


Initiatives for Corporate Environmental Management through Promotion of Environmental Finance and Environmental Reporting



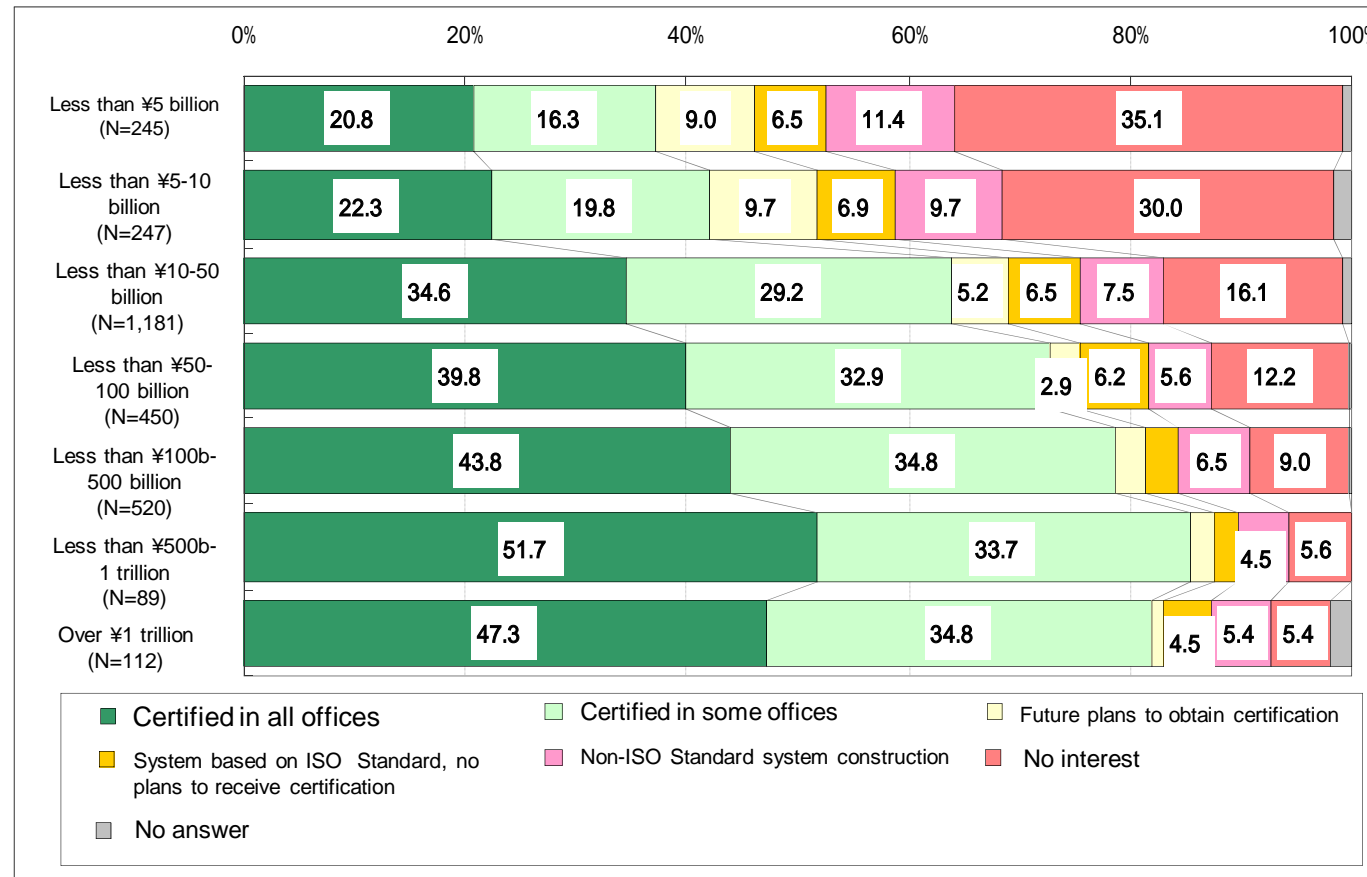
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Environmental and Economy Division
Environmental Policy Bureau, MOE Japan

The Current State of Environmental Management

1 . The Current State of Environmental Management

EMS certification status, e.g. ISO14001 & Eco Action 21 (by sales)



Among the survey respondents, out of those with sales over 100 billion yen, about 50% have certification in all offices and 30% have certification in some offices. In addition, out of those with sales of less than 100 billion yen, 20% to 40% have certification in all offices, and 10% to 30% have certification in some offices.

Summary of the Ministry of Environment's "Environmental-friendly corporate behavior survey" (2009)

Survey conducted between August and September 2010 for companies efforts in 2009

(1) Survey Targets

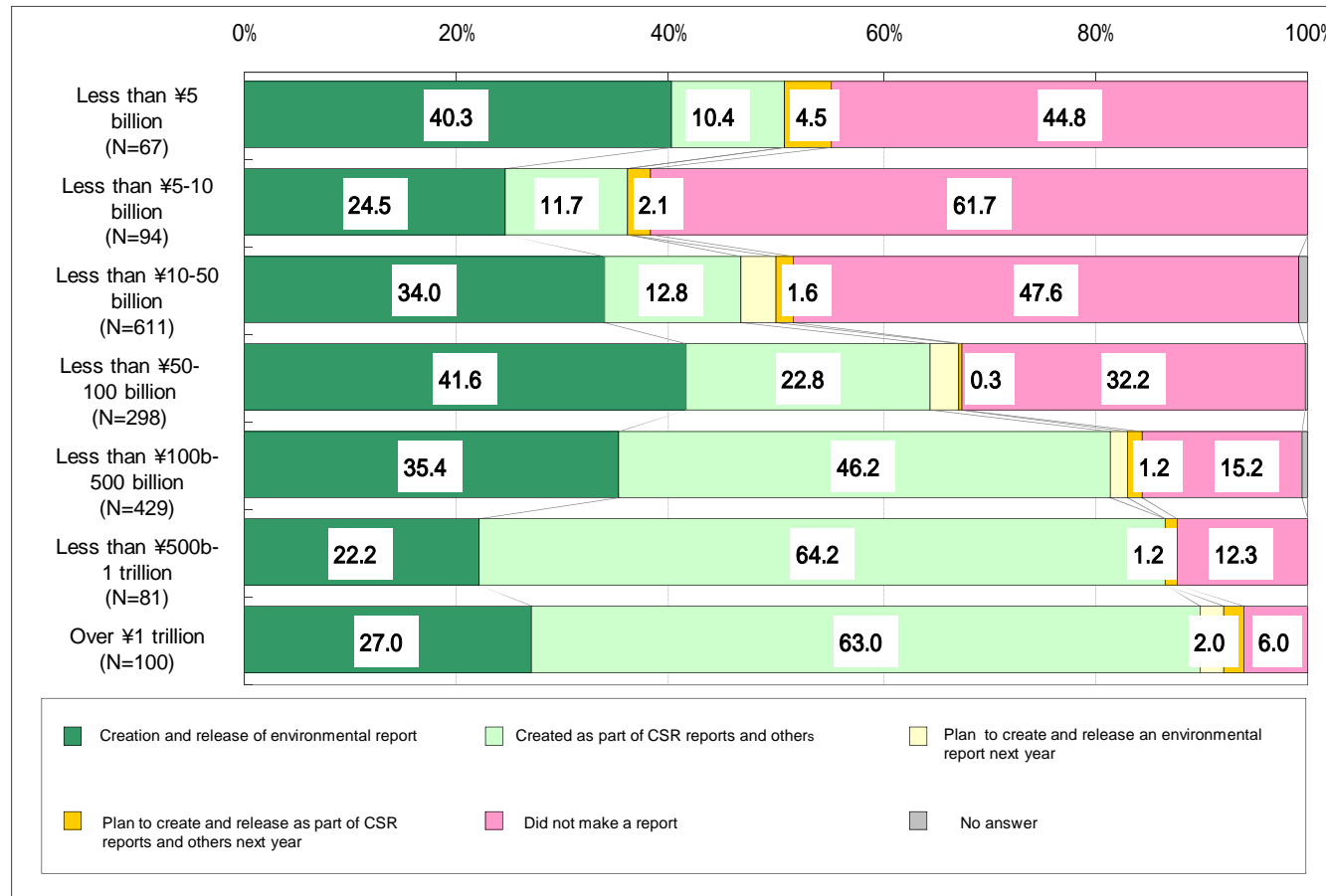
- 2,415 major listed companies on the Tokyo, Osaka and Nagoya stock exchanges
 - 4,282 non-listed companies with over 500 employees and other enterprises
- Total: 6,697

(2) Number of valid responses

- Major listed companies on the Tokyo, Osaka and Nagoya stock exchanges: 1,142 (47.3%)
 - Non-listed companies with over 500 employees and other enterprises: 1,894 (44.2%)
- Total: 3,036 (45.3%)

2 . The Current State of Environmental Reporting

The State of Environmental Reporting (by sales)

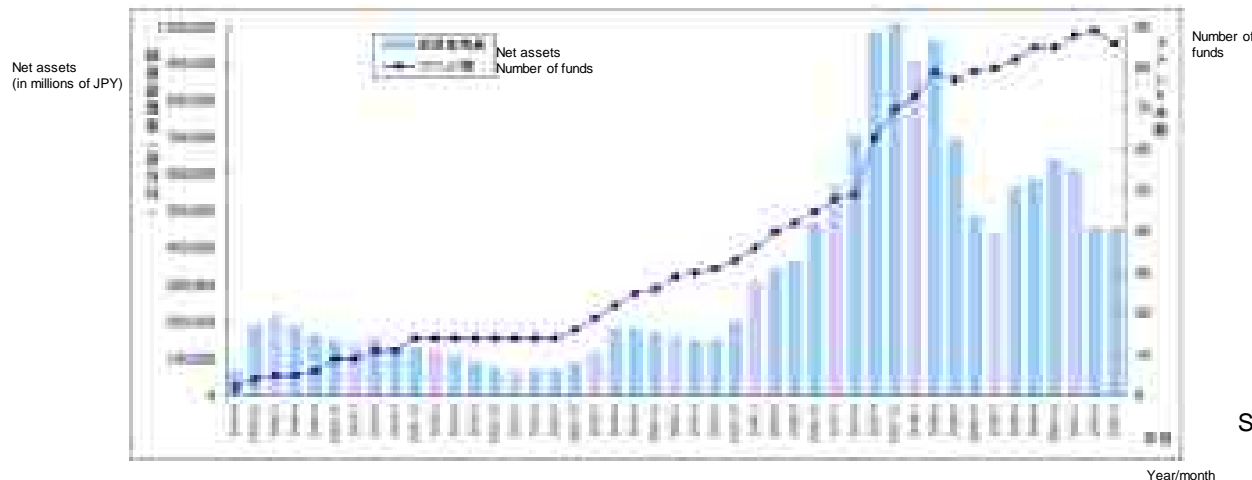


Among the survey respondents, out of companies with sales over 100 billion yen, 80-90% issue environmental reports. Out of companies with sales less than 100 billion yen, only 30-60% issue environmental reports.

3 . The Current State of Environmental Finance

- ◆ A representative method of environmentally conscious investment is to evaluate a company in the areas of environment, society, and governance, this is known as Socially Responsible Investment (SRI)
- ◆ The number of SRI funds and the amount invested is increasing. But, compared to the US and Europe, the scale is still small in Japan.

Changes in public SRI investment trust operational balance and number of funds



Source: NPO SIF-Japan

Comparison of SRI in Japan, US, Europe

Japan (2007)	America (2007)	England (2007)
~0.85 trillion JPY	~2.7 trillion USD (~311 trillion JPY)	~0.76 trillion GBP (~175 trillion JPY)

Source: [Japan] SIF-Japan "Annual Report on SRI in Japan 2009"

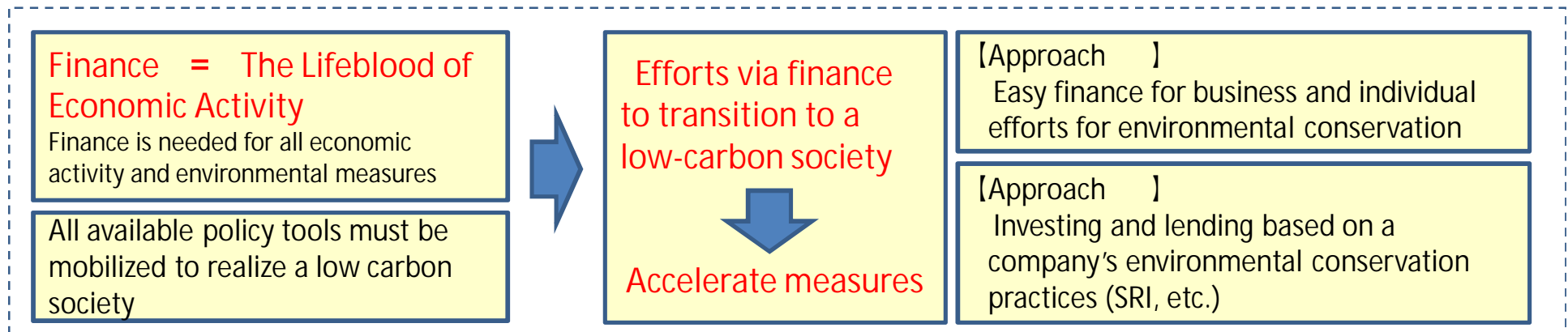
[America] SIF "Report on Socially Responsible Investing Trends in the United States 2007"

[England] Eurosif "European SRI Study 2008"

1 USD = 115 JPY, 1 GBP = 230 JPY (December 2007)

Promoting Environmental Finance

1 . Promoting Environmental Finance



MOE's Main Policies to Promote Environmental Finance

1 . Interest Subsidy Project Regarding Investment for Global Warming Countermeasures

Companies that pledge to reduce CO2 for global warming capital investment, can receive an interest subsidy via environmental rating loan financial institutions.

- Interest free loans to support measures to tackle global warming: 2009 revised budget 6 billion yen
- Interest subsidy project promoting environmentally friendly investment: 2010 revised budget 1 billion yen
- Interest subsidy project promoting eco-friendly management: 2010 budget 350 million yen, 2011 budget 1 billion yen

2 . Eco-Lease Promotion Project for Households and Corporations

Leases for promoting the spread of low carbon machines, 2011 budget (2 billion yen)

3 . Promoting disclosure of corporate environmental information

Currently under discussion by the review committee is promotion of creation of corporate environmental reports and environmental management information disclosure methods useful to investors.

Discussion on further promotion of environmental finance

Principles for Financial Action Towards a Sustainable Society (Principles for Financials Action for the 21 century)

(1) Interest Subsidy Project Regarding Investment for Global Warming Countermeasures

2009 - First revision: 4.5 billion yen (final), second revision: 1.5 billion yen (final), 2010 compensation: 1.0 billion yen

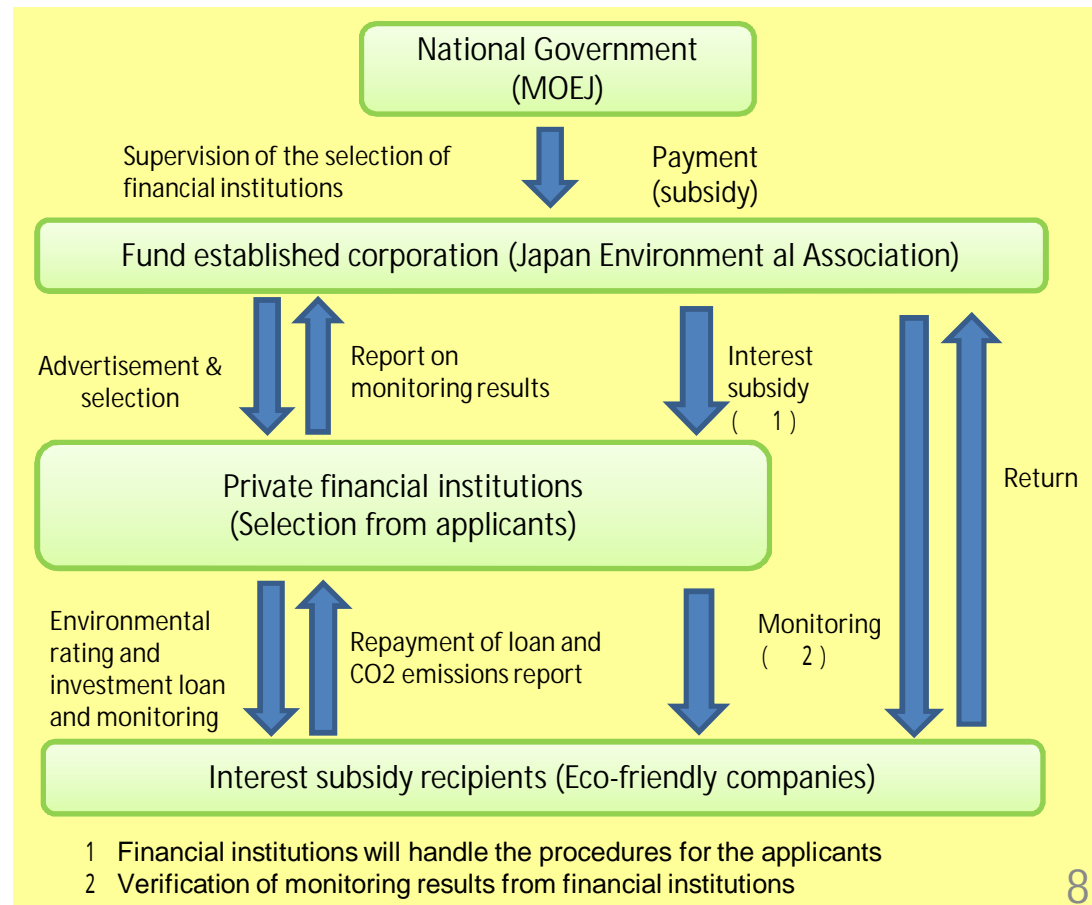
Companies that pledge to reduce CO2 emissions by 6% within 3 years can receive interest subsidy for three years through financial institutions with an environmental rating loan.
(Financial institutions will evaluate companies based on their environmental activities to determine the loan interest rate.)



Promote economic growth by accelerating global warming countermeasures and expanding environmental investment

Details of the system	
Interest subsidy conditions	Companies that pledge to reduce CO2 emissions by 6% in 3 years, or improve CO2 unit emissions by 6% (2010 budget, <u>excluding large companies</u>)
Interest subsidy covered	Interest from loans through financial institutions for the purpose of global warming countermeasures investment to companies that pledge the above
Contents of interest subsidy	Up to 3% of the interest will be subsidized for 3 years. If the interest rate is below 3% then only up to the interest rate will be subsidized. (Revised budget for 2010 is 2% interest subsidy)
Target Loan	Limited only to financial institutions with environmental rating loan for global warming countermeasures investment

The total amount of the 3 year subsidy paid to the fund in lump sum



(Reference) Interest Subsidy Project Regarding Investment for Global Warming Countermeasures

First supplementary budget in fiscal 2009: 4.5 billion yen (finished)

Number of approved lenders - 38

Number of lenders who approved subsidy applications - 14

Second supplementary budget 1.5 billion (finished)

Number of approved lenders - 63

Number of lenders who approved subsidy applications - 31

2010 supplementary budget: 1.0 billion yen (May, 2011)

Number of approved lenders - 58

Number of lenders who approved subsidy applications - 7

Promoting Environmental Reporting

1 . The Current State of Environmental Information Disclosure and the Direction of the Discussion

- ◆ Disclosure requirements have changed along with the business environment
- ◆ There is a need for disclosure using appropriate methods by considering adaptation to current needs, the ease of disclosure, corporate cost-benefits, and target stakeholders

Environmental information disclosure requirements and awareness of the importance

Disclosure requirements of each stakeholder	Awareness of the importance
Companies • Depends on the importance of management. (Risks and opportunities)	The importance of management is increasing.
Financial Institutions • Relation to performance • Relationship between corporate value and sustainability → But, the effects of environmental factors on performance can only be determined by mid to long term analysis, making analysis difficult	Although the importance of investment has gradually increased, not yet in the main stream. 1
Consumers • Relationship between price and value → Significant impact on corporate value. But, due to high initial cost, without subsidies and tax cuts, sales will not be positively influenced.	Awareness is growing. But, feel that environmental information disclosure is not enough.
Regulatory agency • Build a sustainable society • Further promotion of environmental initiatives → As a sustainable mechanism, it is essential for disclosure	The environment is included in the growth strategy, but the disclosure rate is not increasing

These must be balanced

Direction of the future discussion

The necessity of environmental disclosure suggesting the future direction of environmental management

Disclosure guidelines intended to promote environmental management and environmental information disclosure (such as certain core information)

1 ESG investment opportunities are increasing overseas, and investment activity is higher than in Japan

2 According to the Ministry of the Environment's "environmentally friendly lifestyle survey (2009)", consumers were unsatisfied with the amount of information from companies on their products and services environmental impact and conservation actions. "Slightly unsatisfied" and "greatly unsatisfied" results comprised 65% of answers.

2 . Japan's Environmental Information Disclosure System

- ◆ The environmental information disclosed depends on the disclosure system's goals
- ◆ Each business chooses the best information for each disclosure system
- ◆ Each company needs to follow their stakeholders' various needs

Japan's Environmental Information Disclosure and Reporting Systems

	Voluntary Disclosure	Report
<ul style="list-style-type: none"> ●Basis (release media) 【Disclosure system】 	<p>For overseas</p> <ul style="list-style-type: none"> ●— (Annual report, English CSR report) 【 - 】 <p>For Japan</p> <ul style="list-style-type: none"> ●Environmental Promotion Act (CSR Report for Japan, and environmental reports) 【Environmental Report Portal Site (MOE,METI)】 	<ul style="list-style-type: none"> ●Promotion of Measures to Tackle Global Warming Law (Measure, report, and release information about greenhouse gas emission levels) ●Energy Conservation Law ●Food Recycling Law, Containers and Packaging Recycling Law ●Chemical Substance Control Law, PRTR law

(Reference)

Financial Instruments and Exchange Act/Corporate Law

- Financial Instruments and Exchange Law (Securities reports, etc.)
【E D I N E T】
- Corporate Law (Project reports, etc.)
【 - 】
- Stock exchange (Timely Disclosure Financial Statements) 【TDnet】

Separately, companies are in response to numerous questions from organizations such as Carbon Disclosure Project and SRI evaluation firms.

Global Warming Prevention Act, "Act on Promotion of Global Warming"

Energy Conservation Law "Law Concerning the Rational Use of Energy"

Food Recycling Law, "Law for the Promotion of recycling of recyclable resources such as food," Containers and Packaging Recycling Law, "Law for Promotion of Sorted Collection and Recycling of Containers and Packaging"

Chemical Substance Control Law "Law Concerning Examination and Regulation of Manufacture etc. of Chemical Substances", the PRTR Law, "Law for the Promotion and management improvement, etc. of Releases to the Environment of Specific Chemical Substances"

3. Corporate Environmental Information Disclosure Review Committee

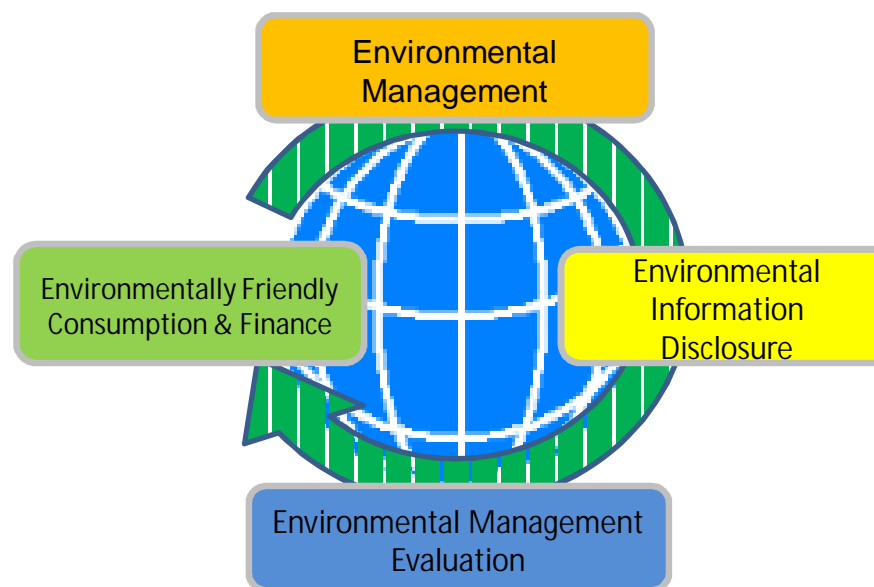
- ◆ Environmental management and environmental reporting are being established, but environmental information is not being fully used in decision making in economic systems.
- ◆ While market evaluation based on useful environmental information continues, a mechanism which rewards companies environmental efforts is required for a green economy and sustainable society.

Goals of the Review Committee

Discuss what the useful environmental information disclosure should be to create a mechanism to evaluate and reward companies making efforts towards the environment.

Discuss measures to promote corporate environmental management and environmental information disclosure.

'Mechanisms promoting corporate environmental management,'



4 . Corporate Environmental Information Disclosure (interim report)

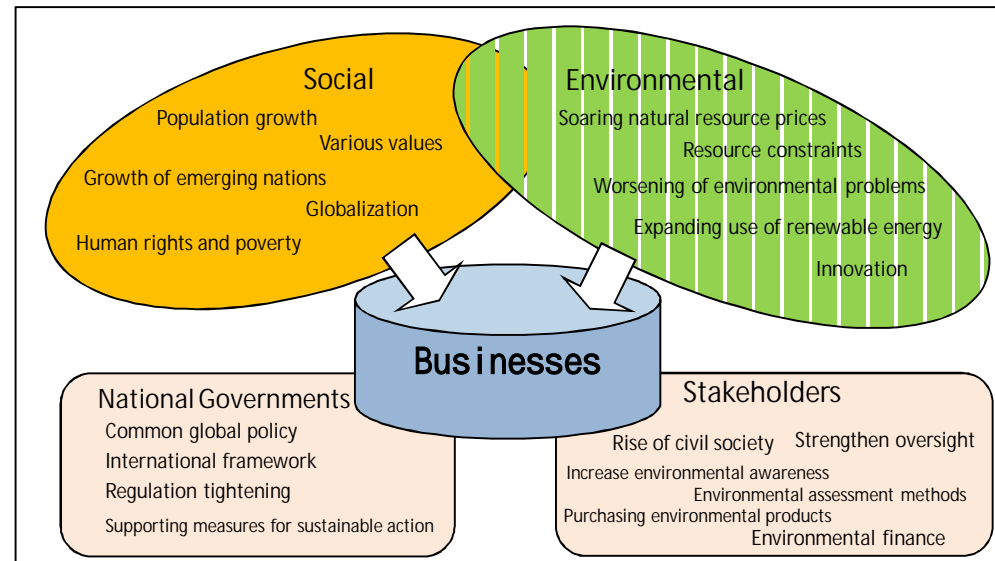
Contents

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- (6) Environmental Financial Information
- (7) Measures to promote the dissemination of environmental information disclosure and environmental management
- (8) Conclusion

4 (3) . The Direction of Environmental Management for the Building of a Sustainable Society

(1) Social changes expected over the next decade

Many difficult problems relating to the environment and society will become eminent in the next decade. As a result, social changes surrounding companies, such as strengthening of environmental policy and regulations, increased stakeholder environmental awareness, and the emergence of new innovations is expected to occur.



4 (3) . The Direction of Environmental Management for the Building of a Sustainable Society

(2) The Direction of Environmental Management

The ability to respond appropriately to risks and opportunities that occur incidental to the changing business environment is important for long-term sustainability of the company.

The challenges for the next 10 years in environmental management are:

Strong leadership of management

Strategic integration of environment and corporate management

Drastic improvement of resource productivity

Value Chain Management by Life Cycle Thinking

Total optimization to avoid trade-off

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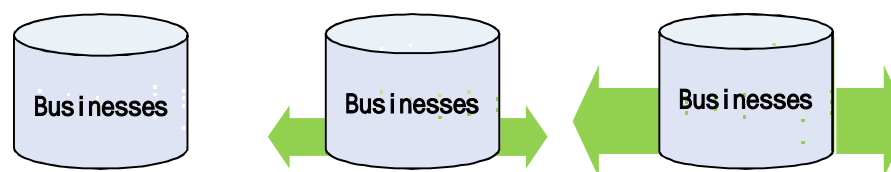
Responding to Stakeholders

4 (3) . The Direction of Environmental Management for the Building of a Sustainable Society

(3) The ideal image of environmental management

Under the strong leadership of the management, the mid to long term vision and goals are shared company-wide. To achieve risk management across the value chain and to minimize resource consumption and environmental impact associated with business activities, environmental management practices should be carried out incorporating important environmental issues into the core strategic business activities. In addition, to create new growth opportunities and a more robust, sustainable, risk averse, and growth business base should be created.

【Figure 3 Development model of environmental management】



Level			
Type	Enact environmental initiatives from external requests	Implement environmental initiatives that will easily yield results	Integrate environment and management in accordance with mid and long term strategies
Example	In accordance with compliance and business partners' requests, minimum environmental actions, such as chemical, water and air	Limit to clear short-term benefit related actions, such as energy and resource conservation and waste reduction	Best environmentally conscious corporate behavior in the value chain and the mid to long term, conducted company-wide in cooperation with partners

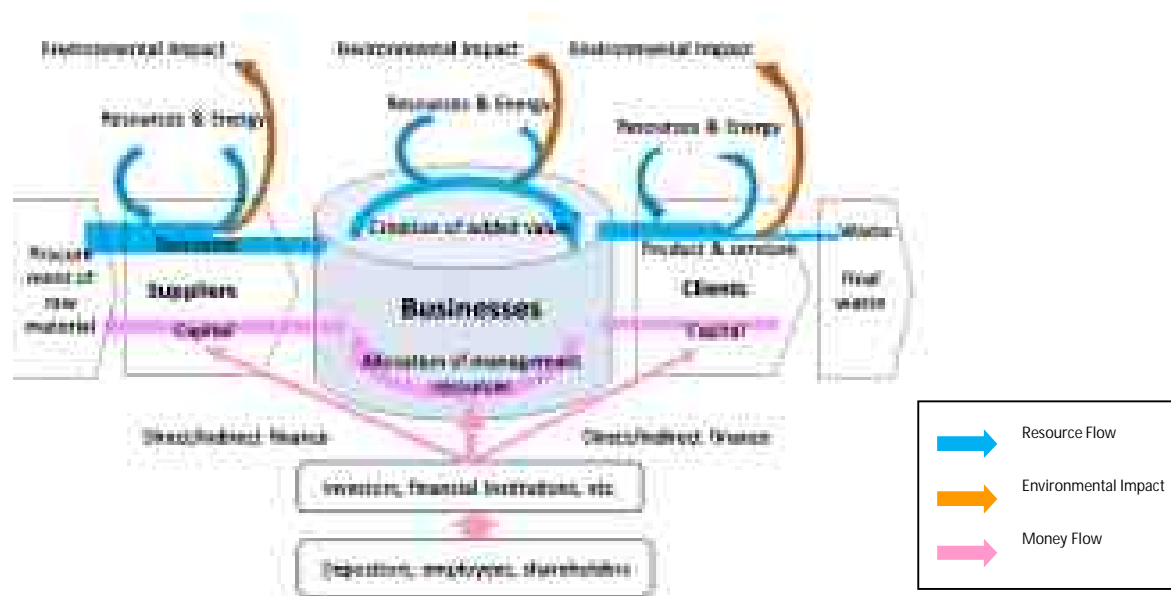
4 (4) . Role and direction of Environmental Finance

(1) Role of Environmental Finance

- (a) Investments and loans are used directly in projects that use sustainable natural resources and reduce environmental impact
- (b) By evaluating and supporting the economic organizations that incorporate environmental considerations into corporate behavior, environmental finance can stimulate those environmental activities.

If the above 2 roles of environmental finance can be effectively put into play with management of personal financial assets in Japan, this can largely contribute to build a sustainable society.

【Figure5 Relationship between corporate environmental impact and finance】



4 (4) . Role and Direction of Environmental Finance

(2) Direction of Environmental Finance

Environmental finance, by evaluating various aspects of corporate value, is intended to aid investors decisions by showing possibilities for risk and opportunities for revenue.

Environmental Finance reduces the risk of damage to future cash flows of investments and loans and can increase the effectiveness of financial techniques.

(3) Financial Perspective on Environmental Information Disclosure

Because the quality of environmental management may significantly affect financial results, investors are going to have a serious interest in environmental information.

Environmental information that investors seek, is available to identify the companies with high adaptability to a sustainable society, and could be highly useful to other stakeholders.

4 (5) . Corporate Environmental Information Disclosure

(1) The objective of Environmental Information Disclosure

Companies have accountability for environmental impact to society, and provide useful information to stakeholders for decision-making.

Communication with stakeholders and specification of information users enables useful information to be transmitted to appropriate users.

(2) Qualitative Characteristics of Useful Environmental Information

Basic qualitative characteristics	Supplementary qualitative characteristics
Relevance	Comparability
Faithful representation	Understandability
	Verifiability
	Timeliness

The basic qualitative characteristics are essential to be useful information for users of environmental information.

For complementary qualitative characteristics, comparability and understandability is especially important.

4 (5) . Corporate Environmental Information Disclosure

(4) Disclosure elements and contents

Basic requirements	Basic disclosure policy such as disclosure boundaries
Environmental policy	Managers thoughts on and basic policy for environmental management
Corporate governance	Connect governance related to environmental management with all companies governance and show the contents
Mid and long term vision and goals	Show top management's thoughts on the direction of environmental management by a mid to long term vision and goals
Strategy and action plan	Show a strategy and action plan to achieve the mid to long term vision and goals
Performance analysis and evaluation	Show the initial full scope of the environmental impact and the situation of environmentally conscious behavior, then connect the results to the strategy and action plan.
Future action	Show the initiatives and goals for next year and after

4 (7) . Measures to promote the dissemination of environmental information disclosure and environmental management

(2) Creating foundations for measures on promoting the use of environmental information

Sharing of important environmental issues to be helpful in establishing a KPI (key performance Indicator)

- Discussion on important environmental issues in the country (by industry)
Examples: Climate change, resources and energy, water, recycling, land use
- Identify important common environmental issues in international trends
- Discussion on basic thoughts on establishing KPI and representative core indicators
- Sorting and sharing information on important global environmental issues

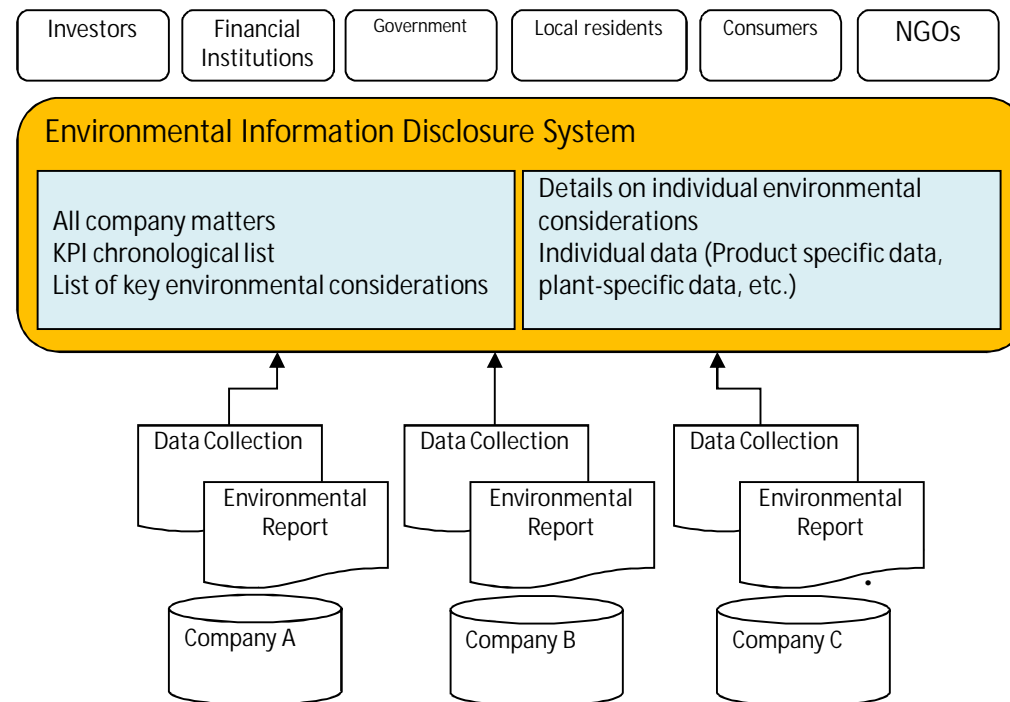
4 (7) . Measures to promote the dissemination of environmental information disclosure and environmental management

(2) Creating foundations for the measures on promoting the use of environmental information

Infrastructure development using Information and Communication Technology (ICT)

- Creating guidelines for clarification of various media disclosure boundaries and disclosure systems
- Building a database that makes it easy to obtain and analyze significant environmental information

【Figuree8 Promotion of the use of environmental information using ICT】



4 (7) . Measures to promote the dissemination of environmental information disclosure and environmental management

(3) Policies which bring economic benefits to companies engaged in environmental management and environmental information disclosure

Consider the situation in environmental management and environmental information disclosure in public procurement

- Set a requirement for engagement in environmental activities for public procurement
- When subcontractors bid on public institutions, additional points should be given depending on the level of environmental management initiatives

Measures to promote green procurement in the value chain

- Create and disseminate a template manual for green procurement
- Use of a checklist that shows the situation of environmental management initiatives

Measures to promote environmental finance

- Support creation of action principles for financial institutions efforts for environmental finance
- Nurture human resources who can evaluate the degree of environmental management

7 . Future Environmental Information Disclosure Points for Discussion

- Disclosure framework for the future (international disclosure trends, widespread use of environmental reporting)
- Use of a uniform disclosure format (voluntary, ease of use)
- Materiality (the importance of management, demand from stakeholders)
- Boundaries of organization (boundaries) and range of activities (scope)
- Comparability (comparisons over time, comparing with competitors)
- Segment Classification (Management Approach)
- Risk information (regulatory risk, financial risk, etc.)
- Relevant financial information (risks and opportunities)
- Top management assertion and analysis
- Improved future forecasting
- Indicators of environmental impact assessment (absolute amount or environmental efficiency)
- Quality Assurance (such as self-assessment and third party review)