Japanese Ministry of Environment’s Joint Crediting Mechanism (JCM) Project Funding Program

“CVS Energy Saving Project in Indonesia”

2016/3/3 LAWSON, INC.

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1. Corporate Profile

<table>
<thead>
<tr>
<th>Company name</th>
<th>Lawson, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head office</td>
<td>East Tower, Gate City Ohsaki 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643 Japan</td>
</tr>
<tr>
<td>President and CEO,</td>
<td>Genichi Tamatsuka</td>
</tr>
<tr>
<td>Representative Director</td>
<td></td>
</tr>
<tr>
<td>Date established</td>
<td>April 15,1975</td>
</tr>
<tr>
<td>Capital</td>
<td>58,506.644 million Yen</td>
</tr>
<tr>
<td>Employees</td>
<td>7,606</td>
</tr>
<tr>
<td>Business activities</td>
<td>Franchise chain development of &quot;Lawson&quot;, &quot;Lawson Store 100&quot; and &quot;Natural Lawson&quot;</td>
</tr>
<tr>
<td>Total net sales</td>
<td>1,961 billion yen</td>
</tr>
<tr>
<td>Number of stores</td>
<td>12,276 (Japan)</td>
</tr>
<tr>
<td>Operating regions</td>
<td>47 prefectures of Japan, cities of Shanghai, Chongqing, Dalian and Beijing in China, Indonesia, Hawaii in USA, Thailand</td>
</tr>
</tbody>
</table>

* The total number of stores refers to the number of convenience stores operated by the consolidated group and includes stores operated by Lawson Mart, Inc., Lawson Okinawa, Inc., Lawson Minamikyushu, Inc. and Lawson Kumamoto, Inc.

<Group Companies> (Consolidated Subsidiary  Affiliated Company)
- Lawson Mart, Inc.
- Lawson HMV Entertainment, inc.
- Lawson ATM Networks, Inc.
- Best Practice Inc.
- Smart Kitchen, Inc.
- Shanghai Hualian Lawson, Inc.
- Chongqing Lawson, Inc.
- Dalian Lawson, Inc.
- Lawson Okinawa, Inc.

2. Background of JCM Project Participation (1/3)

**Activities for “Energy Conservation”**

Lawson Group has created “Lawson Group Environmental Policy” to contribute in sustainable society and acknowledges energy conservation actions as part of the company mission.

“Constructing Low-Carbon Society” is one of the policies, so we aim for “20% energy saving in each store by 2020 from 2010 levels” as our mid-range target. To reduce store energy consumption, we actively adopt energy saving equipment such as CO₂ refrigeration system, air-conditioner and LED lighting.

**Electricity Consumption (Index) and CO₂ Emissions per Store**

![Graph showing electricity consumption and CO₂ emissions per store](image)

Notes:
1. The power-receiving end coefficient after adjustment identified by the Federation of Electric Power Companies of Japan is used to measure CO₂ emissions.
2. Figures for fiscal 2020 are calculated using the coefficient for fiscal 2013.
3. Calculated in line with the administrative year from April 1 to March 31.
2. Background of JCM Project Participation (2/3)

■ CO₂ Refrigeration System Installation Result (FY2016)

Installation in 1,294 Stores in 47 Prefectures (End of Feb. 2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Stores Installed</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2010</td>
<td>1 stores</td>
</tr>
<tr>
<td>FY2011</td>
<td>50 stores</td>
</tr>
<tr>
<td>FY2012</td>
<td>24 stores</td>
</tr>
<tr>
<td>FY2013</td>
<td>80 stores</td>
</tr>
<tr>
<td>FY2014</td>
<td>423 stores</td>
</tr>
<tr>
<td>FY2015</td>
<td>716 stores</td>
</tr>
</tbody>
</table>

(As of end-February 2016)

2. Background of JCM Project Participation (3/3)

■ Overseas Expansion

From 2013 financial year, CO₂ refrigerant systems, incorporated with the latest Japanese technology, have been exported overseas to developing countries which mainly use coal-fired thermal power. By expanding the use of non-CFC systems from an early stage, these systems are expected to help prevent global warming by reducing energy consumption and suppressing the release of atmospheric pollutants.

As a result, we launched the “CVS Energy Saving Project” in Indonesia as an auxiliary project equipment enterprise under the Japanese Ministry of Environment’s Joint Crediting Mechanism (JCM). Through cooperation with PT. Midi Utama Indonesia Tbk (MIDI), a major Indonesian-based retail company, we have been introducing air conditioners, LED lighting, and CO₂ refrigeration systems to stores in the “Alfamidi” store chain. By the end of March 2013, these systems have been fully installed in 12 stores (including new and existing stores) in the city of Jakarta.
The project aims to contribute to the mitigation of greenhouse gas (GHG) emissions in grocery stores in Republic of Indonesia through introduction of 3 types of high-efficiency technologies below.

(1) Inverter-type air conditioning system
(newly installed or installed to replace existing air conditioning system)

(2) LED lighting
(newly installed or installed to replace existing fluorescent lighting)

(3) Separate type CO2 refrigeration system
(newly installed or installed to replace existing built-in type refrigeration system)

The project covers a total of 12 grocery stores owned by PT. MIDI UTAMA INDONESIA Tbk located in Jakarta capital and its surrounding districts.

<table>
<thead>
<tr>
<th>No.</th>
<th>Stores</th>
<th>Start of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alfamidi Raden Saleh 3</td>
<td>21-Feb-2014</td>
</tr>
<tr>
<td>2</td>
<td>Alfamidi Kebagusan 2</td>
<td>10-Mar-2014</td>
</tr>
<tr>
<td>3</td>
<td>Alfamidi Surya Darma</td>
<td>20-Mar-2015</td>
</tr>
<tr>
<td>4</td>
<td>Alfamidi Meruyung</td>
<td>10-Feb-2015</td>
</tr>
<tr>
<td>5</td>
<td>Alfamidi Tebet Timur Dalam</td>
<td>15-Mar-2015</td>
</tr>
<tr>
<td>6</td>
<td>Alfamidi Palmerah Utara</td>
<td>18-Mar-2015</td>
</tr>
<tr>
<td>7</td>
<td>Alfamidi Matraman Raya</td>
<td>20-Mar-2015</td>
</tr>
<tr>
<td>8</td>
<td>Alfamidi Raya Tengah</td>
<td>21-Mar-2015</td>
</tr>
<tr>
<td>9</td>
<td>Alfamidi Muncang</td>
<td>21-Mar-2015</td>
</tr>
<tr>
<td>10</td>
<td>Alfamidi Ceger Raya 2</td>
<td>19-Mar-2015</td>
</tr>
<tr>
<td>11</td>
<td>Alfamidi Sawangan 3</td>
<td>24-Feb-2015</td>
</tr>
<tr>
<td>12</td>
<td>Alfamidi Kampung Asem</td>
<td>18-Mar-2015</td>
</tr>
</tbody>
</table>
4. Process towards JCM Credits Issuance and 2015 Activities

**<Process>**
- Submission of Proposed Methodology
- Approval of Proposed Methodology
- Development of PDD
- Validation
- Registration
- Monitoring
- Verification
- Issuance of credits

**<Main Actors>**
- Project Participant
- Joint Committee
- Project Participant
- Third Party Entities
- Joint Committee
- Project Participant
- Third Party Entities

**<Status of the Project>**
- Methodologies submitted and approved (ID_AM004, ID_AM005, ID_AM008)
- Development of PDD in Jun – Aug 2015
- Validation in Aug – Dec 2015
- Application of JCM project registration in Jan 2016
- Monitoring and creation of monitoring report after project registration

(Source: "Recent Development of the Joint Crediting Mechanism (JCM)", Government of Japan, 2015)

5. Actors Involved

**Lawson Inc.**
- Project management
- Equipment supply

**Panasonic Corporation**
- Project management
- Equipment supply

**myclimate Japan Co., Ltd.**
- Assistance in methodology and PDD development
- Assistance in JCM project application and registration
- Assistance in drafting of monitoring report

**Japan Quality Assurance Organization**
- Third party entity which conducts validation of proposed JCM project

**Joint Committee**
- Approval of JCM project

**PT. Midi Utama Indonesia Tbk**
- Owner of project installation sites (Alfamidi stores)

(1) Project Participants
(2) Contracting Parties for ‘Methodology Development’, ‘PDD Development’, ‘JCM Project Registration’
(3) Contracting Parties for ‘Validation’
6. Monitoring Method

Electricity consumption data is monitored for each installed technology. Monitored data is recorded and transferred to Japan to be double-checked for precision before reporting.

7. Intermediate Results

Verification of energy saving is ongoing at 12 Stores in Jakarta, and the monitored results are satisfactory. As of 2020, total CO2 emission reduction is estimated to be at least 761tCO2.

■ Electricity consumption before project implementation: 394kWh/day
8. Awareness Activities

To ensure sustainable monitoring, report and verification (MRV) activities at the stores, capacity building on the understanding of JCM and installed technologies are conducted through trial monitoring, and awareness-raising activities.

**Details**

1. Preparing teaching materials on monitoring and organizing seminars
2. Awareness-raising through application of stickers and posters by local counterpart

9. Challenges

(1) Accounting of JCM Funding and Asset Registration
   - Designated Account for Fund Payment: Project focal point (Japanese company) ⇒ Allocation to local counterpart  
     * Lawson Inc. does not own a local subsidiary, therefore installed technologies are regarded as “donated assets” when conducting asset registration at Indonesia.

(2) Training of Installation Technician
   - CO2 Refrigeration System: Difference in materials and installation method due to high voltage ⇒ Training session on installation (invitation to Japan)

(3) Installation Cost
   - Adjustment of cost covered by local counterpart: Difference in currency value ⇒ Presently based on capital investment amount  
     * Increase in cost covered by Japanese side: Compromise is necessary in order to implement project

(4) Procurement of Target Equipment
   - Local procurement unavailable because target equipment is under demonstration test phase ⇒ Export from Japan is necessary  
     * Expensive cost, difficulty in quality assurance, uncertainties in delivery time (especially significant in developing countries)

(5) Payment Options
   - Fund Flow: Payment to local counterpart (credit management) ⇒ Payment after installation

(6) Difference in Commercial Practices
   - Clarification of business terms and conditions ⇒ Risk-hedging through contract agreement, which causes longer adjustment period

(7) Others
Since 2013, we have been introducing CO₂ refrigeration systems incorporated with the latest Japanese technologies into Indonesian stores, and as a result of our contribution to the prevention of global warming and to a reduction in the release of atmospheric pollutants, we received the "Certificate of Merit for International Activities" for introducing CO₂ refrigeration systems to Indonesia. In the future, we aim to continue our efforts to obtain credits by taking advantage of the Joint Crediting Mechanism (JCM) system to register projects, take measures to reduce CO₂ emission and register emission allowances, until this program ends in the 2020 financial year.

Award ceremony (Attended by Environment Vice-Minister Mr. Hiraguchi) 2 Dec 2015 (Wed), at Iino Hall & Conference Center

BECOMING THE WORLD’S BEST

Japanese convenience store operator Lawson is leading a revolution in the commercial refrigeration sector, with plans to operate more than 1,300 stores with CO₂ trans critical refrigeration stores and become the world’s number one retail user of natural refrigerants.
As an auxiliary project from the Japanese Ministry of the Environment, efforts are being made to include doors on "cooling tricks" (energy saving-type natural refrigeration equipment) to further reduce greenhouse gases, and it is a test for our company to verify the results and issues and to find solutions.

Purpose of company tests
Our company is carrying out these tests not only with the purpose of understanding how energy-saving natural refrigeration equipment and doors can be combined to effectively reduce greenhouse gas emissions, but also for confirming issues concerned with including doors and considering strategies for expanded use.

Outline of company test project
- **Project period**: 1st June 2015 - 31st March 2016
- **Target stores**
  - Lawson Panasonic-mae store
  - Lawson Toyohashi Akemi Kogyo Danchi store
  - Lawson Yumesaki Smartinter-mae store
- **Test items**
  1. Gather customer opinions and impressions: Special boxes located inside the stores
  2. Verification of results of reducing power consumption: Comparisons from data measurements
  3. Surveys of customers and employees: Surveying and analyzing issues such as convenience, effect on desire to purchase, operability, etc.