

Internal control

Basic policy regarding the internal control system

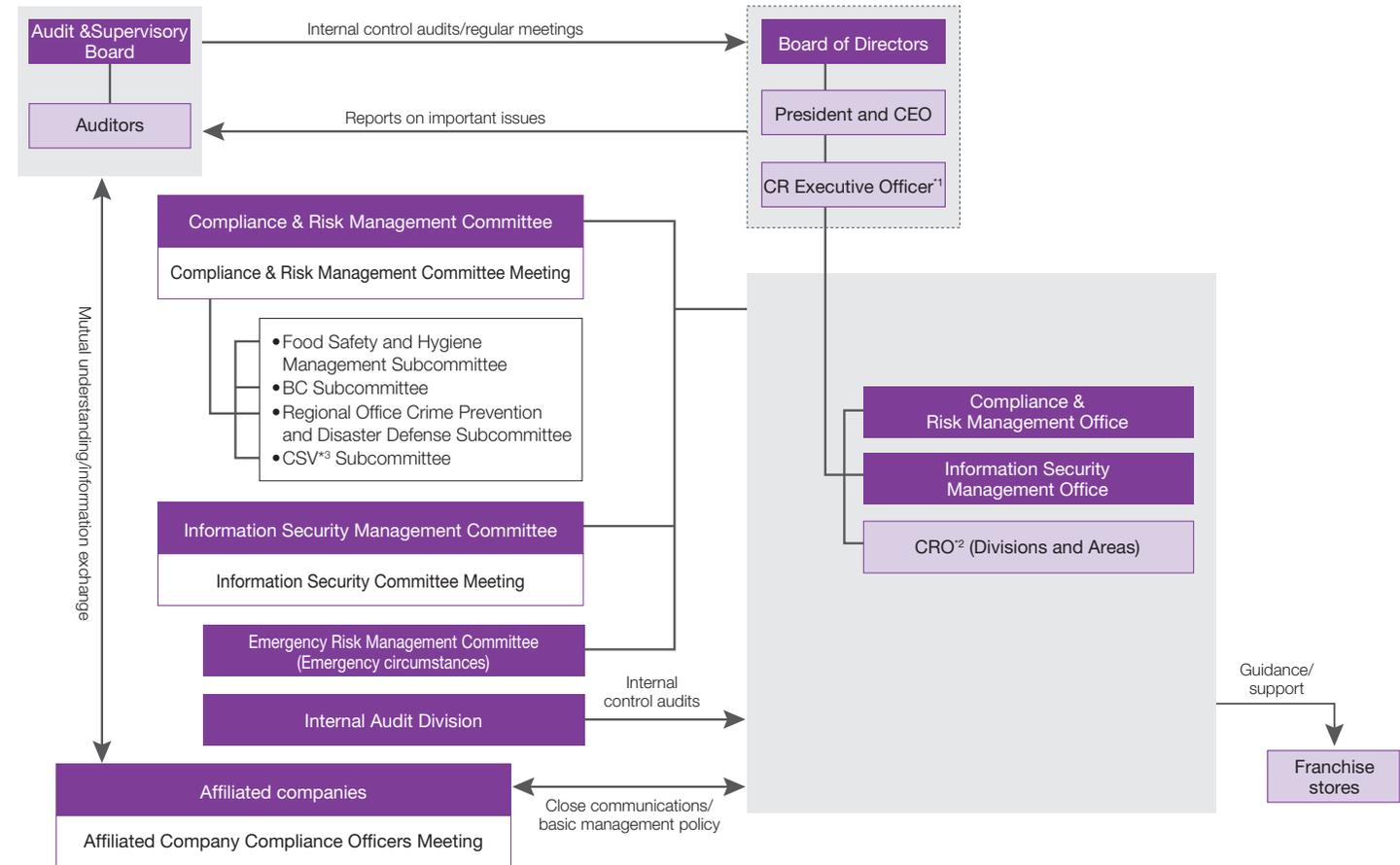
With the convenience store business at its core, the Lawson Group's business operations range from high-end supermarket and entertainment-related businesses to financial, e-commerce, and consulting services, together with LAWSON stores in every prefecture in Japan, as well as several stores overseas. The Group provides a wide variety of products and services, as such, we are not only required to observe various laws and regulations but also must assess the diverse range of possible risks and implement the appropriate countermeasures. In light of these characteristics, Lawson has established the "Basic Policy for Maintaining the Internal Control System" to support its efforts to achieve healthy, sustainable growth. We are promoting maintenance of our internal control system based on this policy, while responding to changes in our management environment, conducting periodical reviews of the policy itself, and endeavoring to maintain and enhance an effective, practical internal control system.

The main revisions of the aforementioned Basic Policy implemented in fiscal 2019 are described below:

Reinforcement of the system to ensure the appropriate operations of affiliated companies

A management system of affiliated companies has been established, clearly defining that the measures to appropriately operate the said system be reinforced.

Lawson's internal control system (as of June 1, 2019)



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

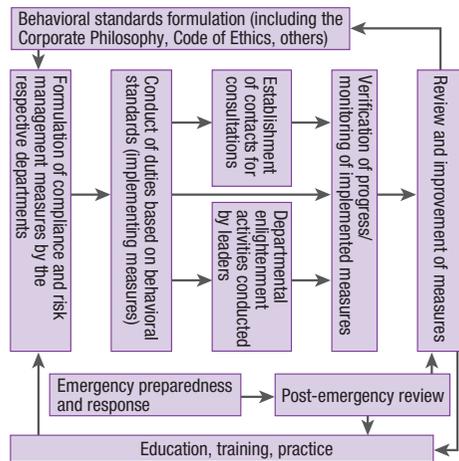
*2 CROs (Compliance and Risk management Officers): Persons responsible for compliance in the various divisions who support the CR Executive Officer and assume overall responsibility for the development and execution of a frameworks for identifying misconduct and problems concerning legal compliance and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

*3 CSV (Creating Shared Value)

Lawson's compliance and risk management system

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

● Management organization



Formulation of behavioral standards

We have established the Code of Ethics, Lawson Group Privacy Policy and Lawson Group Purchasing Policy to ensure proper conduct of business throughout the Group. We have



Lawson Group C&R Handbook

compiled these in the "Lawson Group C&R Handbook" and distributed it to all our employees to attain their understanding of the policies.

Appointment of CR promotion officers

We have appointed an executive officer responsible for CR (compliance and risk) with responsibility for promoting compliance and risk management. Compliance and risk management officers (CROs) assigned to each department at headquarters and the regional offices are tasked with establishing and raising awareness of compliance measures and risk countermeasures in their respective departments and with contributing to creation of a culture that emphasizes compliance with social norms.

Full implementation of education and training

Lawson conducts compliance and risk management training for all its employees each year for the purpose of improving their ethical awareness and risk response capabilities. It has developed a training system to support structured, systematic learning, moreover, that begins with training of newly recruited employee and extends to training of newly appointed management personnel and specialized occupational training as well as biannual compliance training for management members provided by outside instructors. Our ongoing implementation of these training programs is designed to encourage personnel in every position and with every job description to share in the problem-solving process leading to business enhancement. We are currently reviewing the program contents in light of our changing risk environment.

Establishing and raising awareness of the Consultation/Whistleblower Hotline

In addition to Human Resources Department personnel who specialize in consulting concerning sexual harassment and abuse of power and legal personnel who provide consultations on legal

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

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

Reinforced operational management and monitoring

Lawson has established the Compliance and Risk Management Office and the Information Security Management Office and staffed them with specialized personnel under the direction of the CR Executive Officer. As the entities responsible for promoting and assuring compliance as well as for conducting risk management, these offices serve as cross departmental secretariats for the Compliance and Risk Management Committees Meeting and Information Security Committees Meeting and manage the progress of measures implemented in these areas by individual departments throughout the Group.

Four separate subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and Disaster Defense Subcommittee, and the CSV Subcommittee) have been established under the Compliance and Risk Management Committees Meeting and tasked with managing the progress of important measures while preventing the emergence of risks.

The subcommittees collaborate with the Corporate Auditors Office, moreover, receiving

reports on the results of compliance audits as needed while also providing detailed guidance for implementing measures and offering proposals for improvements.

Besides awareness surveys involving all the employees, the monitoring activities extend to circulation of questionnaires among business partners concerning such matters as delivery of merchandise to stores and store construction as part of efforts to review the compliance systems from a broad perspective.

Enhanced cooperation among Group companies

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



Group officer training

Responses to emergencies

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

Meetings of the Compliance and Risk Management Committee and the Information Security Committee as well as of the four subcommittees are convened under ordinary circumstances to assess risks and to formulate and promote measures to avoid them and prevent their occurrence. Should a serious risk situation arise, an Emergency Risk Management Committee is organized to resolve issues swiftly and minimize damage. Once the problems have been resolved, the Company analyzes the factors contributing to the occurrence and reviews and improves the relevant measures to prevent any recurrence.

We are reinforcing our emergency response capabilities, moreover, through efforts such as formulating the Business Continuity Plan (BCP) and implementing disaster mitigation measures. Our aim is to institute a business continuity (BC) framework that prevents interruption of important business activities, even when emergencies involving serious damage occur.

“Resilience certification”

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

In the spirit of building national resilience against disasters, the government’s National Resilience Promotion Office, Cabinet Secretariat established a system for “certifying groups contributing to the building of national resilience against disasters (resilience certification).” This system certifies businesses that are actively engaged on a regular basis in efforts related to BC in preparation for large-scale natural disasters and so on as “organizations contributing to the building of national resilience against disasters.” The February 2016 “Guidelines relating to certification of groups contributing to the building of national resilience against disasters” were enacted by this office. Lawson has received confirmation from the National Resilience Promotion Office, Cabinet Secretariat to the effect that it conforms to the “requirements of a certified organization” stipulated by the above guidelines. Lawson was recognized by the Association for Resilience Japan as the first convenience store to contribute to the building of national resilience against disasters.



Assuring continuity of business operations

Fundamental policies and objectives for maintaining business continuity (BC)

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

■ Three main goals for maintaining BC

● Fulfilling Lawson’s mission as a “community lifeline”

We will endeavor to ensure uninterrupted provision of products and services to customers by keeping stores open whenever possible.

● Continuation of the franchise (FC) business

We will determine specific periods and methods for resuming operations and maintain the requisite level of FC headquarters operations.

● Securing appropriate earnings

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

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

Mechanism for enhancing BC capabilities

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

Formulation of the Disaster Relief Manual and BCP Guidelines

Lawson has formulated the “Disaster Relief Manual” based on the disaster relief policy, defining the approach toward disaster relief and the standard of conduct of the organization and its employees in the event of a disaster. There are different versions of the manual, “Concept of Operations,” “Initial Actions,” and “Response and Recovery Actions,” in which the response rules and procedures for measures according to the disaster level for all employees and the entire organization are described.

Additionally, in the event of a major incident impacting the headquarters operations, to ensure the continuance of important business activities as the franchise headquarters, we have formulated the “BCP Guidelines” based on the Business Continuity Plan, defining the organization’s standard of conduct. The BCP Guidelines describes the basic plans of the business plan and the course of action in the occurrence of the Tokyo Inland Earthquake and the appearance of a new strain of the influenza virus.

Disaster preparedness and response

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

When disasters occur, disaster relief headquarters are set up immediately in three locations in the affected area: headquarters, regional offices and local sites. Lawson takes advantage of a Disaster Information Map System designed to enable personnel to confirm the disaster situation in real-time and implement support measures for shops, factories and delivery centers, so that stores in the disaster area can be reopened for business at an early date.



Disaster Information Map System

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

Cooperation with local governments at times of disaster

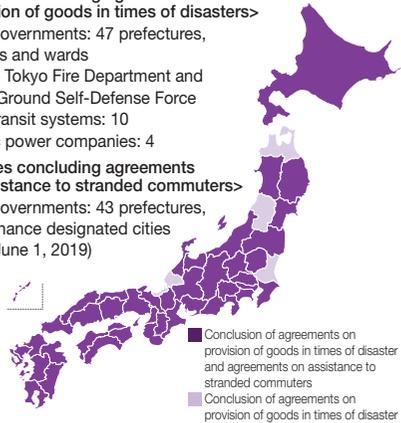
In its capacity as a community lifeline, Lawson is making progress toward concluding agreements with local governments concerning cooperation in the provision of goods and assistance to stranded commuters in times of disaster.

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

Local governments: 47 prefectures, 20 cities and wards
 Others: Tokyo Fire Department and Japan Ground Self-Defense Force
 Mass transit systems: 10
 Electric power companies: 4

<Entities concluding agreements on assistance to stranded commuters>

Local governments: 43 prefectures, 10 ordinance designated cities
 (As of June 1, 2019)



*Map shows only prefectural-level agreements.

Appointment to the designated public institution based on the Disaster Countermeasures Basic Act

As of July 1, 2017, Lawson was appointed a designated public institution by the Prime Minister based on Article 2, Item 5 of the Disaster Countermeasures Basic Act. During times of normal operation, the Company formulates disaster prevention work plans, conducts disaster drills and stockpiles goods and materials in preparation for playing an important role in disaster prevention, emergency response and restoration. In so doing, it works closely with the relevant government and municipal offices.



A disaster prevention drill (held March 11, 2018)

Improvement of the information security framework

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

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

When consigning responsibility for storing personal information to outside organizations, we require that a detailed investigation of the organization’s security framework be conducted in advance and that consignment of the responsibility be made only to organizations that satisfy Lawson’s conditions.

An onsite or documented inspection is conducted annually, moreover, to ensure that the conditions are maintained.

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

Crime prevention at stores

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

Actions taken as crime prevention measures

1. Promotion of security camera installation

Security cameras are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur. We have upgraded to a digital security camera system, moreover, which provides sharper images and improved recording capabilities.

2. Creation of an environment for store crew education

Reminders to raise awareness of crime prevention are distributed for display on POS cash registers and store computers, and crime prevention DVDs are also delivered to stores for use in educating their crews. Various tools and manuals, such as crime prevention self-check lists, have also been prepared.

3. Enhancing guidance provision during patrols

In addition to the regular store patrols, crime prevention guidance is also provided during late-night and crime prevention patrols to raise awareness at franchise stores.

4. Conducting crime prevention drills

Employees are trained under police direction in methods of responding to robberies, including throwing of anti-crime color paintballs.

In recent years, we have also been conducting special fraud prevention drills.



A DVD on measures to prevent robberies and other crimes



A crime prevention self-check list



Training in responding to robbers



Training in anti-crime color paintball throwing