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**LAWSON, INC.**

**Takeshi Niinami, President & CEO**

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**Securities Code Number: 2651**

**<http://www.lawson.co.jp/company/e/>**

**The current status of LAWSON's corporate governance is as follows:**

## **I Basic Approach to Corporate Governance, Capital Structure, Corporate Attributes, and Other Basic Information**

### **1. Basic Approach**

We place great importance on the following seven categories of stakeholder, and strive to maximize enterprise value by making LAWSON stores a place where -

1. the customer is always made to feel welcome
2. franchised store owners can feel that they are realizing their full potential
3. part-time staff and workers on short-term contracts can develop their skills and grow as a result of their own efforts
4. suppliers and service providers see their dreams take shape
5. employees can take pride in their work and really feel a sense of being useful to the society
6. shareholders can contribute indirectly to society and invest in their dreams for the future, and
7. members of customer communities can feel welcome and safe.

These are our goals, and the realization of these objectives will contribute to the maximization of enterprise value. To this end, we will continue to ensure that laws and regulations are strictly observed, and social codes of conduct are honored. In accordance with LAWSON's corporate philosophy and the LAWSON Code of Ethics, we will give attention to people requiring support. Moreover, we believe it is important to increase management soundness and transparency as well as to raise corporate governance standards through compliance and rigorous disclosure.

The number of Board members has been kept to a minimum to speed up the decision-making process. Outside directors including Independent Director are also elected, which enables more impartial decisions.

Corporate auditors audit the executive actions of the directors while stating their opinions related to overall management and individual issues, including the state of the internal control system from a standpoint of fairness and impartiality.

In addition we have formulated the LAWSON Corporate Conduct Charter to be applied to all companies in the LAWSON group, and are striving to boost corporate value for the entire group.

## 2. Capital Structure

Proportion of LAWSON's shares held by non-residents

Over 20% and less than 30%

### [Status of Major Shareholders]

Name	Number of Shares Held	Ratio (%)
Mitsubishi Corporation	32,089,300	32.13
Marubeni Foods Investment Co., Ltd.	4,786,400	4.79
Japan Trustee Services Bank, Ltd. (Trust Account)	4,262,200	4.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,870,400	3.88
STATE STREET BANK AND TRUST COMPANY 505223	3,162,376	3.17
NTT DoCoMo, Inc.	2,092,000	2.09
The Chase Manhattan Bank, N.A. London S. L. Omnibus Account	1,440,259	1.44
Deutsche Securities Inc.	1,330,035	1.33
Rabobank Nederland, Tokyo Branch	1,080,000	1.08
STATE STREET BANK AND TRUST COMPANY 505225	883,183	0.88

Controlling Shareholder (Excl. Parent Company)

None

Parent Company

None

## 3. Corporate Attributes

Stock Exchange Listings	Tokyo Stock Exchange (1 <sup>st</sup> Section), Osaka Securities Exchange (1 <sup>st</sup> Section)
Accounting Settlement	February
Business Type	Retail business
(Consolidated) Number of Employees at End of Last Fiscal Year	Over 1,000
(Consolidated) Sales for Last Fiscal Year	Over 100 billion yen and less than 1 trillion yen
Number of Consolidated Subsidiaries at End of Last Fiscal Year	Less than 10 companies

## 4. Policy Concerning Measures to Protect Minority Shareholders upon Conducting Transactions with Controlling Shareholder

Nothing to report

**5. Other Special Circumstances that May Critically Impact Corporate Governance**

Mitsubishi Corporation holds 32.5% of the total voting rights (32,399 thousand shares) of the Company (including indirect holdings). LAWSON is thus accounted for as an equity-method affiliate by Mitsubishi Corp. In order to develop the Company's business through more integrated organization management and a faster decision-making process, LAWSON fully consolidated Ninety Nine Plus Inc. and LAWSON ENTERMEDIA, INC., both listed on the JASDAQ bourse, by share exchange, effective from July 1, 2010.

## II Business Management Organizations Associated with Management Decision-making, Execution and Supervision, and Status of Other Corporate Governance Systems

### 1. Matters Relating to Organizational Structure/Operation

Type of Organization	Company with Corporate Auditors
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[Matters Related to Directors]

Number of Directors under the Articles of Incorporation	11
Term of Directors under the Articles of Incorporation	2 years
Chairman of the Board of Directors	Outside Director
Number of Directors	7
Election of Outside Directors	Yes
Number of Outside Directors	3
Number of Outside Directors that are Appointed as Independent Directors	2

Relationship with LAWSON (1)

Name	Attribute	Relationship with LAWSON (*1)								
		a	b	c	d	e	f	g	h	i
Hiroshi Tasaka	Originally from another company					○			○	
Reiko Yonezawa	Originally from another company					○			○	
Takehiko Kakiuchi	Originally from another company		○	○	○	○			○	

\*Conditions met regarding the relationship with LAWSON

- Originally from the parent company
- Originally from another affiliated company
- Major shareholder of LAWSON
- Serves as an outside director or outside corporate auditor at another company concurrently
- Serves as an executive officer (director) or operating officer (non-director) at another company
- Spouse, relative within the third degree of kinship, or equivalent person of executive officer or operating officer of LAWSON or specified affiliates
- Receiving remuneration, etc. or other financial benefits as a director of the parent company of LAWSON or subsidiary of the parent company
- Limited liability agreement concluded with LAWSON
- Others

## Relationship with LAWSON (2)

Name	Independent Director	Supplementary Explanation to Corresponding Item	Reason for Selection as Outside Director
Hiroshi Tasaka	○	Professor at the Graduate School of TAMA University and President of SophiaBank Limited	Possesses extensive experience and knowledge as an academic and as a corporate manager, and is currently conducting appropriate supervision of LAWSON's management. Designated by the Company's Board of Directors as an Independent Director who can oversee Company management from an independent standpoint without conflicts of interest with general shareholders because of a high level of independence in which none of the conditions specified in Article 211, Paragraph 6-5, etc. of the Tokyo Stock Exchange's Enforcement Rules for Securities Listing Regulations apply.
Reiko Yonezawa	○	President of The R Co. Ltd.	Possesses extensive experience and knowledge as a corporate manager, and is currently conducting appropriate supervision of LAWSON's management. The R Co. Ltd., of which Ms. Yonezawa is President, and LAWSON have consignment and staff agency contracts for LAWSON's reception operations, but transactions are small. Designated by the Company's Board of Directors as an Independent Director who can oversee Company management from an independent standpoint without conflicts of interest with general shareholders because of a high level of independence in which none of the conditions specified in Article 211, Paragraph 6-5, etc. of the Tokyo Stock Exchange's Enforcement Rules for Securities Listing Regulations apply.
Takehiko Kakiuchi		Senior Vice President, General Manager, Living Essentials Group CEO Office., Division COO, Foods (Commodity) Div., Mitsubishi Corporation	Employed by LAWSON's largest shareholder. Possesses in-depth knowledge of consumer behavior, and is conducting appropriate supervision of LAWSON's management from an objective and specialist standpoint.

[Matters Related to Corporate Auditors]

<b>Establishment of the Board of Corporate Auditors</b>	<b>Yes</b>
<b>Number of Corporate Auditors under the Articles of Incorporation</b>	<b>4</b>
<b>Number of Corporate Auditors</b>	<b>4</b>

**Cooperation between Corporate Auditors, the Certified Public Accountant and Internal Auditing Division**

LAWSON’s corporate auditors cooperate closely with the certified public accountant, Deloitte Touche Tohmatsu through the following communication and information exchange:

- |   |                                     |
|---|-------------------------------------|
| 1. Briefing of the audit plan by the certified public accountant  | Once per year                       |
| 2. Receipt of audit reports and explanation materials for the interim period and the end of the term by the certified public accountant | Two times per year                  |
| 3. Monitoring of the independence of the certified public accountant  | As required                         |
| 4. Observation of audit by the certified public accountant  | As required during each audit       |
| 5. Other meetings to exchange information and opinions  | As required (nearly once per month) |

LAWSON’s corporate auditors cooperate closely with the Internal Audit & Correction office through the following communication and information exchange:

- |  |                                     |
|--|-------------------------------------|
| 1. Briefing on the internal auditing division’s plan for the fiscal year   | Once per year                       |
| 2. Exchange of opinions regarding the content of the internal audit report   | For each internal audit report      |
| 3. Exchange of information regarding the status of internal controls   | As required (nearly once per month) |
| 4. Attending the Lawson Meeting of internal auditing divisions of affiliated companies for exchange of information | Four times per year                 |

<b>Election of Outside Corporate Auditors</b>	<b>Yes</b>
<b>Number of Outside Corporate Auditors</b>	<b>3</b>
<b>Number of Outside Corporate Auditors that are Appointed as Independent Corporate Auditors</b>	<b>2</b>

## Partnership with LAWSON (1)

Name	Attribute	Relationship with LAWSON (*1)								
		a	b	c	d	e	f	g	h	i
Munehiko Nakano	Originally from another company		○		○				○	
Tetsuo Ozawa	Lawyer				○				○	
Eiko Tsujiyama	Scholar				○				○	

\* Conditions met regarding the relationship with LAWSON

- a. Originally from the parent company
- b. Originally from another affiliated company
- c. Major shareholder of LAWSON
- d. Serves as an outside director or outside corporate auditor at another company concurrently
- e. Serves as an executive officer (director) or operating officer (non-director) at another company
- f. Spouse, relative within the third degree of kinship, or similar person of executive officer or operating officer of LAWSON or specified affiliate
- g. Receiving remuneration, etc. or other financial benefits as a director of the parent company of LAWSON or subsidiary of the parent company
- h. Limited liability agreement concluded between this individual and LAWSON
- i. Others

## Partnership with LAWSON (2)

Name	Independent Director	Supplementary Explanation to Corresponding Item	Reason for Selection as Outside Corporate Auditor
Munehiko Nakano		Standing Corporate Auditor	Originally an employee of LAWSON's largest shareholder, has extensive experience as a corporate officer in accounting and management divisions over many years; possesses a considerable degree of knowledge of finance and accounting; and is conducting appropriate audits of the roles and responsibilities of directors from an objective and specialist standpoint.
Tetsuo Ozawa	○	Lawyer with no business relationship with LAWSON	Possesses a qualification as a lawyer, is involved in legal and risk management duties, mainly in the field of corporate law; has a considerable degree of knowledge of finance and accounting; and is currently conducting appropriate audits of the roles and responsibilities of directors. Designated by the Company's Board of Directors as an Independent Corporate Auditor who can oversee Company management from an independent standpoint without conflicts of interest with general shareholders because of a high level of independence in which none of the conditions specified in Article 211, Paragraph 6-5, etc. of the Tokyo Stock Exchange's Enforcement Rules for Securities Listing Regulations apply
Eiko Tsujiyama	○	Professor, School of Commerce and The Graduate School of Commerce, Waseda University	Possesses extensive experience as a member of the Government Tax Commission and the National Tax Council of the National Tax Agency; has a considerable degree of knowledge of finance and accounting as a certified public accountant; and is expected to capably conduct appropriate audits of the roles and responsibilities of directors from an objective and specialist standpoint. Designated by the Company's Board of Directors as an Independent Corporate Auditor who can oversee Company management from an independent standpoint without conflicts of interest with general shareholders because of a high level of independence in which none of the conditions specified in Article 211, Paragraph 6-5, etc. of the Tokyo Stock Exchange's Enforcement Rules for Securities Listing Regulations apply

[\[Matters Related to Independent Directors and Corporate Auditors\]](#)**Number of Independent Directors and Corporate Auditors****4****Other Matters Related to Independent Directors and Corporate Auditors**

Nothing to report

[\[Matters Related to Incentives\]](#)**Status of Implementation of Measures for the Granting of Incentives to Directors****Introduction of Stock Options Program****Supplementary Explanation Associated with the Relevant Item**

LAWSON introduced an incentive-type stock option program and a regular stock option program.

**Incentive-type Stock Options**

We would like our directors to share with the shareholders both the benefits brought about by the increase in LAWSON's stock price and the risks caused by drop in the stock price. We would also like to enhance the motivation of our directors and boost their morale with regard to raising the stock price and improving the performance of LAWSON. Therefore, we terminated the system of payment of retirement benefit allowances for directors, and is instead allocating incentive-type stock options with an exercise price of one yen.

**Regular Stock Options**

In order to enhance the motivation and morale of employees toward improvement of the performance of LAWSON and to encourage further business expansion focusing on the interests of our shareholders, we have decided to allocate regular stock options with an exercise price that is, in principle, the market price at the time of allocation.

**Recipient of Stock Options****In-house directors, outside directors and others**

**Supplementary Explanation Associated with the Relevant Item**

[Incentive-type Stock Options in FY2005]

Recipients: In-house directors and outside directors

Number of Stock Options Granted: 22,400 shares to directors

[Regular Stock Options in FY2006]

Recipients: In-house directors, outside directors, and executive officers

Number of Stock Options Granted: 40,000 shares to directors and 43,000 shares to executive officers

[Incentive-type Stock Options in FY2006]

Recipients: In-house directors, and outside directors

Number of Stock Options Granted: 21,300 shares to directors

[Regular Stock Options in FY2007]

Recipients: Executive officers and others

Number of Stock Options Granted: 45,000 shares to executive officers and others

[Incentive-type Stock Options in FY2007]

Recipients: In-house directors, and outside directors

Number of Stock Options Granted: 18,000 shares to directors

[Regular Stock Options in FY2008]

Recipients: Executive officers

Number of Stock Options Granted: 36,000 shares to executive officers

[Incentive-type Stock Options in FY2008]

Recipients: In-house directors, and outside directors

Number of Stock Options Granted: 26,400 shares to directors

[Incentive-type Stock Options in FY2009]

Recipients: In-house directors, and outside directors

Number of Stock Options Granted: 21,500 shares to directors

[Incentive-type Stock Options in FY2010]

Recipients: In-house directors, and outside directors

Number of Stock Options Granted: 18,900 shares to directors

\* The above stock options are those with an exercise period that hasn't expired as of the end of the business period, and the numbers of shares are as at the time of issue.

**[Matters Related to Compensation for Directors]****Scope of Disclosure (of Individual Compensation for Directors)**

No

**Supplementary Explanation Associated with the Relevant Item**

LAWSON discloses the amount of remuneration and other compensation for directors and corporate auditors separately.

**Policy on Deciding the Amount of Remuneration or its Calculation Method**

Yes

**Disclosure of the Policy on Deciding the Amount of Remuneration or its Calculation Method**

The amounts of remuneration paid to directors of LAWSON are set in close correlation with financial performance and in such a way that value can be shared with the shareholders.

Remuneration of directors, which is composed of basic compensation and the stock option as compensation, is paid within the limit of the amount of annual remuneration resolved at the General Meeting of Shareholders. The basic compensation is composed of fixed compensation commensurate with the position and variable compensation, which fluctuates in response to corporate financial performance. The baseline pay is decided in accordance with the directors' remuneration system.

The variable compensation is decided mainly based on quantitative elements such as corporate financial performance. Decisions concerning remuneration are made at the Board of Directors meeting in accordance with the recommendations of the Compensation Committee, which consists of outside directors and outside corporate auditors.

As for remuneration of corporate auditors, fixed compensation amounts are decided for each corporate auditor based on discussions by the corporate auditors, within the limit of the amount of annual remuneration resolved at the General Meeting of Shareholders. As for the corporate auditors' retirement benefits, reasonable amounts are to be paid based on discussions by the corporate auditors and pursuant to a resolution made at the General Meeting of Shareholders and the standards stipulated by internal rules.

**[Support System for Outside Directors (Outside Corporate Auditors)]**

The staff of the Board of Directors is in charge of administrative tasks and communicating with the outside directors. Further, in the event of any incident or accident, the staff submits a report to the directors in each case. The Corporate Auditors Office supports the corporate auditors and one full-time staff is assigned. The staff member is in charge of assisting audit operations, administrative tasks and communicating with outside corporate auditors.

## **2. Matters Relating to Execution of the Business, Audit/Supervision, Designation, Compensation Decisions, etc.**

The Company's Board of Directors is made up of 7 directors, including 3 outside directors. The Board of Directors not only decides important management matters such as issues stipulated by laws and regulations and the Articles of Incorporation, but also monitors the conduct of business operations by its directors. The Board met 13 times in FY2010. Furthermore, the Company has adopted an executive officer system and entrusts authority to executive officers to expedite business execution. Moreover, the Company holds Management Council meetings as a supplementary decision-making body to the Board of Directors. The Management Council is made up of directors, executive officers and divisional officers (and met 19 times in FY2010). To ensure the effectiveness of the compliance system and risk management system, the Company has a Compliance and Risk Management Committee. Meanwhile, the Financial Reporting Internal Control Committee oversees enhancement of internal controls around financial reporting.

Candidates for directorships are selected by the Board of Directors after comprehensively considering their experience, knowledge and other matters. In addition, in FY2010, the Compensation Committee, chaired by outside director Takehiko Kakiuchi, convened 2 times to prepare reports for the Board of Directors regarding the determination of compensation for directors and executive officers, and other matters.

The Internal Audit & Correction office, which has 12 members, serves as the Company's internal audit division and reports directly to the president of the Company. This office conducts business audits, including audits of affiliated companies, to identify problems and also provides guidance for improvements.

The Company has 4 corporate auditors, 3 of whom are outside corporate auditors. Corporate auditors attend meetings of the Board of Directors and other important meetings where they also express their opinions. They also inspect important documents and conduct other activities in auditing the conduct of duties by directors.

The Company has signed an audit contract with Deloitte Touche Tohmatsu to conduct financial audits. The Company is subject to audits in accordance with the Japanese Company Law and the Financial Instruments and Exchange Act.

There are no special relationships involving mutual interests between the certified public accountant (independent auditor) and the Company. In close liaison with LAWSON's corporate auditors and LAWSON, the certified public accountant issues a report on its planned auditing work for each business period, and subsequently issues regular reports on the progress of the auditing. During each business period, LAWSON's corporate auditors and the certified public accountant exchange information and opinions wherever deemed necessary to ensure the efficiency and accuracy of the auditing process.

## **3. Reason for Choosing the Current Corporate Governance System**

LAWSON adopts a corporate auditor system, with 4 corporate auditors, including 3 outside corporate auditors (2 of whom are Independent Corporate Auditors), auditing the roles and responsibilities of directors. The Company has 7 directors, including 4 in-house directors and 3 outside directors, 2 of whom are Independent Directors. The

number of Board members has been kept to a minimum to speed up the decision-making process. Outside directors are also elected, enabling the Company to incorporate insights and knowledge from a broader perspective, based on the officers' independence and lack of conflict of interest with general shareholders, as well as to make appropriate judgments on important matters related to Company management, such as developing companywide management strategies.

### III Implementation of Measures Associated with Shareholders and Other Stakeholders

#### 1. Approach for Improving Notification regarding the Convening of the General Meeting of Shareholders and Facilitating the Exercise of Voting Rights

	Supplementary Explanation
<b>Early Dispatch of Notice of Ordinary General Meeting of Shareholders</b>	For the 36th Ordinary General Meeting of Shareholders, in addition to distributing the Notice of the Ordinary General Meeting of Shareholders 22 days prior to the meeting, a Notice of Ordinary General Meeting of Shareholders is posted on LAWSON' s website (an English version is also posted).
<b>Exercising Voting Rights by Electronic Means</b>	Company shareholders are able to exercise voting rights by electronic means. LAWSON is also using the electronic platform for exercising voting rights offered by ICJ.
<b>Others</b>	LAWSON endeavors to create a friendly atmosphere at ordinary general meetings of shareholders, such as by having reception personnel wear the easily recognizable LAWSON store uniform. Furthermore, following the completion of meetings, LAWSON makes available on-demand (video, audio, visual materials and a summary of the Q&A session (Japanese language only)) on its corporate website, as well as releases the results of voting.

**2. Activities Related to IR**

	<b>Explanation Provided Directly by the Representative</b>	<b>Supplementary Explanation</b>
<b>Regular explanatory meeting for analysts/institutional investors</b>	Yes	In addition to the explanatory meeting at the time of full-year account settlement and interim-term account settlement, our directors hold a telephone conference at the time of quarterly account settlement to ensure timely disclosure is provided directly by the representative.
<b>Posting of IR documents on LAWSON's Website</b>	—	In the interest of fairness of disclosure, we publish the disclosure information, important information and materials of the explanatory meeting on our website as soon as is possible. We also actively provide disclosure in English for the benefit of foreign investment institutions and foreign private investors.
<b>Establishment of division to handle IR (representatives)</b>	—	We assign IR representatives in charge of Corporate Planning office.

### 3. Approach for Respecting the Position of Stakeholders

	Supplementary Explanation
<b>Internal Charter That Respects Stakeholders</b>	LAWSON's corporate philosophy is "Happiness and Harmony in Our Communities." In order to make this the corporate philosophy of the entire Group and bring this philosophy to reality, LAWSON has set out its basic stance on all stakeholders in the LAWSON Corporate Conduct Charter and this is made available on the Company's website.
<b>Environmental Protection and CSR Activities</b>	<p>Through the establishment of the CSR Promotion Station, we continuously conduct environmental protection and CSR activities. These activities include assistance for greening programs such as forest care provided by LAWSON Green Fund activities, volunteer work, proactive support for victims of disasters, and food recycling at stores.</p> <p>In order to mitigate global warming, we are making our stores more energy efficient and at the same time we continued a carbon dioxide offset program and a "Carry-It Campaign," which encourages customers to bring their own shopping bags and chopsticks. Run with the support of customers, these programs are but two examples of ways we are proposing that people can protect the environment in their daily lives.</p> <p>In addition, we formulated the "Environmental Policies of the LAWSON Group" in FY2010, and are actively making efforts as a Group to protect the environment.</p> <p>Environmental and Social Activities Report 2010 (<a href="http://www.lawson.co.jp/company/activity/index.html">http://www.lawson.co.jp/company/activity/index.html</a>)</p>
<b>Development of Policies, etc. for Providing Information to Stakeholders</b>	Designated staff regarding corporate planning, communication and CSR promotion are all involved in providing information to stakeholders.

## IV Basic Approach to Internal Control Systems and their Present Status

### Basic approach

At the Board of Directors meeting held on February 21, 2011, based on the improved and operating circumstances of the preceding "2010 Basic Policy for Improvement of Internal Control Systems", which was resolved at the Board of Directors meeting held on February 22, 2010, the Company passed the resolution called the "2011 Basic Policy for Improvement of Internal Control Systems" as indicated below.

#### 2011 Basic Policy for Improvement of Internal Control Systems

LAWSON is involved in a broad range of business domains, combining ticket sales, financial services, e-commerce business, consulting business and advertising business along with its core convenience store operations. LAWSON provides multifarious products and services through its immense chain of stores in every prefecture in Japan in these wide-ranging business domains. In conjunction with these activities, LAWSON is subject to a host of laws and

regulations and is also exposed to risks of loss (hereinafter “risks”). Because LAWSON’s convenience store business uses a franchise system, there is a need to provide proper guidance and assistance to a large number of franchised stores. In light of the nature of LAWSON’s business, an important theme for management is the maintenance and operation of internal control systems that can support sound and continuous business growth. Accordingly, LAWSON has established “2011 Basic Policy for Improvement of Internal Control Systems” (hereinafter “Basic Policy”), as outlined below, in accordance with the Japanese Company Law and its enforcement regulations, as well as the Financial Instruments and Exchange Act. The Basic Policy will ensure that LAWSON’s businesses are conducted effectively, efficiently and in a proper manner, ultimately helping to preserve and increase enterprise value.

The Basic Policy is applicable to all company officers (directors, corporate auditors, and other individuals of similar rank) and employees (permanent, temporary, contract workers and other staff members).

(1) Systems to Ensure Compliance of the Execution of Duties by Directors and Employees with Laws and Regulations and the Articles of Incorporation

- 1) The Board of Directors shall determine the improvement policies and plans for internal control systems, including those for compliance with laws, regulations and the like (hereinafter the “Compliance”), and receive status reports thereof periodically.
- 2) The Board of Directors shall maintain and improve the supervising function regarding the execution of duties by the Directors by electing outside Directors on an ongoing basis.
- 3) The Corporate Auditors shall independently audit the execution of duties by the Directors, including the status concerning the improvement of the internal control systems.
- 4) The Internal Audit Department, which is independent from the business-executing bodies, shall audit the status concerning the improvement of the internal control systems, and recommend improvements thereof, as required.
- 5) The Board of Directors shall maintain and raise the awareness of officers and employees regarding compliance by thoroughly disseminating the LAWSON Group Code of Conduct and the LAWSON Ethical Mission Statement by measures including, but not limited to, appointing a Chief Compliance Officer (CCO) and establishing a department that oversees compliance, assigning personnel in charge of compliance to each department, streamlining the rules in relation to compliance and providing training on ethics and conducting compliance awareness surveys on a periodic basis.
- 6) The Legal Affairs Department shall be reinforced to fortify foundations for complying with legal requirements by identifying the laws and regulations applicable to the Company’s businesses and communicating the content thereof to the relevant departments and sections.
- 7) The Company shall establish and upgrade normal reporting routes for reporting any violations of laws, regulations or internal rules, and upgrade reporting and consulting systems (internal and outside contact points and a group-wide consulting contact point) that fully protect informants. By establishing a consulting contact point for employees and business counterparties for LAWSON’s franchised stores, the Company shall strive

for early detection of violation or possible violation of laws, regulations, etc. across the entire LAWSON chain.

- 8) The Company shall never become involved with antisocial forces or bodies that threaten the order and security of society, and shall take a firm stance on and deal with improper demands by consulting with lawyers, the police and the like.

(2) Systems to Preserve and Manage Information Pertaining to the Execution of Duties by Directors

- 1) The Company shall record, preserve and manage information relating to decision making at important meetings such as those of the Board of Directors and the Management Council, and authorizing documents, including those approved by the President, as well as financial, clerical and risk- and compliance-related information (including information contained in electromagnetic media). Moreover, the Company shall put in place a system allowing relevant parties to inspect the above information.
- 2) The Company shall manage and monitor its information systems in a secure manner, in addition to maintaining the system by sufficiently taking into account contingencies.
- 3) The Company shall establish and maintain rules regarding the management of documents (including electromagnetic recording media), keep everyone informed about the responsibility and authority for document management, document storage periods and management methods, and periodically monitor the status of document storage and management.
- 4) The Company shall establish regulations regarding the safeguarding of personal information and management of confidential business information, and shall properly and safely store and manage personal information and important confidential business information.
- 5) The Company shall establish regulations regarding the disclosure of important corporate information and put in place a system for properly and fairly disclosing in a timely manner information required by laws and regulations and stock exchange rules.

(3) Rules and Other Systems Regarding Risk Management

- 1) The Company shall establish a department to oversee risk management, and improve rules related to risk management and group-wide risk-prevention systems during normal operations. Furthermore, each department shall identify risks that might have adverse effects on the Company's management in connection with its business purposes, analyze the probability of such risk factors materializing and their impact, and evaluate whether intensive countermeasures should be taken as part of measures tailored to the nature of risks.
- 2) To ensure the effectiveness of risk management, the Company shall establish a specialist committee ("Compliance & Risk Management Committee"), and clarify the authority and responsibility of the committee and its chairperson. Furthermore, the Company shall endeavor to increase awareness about risk management by assigning risk management staff to departments and associated companies and conducting risk management training.

3) The Company shall develop contingency systems and formulate policy for contingency-response bodies in advance to prepare for the occurrence or possible occurrence of unanticipated situations or events, which might have adverse effects on management of the Company, in order to provide a quick response to any actual occurrence thereof and to take effective measures to prevent a reoccurrence. In particular, the Company shall work to formulate a business continuity plan (BCP) and establish a business continuity management (BCM) system in order to minimize the disruption to operations of events that could have a detrimental impact on the Company, such as a major disaster or outbreak of a new strain of influenza.

(4) Systems to Ensure the Efficient Execution of Duties by Directors

- 1) The Company shall clarify the functional authority and responsibility of corporate officers and employees for decision making and execution of business affairs. The Company shall also improve rules for the division of duties to ensure and encourage more appropriate division of duties and collaboration among organizational bodies.
- 2) The Company shall work to raise operational efficiency by simplifying business processes, streamlining the organization and making appropriate use of IT.
- 3) In order to promote the proper communication of information and communications between officers and employees, the Company shall improve systems by which management guidelines and policies are disseminated to employees by corporate officers, and important field information is properly communicated by employees to corporate officers in a timely manner.

(5) Systems to Ensure the Propriety of Business Operations Conducted by the Corporate Group Consisting of the Company and Its Subsidiaries

- 1) The Company shall endeavor to maintain and enhance the LAWSON brand through close collaboration with subsidiaries and affiliated companies (hereinafter "Associated Companies"). However, with regards to affiliated companies, the Company will work to establish and maintain systems through phased implementation, taking into account such factors as relations with other leading shareholders, difference in laws, regulations and business customs and the like of foreign countries.
- 2) While respecting the independence of Associated Companies, in view of the purpose of the Company's equity participation in Associated Companies, the Company shall establish Group regulations such as basic policies for the management of Associated Companies and management policies thereof, and keep the Associated Companies fully informed of the LAWSON Group Code of Conduct.
- 3) The Internal Audit Department shall cooperate in auditing the status of establishment of internal control systems at Associated Companies, and promote improvements based on the results of audits.

(6) Necessary Systems to Ensure Proper Financial Reporting by the Company and its Group of Companies

- 1) The Company shall enhance systems for preparing financial statements according to laws and regulations and

accounting standards and disclosing same after they have been discussed, examined and confirmed in accordance with regulations governing information disclosure, in order to report financial information in a proper and timely manner.

- 2) The Company shall establish a dedicated internal organization in order to properly implement the internal control reporting system required by the Financial Instruments and Exchange Act, as an internal control for financial reporting. Furthermore, the Company shall establish a system for self- and third-party evaluation and improvement through the identification and recording of business processes at important business bases and the status of Companywide internal controls. The Company shall report regularly to the Board of Directors the results of evaluations and improvements made at the Company and important subsidiaries.

(7) Matters Concerning Employees Where a Corporate Auditor Requests Employees to Assist With Duties

- 1) The Company shall assign appropriate personnel to the Auditors' Office as employees exclusively to assist Corporate Auditors in the execution of their duties (hereinafter "Corporate Auditors' Staff").
- 2) Corporate Auditors' Staff may serve concurrently as Corporate Auditors of Associated Companies.
- 3) Corporate Auditors' Staff shall have the authority to conduct investigations necessary for audits by Corporate Auditors following the instructions of Corporate Auditors.
- 4) The Legal Affairs, Risk Management and Finance and Accounting departments of the Company shall assist in conducting necessary surveys for audits when requested by any Corporate Auditor.

(8) Independence of Employees From Directors in the Preceding Item

Performance reviews of Corporate Auditors' Staff shall be conducted by the Standing Corporate Auditors to ensure that Corporate Auditors' Staff carry out their duties appropriately. Personnel changes require the prior consent of the Standing Corporate Auditors.

(9) Systems for Directors and Employees to Report to Corporate Auditors and Other Reporting Systems to the Corporate Auditors

- 1) Directors and employees of the Company shall report important corporate management and business administration matters, as well as the status and results of the execution of their duties, to Corporate Auditors so that the Corporate Auditors can carry out their duties effectively. Such important matters include compliance- and risk-related issues and other matters relating to internal control.
- 2) If directors become aware of any fact or event that will likely cause the Company to suffer significant damage or loss, they shall immediately inform the Board of Corporate Auditors.
- 3) Reports to Corporate Auditors shall basically be made in good faith without fail, and shall be made promptly if required in addition to periodic reports.

(10) Other Systems to Ensure Effective Audits by Corporate Auditors

- 1) The Representative Directors and Corporate Auditors shall have regular meetings to enhance smooth communications with each other.
- 2) Directors shall cooperate with the Corporate Auditors with regards to communications, the collection and exchange of information and so on between the Corporate Auditors and the corporate directors and the like of Associated Companies so that the Corporate Auditors can perform their duties appropriately.
- 3) Directors shall also cooperate in conducting surveys of significant business partners, which the Corporate Auditors deem necessary.
- 4) Directors shall enable the Corporate Auditors to collaborate with outside experts such as lawyers and certified public accountants, if any Corporate Auditor deems it necessary in executing his/her duties.

Present Status of Internal Control Systems

1. Present Status of Compliance System and Risk Management System

LAWSON has appointed a Chief Compliance Officer (CCO) to be in charge of the promotion and establishment of compliance and to oversee risk management, and has established a Compliance and Risk Management Office with dedicated staff members. LAWSON has also assigned compliance officers to respective divisions of the head office and seven LAWSON branches nationwide. The CCO convenes a monthly meeting of the Compliance and Risk Management Committee consisting of all compliance officers as committee members to ensure compliance with laws and the effectiveness of risk management, the understanding of issues and the preparation and implementation of measures to prevent misconduct.

(1) Present Status of Compliance Systems

To continually comply with the law, and always maintain corporate conduct in line with generally accepted morals and societal expectations, LAWSON maintains and refines its rules related to compliance and conducts compliance training on a regular basis through e-learning and group training by job type. Also, in March 2011, LAWSON revised the LAWSON Corporate Conduct Charter, and the LAWSON Code of Ethics. Furthermore, LAWSON released the LAWSON C&R Handbook, which outlines the scope of conduct that the aforementioned documents cover, and is making efforts to ensure that its employees maintain and improve awareness of compliance through their work.

In addition to the employee awareness survey targeting all our employees, LAWSON has sent out questionnaires to its business partners (including the business partners of our major subsidiaries). Through such questionnaires, we have gained an understanding of the problems and issues related to compliance promotion activities and transaction styles, and based on this knowledge, we are reviewing and improving our compliance system from a wide perspective.

LAWSON has also established reporting and consulting systems (internal and outside contact points and a group-wide consulting contact point) to maintain a system for detecting and coping with internal problems at an early stage.

## (2) Present Status of Risk Management System

We at LAWSON maintain and refine the rules concerning risk management, and place priority on three major risk areas: product quality and hygiene control, data security, and natural and other disasters. We must be prepared for all types of emergencies that may arise, and develop a system by which we can provide a swift response.

Under ordinary circumstances, the Compliance and Risk Management Committee is held once every month. The committee and its subordinate committees evaluate risks, establish responses to those risks, and aim to prevent those risks from developing into an incident such as by clarifying priorities for resolving problems, formulating and promoting prevention strategies, and managing the processes of problem solving.

If a risk develops into an incident, an emergency risk response committee is established to contain the incident and to minimize damage to operations. The emergency response committee gets to the bottom of what factors caused the incident and from this analysis, takes measures not only to restore any loss of trust and prevent such an incident from occurring again, but also to further improve LAWSON's ability to manage risks through feedback to employees in training sessions.

Moreover, we keep Disaster Response Manuals at each of our business establishments (and at each division of the head office). Also disaster response directions are contained in the various store manuals provided to stores. In the case of a large-scale disaster, LAWSON will set up a disaster response headquarters to provide a swift response. These manuals are reviewed periodically and updated to address any problems identified through semiannual disaster drills.

## 2. Present Status of System Concerning the Storage and Management of Information Relating to the Execution of Duties by Directors

### (1) Present Status of System for Recording, Storing and Managing Information Relating to Decisions Made by the Board of Directors, Executive Committee and other Decision-making Bodies, Information Relating to Decisions Made by the President and Other Important Decisions, and Information Relating to Compliance and Risk Matters

#### 1) Storage and Management of Information Relating to Decisions Made by the Board of Directors, Executive Committee and Other Decision-making Bodies

To ensure the accountability of the representative director and president, written proposals and minutes of meetings are recorded and stored. The original minutes of Board of Directors' meetings for the most recent ten years are properly maintained in a book vault at the executive office of the headquarters, and after ten years the original proposals and minutes of the Board of Directors' meetings are stored permanently in outside storage under strict security. The minutes relating to decisions made by the Executive Committee and other decision-making bodies for the most recent year are properly maintained in the book vault in the executive office of the headquarters, and after one year these minutes are stored permanently in an outside storehouse under strict security.

#### 2) Storage and Management of Approval Documents and Written Contracts

To ensure the accountability of the representative director and president and other decision-makers, information relating to decisions made by the president and other important decisions are recorded and stored as follows:

- A. Approval documents for the president with attachments for two years are maintained in the executive office of the headquarters. After two years, such documents are stored in an external storehouse under strict security.
- B. Approval documents other than those for the president, including approval documents for branches are collected by the General Affairs Office, and these documents are transferred after one year to be stored in an external storehouse under strict security.
- C. Franchise agreements and store lease agreements including any attached memorandums, which constitute the foundation of LAWSON's business, are stored in an external storehouse under strict security immediately upon conclusion of the agreement.
- D. Other written contracts are stored in secure locked locations at each responsible division or in an external storehouse under strict security control for seven years after expiration of the contract period.

### 3) Storage and Management of Information Relating to Compliance and Risk

To ensure the accountability of the CCO, the written background and minutes of meetings are recorded and stored under strict security. With the approval of CCO, the Compliance and Risk Management Office's general manager deals with requests for access to such documents.

### 4) Storage and Management of Minutes of Meeting Bodies Other Than the Above and Other Important Documents

The staff of responsible divisions store and manage these documents at their own discretion.

## (2) Present Status of System Concerning Management and Monitoring of Information System as Well as Proper Maintenance of Such Systems for Contingencies

Under LAWSON'S Information Security Policy, the Information System Management Rules prescribe matters that should be observed by related divisions for the purpose of maintaining and improving information security and enhancing the reliability, effectiveness and efficiency of our information system. In this way, we maintain the secure management and operation of systems and implement proper preventive measures and procedures in the event of a contingency.

These rules apply to matters relating to the planning, development, maintenance and operation of the information system, information system equipment, and related facilities. They prescribe not only matters to be observed by users, but also management in the event of a failure in the information system, the management of changes in the system, the management of outsourcing, the management of system security, access management, project risk management, business continuity management, compliance and other relevant matters.

## 3. Internal Control by the Certified Public Accountant

LAWSON has an audit contract with Deloitte Touche Tohmatsu ("Tohmatsu"). There are no special relationships involving mutual interests between LAWSON and Tohmatsu or any of the staff of Tohmatsu engaged in auditing work for LAWSON. In close liaison with LAWSON's corporate auditors and LAWSON, the certified public accountant issues a report on its planned auditing work for each business period, and subsequently issues regular

reports on the progress of the auditing. During each business period, LAWSON's corporate auditors and the certified public accountant exchange information and opinions wherever deemed necessary to the efficiency and accuracy of the auditing process.

The corporate auditors received a notification from the accounting (independent) auditors that they are taking steps to improve the "system for ensuring appropriate execution of duties" (matters specified in the items under Article 131 of Corporate Accounting Rules) in accordance with the "Quality Control Standards Relating to Auditing" (Business Accounting Deliberation Council, October 28, 2005) and other standards, and requested explanations when necessary.

If an accounting (independent) auditor violates or infringes the Corporate Law of Japan, or the Certified Public Accountants Law, and if the Board of Directors deems it necessary, the Board of Directors shall submit a proposal to the General Meeting of Shareholders to dismiss or not reappoint the aforesaid accounting (independent) auditor after receiving the agreement of the Board of Auditors. If it is deemed that the aforesaid accounting (independent) auditor fits any of the circumstances prescribed in any item of Clause 1 of Article 340 of the Corporate Law, the Board of Auditors can dismiss the aforesaid accounting (independent) auditor by unanimous decision.

#### 4. Present Status of System to Ensure Appropriate Business Activities in Group Companies

LAWSON has designated a compliance and risk management officer at its subsidiaries. The CCO, these officers and the person in charge of affiliated companies at LAWSON attend quarterly meetings of LAWSON's Affiliated Company Compliance Officers Committee, where information and knowledge is shared with the LAWSON group. In this way, LAWSON not only can prevent misconduct and other issues from occurring but also can maintain and implement a system for a swift response to any such incidents.

To support sound management at its affiliated companies, LAWSON dispatches or loans directors/corporate auditors and employees to these companies. In this way, LAWSON not only helps to ensure the businesses of the affiliated companies operate appropriately and efficiently, and but also communicates and shares information with the affiliated companies.

Through the annual business audit of the affiliated companies, LAWSON's internal auditing department mutually confirms issues with these companies as required, including issues relating to the maintenance of the rules required for the affiliated companies, etc., and provides instruction and assistance for the improvement and maintenance of such rules. The affiliated companies report their management issues and conditions at the time of annual, semiannual, quarterly and monthly account settlement. LAWSON provides instruction and assistance as required to solve management issues at the affiliates. Moreover, corporate auditors of the affiliated companies participate in the Group Auditors Liaison Meeting hosted by LAWSON's corporate auditors. At this meeting, the progress of auditing activities is mutually confirmed and LAWSON's corporate auditors explain key auditing points as required. In this way, LAWSON provides the cooperation and support the corporate auditors of the affiliated companies require to execute their duties.

□ Basic Approach towards the Exclusion of Antisocial Forces and its Present Status

1. Basic approach towards the exclusion of antisocial forces

LAWSON, considers the prevention of damage from antisocial forces to be an important part of ensuring proper business activity and in its “2011 Basic Policy for Improvement of Internal Control Systems” it clarifies this by “The Company shall never get involved with antisocial forces or bodies that threaten the order and security of private society, and shall take a firm stance on unjustified demand in cooperation with lawyers, the police and the like.”

2. Present status of the exclusion of antisocial forces

LAWSON provides a statement of principle concerning the exclusion of antisocial forces in the LAWSON Corporate Conduct Charter and the LAWSON Code of Ethics and the entire organization takes a collective response to such matters.

With respect to internal controls, the office that integrates the response to a matter concerning an unjustified demand by antisocial forces (hereinafter “office responding to antisocial forces”) provides central control of information relating to antisocial forces. Not only will it give support to organizational frameworks to sever relations with antisocial forces, it will also work in cooperation with the National Police Agency and the prefectural or metropolitan police department. The office responding to antisocial forces will consult the above institutions when responding to an unjustified demand from antisocial forces.

We formulated the “Transaction Policies of the LAWSON Group” in 2010 to deal with this issue across the entire supply chain.

## V Others

### 1. Matters Related to Defense against Takeover

<b>Matters Related to Defense against Takeover</b>	<b>None</b>
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#### Supplementary Explanation Associated with the Relevant Item

Nothing to report

### 2. Other Matters Related to the Corporate Governance System

[Outline of the timely disclosure system]

(1) LAWSON has assigned the Division Director of the Corporate Communications Office to be in charge of timely disclosure, with departmental responsibility falling to the Corporate Communications Office. They shall promote understanding of the importance of timely disclosure within the Company.

(2) The Company's employees are required to report to and consult the person in charge of timely disclosure with regard to any information they deem important. Furthermore, the person in charge of timely disclosure passes on such information to the Division Director of the Finance and Accounting Office in order to determine whether the information constitutes insider information.

(3) With regard to information regarding which consultation or reporting is made, the person in charge of timely disclosure seeks the advice of the director in charge, the Division Director of the Corporate Planning Office, the Division Director of the Finance and Accounting Office and other relevant departments concerning the necessity of disclosing the information in a timely manner, what to disclose, and the timing of disclosure in order to ensure timely disclosure of appropriate information.

(4) LAWSON set basic regulations governing information disclosure in August 2006 to establish an internal system for the disclosure of important information. With regard to insider trading, the Company established regulations to prevent insider trading in July 2000 and develop a monitoring system.

[Reference: Organization]

**Corporate Governance and Internal Control Systems**

(As of May 25, 2011)

