capital owned by the company, we categorized capital into five classifications as follows:

- Financial capital**: Funds raised from sales of stock and borrowings for business activities
- Manufactured capital**: Tangible assets that is available to a corporation for its business activities, or infrastructure such as land, buildings, machines and IT
- Human capital**: All individual skills, competency, motivation, as well as organizations' wealth of experience and knowledge
- Intellectual capital**: Organizational, knowledge-based intangibles assets, including the brand and reputation, intellectual property, and software
- Social capital**: Resources obtained from natural environment, shared norms, and trusted relationship with stakeholders

The above is Lawson's definition, referring to International Integrated Reporting Council's (IIRC) "Consultation Draft of the International <IR> Framework" and other references



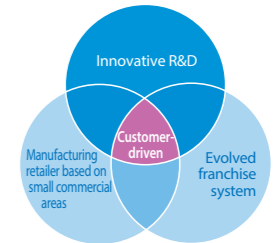
The convenience store growth requires customer base expansion which can be achieved by meeting community needs

Convenience stores in Japan have targeted mainly male customers in their 20s to 30s, serving as the all-hours handy store in their neighborhood. Convenience for these customers mainly resides in optimized merchandise assortment of fresh ready-made meal products delivered just in time, accomplished by leveraging information technology. For further development of the convenience store model, quality store management, as well as merchandise assortment, have been imperative, especially to operate in small commercial areas. Lawson focuses on this with the "Three Essential Practices": Be customer-friendly, and provide a quality merchandise assortment, and keep the store clean. Convenience stores are quite unique in the retail industry in style as well as in the size of

the commercial areas where they operate.

The number of convenience stores targeting young men is over 50,000, saturating that target market. To continue such exclusivity would ignore the need of increasingly diversified local communities. On the other hand, there are two major issues we have yet to address in our changing society: the aging population and more women in workforce. If we can respond to them properly, customers will more frequently visit convenience stores rather than supermarkets or drugstores. We believe we can increase convenience stores' share of total sales of the retailer and food-service industries from the current 6 percent to over 10 percent in the mid- to long-term.

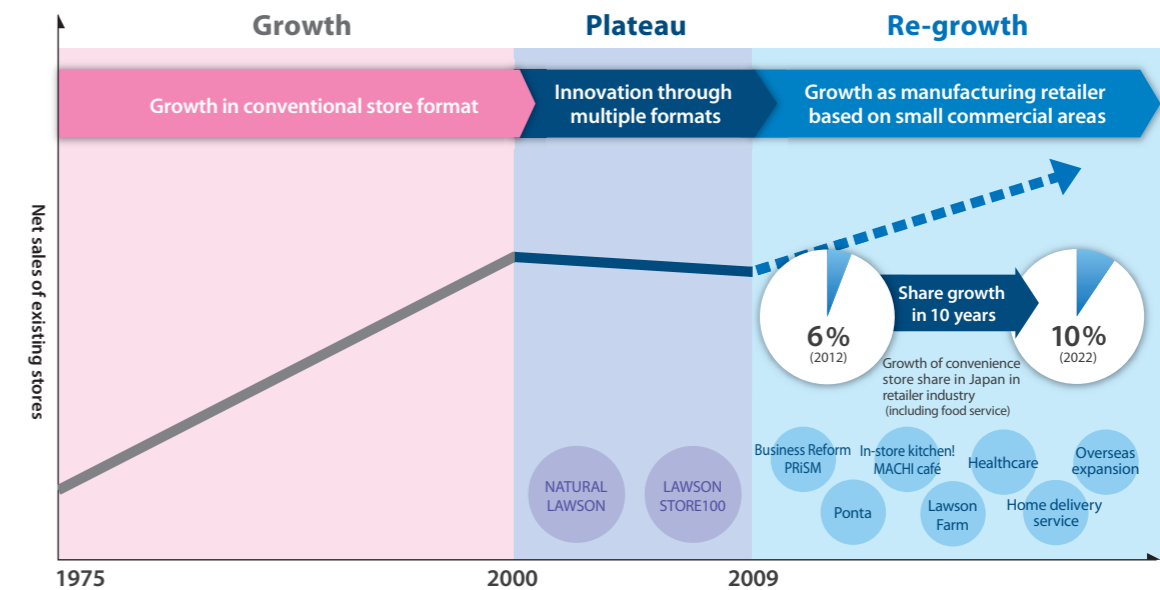
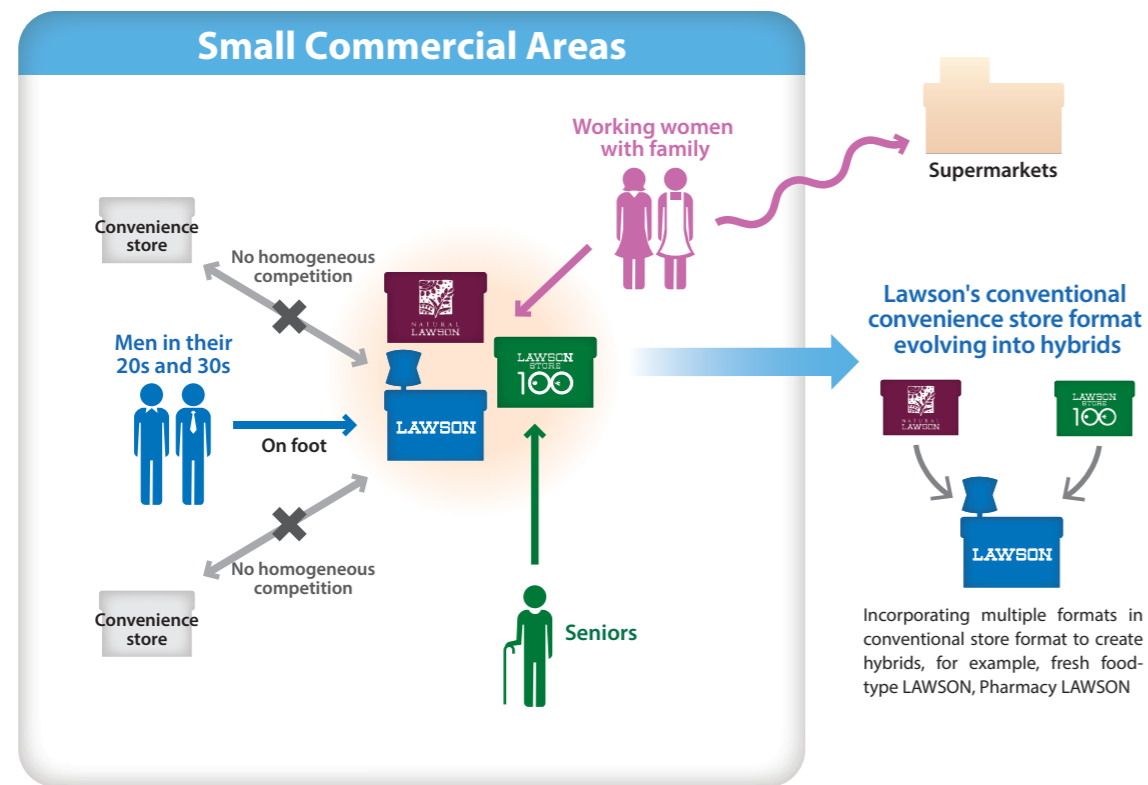
We will lead the convenience store industry through innovative R&D to expand customer base



Looking ahead at demographic movement and the changing society, we made a considerable prior investment in the creation our store formats to expand our customer base, getting a head start on our competitors. The health-oriented NATURAL LAWSON and the fresh food LAWSON STORE100 launched in 2001 and 2005 respectively and are among the multiple store formats we have developed. These new formats made our stores attractive to women and senior customers, with new product lines and store layouts. Applying the expertise accumulated in these new formats to conventional stores, we have conducted a comprehensive R&D, incubating projects for our future direction. For example, the new fresh food-type LAWSON evolved from LAWSON STORE100, with expanded lineups of perishable food and daily delivered food. Health-oriented lunch-boxes and other prepared food items utilize expertise accumulated in NATURAL LAWSON. We incubate expertise, bringing a broader and firmer customer base, while developing multiple store formats simultaneously. This is another of Lawson's outstanding strengths among its competitors.

Keywords for our mid-to-long term growth are health,

home delivery, overseas expansion in the light of social issues and challenges. In the health-related segment, we are expanding Lawson Farm, our exclusive contract farm for steady supply of quality vegetables. To meet health-conscious customer needs for healthy food, we provide value-added agricultural product, partnering with DAICHI wo MAMORU KAI (meaning Earth Environment Preservation Society, an organic food delivery organization) and Radish Boya, as well as adopting Nakashima farming method in our contracted farms. Further, we launched Pharmacy LAWSON stores combining the NATURAL LAWSON format with a prescription-selling pharmacy since 2003. As our population ages, we expect to see this store format serve more and more customers beneficially, providing prescription medicine and healthy food at one stop. Regarding door-to-door delivery, we started a regular food delivery business, Smart Kitchen, with a set of foodstuffs for simple cooking, geared toward busy women. In rapidly developing countries as well as developed countries, we will promote our efficient supply chain and our store operation format, which begins with customers.



■ Related item

[Three Essential Practices](#)

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[Customer base expansion responds to more women in workforce and the aging society](#)

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[Stable supply of fresh vegetables](#)

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[Home delivery service](#)

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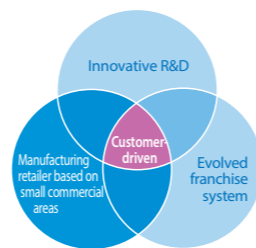
[Our efforts for Health](#)

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[Overseas businesses](#)

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Lawson's SCM-CRM model is a driving engine to become a "Manufacturing Retailer"



The "small-commercial-area style manufacturing retail" has been established with the help of the Lawson SCM-CRM model, which enables merchandise assortment that meets the needs and wants of communities.

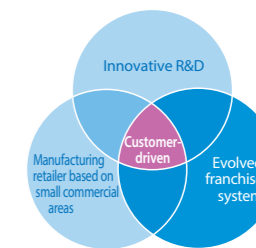
In the conventional convenience store business operation, the production process of our original products, such as lunch-boxes, rice balls and sandwiches, was outsourced to third parties in order to improve capital efficiency in multi-store operations. However, by illuminating the cost structure and identifying inefficiency and waste in outsourcing, we redirected our involvement to the supply chain to better manage the whole process - production development, raw material procurement, production, distribution and marketing. We aim at improving gross profit margin through the Business Reform PRISM, rationalizing order placement by beginning with customers, while restructuring the whole supply chain management process.

What helps our SCM restructuring is that we have a

department specializing in raw material procurement. The department's accumulated expertise in procurement under favorable conditions contributes to value-added original product development.

Another of Lawson's strengths is the multi-partner loyalty point program called Ponta and its data analysis capabilities. This enables us to grasp needs of individual customers in small commercial areas. Using the program members' attribute information (gender, age, and residential area), we can statistically analyze purchasing behavior of Ponta members. This is more than 56 million members' data points, which is unrivaled by any of our competitors in terms of information quantity and quality. This is our Customer Relationship Management (CRM) system, which brings us knowledge of communities and store operations, while visualizing sales opportunity losses, serving as our engine to increase profit while helping reduce losses.

Human capital is the source of innovation — empowerment and diversity



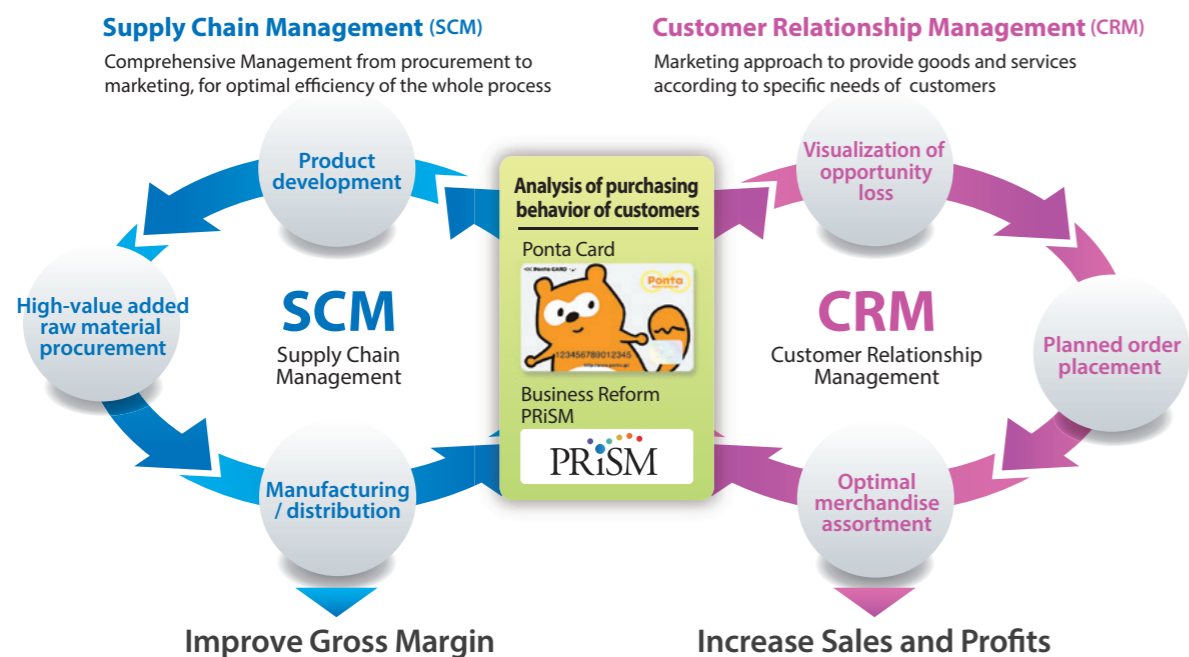
Human capital is essential for the Manufacturing Retailer business model based on small commercial areas and for innovation as well. Since I took the chair as CEO in 2005, I have spent considerable time and expense on personnel training, while decentralizing our organization and empowering regional branch offices. To respond to diversified customer needs in small commercial areas, we need individual spontaneous ideas and autonomous decision making in the organization. This is what we call human capital. We create Lawson University, a unique education program integrating education for franchise store staff and education for headquarters employees. This program resourcefully educates them to contribute to our human capital, taking action as autonomous thinkers within their communities. In the aftermath of the Great East Japan Earthquake of 2011, franchise owners and our employees, mainly from Tohoku Branch, took spontaneous and prompt action, and contributed greatly to reconstruction and revival of disaster-hit areas. This exemplifies our in-depth human capital shaped within our Lawson Family [franchise owners, store crews (part-time and temporary workers), and headquarters employees] through our empowerment and education programs.

For business operations based in small commercial areas, franchise owners' entrepreneurial spirit is essential for success. We position each franchise owner as a business partner, creating an environment for them to speak freely, while fine-tuning headquarters' organizational structure to take in their voices. Our Management Owner (MO)

system was implemented in 2010 for our franchise owners. This system certifies franchise owners as Management Owners when they successfully fostered their staff and developed comprehensive knowledge of their community. While incorporating their understanding of community changes and customer needs, they must also embrace the multiple store operation model. We are planning to provide more support to franchise owners, especially MOs, in order to inspire competitiveness in their commercial areas.

Further, we focus on diversity in our organization in order to respond to the needs of diversified customers. For this goal, we are working to raise the proportion of women hires to 50 percent since 2005 through periodic recruitment of new college graduates, while increasing the proportion of non-Japanese employees since 2008 to 30 percent of all employees. We train these non-Japanese with Japanese recruits in the same program, not putting them on a different track to staff them overseas, but offering them the same opportunity to experience Japanese-style convenience store operations, working as store staff or supervisors (SVs), who coach store operations. Additionally, we are strengthening recruitment of science students who are more skilled with high IT literacy for future innovation. As human capital is what Lawson stands on for its sustainable growth, we keep encouraging our people to have spontaneous ideas and to act autonomously where appropriate, thus moving us forward.

Lawson's SCM-CRM model



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- Multi-partner loyalty card called "Ponta" Page 18 ▶
- Supply chain process management Page 22 ▶
- Business Reform PRISM Page 18 ▶



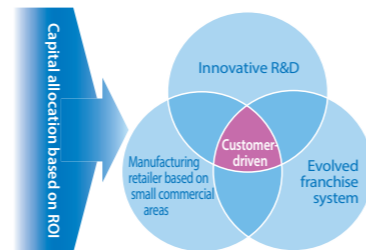
The Smart Women Project (refer to the page 31) was set up as part of diversity promotion initiatives. The team is developing products leveraging their distinctive female perspectives.

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- Lawson University Page 30 ▶
- Management Owner (MO) system Page 29 ▶
- Fostering staff as autonomous thinkers for their contribution to human capital Page 28 ▶
- Taking the initiative for diversity Page 31 ▶



Targeting 20 percent in ROE, a criteria in capital efficiency for global investors



In globalized economies today, money flows without borders. Lawson as a listed company needs to meet global investors' expectations, not just those of domestic investors. A major part of our financial capital is shareholders equity, and they expect a higher rate of return than capital cost. Thus, management needs to perform optimal investment allocation that realizes high capital efficiency. Our business strategy optimizes funds distribution in our unique business model, in order to create value and increase return to shareholders efficiently as a listed corporation.

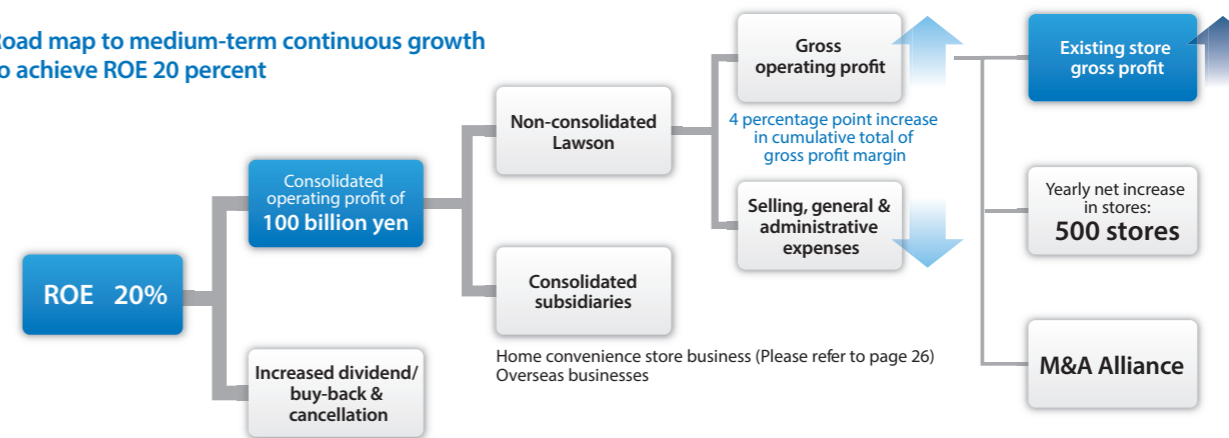
Lawson fulfills its mission, meeting global investor expectations through realization of high capital efficiency, far exceeding capital cost. Concretely, in the medium term, we intend to increase return on equity (ROE) to the level of 20 percent at the global standard from the current 15 percent. There are two ways to achieve our target: one is to increase profit, by increasing operating cash flow in our core business. The other is, through finance strategies, to increase capital efficiency. We put the first priority on profit

growth through core business. We have also implemented buy-back and cancellation, to achieve more efficiency of capital. We particularly focus on distributing cash-flow to balance between optimal medium-term reinvestment and shareholder return, by choosing the right timing to implement a new capital policy. We regard decision-making about cash-flow allocation as central to our business strategy.

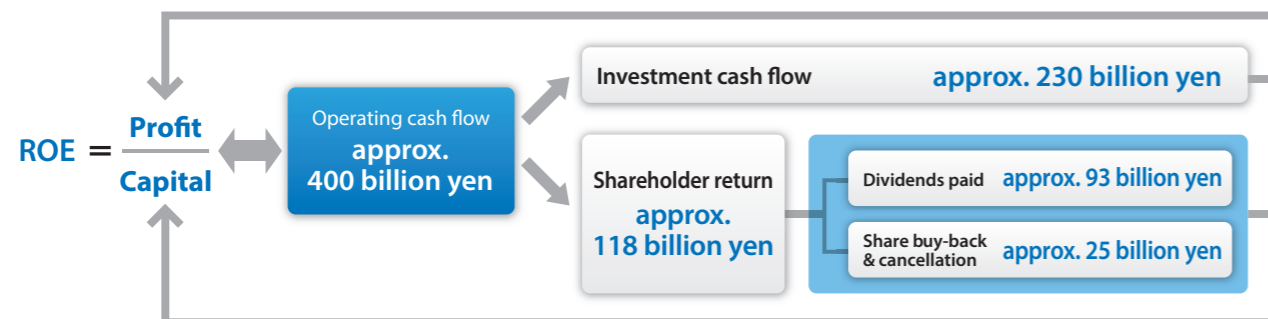
What we depend on in such decision-making is capital discipline as depicted in return on investment (ROI). ROI over 20 percent is our criteria in making every investment decision to allocate operating cash flow on such activities as new store opening, sales promotion, M&A, and launching new businesses. The effect of this strategy manifests in the fact that our rate of return on invested capital (ROIC) has increased over the past 10 years, while that of our competitors is decreasing.

Also, along with ROE of 20 percent, we set medium-term numeral target of 100 billion yen in consolidated operating profit. To achieve this, we worked on increasing

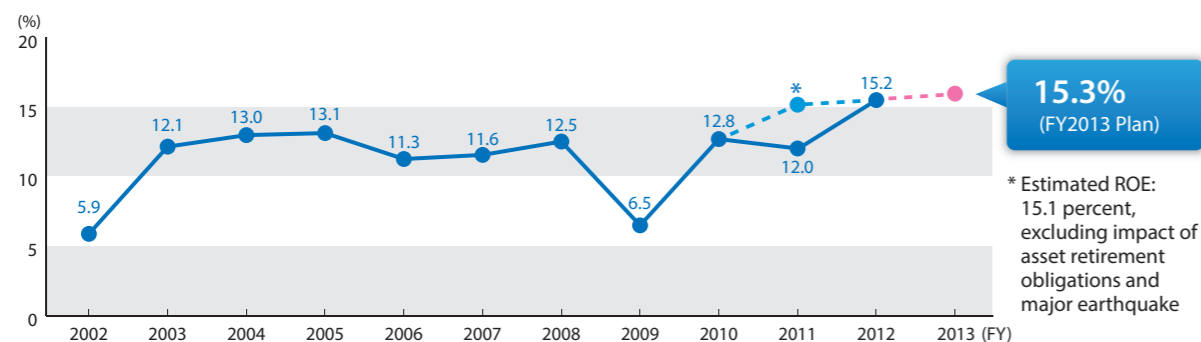
Road map to medium-term continuous growth to achieve ROE 20 percent



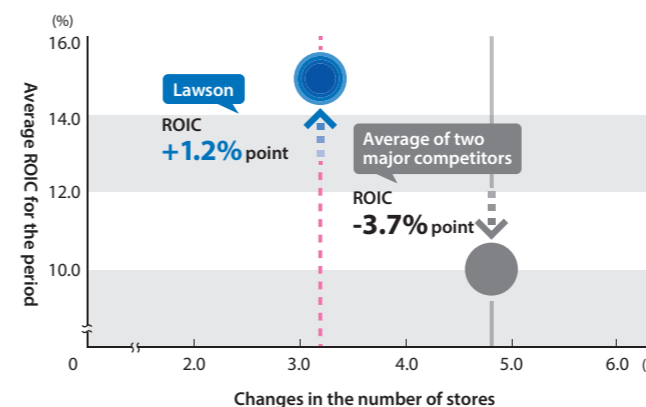
Operational cash flow allocation: accumulated profit over 6 years (FY2007-2012)



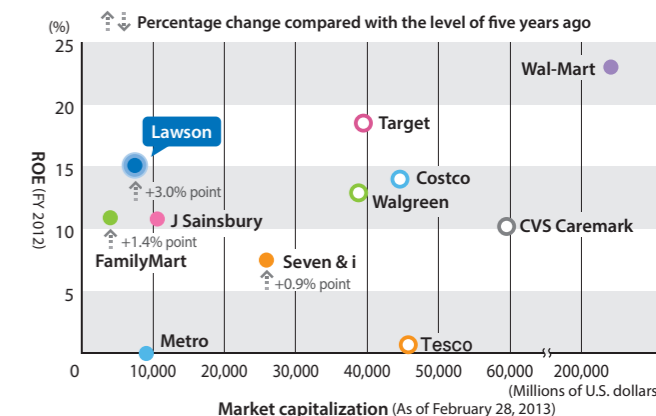
Changes in ROE



Changes in ROIC compared with our competitors for ten years



ROE: retailers of retailers around the world



gross profit margin, along with gross profit, through revenue growth of existing stores. Just as importantly, we are decreasing SG&A Expenses (selling, general & administrative expenses) through business process re-engineering (BPR). Combining these, we aim at increasing operating margin for net sales of all stores by 5 percent, up from the current 3.5 percent.

We believe we can achieve these numeral targets, not so much through short-term policy for increasing sales or stores, but long-term, grounded efforts in local communities to meet their particular needs with precise selection of goods. These efforts manifest in our new development such as multiple store formats and perishable food implementation, bringing more customers to stores. In future, by unfolding Pharmacy LAWSON and the home

delivery service, we will focus on increasing our share in day-to-day spends of customers. Through these various efforts, we work in our signature business model of manufacturing retailer based on small commercial areas. On the leading edge globally, in the domestic as well as the overseas food retail industry, we are setting the standard no other competitors can set, becoming No.1 worldwide in this type of business.