

Social Responsibility, Corporate Governance and Environmental Issues

— How MOL Fulfills Its Obligations to Society —

Corporate Social Responsibility

To reinforce activities involving corporate social responsibility (CSR), the MOL Group on June 24, 2004 established the CSR and Environment Committee and formed a CSR and Environment Office. The new committee was formed by re-organizing the Environment Committee, a committee that reports directly to the Executive Committee. In addition to its previous duty of formulating MOL Group environmental policies, the new committee will study and discuss CSR issues for the purpose of creating a stronger framework for group-wide CSR activities. The CSR and Environment Office serves as the committee's secretariat, taking over the environmental tasks that had been performed by the Environmental Group of the Technical Division. The new office also promotes a broad range of programs involving CSR across the entire MOL Group.

The MOL Group's corporate philosophy calls for the group to achieve customer satisfaction, contribute to global economic growth, conduct management in a transparent manner that adheres to social and corporate ethical standards, and protect the marine and global environment. In the belief that CSR is vital to sustainable growth at any company, the MOL Group has taken a number of actions. Among them are the election of outside directors and other steps to upgrade corporate governance and compliance systems; initiatives to ensure safe navigation and protect the environment; and information disclosure activities that include an IR program. The MOL Group is dedicated to making further improvements in its CSR programs in order to operate in a manner that reflects the interests of all stakeholders.

The MOL Group's commitment to CSR activities has earned the group recognition from international organizations.

MOL Selected for Dow Jones Sustainability Indexes

In September 2003, MOL was selected for inclusion in the DJSI, a designation reserved for companies capable of sustaining growth over the long term while maintaining excellence in environmental, social and investor relations programs. The DJSI is made up of large companies in 34 countries and 59 market

sectors. At present, about 300 companies have been chosen from 2,500 eligible corporations. The index tracks the companies' financial performance, including stock prices and dividend payments. As a component of the DJSI, MOL is more likely to attract the attention of socially responsible investment funds.



MOL Becomes Part of the FTSE4 Good Global Index

FTSE, a global index company owned by the Financial Times and London Stock Exchange, selected MOL for inclusion in its FTSE4

Good Global Index in September 2003. Companies are evaluated from three perspectives: environmental sustainability, social and ethical behavior, and human rights. The index is made up of 885 companies from around the world, about 120 of which are from Japan.



Corporate Governance

To strengthen corporate governance, MOL in June 2000 added outside directors to its board and adopted the executive officer system. These actions raised the transparency of management while clearly separating the management and business execution functions. In June 2002, as the second stage of corporate governance reforms, the functions, authority and operating framework of the Board of Directors were reviewed. The aim was to create a more purpose-oriented decision-making system and establish a strategic management structure. This review had the following four basic objectives.

1. Reinforce the role of the Board of Directors, the ultimate decision-making body, with regard to the formulation of fundamental management policies and oversight of risk management.
2. In conjunction with a further division between the roles of determining corporate strategies and executing business activities, the Executive Committee was given much greater authority with regard to business activities.
3. Further speed decision-making at the business execution level.
4. Build a more effective reporting system to upgrade the monitoring of activities of executive officers and other managers.

MOL is confident that these management reforms will make its management and corporate governance even more efficient, thereby contributing to growth in corporate value and shareholder value.

Compliance

MOL positions compliance as a means not only of observing laws and regulations, but also of adhering to internal regulations as well as other standards of behavior. Furthermore, by strictly adhering to rules of conduct that MOL has established on its own, the MOL Group can better promote its philosophy of conducting transparent management in line with social standards and corporate ethics. Based on this stance, the group is taking steps to further enhance its compliance system.

MOL establishes rules of conduct for its executives and employees by adopting the standpoints of all stakeholders. By reflecting these rules in their activities, MOL executives and employees are dedicated to improving MOL's operations by creating an even better working environment, and to continuously raising corporate value while earning the support of all stakeholders.

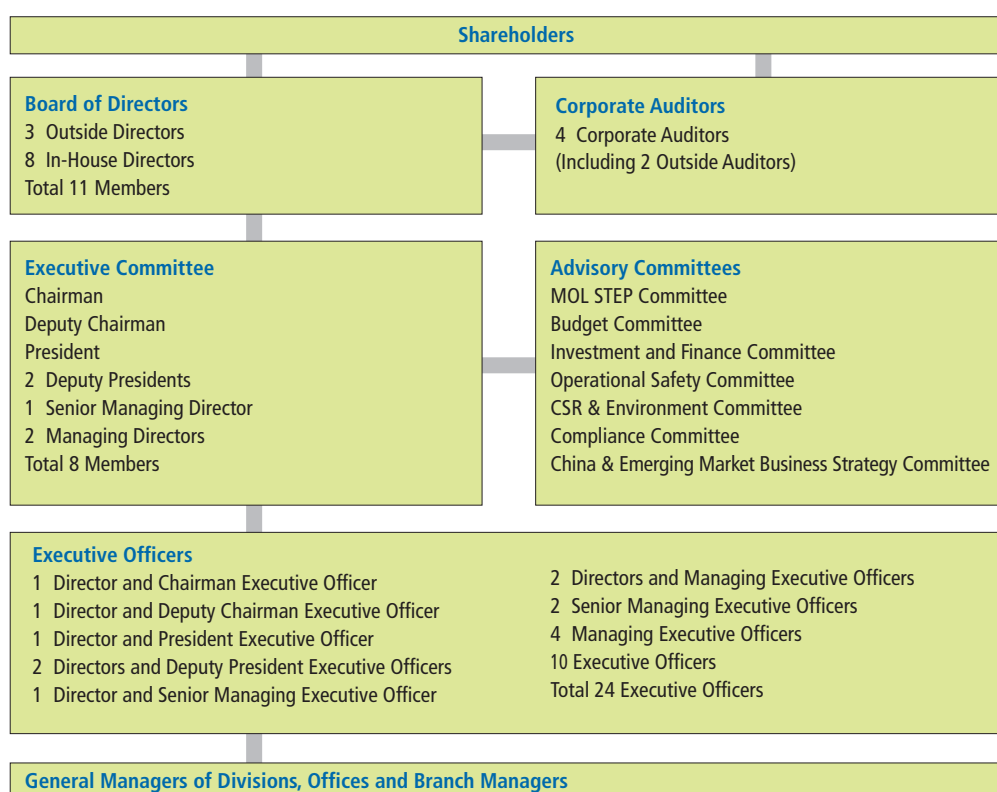
In another move to strengthen compliance programs, a Compliance Advisory Service Desk was established in November 2003, and new rules of conduct were established and posted on MOL's web site.

Rules of Conduct (summary)

All executives and employees are required to base their activities on the following standards.

1. Observe laws and regulations while at all times exercising due caution as a good administrator
2. Respect human rights and refuse to permit discrimination and harassment
3. Protect confidential information and respect intellectual property rights
4. Clearly separate official and personal conduct, avoid conflicts of interest
5. Oppose anti-social activities
6. Fulfillment of social obligations
7. Ensure safe operations and protect the environment
8. Build relationships with clients and contractors that conform to laws, regulations and social standards
9. Provision of guidance and supervision by individuals in management positions
10. Report improper behavior, provide advice and deal with individuals who violate rules

Organization



1. Compensation for directors and corporate auditors

Compensation for directors and corporate auditors in the fiscal year ended March 31, 2004 was as follows.

	(¥ million)
Compensation for internal directors	¥282
Compensation for external directors	20
Compensation for internal corporate auditors	38
Compensation for external corporate auditors	12
Total	¥352

	(Thousands of U.S.\$)
U.S.dollar translations	
Compensation for internal directors	\$2,668
Compensation for external directors	189
Compensation for internal corporate auditors	360
Compensation for external corporate auditors	113
Total	\$3,330

2. Compensation for independent public accountant

In the fiscal year ended March 31, 2004, compensation for the independent public accountant was as follows.

	(¥ million)
Compensation for auditing services	¥37
Compensation for other services	5
Total	¥42

	(Thousands of U.S.\$)
U.S.dollar translations	
Compensation for auditing services	\$350
Compensation for other services	47
Total	\$397

The Environment

Transporting cargo by sea, the core business of MOL, is a reliable and economical means of moving large volumes of cargo. Ships also offer the advantage of having a smaller environmental impact than other modes of transportation. Through ferry and domestic shipping subsidiaries in Japan, the group is contributing to a modal shift that will help prevent global warming. MOL is devoted to playing an active role in ensuring sustainable economic growth. Based on this stance, the group has voluntarily initiated numerous environmental programs in advance of the establishment of laws and regulations. The development and adoption of new technologies is another important aspect of the MOL's environmental activities.

Prevention of Air Pollution

MOL is making progress on a number of fronts. Most notable are the reduction of emissions of gasses that can cause global warming and acid rain, and reductions in the use of fluorocarbons and halogens, substances that damage the ozone layer.

Global Warming and Acid Rain

Carbon dioxide, a greenhouse gas that contributes to global warming, is emitted by ships as they burn fossil fuels. MOL exercises care to operate ships efficiently and takes many actions to cut these emissions by reducing fuel consumption. For example, hulls are cleaned frequently to reduce friction and ships are equipped with energy-efficient propellers. The company has also developed and adopted new ship designs that reduce wind resistance.

With regard to the acid rain issue, MOL keeps all ship engines in optimal condition to reduce NOx emissions. To cut emissions of SOx (sulphur oxides), ships use fuel with little sulphur content, allowing MOL to hold SOx emissions far below regulatory limits.

In all, global warming prevention measures have reduced CO₂ and NOx emissions by ships per unit-load by 2.9% between the 2001 and 2003 fiscal years, thus meeting MOL's target.

Ozone Depleting Substances

Fluorocarbons have been used for many years as a refrigerant for ships' refrigerators, on-board air conditioning systems, and reefer (refrigerated) containers. In 1992, MOL started using R-22 (HCFC), which has only a minimal environmental impact, as the refrigerant in reefer containers. In 1995, the company began a rapid shift to R-134a, a newly developed substance that does no damage to the ozone layer, thus further preventing air pollution. By February 2004, MOL completed the shift of all reefer containers that had used a conventional CFC refrigerant called R-12 to either R-134a or R-22.

Protection of the Marine Environment

MOL takes extensive measures to ensure safe navigation and prevent the occurrence of oil discharges and accidents, both of which represent serious

threats to the marine environment. In addition, care is exercised to reduce the impact on the oceans even during normal operation of vessels.

MOL strictly adheres to all marine pollution treaties as well as applicable laws and regulations worldwide. The company has stringent internal rules to prevent oil discharges and ensure the proper disposal of lubricating oil and bilge water (which includes oil and other pollutants). Other measures are in place to use environmentally responsible anti-fouling paint and manage ballast water properly.

Anti-Fouling Paints

MOL is shifting to tin-free (TF) paints to eliminate environmental problems that occur when tributyl tin is leached into seawater. By March 2004, approximately 85% of MOL's fleet was coated with TF paints. The complete conversion to TF coatings is to be completed by the end of 2005.

Ballast Water

Ballast water performs such vital roles as controlling a vessel's stability, increasing hull strength and adjusting a vessel's draft. However, the intake and discharge of this water can result in the movement of harmful marine organisms from one area of the world to another, disrupting a regional ecosystem and making this an issue of global concern. In February 2004, an international treaty took effect that establishes rules for the management of ballast water and sediments. The treaty requires that all ships be equipped by 2016 with ballast water treatment equipment conforming to certain standards. Vessels without this equipment will not be allowed to discharge ballast water. MOL is currently conducting an R&D program to create a treatment system that can meet these standards by making ballast water harmless.

Double-Hull Tankers

As the operator of the world's largest fleet of tankers, MOL is constantly working on employee training, emergency drills and other measures to upgrade the safety of navigation. To prevent an oil spill in the event of an accident, MOL is rapidly converting its tanker fleet to double-hull vessels. Currently, 70% of the company's tankers have a double-hull structure and MOL expects all its tankers will be double-hulled by March 2007.

Environmental Topics

Conformity of MOL EMS 21 With ISO 14001

The MOL EMS 21 environmental management system, which applies to the head office and vessels (excluding vessels chartered for not more than one year), received ISO 14001 certification in January 2003. Certification of conformity with this international standard for environmental management systems was granted by Det Norske Veritas. This certification was extended to the head office of Mitsui O.S.K. Passenger Line, Ltd. and the *Nippon Maru* in

September 2003 and to the head office and fleet of Shosen Mitsui Ferry Co., Ltd. in January 2004. Since fiscal 2002, the MOL Group has applied its own Group Environmental Target System to major group companies, currently covering 42 companies and four key overseas operating bases.

New Shipbuildings

The *M/V Courageous Ace*, which entered service in March 2003, illustrates MOL's commitment to reducing the environmental impact of its ships. To cut fuel consumption, this car carrier reduces wind resistance by incorporating an aerodynamically rounded and beveled bow and rounded surfaces as well as wind channels along the sides that help the ship maintain a straight course. These attributes earned the *M/V Courageous Ace* the prestigious Ship of the Year 2003 designation for all ships completed during fiscal 2003. MOL has since completed six more identical car carriers.

To reduce the risk of a fuel oil spill in the event of a grounding or collision, MOL and several partners developed a new fuel tank structure with two layers of protection. This new tank design was first used in the *M/V MOL Encore*, a containership that entered service in March 2003. The design will be incorporated in stages in all newly built containerships, car carriers and VLCCs.

Wind Power Generation Trials

MOL is currently studying the feasibility of using wind turbines to help power its vessels. Under the direction of Dr. Kazuichi Seki, a professor at Tokai University, a compact marine wind turbine that can function irrespective of wind direction was developed jointly with Nishishiba Electric Co., Ltd. The device was then placed on the *Taiho Maru*, a wood chip carrier, to begin tests in March 2004 to determine the practicality of this technology. MOL is exploring ways to use wind turbines as a supplementary power supply for crew quarters.

Fiscal 2003 Recognition of Environmental Activities From External Organizations

MOL Recognized as "Green Top Runner"

The corporate rating unit of the Sustainable Management Forum of Japan, a non-profit organization, selected MOL as one of 68 Japanese companies for recognition as a "Green Top Runner" in fiscal 2003. MOL was also chosen in fiscal 2002. This honor recognizes a company's ability to operate in a responsible manner in every aspect of its activities. Earning this title requires an effective environmental protection program as well as excellence in two other categories: the soundness of management, including the corporate philosophy, corporate governance and risk management systems, and the disclosure of information; and corporate citizenship, including the corporate culture, workplace safety and equal opportunity practices. Out of a total of 63 categories, MOL was rated excellent in 52, good in eight and satisfactory in three.

Nikkei Environmental Management Ranking

In the seventh annual environmental management survey of the *Nihon Keizai Shimbun Inc.*, which was announced in December 2003, MOL was ranked 19th overall among non-manufacturers and second in the transportation industry.

For more information concerning environmental and social activities of MOL, please read our latest Environmental and Social Report at <http://www.mol.co.jp/report.shtml>.



More information is available in Environmental Protection at: <http://www.mol.co.jp/>

FY2003 Environmental Accounting (from April 2003 to March 2004)

Environmental Costs			
(¥ million)			
Classifications	Contents	Investment amount	Expense amount
Environmental protection costs (costs for global environmental protection)	Switch to TF anti-fouling ship bottom paints	¥ 0	¥348
	Investments in ship equipment (PBCF) (exhaust gas economizer and turbo generator (T/G) system*)	1,021	127
(resource recycling costs)	Environmental measures in offices (installation of hot-air hand dryers)	0	6
Management costs	Preparation of environmental reports, personnel expenses, etc.	0	140
Research and development costs		0	19
Total		¥1,021	¥640

Economic Benefits Accompanying Environmental Protection Measures	
(¥ million)	
Effect	Monetary value
Reduction of fuel expenses (Benefits of sandblasting hulls prior to repainting, adoption of PBCF, and installation of exhaust gas economizer and T/G system)	¥1,443
Reduction in waste disposal expenses at offices (benefit of installation of hot-air hand dryers)	0
Total	¥1,443

Notes:

- The above table does not reflect MOL's investment of about ¥2.8 billion in FY2003 in refrigerated containers using refrigerants that do not adversely affect the ozone layer.
- Fiscal 2003 depreciation expenses for PBCF and exhaust gas economizer and T/G systems installed during FY2000 or afterward are used as the basis for environmental expenses associated with investments in vessel equipment.
- (*) The exhaust gas economizer and T/G (turbo generator) system converts thermal energy from the main engine's exhaust gas into steam, which drives a generator that supplies electricity. This system reduces consumption of fuel oil for generation of electricity, helping to reduce emissions of CO₂, NO_x and SO_x.