

# CSR Group Management System

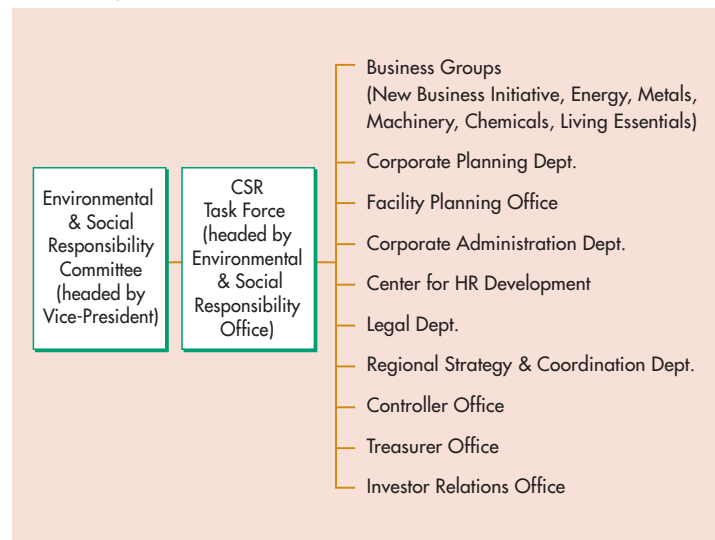
As part of its commitment to CSR, MC implements environmental and social initiatives within its many business operations, ranging from commercial trading to resources development. As a general trading company and business innovator, the company is committed to fulfilling its responsibilities as a corporate citizen while recognizing the need to reduce the environmental impact and improve on the social impact of its corporate activities. MC has established a strong organization designed to tackle these challenges as it strives to become a prosperous and ethical corporation now and for the future.

## Organizational Structure

The company's CSR framework centers on the work of the Environmental & Social Responsibility Committee and CSR Task Force. The Environmental & Social Responsibility Committee formulates company policy for initiatives which, in turn, guide concrete initiatives examined by the CSR Task Force.

The Environmental & Social Responsibility Committee is headed by the Vice-President. Its members consist of Environmental & Social Responsibility Managers from each Business Group, as well as the heads of each department in the Corporate Staff Section. The committee meets to discuss policies and measures in the following three areas: CSR, global environmental issues and corporate citizenship. The CSR Task Force serves under the Environmental & Social Responsibility Office. It consists of mid-level managers from each Business Group and from the departments of the Corporate Staff Section. The CSR Task Force meets to share information between internal departments and to examine relevant measures.

### ► CSR Organization Chart



## Overview of CSR Initiatives

### I Surveying business investments and product supply chains to understand current conditions (under direction of Environmental & Social Responsibility Office)

- A. Implementing surveys of business investments ►► P25
- B. Implementing surveys to comprehend the conditions of product supply chains ►► P25

### II Conducting internal and external communications (under direction of Environmental & Social Responsibility Office)

- A. Educating employees through seminars, training, etc. ►► P25
- B. Disclosing and disseminating information through reports, online publications, etc. ►► P25

**CSR  
Priority  
Initiatives**

### III Implementing a system for self-assessment and for formulation of measures to address environmental and social impact (under direction of managing departments)

- A. Screening for CSR loans and investments: Inclusion of projected environmental and social impacts as well as countermeasures ►► P26
- B. Assessing the environmental impact of business investments and products; conducting environmental reviews of business investments and suppliers ►► P28-P31

## CSR Priority Initiatives

### CSR Surveys of Business Investments

Through its business operations, MC invests in companies operating in diverse industries ranging from resources development and manufacturing to logistics, sales and services. The company recognizes the importance of extending its CSR governance to business investments. Since fiscal 2004, the company has conducted surveys covering four segments—working conditions, the status of human rights, local community support, and products and services—adding these to the existing survey of environmental performance. The scope of the surveys was expanded in fiscal 2005 to investigate the procurement sources of business investments, in an effort to understand the conditions surrounding their supply chains.

### Surveying Product Supply Chains

Consumer interest in the traceability of products has grown tremendously in recent years. The trend is evident in the popularity of products that enable consumers to determine the exact producer, place of origin and production method used for products and goods. There is also growing demand to indicate the place of origin on agricultural products. An example of this is the increasing adoption of international programs aimed at certifying products, primarily in the agricultural sector that certify certain eco-friendly standards. Furthermore, there is elevated interest in apparel and in other products made in factories that observe basic human rights and working conditions without the use of child labor or forced labor.

In response to these trends, the company has implemented surveys to determine the conditions surrounding the products it handles, mainly focusing on agricultural products and apparel.

The surveys are currently restricted to a limited range of products handled by MC. However, the company is committed to expanding the initiative as part of a continued effort to achieve sustainability in its supply chains.

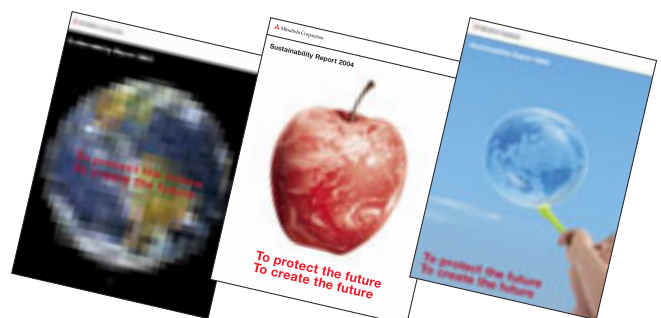
### Employee Education

Human resources development at MC is aimed at providing employees with a solid business sense while also increasing their awareness of CSR. Both of these efforts are considered essential elements to human resources development in order for the company to conduct its business globally. MC has implemented e-learning courses for employees in order to boost knowledge and awareness of CSR, and has distributed a useful employee information booklet called *On-the-Go Information for Employees*, which also helps to boost CSR awareness. In addition, CSR training is given to every employee (currently, the scope for these initiatives is limited to all employees in Japan).

### Information Disclosure

MC pursues business activities that are consistent with the principles of openness and transparency, based on its stated commitment to "Integrity and Fairness" in business. The company was the first general trading company in Japan to issue a Sustainability Report, a transition that was made in 2002 from the previous Environmental Report format. This current publication is the fifth Sustainability Report from MC. The company also held its first stakeholder dialogue session in March 2004, inviting stakeholders involved in various fields to participate. The company has conducted stakeholder dialogue sessions abroad since fiscal 2005, holding sessions in London and in New York. These sessions have provided valuable input for the company's business activities and for its social and environmental initiatives.

The company also actively responds to inquiries it receives from various stakeholders through surveys and interviews, on topics such as socially responsible investment (SRI). Accordingly, MC will continue to place a strong emphasis on mutual dialogue in an effort to gain input from a wider spectrum of stakeholders and to utilize this valuable source of information in its business practices.



Past sustainability reports

## CSR-Based Approach to Loans and Investments

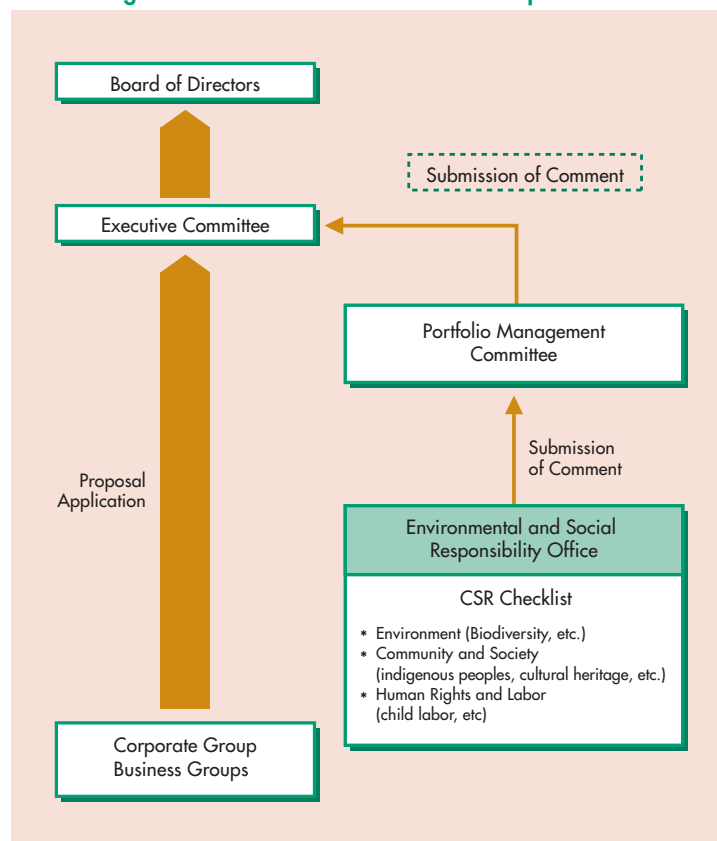
Loan and investment proposals are examined by the Executive Committee, which acts as the strategic decision-making body for MC. Social and environmental risks are examined as part of this process, with some proposals receiving further review from the Board of Directors. Loan and investment decisions by the Executive Committee are based on advisory input from the Portfolio Management Committee, which in turn bases its advice on comments submitted by specialized internal departments. The screening and review process is a comprehensive one, taking into account not only economic but also global environment and community impact factors. The process is specifically guided by the following mechanisms:

1. Inclusion of environmental and social impacts in loan and investment proposals

2. Screening of environmental and social impacts by Environmental & Social Responsibility Office

The Environmental and Social Responsibility Office uses the following documents to guide its screening process: Guidelines for Confirmation of Environmental and Social Considerations published by the Japan Bank for International Cooperation (JBIC) and International Finance Corporation (IFC) guidelines. The office has also formulated a CSR checklist for consideration before advancing loan and investment proposals. In addition to screening for environmental criteria, social criteria such as human rights and working conditions are also examined from a global perspective.

### ► Screening Process for Loan and Investment Proposals



## Environmental Management: Key Elements

### Business Activities

MC handles a diverse range of products and services through its business operations, both in Japan and overseas. The company's close relationship with the environment is particularly strong due to the wide scope of its commercial trading business and to its various investment activities around the globe.

### Environmental Management Highlights

The environmental impact caused by the activities of suppliers and business investment partners receives high priority at MC. In order to better manage its indirect environmental impact, MC conducts environmental impact assessments (EIAs), which target its suppliers

and its business investment partners. The results from these assessments are used to provide suggestions as well as requests for improvements in order to reduce overall environmental impact. In addition, the company surveys the performance of environmental management initiatives by its business investment partners, using the data it obtains for risk management. The company performs direct environmental management over its offices by setting numerical targets designed to reduce environmental impact. Promotion of the environmental management systems (EMS) under ISO14001 also helps to boost environmental awareness among all employees.

## Environmental Management Organizational Structure

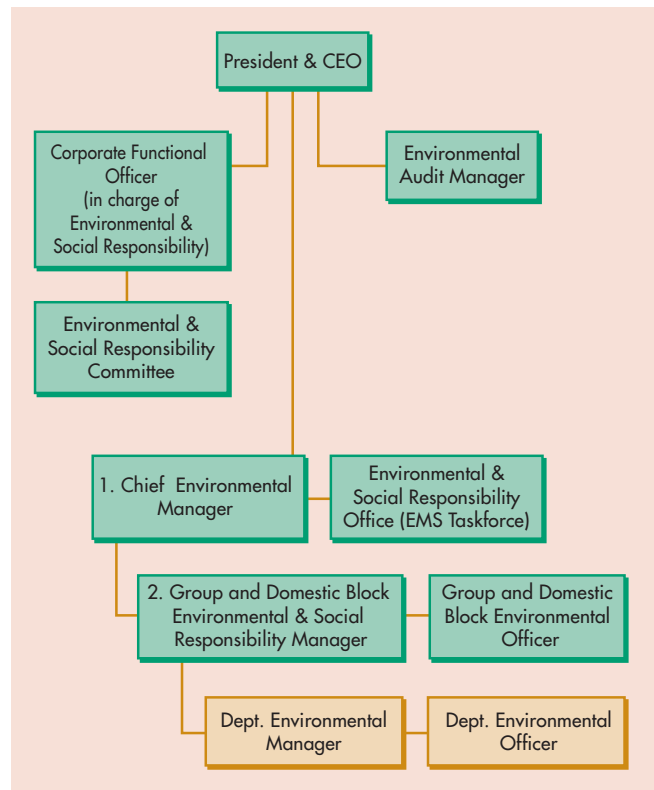
The environmental management organizational structure at MC is headed by the President and CEO, with all employees contributing to its implementation. Other key positions and responsibilities are as follows:

1. The Chief Environmental Manager is responsible for operational management of the environmental management system (EMS).
2. Group/Block Environmental & Social Responsibility Managers are responsible for operational management of EMS within business groups or geographical blocks, in addition to dealing with matters relating to CSR.

Environmental & Social Responsibility Managers are assisted by Group/Block Environmental Officers. These individuals provide overall coordination to ensure consistent implementation of environmental management within their respective areas.

Department Environmental Managers are assigned to each department and are in turn assisted by Department Environmental Officers responsible for promoting environment management within the department. The company has approximately 400 Department Environmental Officers, whose responsibilities include coordination of EIAs as well as surveying and tracking of office environmental initiatives. Each department, unit or team is assigned a Department Environmental Manager and Department Environmental Officer, according to their respective organizations.

### ► Promoting Environmental Management



# Environmental Impact Assessments and Environmental Reviews of Business Investment Activities and Products

## Environmental Impact Assessments

MC handles a wide spectrum of products and has made business investments in a diverse range of industries. Some of these products have a significant environmental impact while certain business investments have operations with significant environmental as well as social impact. In order to track the environmental impact of the activities of its business investments and of the products they handle, the company uses a system of environmental impact assessments (EIAs). Under the system, the departments directly in charge of a business investment or product identify areas where environmental impact may occur and conduct EIAs on an annual basis.

## Environmental Impact Assessment Methodology

Environmental impact assessments (EIAs) are separated into assessments covering normal as well as emergency situations. Assessments of business investments examine the environmental impact across the entire scope of business activities, which can range from resources development and manufacturing to processing and sales. Product assessments examine the environmental impact at each stage of the product life cycle, ranging from raw materials procurement to disposal after use. The assessments take into account numerous factors including the characteristics of the product and the degree of influence that MC can exert on the business investment (depending, for example, on the percentage shareholding) and product. Concerns from stakeholders and the applicability of environmental regulations are also factors that are taken into account.

In fiscal 2005, the company identified areas of environmental impact and conducted EIAs targeted at 425 business investments, with 217 of those firms located abroad. Identification of areas of environmental impact and EIAs were conducted on all 951 product categories designated by the company.

The annual implementation of EIAs gives employees an opportunity to reflect on the relationship between their work and the environment. The initiative therefore functions as a critical educational tool to boost sensitivity and responsiveness to environmental issues among all employees.

## Environmental Reviews

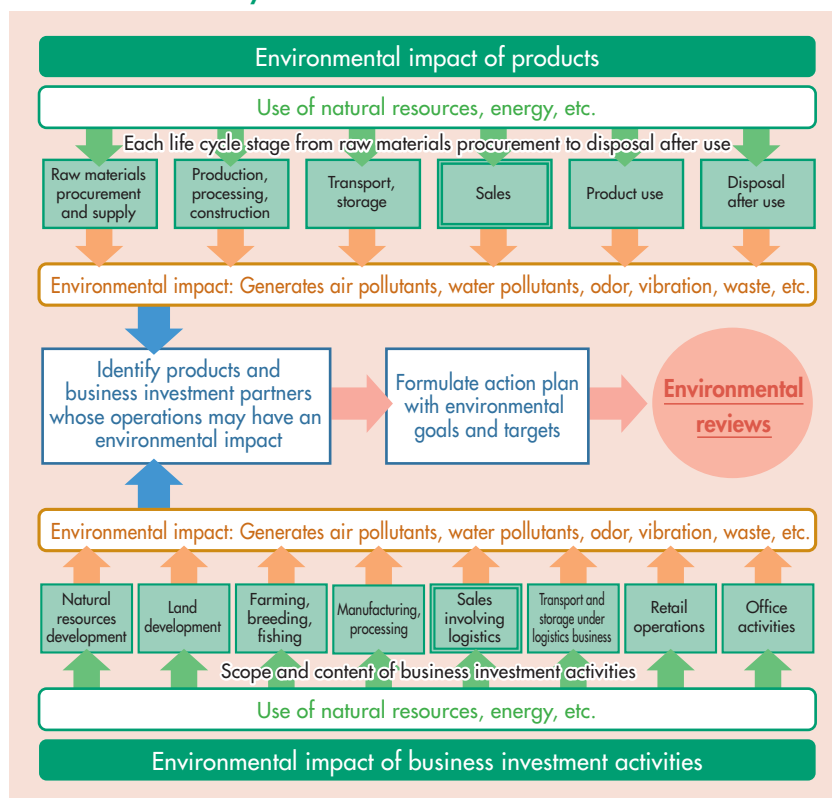
MC formulates action plans for its Environmental Management System (EMS) based on the results of EIAs. Action plans are also formulated for business investments and for products that the company has singled out for environmental performance

improvement. Under the action plans, the company formulates long-term goals for reducing environmental impact as well as targets to be achieved during the fiscal year. Environmental reviews are then conducted to evaluate each goal and target covered by the action plan.

The environmental review process seeks to reduce the environmental risks taken by business investments and to lower the environmental impact of products handled by the company. Every year, MC surveys and interviews numerous business investments and suppliers. The process includes actual observation of work sites and of production processes in order to ascertain and assess the environmental management infrastructure and the state of implementation of environmental initiatives. It is also designed to verify and assess working conditions as well as to monitor the observance of human rights and the situation in local communities. The results of the environmental reviews are used to provide business investments and suppliers with suggestions and requests to further improve their environmental performance. The system enables MC to work collaboratively with business investments and suppliers to reduce environmental risk.

Environmental impact assessments and environmental reviews also play a critical role in the company's supply chain management, which extends to its suppliers. These initiatives are part of an overall commitment to risk management by the MC Group.

## ► Environmental Survey Flowchart



## Environmental Impact Assessments

### ► FY2005 EMS: Analysis of Environmental Impact Assessments of Products

	No. of products	*1	*2	*3		Ozone layer	Air pollution	Water pollution	Soil pollution	Adverse health effects	Noise, vibrations
		Tropical forest	Natural and ecological systems	Global warming	Natural resources						
Corporate Staff Section	21	High	High	High	High	Low	High	Low	Low	Low	Low
New Business Initiative Group	16	Low	Low	Low	High	Low	High	Low	Low	Low	Low
Energy Business Group	40	High	High	High	High	Low	High	High	High	High	High
Metals Group	46	High	High	High	High	Low	High	High	High	High	High
Machinery Group	81	Low	Low	Low	High	Low	Low	Low	Low	Low	Low
Chemicals Group	161	Low	Low	Low	High	Low	High	High	Low	Low	Low
Living Essentials Group	125	Low	High	High	High	Low	High	High	Low	Low	High
Total	490*	Low	High	High	High	Low	High	High	Low	Low	High

\*1. Indicates impact from forestry development or use of wood products

\*2. Indicates impact on local ecosystem, including use of natural resources and pollution of natural environment

\*3. Indicates consumption of exhaustible natural resources (raw materials), electricity and packaging materials

Level of environmental impact :  High impact  Medium impact  Low impact

Environmental impact assessments (EIAs) of products are designed to provide an absolute assessment of the environmental impact of a product category using internal assessment criteria. For assessment purposes, products are grouped into categories based on shared characteristics. The grouping criteria can range from physical and chemical properties to the way products are handled or used. Applicable environmental regulations are also taken into account in categorizing products.

\* The table summarizes the level of environmental impact derived from EIAs of products in fiscal 2005. The data represents the overall assessment score by type of environmental impact, which is calculated by using the average score for each product category handled by each business group.

MC conducts annual environmental impact assessments (EIAs) of product categories covering the entire scope of products it handles. Products are grouped into categories based on shared characteristics ranging from physical and chemical properties to the way products are handled or used. Applicable environmental regulations are also taken into account in categorizing products. The environmental impact in both normal and emergency situations is examined. The assessments examine each stage of the product life cycle from raw materials procurement to disposal after use, providing a quantitative and absolute assessment using internal criteria.

In fiscal 2005, the company assessed 951 product categories comprised of 490 handled by head office operations and 461 handled by domestic block operations. The table above shows the level of environmental impact caused by the 490 product

categories of the head office operations. The data is derived by calculating the average score for each product category by type of environmental impact and by business group. Darker bars represent higher levels of environmental impact.

Analysis of the data shows that, in almost every business group, the environmental impact is highest in the natural resources and air pollution categories. The Energy Business Group, which handles oil, natural gas and LPG gas, and the Metals Group, which handles coal and unprocessed metals, produce medium or high levels of impact in nearly every impact category. MC is using the data to implement initiatives that will reduce its environmental impact, while taking into account the characteristics of each group and block. In addition to the above, MC is also implementing various environmental reviews.

## Environmental Reviews: Commercial Trading Activities

### Environmentally-Friendly Office Building Design

The Mitsubishi Shoji Building, the new corporate headquarters in Tokyo, was completed in March 2006, incorporating design and construction elements that make its building operations friendlier to the environment. The Corporate Real Estate Planning Department conducted an environmental review of the project in fiscal 2005, coinciding with the last fiscal year of construction, to verify that concrete environmental initiatives were being implemented both in the building design and in its construction and also to verify that the company's requests and specifications were being met.

In conducting the environmental review, the Corporate Real Estate Planning Department initially prepared a checklist of environmental items based on results obtained from an environmental review of the Shinagawa Office, MC's other main office in Tokyo, carried out in fiscal 2002. A survey was then conducted to determine the environmental initiatives being taken at each stage of the building's life cycle by architect Mitsubishi Estate Co., Ltd. and joint-venture contractors Takenaka Corporation and Meiko Construction Co., Ltd.

The survey confirmed the following points relating to the design aspects of the building:

1. The building design adheres to environmentally-friendly concepts.
2. The building is designed to use construction materials that minimize environmental burden.
3. The building is designed to incorporate electrical, temperature control and sanitation facilities that are energy-efficient. The energy-efficient design includes the use of insulated air flow windows and Smart VAV temperature control technology.

The Department established an on-site environmental committee to carry out environmental training for site workers. The committee also confirmed that measures were being taken to reduce construction waste and to promote recycling, in addition to steps taken to reduce noise, vibration and air pollution at the site. Other initiatives such as

the elimination of unnecessary engine idling and revving of construction vehicles were also implemented. The completed Mitsubishi Shoji Building has been in operation since May 2006 and is already producing energy-saving benefits due to its environmentally-friendly design. In the future, the company will formulate and implement office management initiatives designed to further enhance the energy-saving benefits of the building.

Recently completed environmentally-friendly Mitsubishi Shoji Building



### Environmental Management System (EMS) for Food-Grade Starch Production and Processing

MC conducted an environmental review of one of its business investments, Nihon Shokuhin Kako Co., Ltd., Japan's largest producer of starch and starch products. The critical goal of the review was to determine the actual level of environmental management at Nihon Shokuhin. In particular, the review focused on determining the degree of emergency countermeasures in place to prevent water pollution in commercial production and processing.

The assessment team initially examined the environmental management system (EMS) at Nihon Shokuhin with an environmental checklist. The team then conducted an on-site survey in which they were briefed on the company's approach to chemical substance storage as a way to safeguard against natural disasters and/or industrial accidents. The on-site survey also included a briefing on physical measures in place to prevent flooding of fuel tanks during a disaster or accident. The assessment team was able to confirm that the company conducts monthly fire drills at each shift which are led by its employee fire response team.

Nihon Shokuhin has already acquired ISO14001 and 9001 certifications, under which it conducts EMS training and routine on-site inspections for its warehouse and shipping contractors. The environmental review team further verified that the company has a system in place to respond to issues and concerns from the surrounding communities. As part of the review process, MC made a number of proposals to Nihon Shokuhin aimed at further reducing its environmental burden by expanding the existing scope of environmental initiatives. The proposals included the suggestion to conduct life cycle analysis for indirect environmental management and to adopt green procurement. Nihon Shokuhin has welcomed these suggestions and has indicated that it will study the proposals for future implementation.



On-site inspection of EMS for production and processing of food-grade starch and starch products



## Environmental Reviews: Business Investment Activities

### Bunker Fueling Operations of Petro Diamond Japan Corporation

Petro Diamond Japan Corporation is a wholly-owned subsidiary of MC that conducts bunker oil sales and operations (bunker oil is an industry term for marine oil) and the Energy Business Group at MC conducted an environmental risk assessment of its bunkering operations, which involve the fueling of marine vessels with bunker oil. In conducting the risk assessment, the assessment team also gained the cooperation of the barge company and the bunkering operation surveyor used by Petro Diamond Japan.

The following steps were taken in conducting the environmental review:

1. Documents relating to the EMS were obtained from the barge company.
2. Documents outlining work procedures were obtained from the bunkering operation surveyor.
3. The above documents were then examined to assess the oil spill risk at each stage from work order issuance and acceptance to fueling completion. The management system in place to prevent sea pollution, including the emergency notification system, was also verified.

The assessment team also engaged in briefing sessions with front-line operators from the companies involved in Petro Diamond Japan's bunkering operations. The briefing sessions are expected to produce major benefits in the future by enabling all parties to share a renewed understanding of the importance of environmental response. The barge company cooperating with the latest environmental review has already acquired ISO14001 certification, obtained during a previous environmental review conducted by MC in fiscal 2002. It was further confirmed that the barge company's affiliate, which owns and operates the marine vessels, is fully implementing environmental initiatives and working to acquire ISO14001 certification. The environmental reviews conducted by MC have been welcomed by the companies involved and are having a major impact on their environmental initiatives.



Environmental risk assessment of bunkering operations at Petro Diamond Japan Corporation

### CO<sub>2</sub> Reduction Initiatives by Suppliers of Dai-Nippon Meiji Sugar Co., Ltd.

Dai-Nippon Meiji Sugar Co., Ltd. is one of MC's business investments through its Living Essentials Group. Sugar refining for Dai-Nippon Meiji Sugar is outsourced to three plants in Japan, including one owned by Kanmon Seito Co., Ltd. The latter plant has converted its boilers to burn LNG fuel instead of heavy oil, contributing to a major reduction in CO<sub>2</sub> emissions of around 20% through fiscal 2004. In addition to driving down fuel costs, the LNG conversion has produced attendant environmental benefits by significantly reducing SO<sub>x</sub> and soot emissions. The plant has shown that it is strongly committed to reducing its negative environmental impact and to achieving compliance with environmental regulations. This commitment is evident in the company's longstanding involvement in industrial waste recycling initiatives. The latest review confirms that these initiatives are producing significant environmental benefits at the plant.

The environmental review and on-site inspection led to the recommendation that Dai-Nippon Meiji Sugar should propose LNG conversion for boilers operated by its other sugar refinery plants. Additional suggestions were provided to maintain and to further improve the EMS at Dai-Nippon Meiji Sugar. The environmental review enabled the company to widely reinforce the message that it is pursuing environmental initiatives on a unified group-wide basis while also producing major returns.



Boiler fuel conversion at Kanmon Seito leads to reduced CO<sub>2</sub> emissions