

Corporate Activity Scope3 Scorecard Criteria (Ver.1)

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A. Introduction

Developed by Deloitte Touche Tohmatsu LLC, the Corporate Environmental Report Scorecard, A Benchmarking Tool for Continual Improvement has, over years of writing and revising Corporate Environmental Reports, played a role in benchmarking outstanding report examples and served as a checklist when writing Environmental Reports. The number of companies issuing environmental reports has increased dramatically, the companies annually refine their report content, and the information on global warming in particular has steadily filled out.

Calls for disclosure of climate change information, the company's measures against global warming in particular, are spreading from not just institutional investors and shareholders, but also from public institutions, local residents, consumers, employees, and a wide range of other stakeholders. Proactive information disclosure on company business activities has become an indispensable element of fulfilling corporate social responsibility. A company's environmental initiatives have increasingly taken on added importance as a business challenge to meet today's calls for corporate governance, for the active involvement of top management in environmental management, and for steady fulfillment of environmental objectives.

Furthermore, in today's modern world, where a company's business activities expand globally across national borders, calls for environmental conservation and reporting responsibilities covering not just the company's own business activities, but also its supply chain. There are strong calls for the corporate calculation and reporting of greenhouse gases in particular, and Scope3 (as defined in the GHG protocol) has gained recognition as the company's way to report the impact of its business activities.

Up until recently, the trend was for companies to initiate responses and company in-house structures simply fulfilling their obligations under government-imposed environmental regulation. However, the trend in today's world of cross-border global supply chains is to call for providing data on greenhouse gas emissions data in all business deals and in building partnerships.

In such circumstances, development of criteria targeting Scope3 information for a company's business activities did not advance until Deloitte Touche Tohmatsu LLC created the new Corporate Activity Scope3 Scorecard based on its Company Environmental Report Scorecard, itself the product of long years of experience and numerous proven results.

B. About the Scope3 Scorecard

Deloitte Touche Tohmatsu "Corporate Environmental Report Scorecard" was developed as a means for the director in charge of environmental issues and other environmental report authors to check the quality of their own organization's environmental reports.

The Scope3 Scorecard covers those portions of the Corporate Environmental Report related to the supply chain and Scope3. To accommodate the diversification of disclosure media, it also covers Scope3 information on websites related to environmental reports.

In parallel with the older scorecard, it groups questions into three sections: Report Structure, Environmental Impact and Data, and Environmental Management.

The Environmental Impact and Data section asks questions about the Scope3 categories appropriate to company conditions in view of development trends in the GHG Protocol – Corporate Value Chain (Scope3) Accounting and Reporting Standard.

The Scorecard incorporates many of the latest reviews of Environmental Report Scope3 reporting to allow effective utilization through adaptable and voluntary initiatives as diverse circumstances warrant. One must keep in mind, however, that this scorecard aims to rank a company's Scope3 initiatives as part of its business activities through environmental report entries and does not represent an evaluation of environmental performance itself.

This report card can also be used as a checklist when disclosing Scope3 information in your company's Environmental Reports. As such, it should be of assistance in locating opportunities for additional improvement.

C. Using the Scorecard

This scorecard consists of twenty questions in three scoring criteria sections. The following are brief descriptions of each section. (The numbers in parentheses indicate the recommended weighting to apply to the section's score.)

I. Report Design (MAX. 10 points)

Whether company policy extends to the supply chain has a great effect on Scope3 initiatives and information disclosure. This section asks questions scoring corporate attitude and Scope3 initiatives based on the report. The question in “**Report Relatedness / Pertinence**” clarifies to what extent the Scope3 environmental impact is linked to the environmental management system, environmental data, and financial information. The question in “**Report Coverage**” scores the Scope3 boundary based on how broad of an area the report covers.

II. Environmental Impact and Data (MAX. 18 points)

This section clarifies how comprehensive the coverage of Scope3 business activities is for the environmental impact of greenhouse gas emissions. It asks questions about Scope1 and 2 greenhouse gas emissions from business sites and indirect greenhouse gas emissions from Scope3 categories: “Products and Services Purchased”, “Transportation and Distribution”, “Products and Services Sold”, “Use of Services”, “Disposal”, “Business Travel and Employee Commuting”, and Others (“Capital Equipment”, “Franchises”, “Leased Assets”, “Investments”, etc.).

It also targets greenhouse gas emission impact and greenhouse gas data uncertainty in each category over the company’s business activity in the entire value chain.

III. Environmental Management (MAX. 17 points)

This section scores how Scope3 initiatives are described as part of environmental management system (EMS) operations. It scores how well the environmental management system is utilized and how well Scope3 activities are incorporated into business execution procedures.

D. Scoring Method

Each of the twenty questions has a point scale running from 0 to 2 (sometimes 3), accompanying examples for a proper score. One must keep in mind that, although superior descriptions and advanced environmental information disclosure can contribute to high scores, going into detail does not necessarily mean a high score. Economical description and lucid logic are also important elements here.

Each group of questions has been assigned a weight so that the total possible score is 100. These weightings reflect the relative importance currently attached to each group.

Scoring Example

Consider, for example, top scores for all five questions in Section I. Report Design. The pre-weighting score of 10 points thus becomes 28 points, the top score for this section. A score of only eight out of full 10 points, however, is converted to $8 / 10 \times 28 = 22.4$ points.

Flexibility

These weightings can be varied to match the corporate strategy and environmental policy for the industry sector, business category, and company size, as well as stakeholder expectations. It also becomes necessary to flexibly review the weighting and scoring based on judgment at the management level and materiality to promptly capture business expansion and business environment changes.

Early Stages

Company Scope3 initiatives have just started, so we can expect new benchmarks and outstanding examples to be developed. Therefore, it should be understood that even this scorecard will continue to evolve in response to changes in circumstances. This scorecard represents a checklist of challenges and evaluation criteria considered important when analyzing Scope3 initiatives in the Corporate Environmental Report as of this point in time.

Effort scores lower than expected are therefore no cause for alarm. Earning a high score on these Scope3 initiative benchmarks is difficult, presenting a great challenge. What is important here is continuing these initiatives step-by-step to contribute to higher corporate value.

Looking Ahead

When considering environmental initiatives in the corporate value chain, it has become increasingly important to incorporate the idea of sustainable development into business practices. From the viewpoint of corporate social responsibility, a company now faces calls for an active information disclosure stance not just to traditional stakeholders, but also to a broader range of mutual interactions with supply chain partners.

In the near future, even greater technological advancement and accumulation of know-how should lead to the collection and quantitative analysis of greenhouse gas emission data throughout the supply chain, making possible even greater progress in disclosing Scope3 information in Environmental Reports.

At the same time, increasing information transparency and reliability is considered a key to enhancing corporate value because uncertainty is inevitable in calculating greenhouse gas emissions in the supply chain.

From this time forward, active support for the Carbon Disclosure Project (CDP) and other advanced external investigations plus consolidated climate change information disclosure coordinated with financial information will constitute significant tools in increasing corporate value.

Now and into the future, accurately capturing changes in circumstances and appropriately revising this Scorecard as necessary support a company's active pursuit of environmental initiatives.

E. Questionnaire

I. Report Design (MAX. 10 points)

Whether company policy extends to the supply chain has a great effect on Scope3 initiatives and information disclosure. This section asks questions scoring corporate attitude and Scope3 initiatives based on the report. The question in “**Report Relatedness / Pertinence**” clarifies to what extent the Scope3 environmental impact is linked to the environmental management system, environmental data, and financial information. The question in “**Report Coverage**” scores the Scope3 boundary based on how broad of an area the report covers.

1. Responsibility for Environmental Policy and its Implementation (Commitment)

Is there a statement of commitment to the environment or sustainable development including the supply chain and Scope3? Is there clear evidence of the links between the statement and the company’s policy, goals, and targets of achievement and the supporting management systems and practices?

Raw Score (Point)

- 0 No mention
- 1 Brief statement of the company's environmental policy or other commitment to the environment, including the supply chain and Scope3
- 2 Active participation by company management in achieving environmental objectives, including ones for the supply chain and Scope3, and in environmental management

Examples

- Description of environmental policy including supply chain and Scope3
- Description of how management strategy and guidelines cover the supply chain and Scope3
- Description of how environmental objectives and targets, including those for supply chain and Scope3, are linked to the management system

2. Scope3 Boundary

Does the report define its Scope3 boundary and limitations?

Raw Score (Point)

- 0 No mention
- 1 Partial mention of the reporting coverage and constraints
- 2 Comprehensive description of reporting coverage and constraints

Examples

- Description of interconnections between Scope3 reporting and business activities throughout the entire company
- Regional business development and overall organization
- Product and market overview
- Scope3 constraints (difficulty obtaining data, data collection costs, etc.)
- Project handling range covering environmental conditions at local, regional, and global levels
- Intended readership for Scope3 reporting

3. Reporting and Accountability Policy

Does the report contain information about the company's reporting policy and accountability principle with regard to Scope3?

Raw Score (Point)

- 0 No mention
- 1 Brief explanation or partial description
- 2 Detailed coverage

Examples

- Policy regarding importance judgment criteria and accountability
- Interconnections between Scope3, compliance, and financial reporting
- Description of Scope3 information flow from affiliated companies, business establishments, and group companies to the Head Office
- Constraints associated with Scope3 data and data collection
- Entries describing Scope3 data calculation methods and criteria
- Changes in Scope3 data calculation methods, reasons for such changes, and the impact that such changes had on the numbers in the current report (as compared to the preceding year)
- Scope3 reporting improvement plan
- History of Scope3 reporting, reporting frequency, and schedule for next report

4. Report relatedness / Pertinence

Is the information relevant in terms of linking Scope3-related environmental aspects / effect (as per ISO 14001 definition) and environmental management system, environmental data, and financial information?

Raw Score (Point)

- 0 Poor
- 1 Consistency evident in some items
- 2 Consistency evident in major items

Examples

- The report positions specific environmental aspects and environmental impact relative to company circumstances and the reporting coverage.
- The report links actual data to specific environmental aspects and environmental impact.
- The report provides the intended reader with comparisons between company circumstances and specific environmental aspects, environmental impact, and effects.

5. Report Coverage

To what extent does the report cover the company's Scope3 categories for its business operations and its sites?

Raw Score (Point)

- 0 Covers only a tiny portion of the company's Scope3 boundary.
- 1 Covers a portion of the company's Scope3 boundary, provides reasons for excluding the other portions, and describes plans to expand coverage.
- 2 Covers the major portions of the company's Scope3 boundary.

Examples

- Covers plants in only certain countries.
- Covers the products of only certain business units.
- Excludes joint ventures and low-influence operations.
- Covers only regulatory compliance items and activities.

Questionnaire

II. Environmental Impact and Data (MAX. 18 points)

This section clarifies how comprehensive the coverage of Scope3 business activities is for the environmental impact of greenhouse gas emissions. It asks questions about Scope1 and 2 greenhouse gas emissions from business sites and indirect greenhouse gas emissions from Scope3 categories: “Products and Services Purchased”, “Transportation and Distribution”, “Products and Services Sold”, “Use of Services”, “Disposal”, “Business Travel and Employee Commuting”, and Others (“Capital Equipment”, “Franchises”, “Leased Assets”, “Investments”, etc.).

It also targets greenhouse gas emission impact and greenhouse gas data uncertainty in each category over the company’s business activity in the entire value chain

6. Scope1 and 2 Greenhouse Gas Emissions from Business Sites

Does the report describe information about the company’s energy consumption and its effort to minimize both energy-oriented and non-energy-oriented greenhouse gas emissions?

Raw Score (Point)

- 0 No or only brief qualitative coverage
- 1 General description including energy consumption and GHG emissions
- 2 More detailed description including copious quantitative data with reduction in mind (that is, complementary and meaningful figures to enable comparison and explain deviations)

Examples

- Energy consumption
- Energy consumption by source (coal, bunker fuel, LNG, LPG, electricity, etc.)
- Scope1 and 2 GHG emissions
- Greenhouse gas emissions separated into CO2 emissions from energy consumption and gases from non-energy sources
- Consumption volumes (integrated cost per unit) matched with data from production and other sources
- Annual trends in energy input, greenhouse gas emissions, and energy intensity
- Reporting on energy consumption and greenhouse gas emission reduction measures
- Utilization rates for renewable energy
- Comparison with and explanation of deviation from the company’s goals and standards, regulatory requirements, and industry peers, nationally and internationally

7. Indirect (Scope3) Greenhouse Gas Emissions associated with Products and Services Purchased

Does the report describe greenhouse gas emissions associated with products and services purchased and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of overall emissions for products and services purchased
- 2 Description of greenhouse gas emissions from cradle to gate
- 3 In addition to the above two items, separate coverage of greenhouse gas emissions from Tier1 suppliers, those with direct business relationships

Examples

- Reporting on greenhouse gas emission reduction measures for products and services purchased
- Product and service ranges used in emission calculations (Tier1, supply chain, certain products or services, etc.)
- Greenhouse gas emissions associated with products and services purchased
- Description of greenhouse gas emission calculations for products and services purchased

- Annual trends in greenhouse gas emissions for products and services purchased
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

8. Indirect (Scope3) Greenhouse Gas Emissions associated with Transportation and Distribution

Does the report describe greenhouse gas emissions associated with transportation and distribution and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of emissions
- 2 More detailed coverage with quantitative data

Examples

- Reporting on greenhouse gas emission reduction measures for transportation and distribution
- Transportation and distribution ranges used in emission calculations (upstream, downstream, etc.)
- Emission volumes by transport type (road, rail, sea, air)
- Data trends by transport type, including energy consumption by the company directly or by contractors
- Greenhouse gas emissions associated with transportation and distribution
- Description of greenhouse gas emission calculations for transportation and distribution
- Annual trends in greenhouse gas emissions for transportation and distribution
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

9. Indirect (Scope3) greenhouse gas emissions associated with products and services sold

Does the report describe greenhouse gas emissions associated with products and services sold and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of emissions
- 2 More detailed coverage with quantitative data

Examples

- Reporting on greenhouse gas emission reduction measures for products and services sold
- Description of greenhouse gas emissions and other impact at the consumption stage for products and services sold
- Product and service ranges used in emission calculations
- Greenhouse gas emissions associated with products sold
- Greenhouse emission reduction effects at sales destinations
- Carbon labels for products
- Description of greenhouse gas emission calculations for products and services purchased
- Annual trends in greenhouse gas emissions for products and services sold
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

10. Indirect (Scope3) Greenhouse Gas Emissions associated with Disposal

Does the report describe greenhouse gas emissions associated with disposal and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of emissions
- 2 More detailed coverage with quantitative data

Examples

- Reporting on greenhouse gas emission reduction measures for disposal
- Disposal range used in emission calculations (upstream, downstream, end-of life product disposal, etc.)
- Description of impact at the product disposal stage
- Greenhouse gas emissions associated with disposal
- Description of greenhouse gas emission calculations for disposal
- Annual trends in greenhouse gas emissions for disposal
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

11. Indirect (Scope3) Greenhouse Gas Emissions associated with Business Travel and Commuting

Does the report describe greenhouse gas emissions associated with business travel and commuting and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of emissions
- 2 More detailed coverage with quantitative data

Examples

- Reporting on greenhouse gas emission reduction measures for business travel and commuting
- Business travel and commuting range used in emission calculations (means of travel, means of commuting, etc.)
- Greenhouse gas emissions associated with business travel and commuting
- Description of greenhouse gas emission calculations for business travel and commuting
- Annual trends in greenhouse gas emissions for business travel and commuting
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

12. Indirect Greenhouse Gas Emissions associated with Other Scope3 Categories

Does the report describe greenhouse gas emissions associated with other Scope3 categories (capital equipment, franchises, leased assets, investments, etc.) and company efforts to reduce those emissions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of emissions
- 2 More detailed coverage with quantitative data

Examples

- Reporting on greenhouse gas emission reduction measures for other Scope3 categories
- Range used in emission calculations for other Scope3 categories (capital equipment, franchises, leased assets, investments, etc.)
- Greenhouse gas emissions associated with other Scope3 categories

- Description of greenhouse gas emission calculations for other Scope3 categories
- Annual trends in greenhouse gas emissions for other Scope3 categories
- Comparison with and explanation of deviation from the company's goals and standards, regulatory requirements, and industry peers, nationally and internationally

13. Greenhouse Gas Emission Impact over Entire Business Value Chain

Does the report include data giving an overview of greenhouse gas emissions over the company's entire value chain?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of greenhouse gas emission impact over the entire business value chain
- 2 Description including data giving an overview of greenhouse gas emissions over the entire value chain and for each Scope3 category
- 3 In addition to the above two items, coverage of uncertainty for each Scope3 category

Examples

- Analysis of the impact that greenhouse gas emissions have over the business's entire value chain
- Greenhouse gas reduction policies and strategies taking into consideration impact across the entire value chain
- Implementation of greenhouse gas emission reduction measures across the entire value chain
- Technical, topographical, and temporal data as grounds for calculating emissions for each category
- Judgments on data quality control and data uncertainty
- Ongoing initiatives to improve the accuracy of primary data collected from suppliers with direct business relationships
- Analysis of the impact that Scope3 emission uncertainty has on corporate activities

Questionnaire

III. Environmental Management (MAX. 17 points)

This section scores how Scope3 initiatives are described as part of environmental management system (EMS) operations. It scores how well the environmental management system is utilized and how well Scope3 activities are incorporated into business execution procedures.

14. Environmental Goals and Targets

Does the report outline the company's Scope3 environmental goals and targets and provide information and their achievement?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of goals and targets
- 2 Quantitative goals and targets verifiable with achievement rates
- 3 Goals and targets divided into ones achieved and not achieved plus explanations for the latter

Examples

- Specified, measurable targets
- Environmental action plan and means of accomplishment
- Description of relationships that goals and targets have to environmental policy
- Description of plans and activities to achieve goals and targets
- Results achieved appearing along with goals and objectives
- Explanation of deviations from goals and targets

15. Environmental Management System

Does the report include Scope3 in its environmental management system (resources necessary for organization, segregation of duties, plans, business procedures, business direction, and policy implementation)?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of Scope3 environmental management
- 2 In addition to the above item, description of environmental management system development plans for Scope3 expansion, implementation, use, etc.

Examples

- Description of environmental management systems, including parts related to the company as a whole, business establishments, and consolidated subsidiaries
- Information on the adoption of environmental management system standards (ISO 14001, for example), domestic requirements, or industry voluntary standards of conduct
- Description of environment-related organizations (Divisions)
- Plans and activities related to the introduction of environmental management systems
- Information on environmental audit implementation and the guidelines, standards, laws, and regulations consulted (ISO 14001, ISO 19011, and ISO 14064, for example)

16. Integration into Business Processes

Does the report explain how Scope3-related environmental business processes are incorporated into the company's entire business system (business deployment, practices, and business management system, for example)?

Raw Score (Point)

- 0 No mention
- 1 Brief mention or examples incorporating environment-related business processes
- 2 Description of how Scope3 environment-related business processes are incorporated into the business execution system

Examples

- Description of how environmental considerations are applied to various business fields
- Description of environmental management systems positioned as part of the overall management system
- Description of how environment-related data is reported the same way as management, financial, and other data
- Reporting on environmental issues are incorporated into management decision making

17. Compliance

- Does the report contain information about the company's compliance, for Scope3, with environmental regulations, emission permits, as well as the company's specific requirements? Is there reference to noncompliance and corrective actions?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of regulatory compliance
- 2 Description of regulatory violations and their impact to environmental or financial matters, and its environment and / or financial statements

Examples

- Clear statement of no past regulatory violations
- Information on compliance items with violations
- Reasons resulting in violations
- Corrective actions implemented
- Scope3 regulatory violation impact relative to overall environmental impact

18. Contingency Planning and Risk Management

Does the report contain information about contingency plans including Scope3, as well as measures for reducing potential environmental impact of accidents?

Raw Score (Point)

- 0 No mention
- 1 Brief mention
- 2 Description of emergency response plans and training

Examples

- Contingency/emergency response policies and plans
- Measures, procedures, and training for preventing damage or keeping it to a minimum
- Assessing risk to the company's business
- Test results from emergency response measures
- Requirements for suppliers to formulate emergency response plans
- Collection and description of suppliers' close calls

19. Research and Development

Does the report contain information about how the supply chain's environmental aspects have been integrated into the company's research and development program (product development, production engineering, etc.)?

Raw Score (Point)

- 0 No mention
- 1 Brief mention of research and development
- 2 Description of the effects of research and development on the company's environmental impact
- 3 Detailed description with examples

Examples

- Research and development activities with a focus on the supply chain (including both executed and planned activities)
- Research and development's environment-related policies, plans, and objectives, including those for the supply chain and Scope3
- Results from environment-related research and development projects
- Partners in research and development
- Estimated spending and projected book amount taking into account research and development's environmental aspects

20. Life Cycle Design

Does the report contain information regarding how the company carries out product design, taking into consideration environmental impact from cradle to grave (or from cradle to gate), and how that affects product development, raw material selection, production processes, product consumption and disposal, etc.

Raw Score (Point)

- 0 No mention
- 1 Brief mention
- 2 Description of life cycle design adopted for certain products and services
- 3 More detailed description of life cycle assessments (LCA) for reducing environmental burden of products

Examples

- Description of life cycle assessments (LCA) in operation or under contemplation
- Description of clear concept and methodology for life cycle design
- Identification of life cycle assessment targets: procurement of raw materials with high environmental impact, production processes, product consumption and disposal, etc.
- Reporting the impact that the results of life cycle assessments applied to products had on product development