

## MOL's Philosophy, Management Reforms and Achievements

The MOL Group established the MOL Group Corporate Principles in March 2001. One of the pledges in our Corporate Principles states, "We will strive to maximize corporate value by always being creative, continually pursuing higher operating efficiency and promoting an open and visible management style that is guided by the highest ethical and social standards."

In order to realize the ideals set forth in the principles, MOL reformed its corporate governance structure, instituting management reforms that brought external directors onto the board, separated management and executive functions, and set standards for accountability, risk management and compliance. These reforms were implemented as follows:

<b>1997</b>	Outside auditors increased from one to two out of a total of four auditors
<b>1998</b>	George Hayashi (former APL chairman) invited to join the Board of Directors. (Became Director and Vice President in 1999, following revision of the Shipping Act)
<b>2000</b>	Management organization reform 1. Introduced a system of executive officers 2. Abolished the Managing Directors Committee and established an Executive Committee (reduced the membership from 21 to 10) 3. Reformed the Board of Directors (redefined its duties as the highest-ranking decision-making body and the supervision of business activities) and reduced membership from 28 to 12 4. Elected two external directors 5. Established the Corporate Visionary Meeting. Established the IR Office. Started holding the Annual General Shareholders' Meeting on a day relatively free of other shareholders' meetings
<b>2001</b>	Established the MOL Group Corporate Principles Added one more external director, increasing the number of external directors to three Established Compliance Policy and a Compliance Committee
<b>2002</b>	Second stage of management reforms Reforms reinforced the roles of the Board of Directors concerning the determination of basic strategies and monitoring risk management while providing for faster decision-making at the business execution level. 1. The Board of Directors was reorganized to carry out three important functions: (1) deliberation on issues requiring approval by the directors; (2) receipt of reports on business operations; and (3) deliberation on corporate strategy and vision. 2. Review and consolidation of issues submitted to the Board of Directors 3. Expanded jurisdiction of the Executive Committee regarding execution of business activities

### Actions During the Past Year

<b>May 2006</b>	In response to the revision of the Japanese Corporate Law, MOL's basic policy on the establishment of internal control systems was decided by a resolution of the Board of Directors.
<b>May 2006</b>	In accordance with the same resolution, the Corporate Auditor Office was established as a necessary supplementary measure. It is independent from business execution and assists the corporate auditors with their duties.
<b>June 2006</b>	In response to the enforcement of the Financial Instruments and Exchange Law, the Internal Control Planning Office was established in the Corporate Planning Division. This office will establish internal control systems for the purpose of ensuring the accuracy of financial reporting, in accordance with that law.
<b>Number of Meetings of Governance Bodies in Fiscal 2006</b>	The number of meetings during the fiscal year of the Board of Directors, Executive Committee and their sub-committees are shown in the Corporate Governance Organization chart on the opposite page.

The chart on the next page shows the structure of our corporate governance organization.

At MOL we believe that the essence of corporate governance lies not in its structure or organization, but on whether or not it functions effectively. In our case, the corporate governance structure described above functions as follows:

1. Major investment projects, such as the construction of new vessels, are submitted to the Board of Directors at the basic policy formulation stage. The 11 directors, including external directors, thoroughly evaluate and discuss the pros and cons of the projects and make decisions on their feasibility from many perspectives. Transferring the authority to implement projects within the scope of the basic policy to executive officers supervised by the president speeds decision making on individual projects. The separation of the management and execution functions was one important contribution to allowing the MOL Group to build up a fleet of the right type of vessels at the right time.
2. Another important responsibility of the Board of Directors is deliberation on corporate strategy and vision. At each meeting, the board focuses on a particular topic concerning management strategies, MOL's long-term vision or other subjects involving management.  
 These discussions provide an opportunity for lively debates that include the external directors and corporate auditors, thus helping to ensure that the perspective of shareholders is reflected in how MOL is managed.
3. The Board of Directors has 11 members, including three external directors who are completely independent and have no conflict of interest with MOL. There are four corporate auditors, who are responsible for performing statutory auditing functions, including two individuals who are completely independent and have no conflict of interest with MOL. At a time when the auditing systems of corporations are taking on added importance, it goes without saying that the independence of auditors from management and policy execution is assured. Our corporate auditors work closely with the Internal Audit Office and independent public accountants to assure effective corporate governance. They also work on strengthening corporate governance and compliance throughout the group.

Recognizing that MOL's corporate governance system is working efficiently, the Pension Fund Association included MOL in a portfolio of 43 companies\* comprising its Corporate Governance Fund, which was established in August 2004.

\*68 companies as of November 2006.

## Accountability

MOL believes that timely, full and fair disclosure of corporate and financial information is an important aspect of corporate governance. In addition to being accountable to shareholders and investors by providing information, the company makes every effort possible to reflect their opinions in management.

The distinguishing feature of our investor relations activities is that the president takes the lead in their implementation. In fiscal 2006, the president participated in the company's presentations of quarterly results and attended meetings with domestic and foreign investors. This reflects his conviction that it is the chief executive officer's responsibility to explain future corporate strategies to investors. The company is also aware of the need for full and fair disclosure to all investors, whether in Japan or overseas. At the same time its quarterly financial results in Japanese are released over the Tokyo Stock Exchange's TD-net, the company posts them to its website with an accompanying English translation. The Japanese and English drafts of presentation materials are also posted on the website. This information is e-mailed on the same day to foreign investors registered with the company.

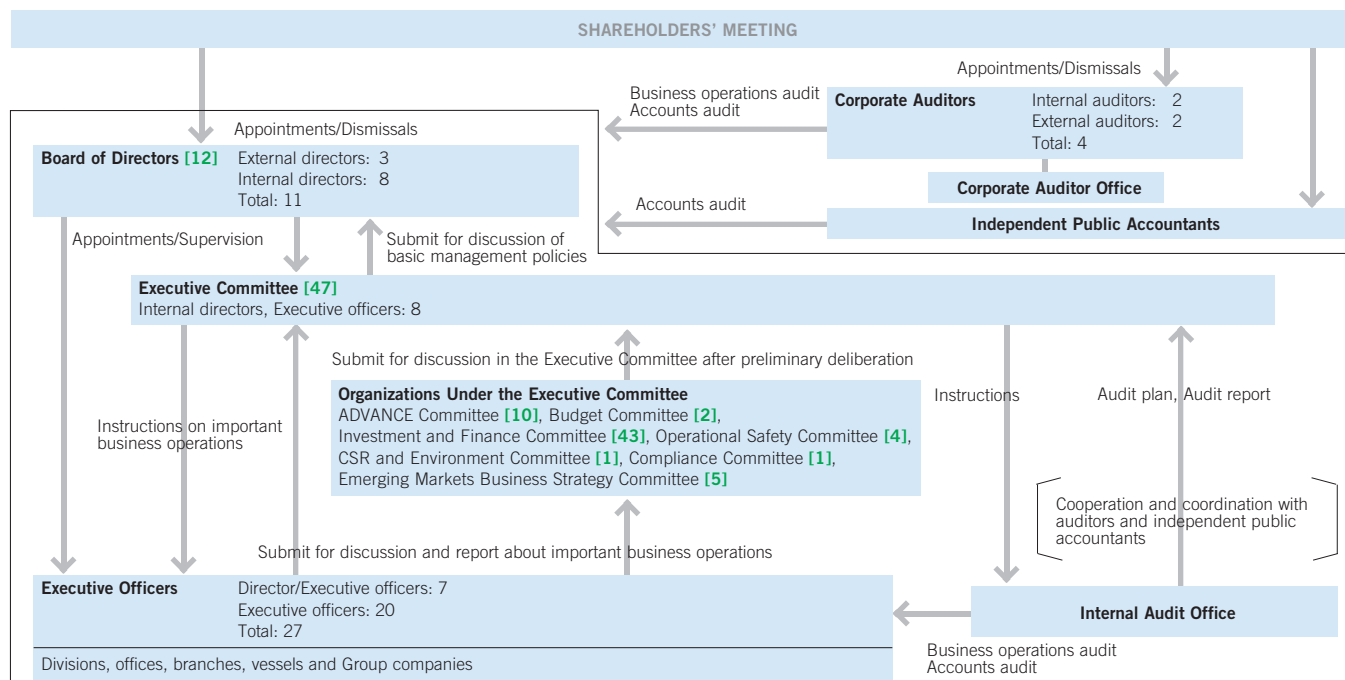
These types of activities have been highly evaluated, and in fiscal 2005, MOL received the Special IR Prime Business Award from the Japan Investor Relations Association (JIRA), which is presented to companies that have received the IR Prime Business Award three times. Also, in the Nikkei Annual Report Awards, which are judged by institutional investors, MOL's annual report has been highly evaluated for its aggressive disclosure, winning the top prize once and the excellence prize three times.

The responsibility to provide information is not limited to management and financial issues. Accordingly, in regard to the four major marine accidents that occurred in fiscal 2006, MOL disclosed the situation directly after each incident, providing a total of 18 press releases for the four accidents. These accidents were highly regrettable, and MOL believes that it has a responsibility to disclose the situation to everyone who is directly or indirectly affected. While we will continue to do our utmost to prevent accidents, we will also maintain a policy of disclosing information, even if it is negative.

## Director Compensation

The Board of Directors, including the external directors, determines compensation for the directors. Compensation paid to directors in fiscal 2006 is shown in the table below.

## Corporate Governance Organization (as of June 21, 2007)



Numbers in brackets show the number of meetings of the Board of Directors, Executive Committee and their sub-committees during fiscal 2006.

## Compensation for Directors

	(¥ millions)	(Thousands of U.S.\$)
Compensation for internal directors	¥677	\$5,735
Compensation for external directors	44	373
Compensation for internal corporate auditors	58	491
Compensation for external corporate auditors	13	110
<b>Total</b>	<b>¥793</b>	<b>\$6,717</b>

The company has granted stock options to all directors, executive officers, general managers of divisions and branch offices and managers in similar positions, as well as to presidents of consolidated subsidiaries, to motivate them to carry out operations for the benefit of shareholders.

## Compliance

As explained elsewhere, the company is aware of the crucial role that compliance plays in living up to its broad corporate social responsibilities, and that compliance with the letter of the law is at the core of this role.

We have strengthened our compliance system by establishing a Compliance Committee, headed by the deputy president, and formulating the Compliance Policy to assure strict adherence to rules and regulations and to take action against any violation. General managers of each division, department and branch office, are appointed as Compliance Officers for their respective organizations. They are responsible for enforcing compliance regulations and for reporting any violations to the Compliance Committee Office. The Internal Audit Office, a body that operates independently of the company's divisions, departments and branch offices, provides a counseling service and also acts as a hot line in the event it is difficult for a report to be filed with a Compliance Officer. The Internal Audit Office undertakes investigations and audits as necessary and reports steps taken to the Compliance Committee.

The company works to assure a proper relationship with its independent public accountants. Compensation paid to independent public accountants in fiscal 2006 is shown in the table below.

## Compensation for Independent Public Accountants

	(¥ millions)	(Thousands of U.S.\$)
Compensation for auditing services	¥60	\$508
Compensation for auditing-related services	8	68
Compensation for other services*	20	169
<b>Total</b>	<b>¥88</b>	<b>\$745</b>

\*Related to establishment of internal control system for the purpose of financial reporting

## Risk Management

The highest level of risks faced by the company includes accidents accompanying the operation of vessels, and accordingly, MOL believes that safe operation is the foundation of all of its operating activities. In accordance with that belief, we have formulated policies to consistently secure safe operation. Nonetheless, in fiscal 2006, four serious accidents occurred, and we have taken this matter very seriously. Based on a thorough reconsideration of our safety practices, we formulated measures to strengthen our safe operation management structure. A description of these measures and the process of their formulation is provided on pages 22 to 23 of this report. We believe that it is essential that we accurately identify the risks that we face and work to effectively control them.

In its core business of overseas shipping, the MOL Group is exposed to a variety of risks due to the nature of the business. The principal risks and our original risk management framework and methodology for managing them are outlined below.

### Freight Rate and Cargo Volume Fluctuations

In overseas shipping, the MOL Group's main business, there are constant fluctuations in international cargo volumes, the competitive environment, supply-demand dynamics for ships, and many other items. Negative trends in freight rates and cargo volumes have an adverse impact on the group's operating results. Accordingly, major investment projects, such as investments in vessels, are carefully discussed in the Investment and Finance Committee, which conducts preliminary deliberations for the Executive Committee. After risks are identified, analyzed, and evaluated, the matters are submitted to the Executive Committee. The MOL Group enters into medium- and long-term contracts and takes many other actions to reduce exposure to risks associated with changes in freight rates and cargo volumes.

### Exchange Rate Fluctuations

U.S. dollar-based overseas shipping revenue accounts for a large share of consolidated revenues, and many expenses are denominated in U.S. dollars and other foreign currencies. Since foreign currency revenues are greater than foreign currency expenses, an appreciation of the yen, especially relative to the U.S. dollar, has a detrimental effect on consolidated earnings. Accordingly, the Group is working to increase the share of U.S. dollar-denominated expenses while establishing currency hedges and taking other actions to minimize the negative effect of fluctuations in the value of the U.S. dollar. The group estimates that a change of one yen in the U.S. dollar-yen exchange rate raises or lowers consolidated ordinary income by a maximum of approximately ¥2.3 billion based on current operations. In accordance with the Market Risk Management Policy, currency hedges are used to minimize the risk of adverse effects on earnings and to achieve planned levels of earnings. The group does not conduct hedging transactions in excess of actual demand. Moreover, when currency hedges are implemented, approval and reporting are implemented in accordance with the same policy.

### Bunker Price Fluctuations

Procurement of fuel to operate vessels is vital to MOL's operations. Since the market price of bunker is generally linked to the price of crude oil, any increase in the price of crude oil can have a detrimental effect on earnings. In total, the vessels operated by the group consume about 6 million to 7 million tons of bunker each year. Approximately 60% of the risk involving price fluctuations is assumed by customers, charterers, and other external parties. Therefore, an increase of US\$1 per metric ton in the average annual price of bunker would lower consolidated ordinary income by a maximum of approximately ¥0.3 billion. Furthermore, the group uses fuel hedge transactions to even out and reduce the cost of procuring bunker. In accordance with the Market Risk Management Policy, fuel hedges are used to minimize the risk of adverse effects on earnings and to achieve planned levels of earnings. The group does not conduct hedging transactions in excess of actual demand. Moreover, when fuel hedges are implemented, approval and reporting are implemented in accordance with the same policy.

### Interest Rate Fluctuations

MOL depends mainly on funds procured from external sources to meet working capital and capital expenditure requirements. Funds procured at variable interest rates may be affected by interest rate fluctuations. Consequently, MOL is limiting exposure to interest rate risk by procuring funds through fixed-rate loans and using interest-rate swaps. As of March 31, 2007, yen-denominated and U.S. dollar denominated interest-bearing liabilities totaled ¥569.4 billion, and approximately 70% of this amount had fixed interest rates for the principal amount. As a result, an increase of one percentage point in interest rates would impact annual consolidated ordinary income by between ¥1 billion and ¥2 billion.

### Vessel Operations

With a fleet of more than 800 vessels in constant operation around the world, there is a risk of a marine accident. To prevent accidents, MOL, based on its Corporate Principle of "protecting the marine and global environment through safe navigation," has established the Operational Safety Committee, headed by the president. The committee defines basic policies and measures to thoroughly assure the safety of vessel operations. In December 2006, the group formulated measures to reinforce its safe operation management structure. The group has ensured thorough implementation of new safety standards and management systems, enhanced its crew education and training systems, and established new organizations to support safe operations. Furthermore, in the unlikely event of an accident, the group is ready to start up the Emergency Control Headquarters, led by the president, to prevent the spread of damage and to protect the environment. In preparation for such an event, we have compiled an emergency response manual and conduct periodic simulation training. Furthermore, even if a marine accident causes damage to MOL or a third party, the group has adequate insurance coverage to prevent a material impact on operating results.

## Global Strategy Based on Frank, Open Discussion —A Message from an Outside Director



Yukiharu Kodama  
*Director*

I was appointed as an outside director at MOL six years ago, at the start of the MOL next management plan in 2001.

At that time, building on its long history, MOL entered a period of extremely rapid growth. And under the subsequent MOL STEP plan, the company's operations continued to expand around the world. In this environment, MOL accurately forecasted economic trends, positioned itself to meet global changes in the marine transport industry, and implemented a strategy that has proven to be correct.

As an outside director, I attend meetings of the Board of Directors and the Budget Committee, and I believe that MOL is implementing a comprehensive and rigorous governance system. At the same time, the company maintains a very flexible and open corporate culture. At meetings, discussions are direct and frank. The chairman always solicits the opinions of others, and lively discussions are the norm, with the active participation of the younger directors. Decisions are made after issues have been thoroughly discussed.

Through these open-minded discussions at the board of directors' meetings, MOL's management has developed a shared understanding of the paradigm shift from a stage of U.S.-driven growth in the global economy to that of multipolar economic growth. Over the past six years, I have seen how that understanding has spread to the executive level and resulted in a range of successful projects.

It is highly regrettable that there were a series of accidents in 2006. As MOL has grown over the past six years, the company has faced a range of risks, including the risk of accidents such as those that occurred in the past year. However, under the leadership of the president, MOL has responded appropriately with the implementation of a wide range of system initiatives and countermeasures. I believe that the opinions of the outside directors and corporate auditors, who have experience in other industries, were also useful in the rapid development of innovative new measures to reinforce safe operations.

Looking ahead, as the new MOL ADVANCE plan gets under way, MOL is in a much stronger position than it was in the 1990s, and the company has a more solid operational foundation. MOL now has an important role to play as a leader in the marine transport industry. As MOL strives to achieve quality with enhanced growth, a key factor will be how the company handles globalization. Other key developments will be the internationalization of management standards and diversification of the shareholder base.

For example, today, most seafarers are from overseas countries, and we have to ensure that we listen carefully to the opinions and ideas of these employees. We must also take a wide-ranging viewpoint in the provision of a return to shareholders. For example, MOL has established a dividend payout ratio guideline of 20%. As a director, I think that this is a correct decision that is based on long-term perspectives on shareholders' value. On the other hand, with consideration for international standards and the opinions of the company's diverse range of stakeholders, we must continually verify our decisions and provide explanations to shareholders and investors, including the direction that the company will take over the medium to long term.