

Panel Report 1

Future Outlook on Environmental Management Policy

Hiroshi Kamagata

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Ministry of the Environment



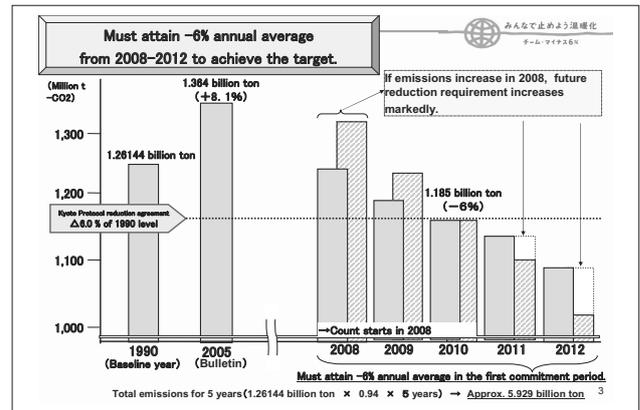
Slide ①

Before getting into the subject of my presentation, I would like to share a common understanding with you how difficult the situation of environmental policy is and how structured reform is to be pursued. I am afraid my introduction would be a bit long, but I would like to remark briefly to the global warming prevention measures.

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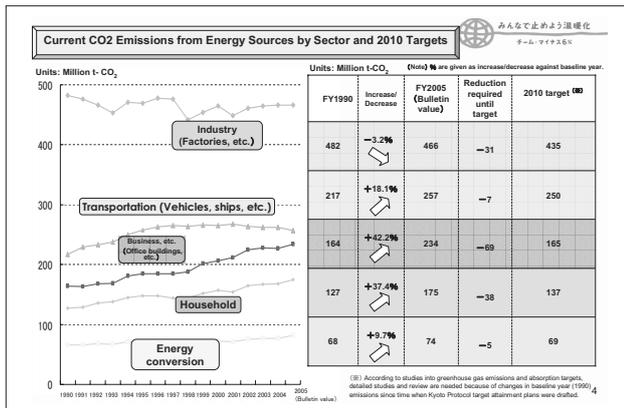
As you well know, under the Kyoto Protocol, Japan has promised to reduce greenhouse gas emissions to 6% less than the 1990 level. But, if

you allow for the 8.1 % increase as of 2005, the gap from our target adds up to 14.1%



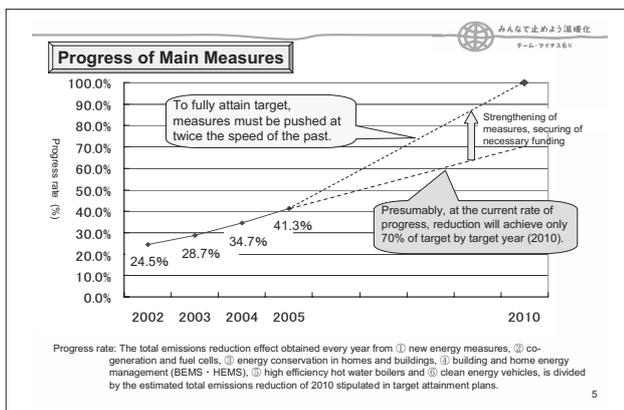
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On the question whether a 14.1% reduction suffices or not, when you think about it carefully, under the Kyoto Protocol, we must maintain emissions on the average over the five years from 2008 to 2012 at 6% below the 1990 level. Our current emissions level is extremely high and, if we head into 2008 without doing anything, the reduction amount required in 2012 will be even worse. It is hard to give a concrete figure in percentage, but we might be looking ahead at something like 20% range, therefore we must be aware of this critical situation. I would like you to understand that, if we cross into the commitment period of the Kyoto Protocol without doing enough, we will be in a tight situation. To take baseball as an example, if you give up a lot of runs in the top of the first inning, you will have to make them up in the bottom of seventh, eighth and ninth innings.



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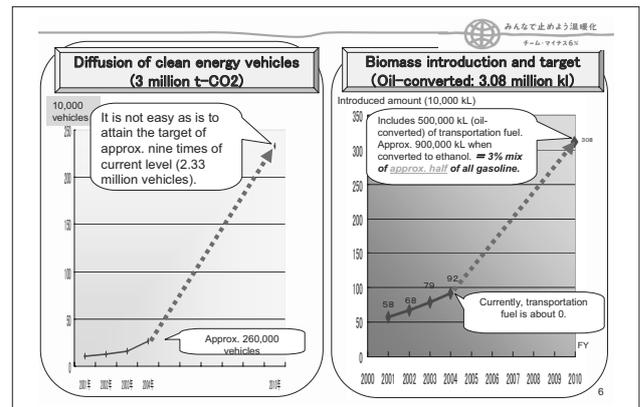
I trust you are all informed of the sectors where CO₂ emissions are increasing. In the industrial sector it is roughly flat or rather decreasing somewhat, while the increase in emissions from households and business field is remarkable. From households alone, emissions have increased 37% compared to the 1990 level, while emissions from the offices have increased 42%. As emissions need to be reduced substantially in various fields, proper lifestyles and business models are desired to be established.



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Then, as for the progress of measures in Japan, the government drew up plans to attain the reduction targets of the Kyoto Protocol and has been therewith advancing the measures. Given the progress in percentage, they have been implemented as of 2005 at about 40%, and if the

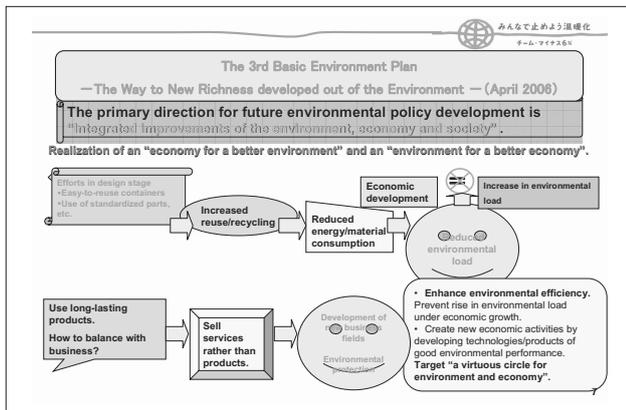
way things are going, we will attain only 70% of the intended target by the commitment year 2010, which again puts us in a critical situation. It is not to say that Global warming prevention measure is accomplished as long as you just have to uphold the Kyoto Protocol. It is a permanent issue and therefore I would like to point out that it must be tackled fundamentally throughout the entire society.



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I would like to now give you a picture of some measures. Plans call for -- for example -- the diffusion of clean energy vehicles such as hybrid vehicles. Targeting to reduce 3 million tons of CO₂ emission by diffusing and substituting 2.33 million vehicles by the year 2010, the penetration is however no more than 260,000 as of 2004. Moreover, by using biomass energy, the target is to reduce 3 million kiloliter of oil, while we have so far introduced only a million ton, indicating that we must advance fundamental measures.

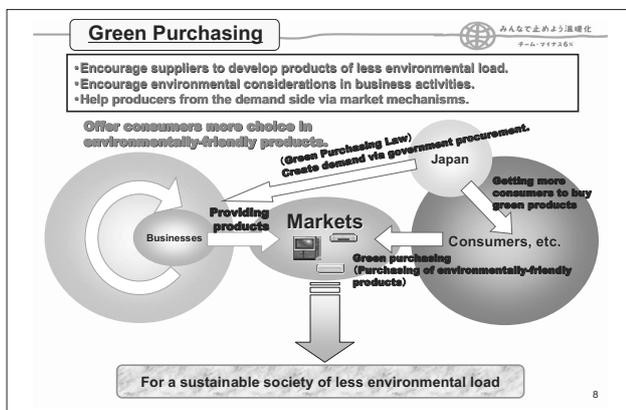
This concludes my introduction. In this kind of difficult condition, superficial measures are of little use to get anything done. What we are asked to do is to change the way of society and economy fundamentally.



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The government draws up Basic Environmental Plan that envisions the future of entire environmental policies, which has been revised last April. As the primary direction, it was proposed to make integrated improvements to the environment, economy and society. As for the economy, it represents; if the environment improves, so does the economy; if the economy improves, so does the environment likewise. The point is to promote activities in a direction toward the integrated improvements of the environment, economy and society. In other words, it can be paraphrased as “simultaneous pursuit of environment and economy”.

I would like to introduce some of specific policies for promoting the integration of the environment and economy.



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Let me introduce some of measures in which our section is engaged. For one thing is, green purchasing. As you know, green purchasing will lead to the decrease of environmental load, by creating demand on the buyer’s side, to help spread products and services of low environmental load as well as eco-friendly products.

As you can see here, businesses supply the market with products of low environmental load, which consumers then purchase. The concept of green purchasing is to get the consumer to drive this momentum. As for how it is promoted, government enacted the Green Purchasing Law and is creating demand through its procurement practices, so we ourselves are the driving force at the moment. By taking the initiative to purchase eco-friendly products and services, we are expecting it will stimulate demand and business activities, eventually to encourage consumers’ purchasing behavior.



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Here are the workings of the Green Purchasing Law: The government determines the basic policy and “designated procurement item”. In short, types and specifications are determined for the eco-friendly goods to be purchased. For example, copy paper in your hands. The standard is set up to procure only 100 % recycled paper for copying. Or, for your typical ballpoint pen and other stationery supplies, specs are deter-

mined for each product such as plastic must be at least 40% recycled plastic. These kinds of products are promoted within governmental procurement practices. In that sense, governments are stimulating demand. Each ministry and national authority decides its own procurement policy every year and adopts schemes to implement the targets.

~Specified Procurement Items~

Category	Specified Procurement Items (By Cabinet decision of 2004)	Category	Specified Procurement Items (By Cabinet decision of 2004)
Paper	Information paper (copy paper, etc.), printing paper, sanitary paper (toilet paper, tissue paper, etc.), etc. 8 items	Uniforms	Uniforms, work clothes
Stationery	Mechanical pencils, ball pens, scissors, glue, files, binders, etc. 79 items	Interior decorations, bedding	Carpets, curtains, blankets, mattresses, bed frames, etc. 9 items
Furniture	Chairs, desks, shelves, coat hangers, umbrella stands, blackboards, etc. 10 items	Work gloves	Work gloves
Office equipment	Copiers, printers, facsimiles, displays, etc. 13 items	Other textile products	Tents, tarpis, guard nets
Home appliances	Refrigerators, freezers, cold storage boxes, electric toilet seats	Systems	Solar power systems, fuel cells, solar heating systems, saw waste processors
Air-conditioning, etc.	A/C, gas heat pump cooler-heaters, space heaters	Public projects	1) Materials (Recycled wood mass boards, tiles, mixed cement, recycled aggregate, primers, permeable concrete, insulating sahes, auto sprinklers, lighting control systems, sewerage sludge fertilizer, etc.) 47 items 2) Construction machinery (That with emissions measures, low vibration, etc.) 3) Work methods (Construction sludge recycle processing, concrete block recycle processing, etc. 6 items) 4) Purpose-specific items (Rooftop gardens, wastewater treatment, permeable pavement)
Hot water equipment, etc.	Electric boilers, gas water heaters, oil water heaters, gas ranges	Services	Energy conservation, diagnoses, cafeteria, printing, vehicle servicing, building management, cleaning, etc. 7 items
Lighting	Fluorescent lighting fixtures, fluorescent lamps, light bulbs	Total	17 categories, 214 items
Vehicles, etc.	Vehicles (Natural gas vehicles, hybrid vehicles, etc.), ETC products, car navigation systems, etc. 5 items		
Fire extinguishers	Fire extinguishers		

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Please forgive me for the fine print. At present, types and specifications are set for 214 products in 17 categories, which governments then procure. While I have mentioned paper and stationery supplies, examples include vehicles, low-emission vehicles. Right now, all general official vehicles have become low-emission. Speaking of another example in the recent trends, wood is used for public projects and paper is made from woods. Illegal lumbering is currently a very grave environmental problem, so as a measure against illegal lumbering, all procured lumber must be checked for compliance with laws and regulations of the source country. If there is no verification, the wood cannot be procured. This kind of policy has been adopted and is beginning to show results. Certifications are now being used. Hence, the procurement of legally felled lumber is being decided by governments.

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CO₂ Emissions Reduction Effect of Green Purchasing by National Government, etc. (Estimate)

Comparison between 2000 (Prior to Green Purchasing Law) and 2004

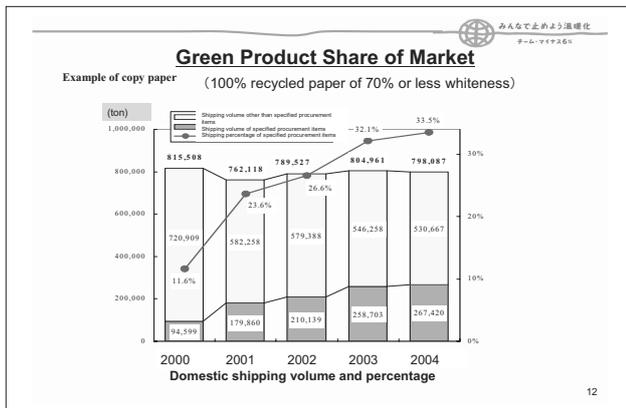
Category/Item	Source	Green house gas emission reduction (Converted to CO ₂)		
		Annual reduction	Years of use	Total reduction
Plastic stationary	Emissions from incineration	761	—	761
Dust blower	Switching from HFC134a to HFC152a	8,587	—	8,587
Office equipment	Emissions from use of electricity	265	5	1,325
Home appliances	Emissions from use of electricity	339	10	3,395
AC	Emissions from use of electricity	250	10	2,495
Hf inverter equipment	Emissions from use of electricity	846	10	8,456
Vehicles	Emissions from driving	2,483	5	12,415
Solar power system	Emissions from system introduction	213	15	3,192
Furnace ash cement	Emission from industrial processes	1,184	—	1,184
Total	—	14,928	—	41,810

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This table shows how effective those efforts are towards reducing environmental load. For example, plastic stationery supplies must be made of recycled plastic, as I said before. Well, instead of using recycled plastic, say we burned what is supposed to be used in its place, this table shows how much CO₂ would have been emitted. As for home appliances, energy saving models are specified for purchasing, compared to conventional office equipment and home appliances that do not conserve energy, it gives how much electricity has been saved. If they are all added up and converted into CO₂ emissions, it comes to 14,928 ton a year. Though the amount is small as it includes only figures that can be calculated, we are advancing measures targeting CO₂ reduction. The truth of the matter is, as I mentioned before, Japan as a whole must reduce emissions on a 100 to 200 million ton basis, so these figures are small indeed. Nonetheless, we are pursuing CO₂ reductions and hope to achieve an effect by means of green purchasing.

So, how far is the market actually to be changed? For the green product example, here is copy paper. The Green Purchasing Law came into effect in 2001, so 2000 was the year before. The copy paper which meets the standard of 100 % recycled accounted for only 11.6 % in the



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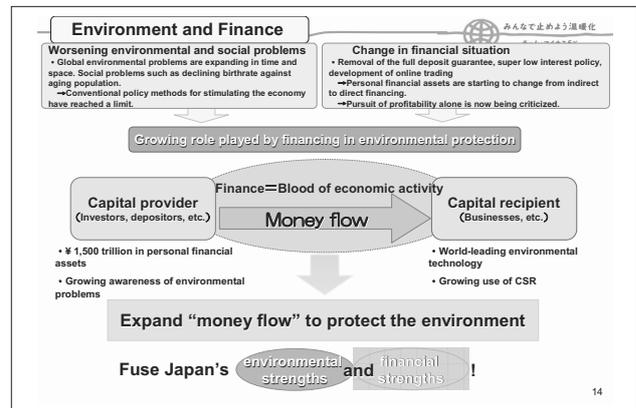
market that year. By 2004, it had increased up to one-third, 33%. This is a classic example, but the idea is to increase the market share of eco-friendly products by having the government-pulled demand. This is what green purchasing is at present.



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Our goal is to promote green purchasing across the national government, all local governments and about 50% of the listed companies.

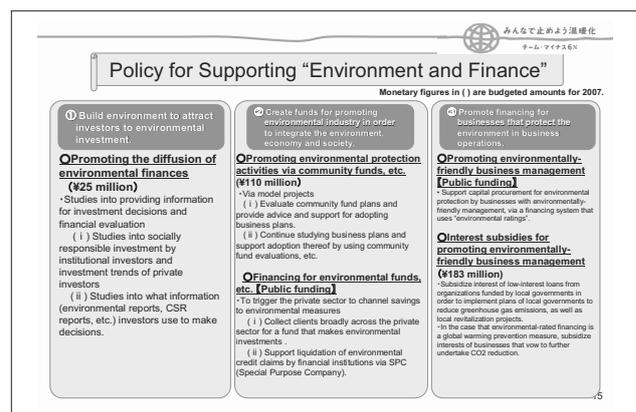
Let me move on to the next theme. I said earlier that we want demand to drive eco-friendly products. Now, the question is how to get the money flowing. Just recently, we have focused our attention on finance. Finance is the blood flow of economic activity and we are looking for ways to channel the flow of money as much as



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possible into the eco-business and behaviors of low environmental load.

In this scheme, the capital provider is on the left and the capital recipient is on the right. The objective of our policy is to build systems that enable money to flow to businesses that promote the eco-business in a variety of ways and people involved with the local environment. This flow of money suggests, – put plainly – as low interest loans as possible from banks to those who work for the environment, besides as large amount as possible. In the case of stock investing too, we would like to encourage investors to buy stock of the companies with eco-friendly activities.

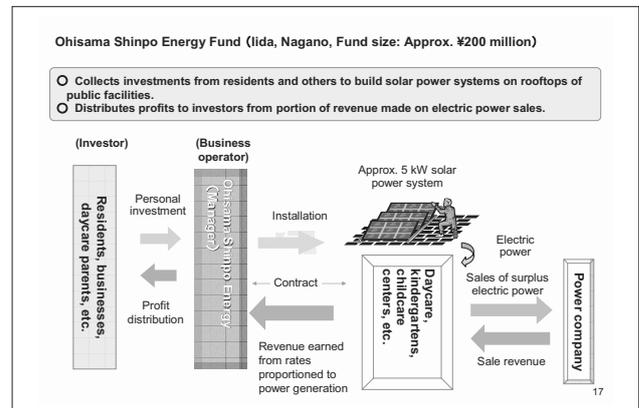


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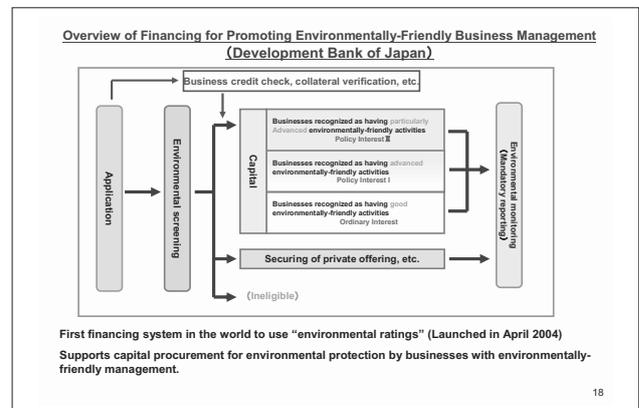
As we have just got started with this policy, we are still in the process of shaping it, but I would like to introduce a couple of programs we

are developing for the next year. One thing is to provide support for community funds. A classic example would be private windmills. Residents would donate or lend money to build windmills for generating wind power. Another example is environmental funds. Little by little, funds invested in the eco-business are emerging, and the national government therewith has launched to help invest and finance such funds.

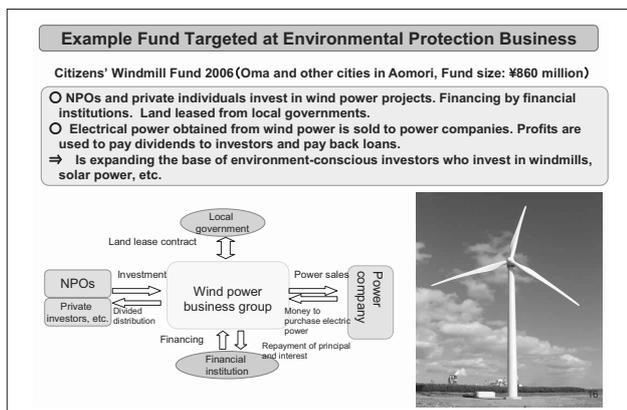
Another program will be to subsidize interest payments on loans for eco-friendly management practices. The Development Bank of Japan, a government-affiliated bank, loans money to environmentally conscious businesses, besides, if the they promise to reduce CO₂ emissions by 5% or more over a five-year period, in return, the national government will subsidize 1% of the interest. This is a program which we are launching. We want to support the eco-business by making it easier for businesses with eco-friendly activities to borrow money and procure the fund. This is our policy for encouraging the environment and finance.



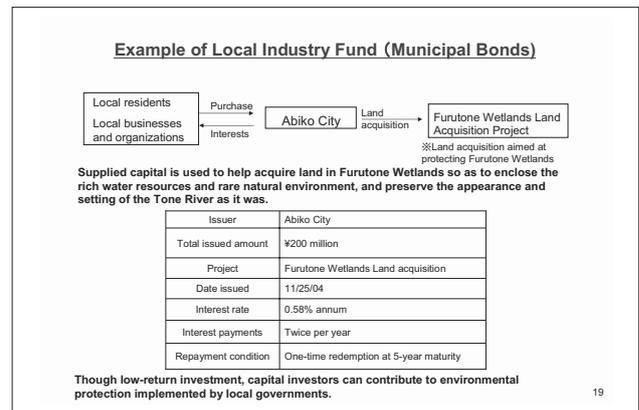
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Examples of the funds for environmental protection business include what is established through the fund-raising by individuals and NPOs to build natural energy systems by wind power. The scheme could be similarly applied to solar power, as well. This is a conceptual view of the

financing scheme offered by the Development Bank of Japan for environment-rated loans. Businesses are screened to determine if management is eco-friendly or not, and ranked on three levels. Interest rates differ according to the rank such that businesses making more environmental ef-

forts can borrow money at lower interest.

Environmental Reporting

An environmental report is an annual report that businesses use to publicize environmental impacts associated with the business activities, environmental activities, etc. Because businesses are now being evaluated by their environmental performance, big companies and others are preparing and releasing environmental reports.

Functions and effects expected of environmental reporting

- Environmental communication, business evaluation (External functions)
 - (For businesses)
 - ◎ Necessary to ensure proper evaluation by society
 - ◎ Necessary means for fulfilling social responsibility to provide information
 - (For society)
 - ◎ Pledge and review effect
 - ◎ Greater verification by all society
 - ◎ Compounded effect of business efforts and social evaluation
- Environmental protection activities of business itself (Internal function)
 - ◎ Enhancing awareness of managers and employees
 - ◎ Tool for businesses to review their environmental management systems

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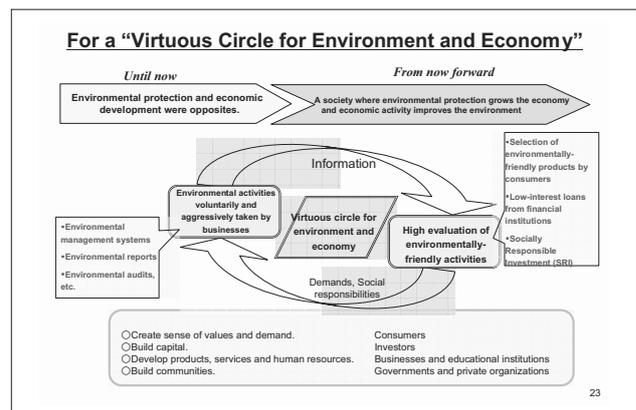
Up to this point, I have explained our policies, green purchasing which aims to make demand the driving force, and environmentally-conscious financing as a mean to create a flow of money. But, in order to support businesses with financing, businesses must report appropriately what they are doing for the environment. Then, we have one more policy, promoting the environmental reporting, which encourages businesses to demonstrate what they are doing for the environment. For example, business puts together a report to announce what they have done in order to reduce CO₂ emissions, and make it available to the general public.

Activities related to Environmental Reporting

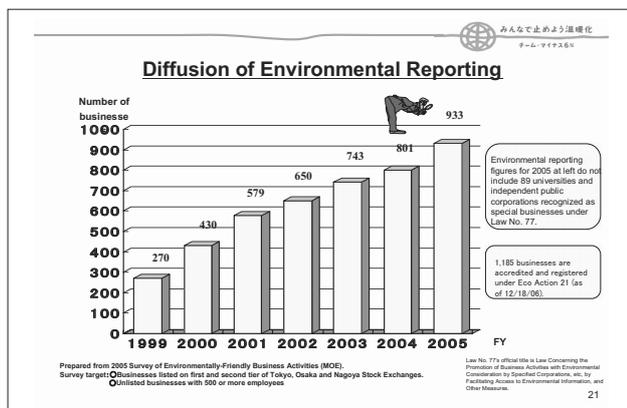
- "2003 Environmental Reporting Guidelines" → **Currently under revision**
<http://www.env.go.jp/policy/report/h15-05/index.html>
- "2004 Eco Action 21 Guidelines"
<http://www.env.go.jp/policy/j-hiroba/PRG/index.html>
- "Handbook for Combined Use of Environmental Reporting Guidelines and GRI Guidelines"
<http://www.env.go.jp/policy/report/h17-07.pdf>
- "2005 Environmental Accounting Guidelines"
<http://www.env.go.jp/policy/kaikei/guide2005.html>
- "Handbook of Information for Environmental Report"
http://www.env.go.jp/policy/hairyo_law/tebiki.pdf
- "Handbook on Self-Evaluation Aimed at Enhancing the Reliability of Environmental Reports"
http://www.env.go.jp/policy/hairyo_law/jikohyouka/tr_main.pdf

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-- 933 to be precise -- released an environmental report. We expect that these businesses who publish their efforts will be valued as a consequence, to lead to their advantage such as easier finance by the loans.



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As far as we have grasped, latest figures of 2005 indicate that approximately 1,000 businesses

Lastly I would like to summarize the conclusions. I find it the key point in common that businesses working more on the environment are welcomed and valued for their efforts, by means of green purchasing, environmentally-oriented financing, or environmental reporting to announce to the public what they are doing for the environment. Green purchasing, one of our main measures is to encourage people to purchase eco-friendly products when they are marketed. In other words, we expect those businesses to be successful. As for environmentally-oriented

financing, we will be supporting the eco-business by making it easier for businesses working on the environment issue to borrow money. These are what we are addressing.

In the situation described as above, we expect environmental activities being highly evaluated, which will lead to growth of the eco-business, ie; as the environment improves, so will that business. And as the business improves, so will the environment. We would like to advance the measures taking “virtuous cycle for the environment and economy” as the keyword in the future society.

Let me reiterate one last time that our goal is to create people and businesses who welcome environmental activities and work for the environment, and a society where those people and businesses are rewarded. That is the goal of our policies.

This is the end of my presentation. Thank you very much for your kind attention.



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(FYI; Translated by Secretariat)

**IGES-KRC International Symposium on
“Business and the Environment”**

**Future Outlook on
Environmental Management Policy**

January 17, 2007

Hiroshi Kamagata,
Director
Environment and Economy Division,
Environmental Policy Bureau,
Ministry of the Environment



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State of Global Warming Prevention Measures in Japan

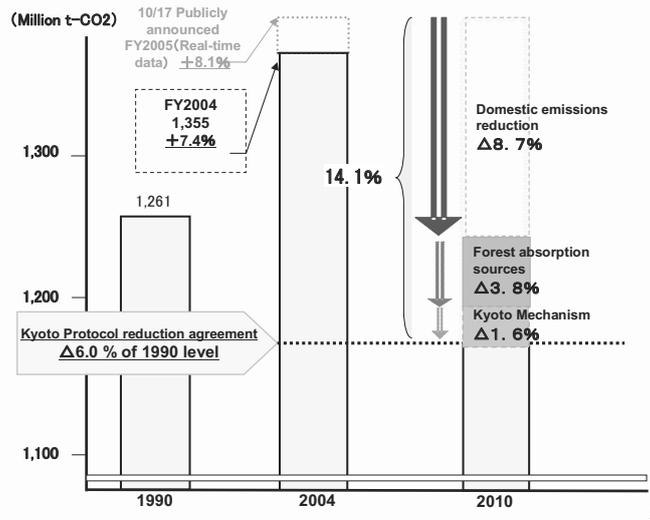
Japan agrees to reduce emissions by 6% from 1990 level under the Kyoto Protocol.

Basic approach

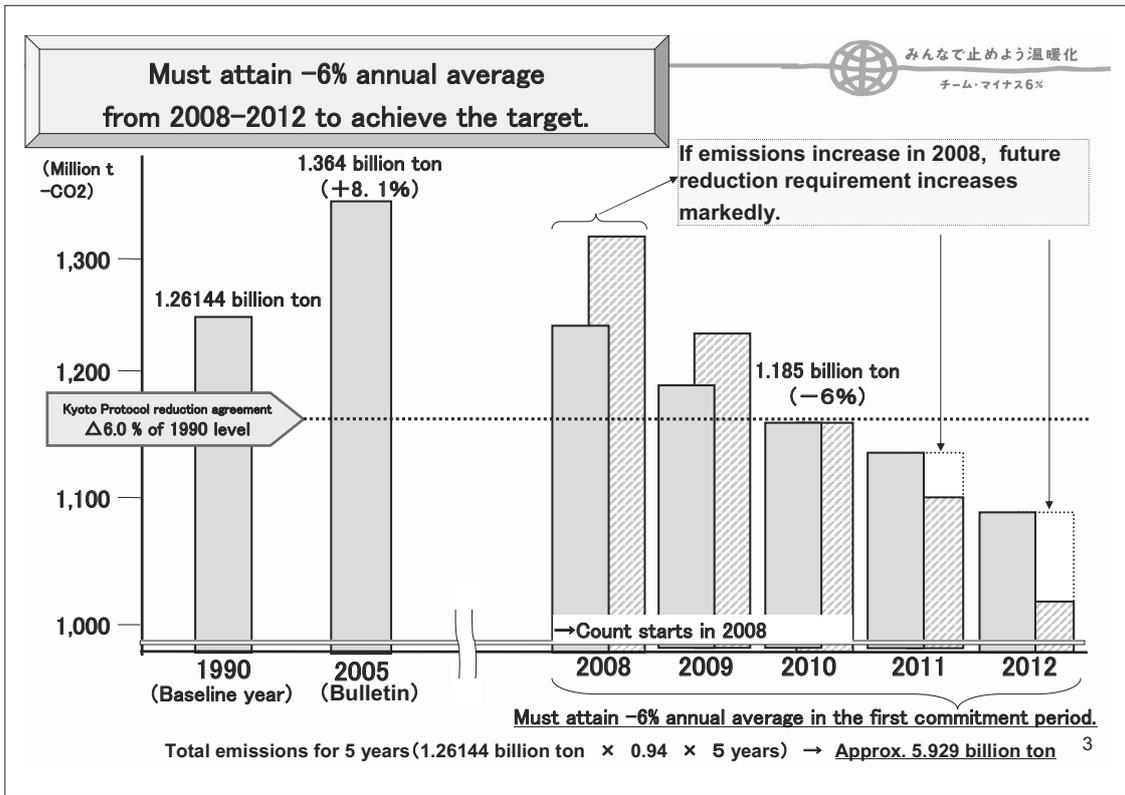
1. Attain 6% reduction of Kyoto Protocol.
2. Continually reduce greenhouse gas emissions on global scale over long-term.

21st century is “Century of the Environment”.
Global warming is issue of all mankind.

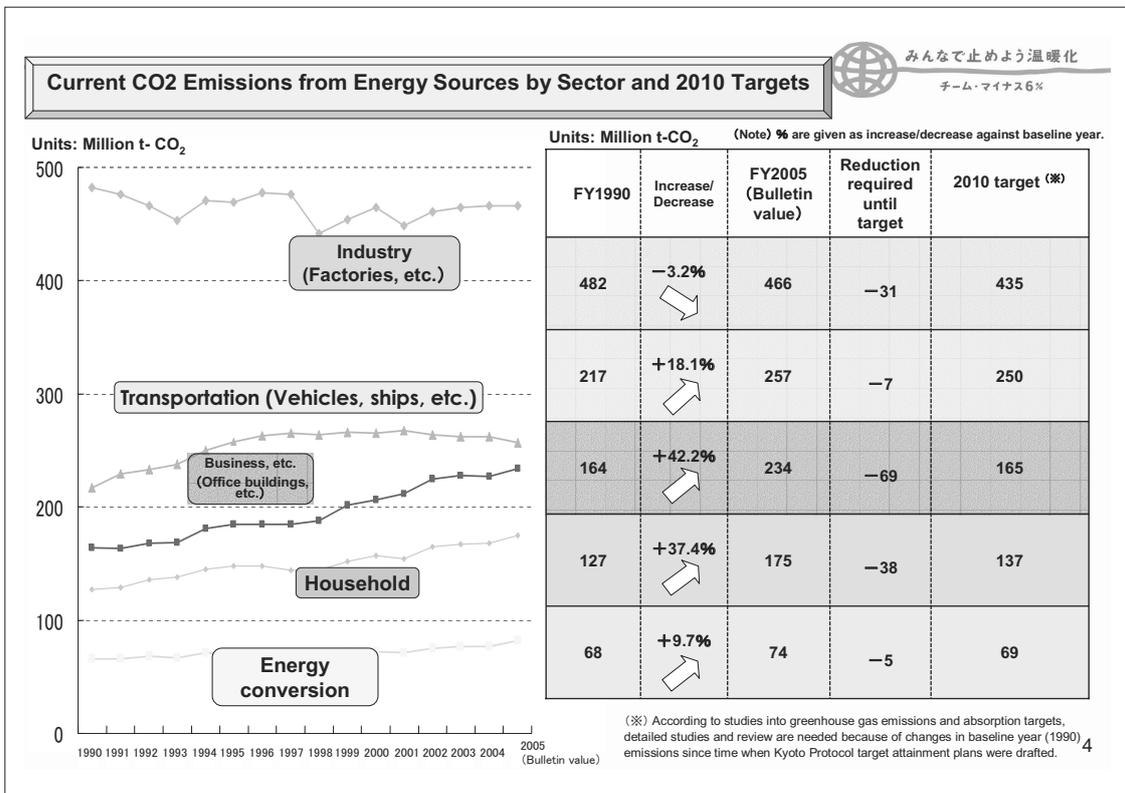
Being an environmentally advanced nation, Japan must lead the world in global warming prevention by building a society that sustains a virtuous cycle of the environment and the economy.



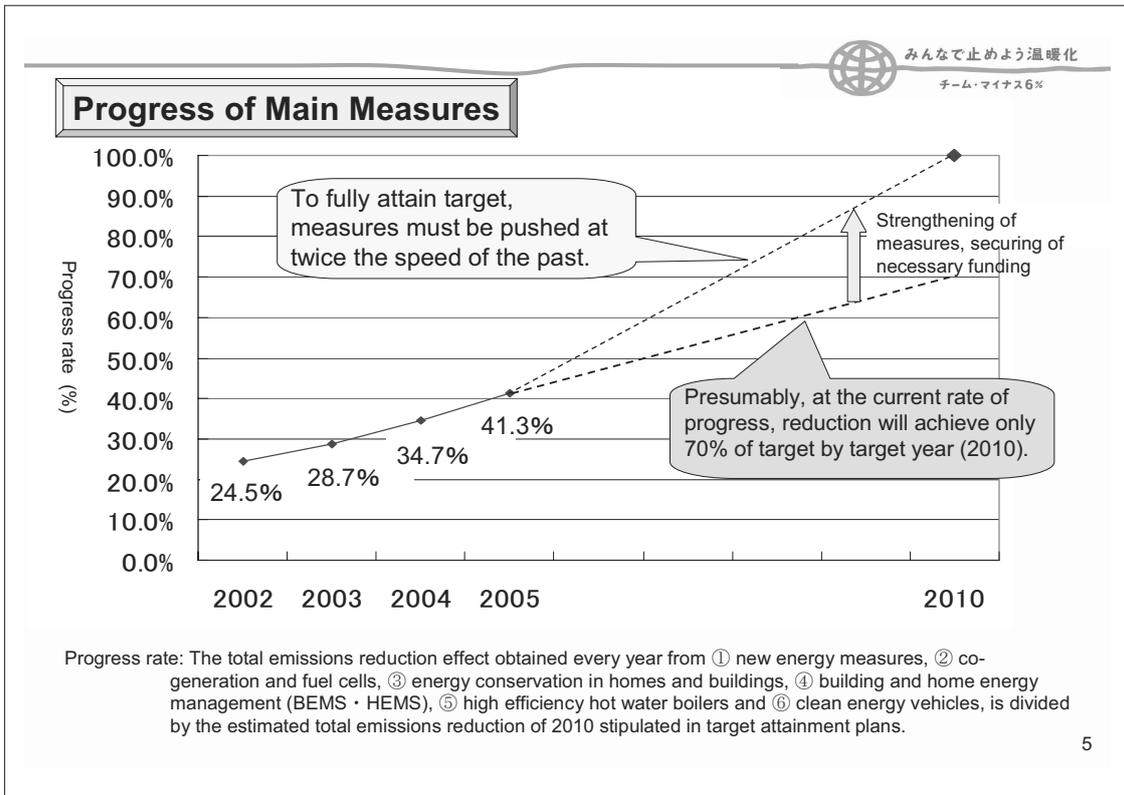
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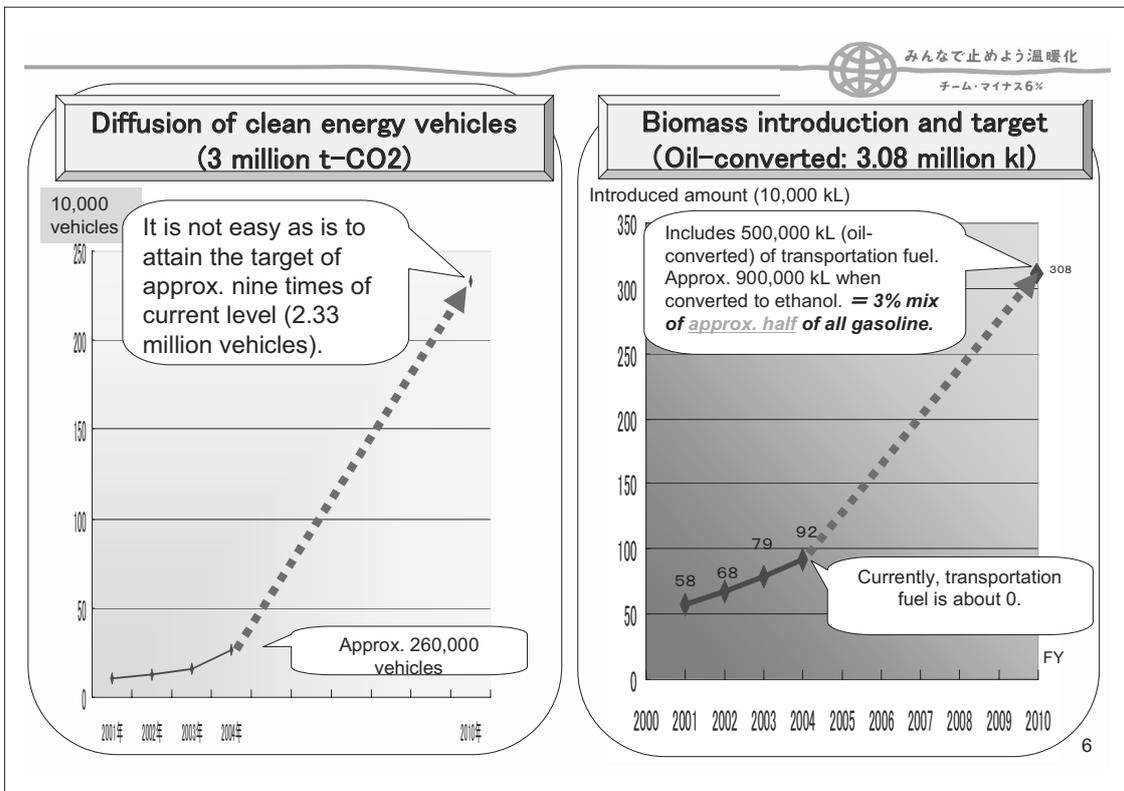
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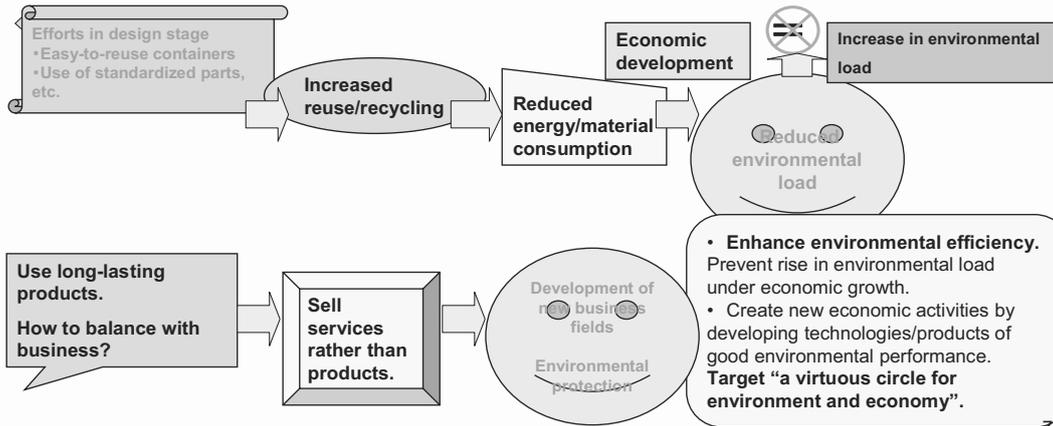
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The 3rd Basic Environment Plan
— The Way to New Richness developed out of the Environment — (April 2006)

The primary direction for future environmental policy development is
“Integrated improvements of the environment, economy and society”.

Realization of an “economy for a better environment” and an “environment for a better economy”.



- Enhance environmental efficiency. Prevent rise in environmental load under economic growth.
- Create new economic activities by developing technologies/products of good environmental performance.

Target “a virtuous circle for environment and economy”.

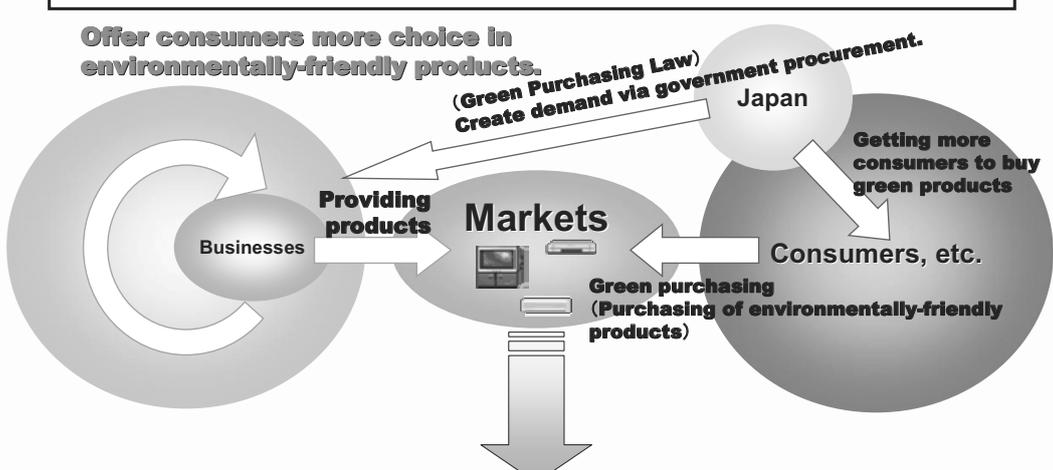
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Green Purchasing

- Encourage suppliers to develop products of less environmental load.
- Encourage environmental considerations in business activities.
- Help producers from the demand side via market mechanisms.

Offer consumers more choice in environmentally-friendly products.



For a sustainable society of less environmental load

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~Specified Procurement Items~

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Vehicles, etc.	Vehicles (Natural gas vehicles, hybrid vehicles, etc.), ETC products, car navigation systems, etc. 5 items		④Purpose-specific items (Rooftop gardens, wastewater pavement, permeable pavement)
Fire extinguishers	Fire extinguishers	Services	Energy conservation diagnoses, cafeterias, printing, vehicle servicing, building management, cleaning, etc. 7 items
		Total	17 categories, 214 items

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CO₂ Emissions Reduction Effect of Green Purchasing by National Government, etc. (Estimate)

Comparison between 2000 (Prior to Green Purchasing Law) and 2004

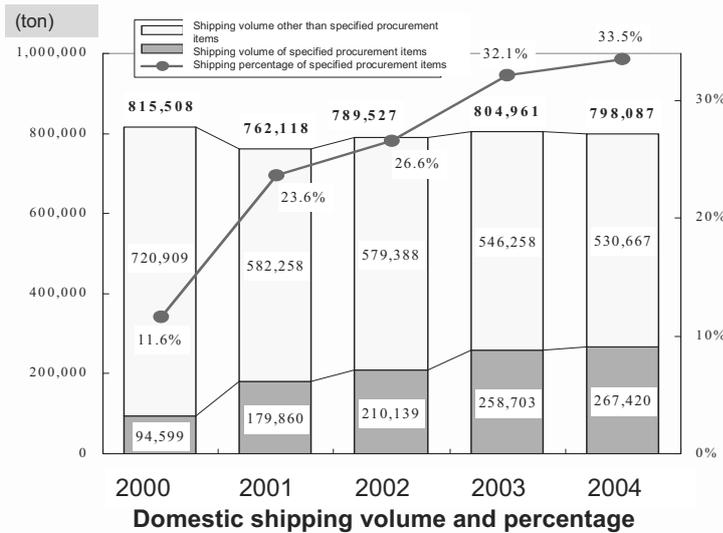
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Green Product Share of Market

Example of copy paper (100% recycled paper of 70% or less whiteness)



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Future Targets (Green Purchasing)

Targeted for 2010

Public sector: *All* local governments
 Private sector: *Approx. 50%* of all listed companies,
Approx. 30% of all unlisted companies

Aims at getting organizations to make green purchases.

(Fundamental Plan for Establishing a Sound Material-Cycle Society)

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Environment and Finance

Worsening environmental and social problems

- Global environmental problems are expanding in time and space. Social problems such as declining birthrate against aging population.
- Conventional policy methods for stimulating the economy have reached a limit.

Change in financial situation

- Removal of the full deposit guarantee, super low interest policy, development of online trading
- Personal financial assets are starting to change from indirect to direct financing.
- Pursuit of profitability alone is now being criticized.

↓

Growing role played by financing in environmental protection

Capital provider
 (Investors, depositors, etc.)

→

Capital recipient
 (Businesses, etc.)

Finance=Blood of economic activity

Money flow

- ¥ 1,500 trillion in personal financial assets
- Growing awareness of environmental problems

- World-leading environmental technology
- Growing use of CSR

Expand “money flow” to protect the environment

Fuse Japan’s environmental strengths and financial strengths !

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Policy for Supporting “Environment and Finance”

Monetary figures in () are budgeted amounts for 2007.

① Build environment to attract investors to environmental investment.

OPromoting the diffusion of environmental finances (¥25 million)

- Studies into providing information for investment decisions and financial evaluation
 - (i) Studies into socially responsible investment by institutional investors and investment trends of private investors
 - (ii) Studies into what information (environmental reports, CSR reports, etc.) investors use to make decisions.

② Create funds for promoting environmental industry in order to integrate the environment, economy and society.

OPromoting environmental protection activities via community funds, etc. (¥110 million)

- Via model projects
 - (i) Evaluate community fund plans and provide advice and support for adopting business plans.
 - (ii) Continue studying business plans and support adoption thereof by using community fund evaluations, etc.
- OFinancing for environmental funds, etc. (Public funding)**
 - To trigger the private sector to channel savings to environmental measures
 - (i) Collect clients broadly across the private sector for a fund that makes environmental investments .
 - (ii) Support liquidation of environmental credit claims by financial institutions via SPC (Special Purpose Company).

③ Promote financing for businesses that protect the environment in business operations.

OPromoting environmentally-friendly business management (Public funding)

- Support capital procurement for environmental protection by businesses with environmentally-friendly management, via a financing system that uses “environmental ratings”.
- OInterest subsidies for promoting environmentally-friendly business management (¥183 million)**
 - Subsidize interest of low-interest loans from organizations funded by local governments in order to implement plans of local governments to reduce greenhouse gas emissions, as well as local revitalization projects.
 - In the case that environmental-rated financing is a global warming prevention measure, subsidize interests of businesses that vow to further undertake CO2 reduction.

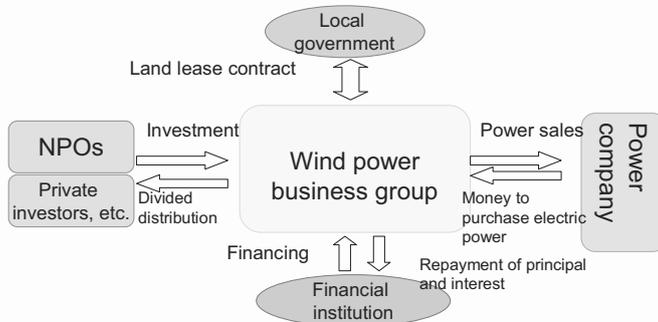
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Example Fund Targeted at Environmental Protection Business

Citizens’ Windmill Fund 2006 (Oma and other cities in Aomori, Fund size: ¥860 million)

- NPOs and private individuals invest in wind power projects. Financing by financial institutions. Land leased from local governments.
 - Electrical power obtained from wind power is sold to power companies. Profits are used to pay dividends to investors and pay back loans.
- ⇒ Is expanding the base of environment-conscious investors who invest in windmills, solar power, etc.

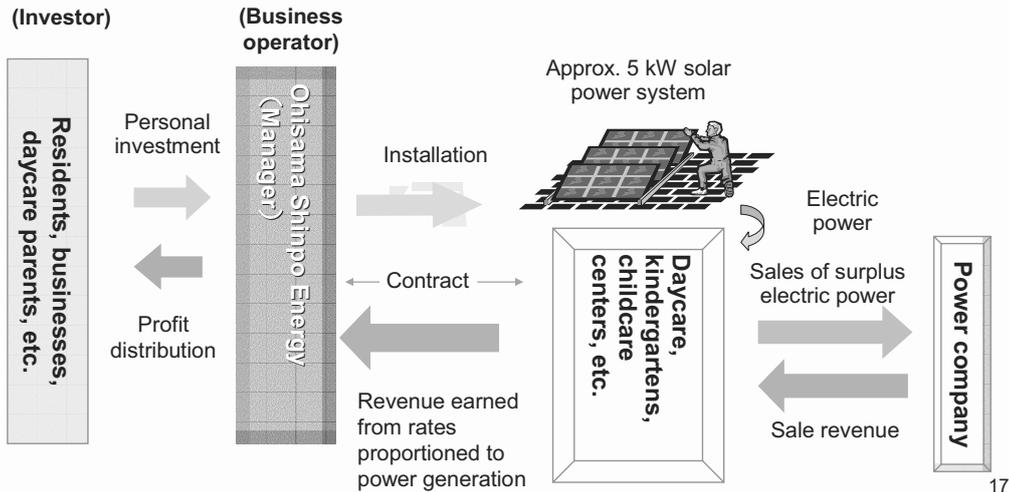


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Ohisama Shinpo Energy Fund (Iida, Nagano, Fund size: Approx. ¥200 million)

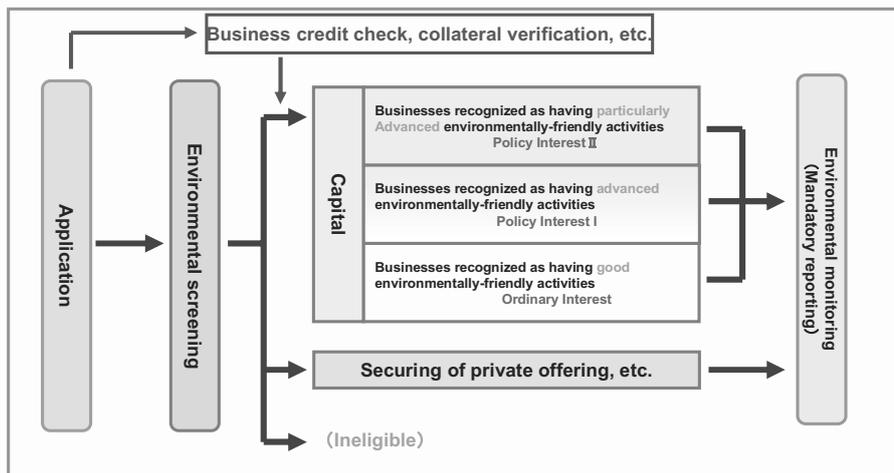
- Collects investments from residents and others to build solar power systems on rooftops of public facilities.
- Distributes profits to investors from portion of revenue made on electric power sales.



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Overview of Financing for Promoting Environmentally-Friendly Business Management (Development Bank of Japan)



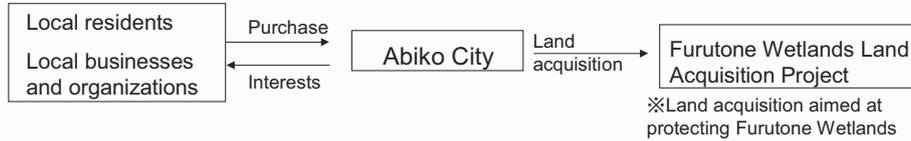
First financing system in the world to use “environmental ratings” (Launched in April 2004)

Supports capital procurement for environmental protection by businesses with environmentally-friendly management.

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Example of Local Industry Fund (Municipal Bonds)



Supplied capital is used to help acquire land in Furutone Wetlands so as to enclose the rich water resources and rare natural environment, and preserve the appearance and setting of the Tone River as it was.

Issuer	Abiko City
Total issued amount	¥200 million
Project	Furutone Wetlands Land acquisition
Date issued	11/25/04
Interest rate	0.58% annum
Interest payments	Twice per year
Repayment condition	One-time redemption at 5-year maturity

Though low-return investment, capital investors can contribute to environmental protection implemented by local governments.

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Environmental Reporting



みんなで止めよう温暖化
チーム・マイナス6%

An environmental report is an annual report that businesses use to publicize environmental impacts associated with the business activities, environmental activities, etc. Because businesses are now being evaluated by their environmental performance, big companies and others are preparing and releasing environmental reports.

● Environmental communication, business evaluation (External functions)

(For businesses)

- ◎ Necessary to ensure proper evaluation by society
- ◎ Necessary means for fulfilling social responsibility to provide information

(For society)

- ◎ Pledge and review effect
 - Greater verification by all society
 - Compounded effect of business efforts and social evaluation

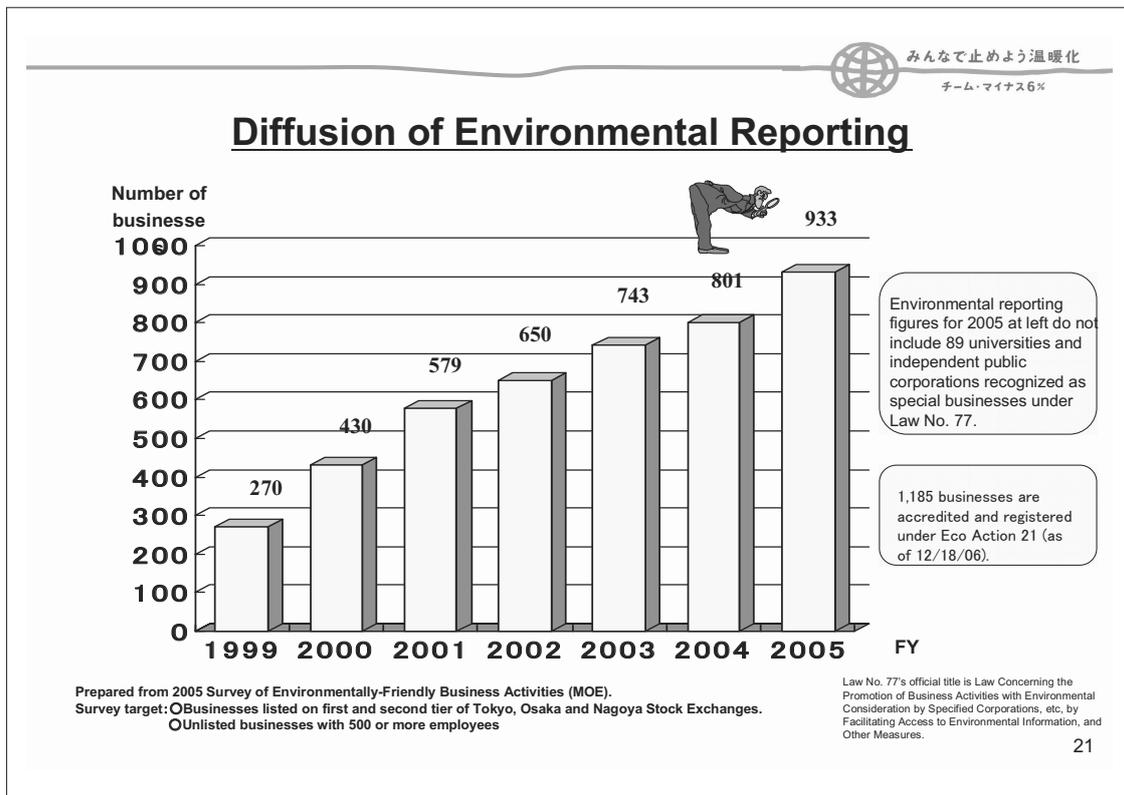
Functions and effects expected of environmental reporting

● Environmental protection activities of business itself (Internal function)

- ◎ Enhancing awareness of managers and employees
- ◎ Tool for businesses to review their environmental management systems

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Activities related to Environmental Reporting

“2003 Environmental Reporting Guidelines” → Currently under revision
<http://www.env.go.jp/policy/report/h15-05/index.html>

“2004 Eco Action 21 Guidelines”
<http://www.env.go.jp/policy/j-hiroba/PRG/index.html>

“Handbook for Combined Use of Environmental Reporting Guidelines and GRI Guidelines”
<http://www.env.go.jp/policy/report/h17-07.pdf>

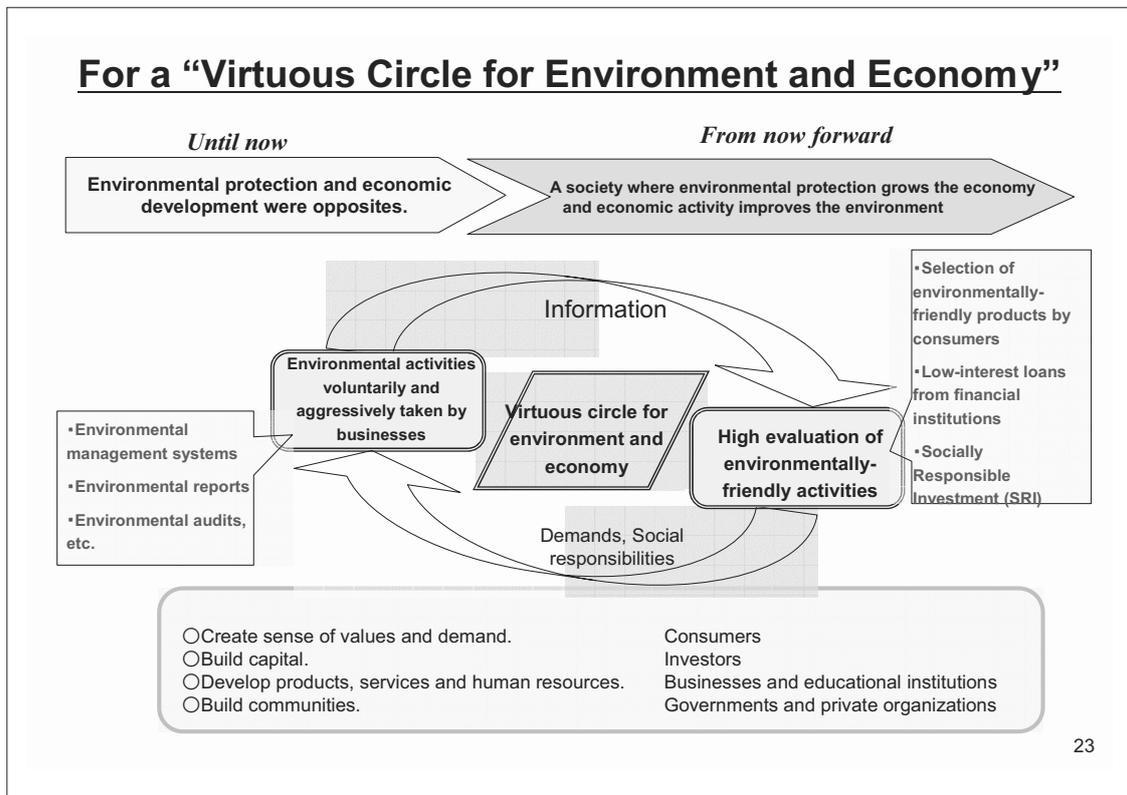
“2005 Environmental Accounting Guidelines”
<http://www.env.go.jp/policy/kaikei/guide2005.html>

“Handbook of Information for Environmental Report”
http://www.env.go.jp/policy/hairyo_law/tebiki.pdf

“Handbook on Self-Evaluation Aimed at Enhancing the Reliability of Environmental Reports”
http://www.env.go.jp/policy/hairyo_law/jikohyouka/tr_main.pdf

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