



Shinwa Kaiun Kaisha, Ltd.

CSR Report 2006

Safe Navigation and Environmental Protection
to Earn the Trust of Society

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CSR Report 2006

Editorial Policy

Shinwa Kaiun Kaisha, Ltd., has been issuing environmental reports annually since 2002, dealing primarily with environmental issues in the international marine transportation services. Beginning with this 2006 issue, the company will report on both corporate social responsibility and environmental issues in this new *CSR Report 2006*. The social report section separately addresses initiatives that affect the stakeholders that support the company's operations, including customers and suppliers, shareholders and investors, employees, and local communities. The environmental report section introduces the company's safety and environmental activities, with the existing PDCA cycle as the axis. Shinwa Kaiun's editorial policy is to strive to ensure that readers can determine from the information in this report whether the company is meeting its obligations to society.

Period Covered

April 1, 2005 through March 31, 2006.

Please note that some matters that fall outside this period are also reported.

Organizations Covered

Shinwa Kaiun Kaisha, Ltd., and its 25 related subsidiaries in the international marine transportation services (six domestic and 19 overseas). Matters relating to other companies may be reported with respective remarks.

Previous issue: Late June 2005.

Next issue: Scheduled for late June 2007

Other Shinwa Kaiun Publications

- ① Corporate Brochure (in Japanese, English, and Chinese)
- ② Annual and semi-annual business reports (in Japanese)
- ③ Annual and semi-annual financial reports (in Japanese)

Copies of these publications can be requested from the address below.

In addition to the publications listed under ① and ②, various information can be found on the Shinwa Kaiun website.

<http://www.shinwaship.co.jp/>

There is a questionnaire included with this report.

Please take a moment to give us your frank opinions so that we can improve the contents in future editions.

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Message from the President



President

覚 孝 彦

KAKEI Takahiko

Shinwa Kaiun established its Corporate Philosophy on October 27, 2000. The spirit underlying this philosophy is contained in the expression, "Shinwa Kaiun Kaisha, Ltd. will continue to be mindful of being a member of society and to be committed to the development of society through the introduction of transportation services that conform to evolving trends." The company strives through its business activities to win the trust of the public.

The first step toward winning the trust of society at large is to establish a favorable track record of an enterprise. This presumes the safe navigation of the company's vessels and effective environmental protection programs. Shinwa Kaiun transports crude oil from the Middle East, primarily to Japan, using VLCC with a capacity of 300,000 tons. As everyone knows, a single mishap involving such vessel can have disastrous consequences to human life, cargo and vessel, and also the resulting oil spill can cause great damage both to the seas and to adjoining coastal areas. Accordingly, previous editions of Shinwa Kaiun's Environmental Report focused primarily on the company's environmental protection activities and the safe navigation programs that are essential to sustain them.

However, we recognize that to create a favorable public appraisal of Shinwa Kaiun as a company, we must also disclose other aspects of Shinwa Kaiun's programs and activities that stakeholders feel are relevant. Shinwa Kaiun's Medium-Term Business Plan III (fiscal 2005 through fiscal 2007), which is just getting underway, designates "promotion of CSR activities" as a key management issue. The publication of this first issue of the company's CSR Report is intended to convey to each group of stakeholders the status of the activities that concern them.

On May 11, 2006, the company established CSR Committee, with myself as the chairman, which has the primary function of formulating fundamental policies to guide our CSR initiatives and then evaluating their success. This will serve as a starting line for CSR management, which is intended to increase Shinwa Kaiun's corporate value. Finally, it is Shinwa Kaiun's earnest hope that this CSR Report will be of assistance to you in understanding Shinwa Kaiun's business operations.

September 2006

Corporate Philosophy

Since its establishment, Shinwa Kaiun Kaisha, Ltd., has offered marine transportation services that are safe, superior, and suited to clients' needs in oceans around the globe.

Shinwa Kaiun Kaisha, Ltd., will continue to be mindful of being a member of society and to be committed to the development of society through the introduction of transportation services that conform to evolving trends. We hereby establish our corporate philosophy:

1. Social Missions

- 1) Respond to all needs of clients and remain dedicated to the development of society through provision of honest, credible, quality international marine transportation services.
- 2) Nurture enterprising minds strong enough to succeed in international competition, so securing reasonable profit, and place importance on group management to increase the value of the Shinwa Group as a whole, while striving to build a corporation that lives up to stockholders' expectations.

2. Safe Navigation and Conservation of the Global Environment

- 1) Strive to realize zero marine accidents and always prioritize safe navigation, playing a part in conserving the global environment, which is the common property of all mankind.
- 2) Continue the training process to improve the operational skills of crews on vessels and always endeavor to learn advanced technologies to cope with new demands.

3. Fair Corporate Activities

- 1) Comply with the laws of Japan and international society, and, as a member of society, undertake fair and healthy corporate activities under ethical social norms.
- 2) Strictly refuse any anti-social activities.

4. Transparent Information Disclosure

Disclose information on corporate activities in a timely and reasonable manner, actively communicating with society.

5. Democratic Management

Respect the fundamental human rights of employees, and establish and maintain democratic management.

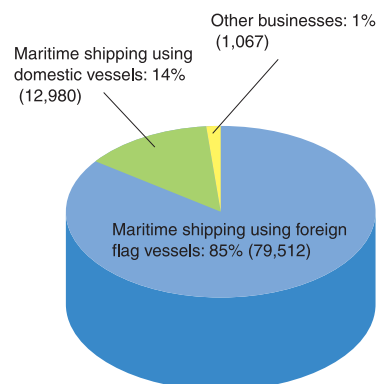
Established October 27, 2000

Corporate Data (As of March 31, 2006)

Company name:	Shinwa Kaiun Kaisha, Ltd.
Head office:	KDDI Otemachi Bldg., 14th and 15th Floors
Established:	8-1, Otemachi 1-Chome, Chiyoda-ku, Tokyo, Japan 100-8108
Principal lines of business:	April 1, 1950
Capital:	International marine transportation and related businesses
Stock market listings:	¥8,100,000,000
Subsidiaries and affiliates:	Tokyo (First Section), Osaka (First Section), Nagoya (First Section), Fukuoka
Number of employees:	Consolidated subsidiaries, 29
Shipping capacity:	Unconsolidated subsidiaries (accounted for by the equity method), 3
	458 (consolidated)
	153 ships (consolidated), 5,770,000 DWT

Revenues (Consolidated)

(Unit: ¥ million)



Social Report

Shinwa Kaiun's Approach to CSR

1. Corporate social responsibility is demonstrated by the way a company responds to the wishes and expectations of society.
2. In general, society wants a company to contribute through its core business (in the case of Shinwa Kaiun, international marine transportation services in support of international trade) to an improved quality of life, and to improvement in the operations of other enterprises and organizations. At the same time, society does not want to see a company become caught up in a single-minded drive for economic efficiency and the runaway pursuit of profit in its core business, which can lead to corporate activities that have an adverse social effect and result in damage to the company's stakeholders. There have been a number of scandals involving other companies in recent years, and these have served to remind Shinwa Kaiun that a company must serve as a responsible part of society like any other member of the public.
3. CSR management seeks deeper communication in order to win the understanding and trust of customers, suppliers, shareholders, employees, local communities, and other stakeholders for a company's activities, and to use various opinions and information in a continuous process of improvement, with the goal of increasing corporate value. This is the linchpin of Shinwa Kaiun's management philosophy.
4. What makes it possible for Shinwa Kaiun to realize these goals is the positioning of the compliance management structure (corporate activities based on conscious concern for regulatory compliance) as the nucleus of its sound corporate management structure. This presupposes competitiveness in corporate activities of a financial nature and the achievement of profitability, together with consideration of environmental concerns, and the forging of deeper ties with civil society. Shinwa Kaiun Kaisha, Ltd., is engaged in CSR activities that are balanced for its corporate scope and characteristics.

The various aspects of and reciprocal relationships among Shinwa Kaiun's CSR activities are shown below.



Initiatives for Customers and Suppliers

Providing marine transportation services that best meet the needs of the world's businesses. Contributing to human prosperity by collaborating with suppliers engaged in marine-related work.

Customer Satisfaction

Shinwa Kaiun is principally engaged in the tramp chartering service of raw materials, energy resources and products for industries. In this core business, the company meets the cargo transport needs of customers throughout the world with timely shipment in the most appropriate vessels, safely and at competitive rates.

To precisely grasp and respond to customer needs, it is necessary to rapidly compile information on vessels, freight, and shipping routes. Shinwa Kaiun has been compiling international information for many years from bases in London, New York, and Tokyo where many shipbrokers are located. In addition, the company pays direct visits to domestic and overseas customers. Shinwa Kaiun regards this as the foundation of relationships of trust, and continues in this business style even in the Internet era.

Whether it is long-term projects or a spot voyage, the company can offer an ideal plan, using the measures described below related to safe navigation and cargo protection. Shinwa Kaiun's goal is to increase opportunities for its customers worldwide to do business with "a first-class tramper."

Ensuring Safety and Quality in Transport Services

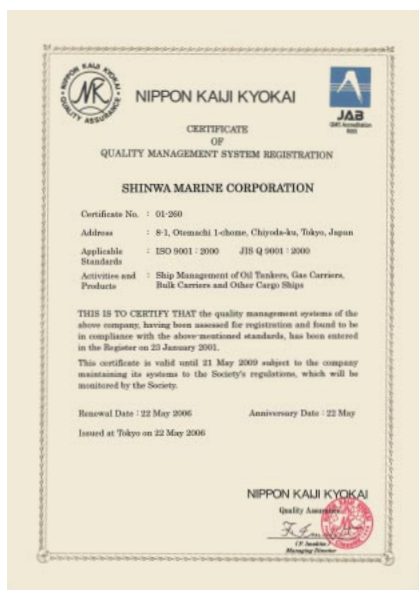
Shinwa Kaiun's mission is to supply customers with a reliable quality of service. Shinwa Marine Corporation has established a quality management system, and has received ISO 9001:2000 certificate of ship management operations.

Ship Inspections for Safety and Quality

The Shinwa Kaiun Group conducts its own inspections to ensure that there are no problems with the navigation of any of the vessels it offers to customers. (See page 14 of the environmental report section, "Ship Inspections.")

Risk Management System and Safety Training

Through the institution of regulations regarding disasters at sea and other emergency circumstances, and training and exercises based on these regulations, the company is implementing a risk-management system that allows it to work together with customers, suppliers, ship's agents, and concerned authorities to prevent accidents and reduce damage. In addition, the company conducts safety training and exercises to prepare for potential terrorist attacks overseas, to improve ship to shore communications, and to clarify the roles of the various departments.



ISO 9001:2000 certification.



Simulated press conference during Emergency Response Exercise.



Loading heavy industrial equipment very carefully.



Bank Meeting.

Safe Transport of Cargoes

Among the Shinwa Kaiun Group's original services is supervision of cargoes loading with appropriate stowage by experienced superintendent who used to be ship's masters. This service, which deals primarily with steel products, is conducted by the Shinwa Kaiun subsidiary, International Marine Consulting Co., Ltd. Using the domestic and overseas port information and knowledge of cargo characteristics accumulated over long years of experience and performance, IMC achieves the safe transport of cargoes through consistent supervision of loading areas. In the rare instance of damage to cargoes, IMC analyzes and clarifies the causes, and takes steps to prevent a recurrence.

Bank Meeting

Shinwa Kaiun has since 2002 invited representatives of the banks that have financed the company to annual "bank meetings" in order to disclose the status of its operations and its business plan. The 2005 meeting was attended not only by banks which have a long relationship with the company, but also by the financial institutions which were new lenders to the company in Japan's first syndicated loan for lump-sum procurement of funding for three newly built vessels, for a total of 46 representatives from 23 financial institutions attending.

Head Office Moves to Otemachi

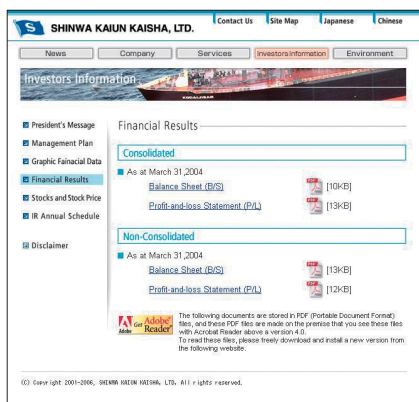
To improve customer service and convenience, maintain closer ties with suppliers, and upgrade information-gathering capabilities, in August 2005 Shinwa Kaiun relocated its head office to Otemachi, a major business center located in Tokyo's Chiyoda Ward. This move was well regarded by the company's customers and suppliers, and Shinwa Kaiun believes this will facilitate further fine-tuning of its conscientious services, which depend on extensive legwork.



The KDDI Otemachi Building, new home of Shinwa Kaiun's head office.

Initiatives for Shareholders and Investors

To ensure sustainable growth for the company and society, Shinwa Kaiun is committed to appropriate disclosure of information to shareholders and investors, and to strengthening corporate governance.



Investor information on the company's website.



Press conference on the progress of the Medium-term Business Plan III.

Medium-Term Business Plan III

Fiscal year 2005 is the first year of Shinwa Kaiun's third business plan, a three-year plan with the goal of "enhancement of the operating base for the next stage." The plan sets out six issues that the Shinwa Kaiun Group as a whole must address to achieve this goal. These are strengthening and expanding the business infrastructure, increasing business efficiency and cost competitiveness, improving financial standing and continuing to pay stable dividends, ensuring safe navigation and promoting environmental conservation, promotion of CSR activities, and securing and educating qualified staff. Through these measures, the company seeks to become "a company with a strong presence" and "a trusted company," enjoying the confidence of shareholders, customers, suppliers, financial institutions, and other stakeholders.

Timely Disclosure of Company Information

Shinwa Kaiun endeavors to ensure the timely and appropriate release of investor-relations information through timely disclosure to shareholders and investors of important corporate information that can have an effect on result on the websites of the Tokyo, Osaka, Nagoya, and Fukuoka stock exchanges, in the mass media, and on Shinwa Kaiun's website.

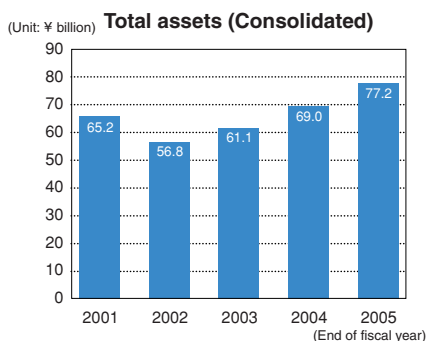
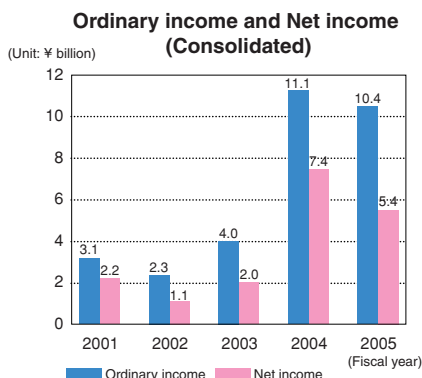
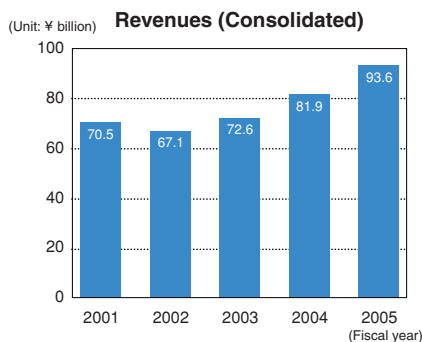
In addition, the company's Investor Relations Committee, which is composed of the directors in charge of the General Affairs Group, Finance and Accounting Group, and Project Group as well as the leaders of those groups, has formulated a public relations policy governing the release of information intended for investors. This committee is charged with responding to media coverage, holding press conferences, and posting articles on the company's website.

Interactive Communication

Shinwa Kaiun works to provide information to domestic and overseas institutional investors. As far as possible, the company holds individual briefings with securities analysts upon their request, answering their questions and explaining the status of operations. In accordance with the policy established by the Investor Relations Committee, at least one director and one administrative officer participate in these briefings.

Returning Profit to Shareholders

Shinwa Kaiun endeavors to maintain stable dividends of ¥6 per share, and, based on a comprehensive evaluation of performance and income forecasts, together with other indicators, declares extra dividends whenever possible. As in fiscal year 2004, a extra dividend of ¥2 was paid in fiscal year 2005. Added to the ordinary dividend of ¥6, this brought total dividends to ¥8 for the fiscal year. The company also introduced an interim dividend system in fiscal year 2005. Shinwa Kaiun will work to further increase returns to shareholders.

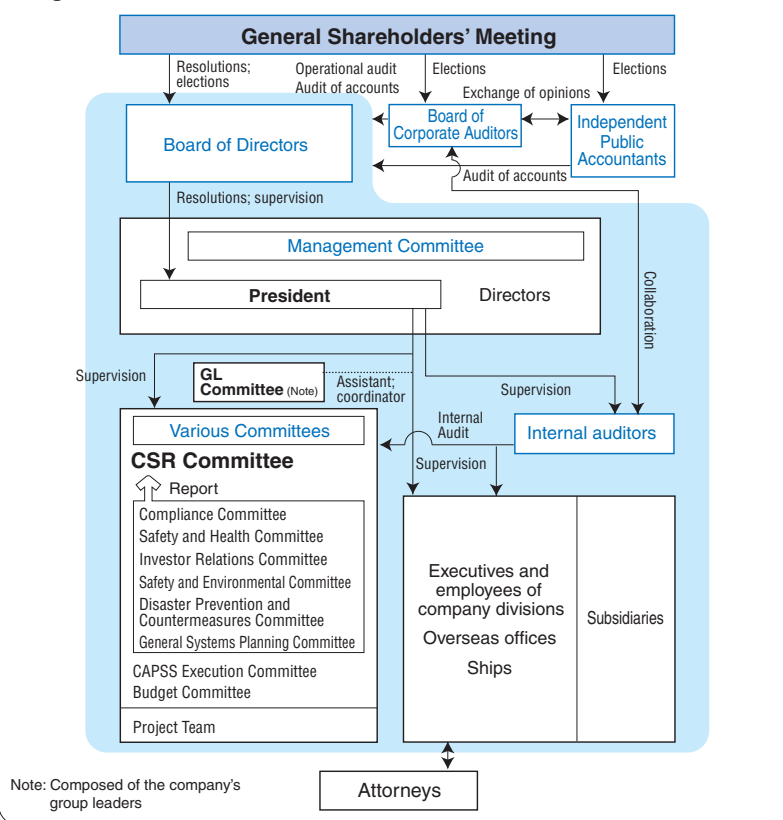


Corporate Governance

Shinwa Kaiun employs the “company with corporate auditors” system, and also strives to improve management efficiency by holding the board of directors to 15 or fewer directors, each with considerable expertise in Shinwa Kaiun’s business. The company has four corporate auditors, of whom three are outside auditors. Each corporate auditor attends meetings of the Board of Directors, the Management Committee, the Compliance Committee, and other committees, and audits the status of operations. In addition, at the order of the president, two Internal auditors conduct internal audits of the conduct of operations, in cooperation with the corporate auditors enhancing the effectiveness of corporate governance.

Organization Chart

As of May 11, 2006



Compliance and the company's Internal Controls System

Shinwa Kaiun has established standards of conduct that articulate the practical implications of its corporate philosophy. In addition, to advance compliance, the company has established a Compliance Committee chaired by the director in charge of the General Affairs Group. This committee's mandate is to ensure that each director, corporate auditor and employee complies with legal statutes, company regulations, and ethical standards in the execution of operations, and to heighten awareness of these issues.

In accordance with Japan's new Company Law and its Ordinance for Enforcement of the Company Law of May 2006, the Board of Directors has established Basic Internal Controls Policies, and the company has been working to implement the required systems.

Shinwa Kaiun's human resources are its most important assets, and this makes it a company that employees are proud to work for.

Basic Employment Policy

There is a fundamental assumption that core staff, both administrative and technical, are permanent employees. In the spirit of Japan's Law on Securing Equal Opportunity and Treatment between Men and Women in Employment, hiring is based only on the academic achievement, capabilities, and potential of each individual. The growth of employees is fostered in the course of their duties and by the company's training system. We also strive to foster the capabilities of our non-Japanese crew and staff through expanded education and training programs that qualify them to become captains, chief engineers, and to occupy other senior positions. It is not unusual to find non-Japanese captains and chief engineers that have served on ships managed by Shinwa Kaiun for more than ten years.

The employment conditions outlined below apply not only to the employees of Shinwa Kaiun Kaisha, Ltd., but also to the employees of all the companies of the Shinwa Kaiun Group.



Shinwa (U.S.A.) Inc. staff and overseas trainees.

Personnel System

In fiscal 2001 Shinwa Kaiun introduced a personnel system, applicable to all employees, under which promotion and advancement depend upon the individual's ability, motivation, and performance. Since its introduction, the company has fine-tuned the system based on the opinions of employees. This system not only ensures fair treatment, but also has the primary aim of meeting each individual at his or her current level of competence and then further developing his or her abilities.

There are three career tracks for permanent employees: main career track, preparatory career track, and general employee. The path to advancement can open depending on the individual's motivation and ability. Employees can at their own initiative apply for a changeover to another career path.

There is also a specialist career track for employees possessing specialized knowledge and working in technical fields. Further, in 2006 Shinwa Kaiun and its group companies initiated a unified system for the re-employment of elderly workers, which allows the Group to benefit from the wealth of experience these older workers bring.

Training System

To develop new employees into professionals in the field of ocean-going shipping, Shinwa Kaiun provides training tailored for career track and rank. On-the-job training is the core of this system, as employees improve their skills and knowledge through trial and error. The company also offers training for new employees, training in shipping practice, languages (principally English), personal computers, domestic agency matters, boarding, and overseas administrative requirements, as well as stratified training and training for specific jobs.

The company's drive to staff its technical positions with a small number of the very best technicians is advancing, and they stand in a mentor relationship with regard to non-Japanese crew members on the ships. In accordance with the company's plan for quickly training young crew, they provide exacting guidance and education, which allows new employees to qualify as chief officer or first engineer three to four years after joining the company.

Non-Japanese crew members receive training in the country where they were hired (principally the Republic of the Philippines), in addition to which they undergo pre-boating seminar in Tokyo. Other advancement support programs include classroom training, assistance in obtaining advanced ship officer certifications, and OJT, ensuring the safe navigation of the ships through the fostering of highly skilled human resources.



Shipboard training for new employees.



Using self-contained breathing apparatus.



Cutter crews racing.



Christmas party in Manila.

Employee Health and Safety

All employees receive annual health checkups, and the company bears the expense of comprehensive physical examinations. In addition, an industrial physician and an administrator with nursing qualification operate the Industrial Hygiene Office at the Head Office, with officers consulting and guiding on physical and mental health. Safety is the top priority at sea, and the company has established and is thoroughly implementing a safety management system. In the unlikely event of an accident to employees, compensations larger than required by the Japanese law are in place.

Work-Life Balance

Shinwa Kaiun strives to create congenial work environments so that its employees can maintain a balance between their work and home life. The company offers safe motherhood, maternity leave, family-care leave, and other benefits more generously than the law requires, and allows employees to take sabbaticals at age forty and again at fifty. The company provides dormitories, company housing, an employee savings system, a housing loan interest supplementation system, and various other benefit programs, in addition to which it helps fund employee groups that engage in cultural activities (including sports).

Filipino Officers, Crew and Their Families

At Shinwa Kaiun's affiliate in the Philippines, which hires officers, crew for the company's ships, the families of crew can obtain consultation and advice on a number of subjects. In addition, an annual Christmas party is held for these families, and is attended by representatives from Shinwa Kaiun, all of which helps forge bonds of friendship. Some of Shinwa Kaiun employees also participate in every seminar and social gathering held for these officers and crew.

Relations with Labor Unions

Shinwa Kaiun's shoreside employees belong to the Shinwa Kaiun Labor Union, and its seagoing employees (technicians) belong to the All Japan Seamen's Union. Shinwa Kaiun enjoys relationships of amity and trust with both of these unions.

Interview with main career track staff about shipboard training



Ore/Bulk Carrier Team
Ore/Bulk Carrier Group
Chiharu Murata

The anticipated shipboard training became a reality in my third year after joining the company, held this February during an eleven-day voyage from Nagoya to Port Wolcott on the west coast of Australia aboard the Kunisaki Maru, an ore bulk carrier. Ships at sea have a strong "man's world" image, but I didn't feel that very much. However, many people connected with the training were concerned with the smallest details of my well-being with regard to shipboard life and the training methodology. Thanks to everyone's kindness, I was able to experience a number of shipboard functions without incident, including standing watch and chipping paint.

When a captain takes over a ship, he receives sailing instructions from the sales departments. As a result, before the training, I had the impression that I was in a position to give orders to the captain, and I may have sometimes demanded unreasonable time frames just to suit my own work convenience. Thanks to the training, I can now call to mind shipboard conditions and the duties of all the crewmembers, and am able to communicate reasonable conditions.

When cargo owners have a question about a ship at sea, they say to me, "Ms. Murata, since you've experienced being onboard a ship...." Now, I can immediately answer their questions, which makes me think that I have increased my resources and grown just a bit.

(Note: The ship on the cover of this report is the Kunisaki Maru.)

There are certain things that Shinwa Kaiun, as a marine transport enterprise, is uniquely able to do. We believe these things contribute to the well being of local communities.



A fire drill at the KDDI Otemachi Building.



Philippine Merchant Marine Academy scholarship recipients.



Pennant received as an award under the AMVER system.

Support for Disaster Recovery Operations

In the course of its international marine transport services, Shinwa Kaiun has developed deep ties to a number of regions overseas. As a result, the company actually provides support for disaster recovery not only in Japan, but also around the world. Last fiscal year, the company donated funds to recovery efforts after Hurricane Katrina hit the southeast United States in August 2005, and to assist in recovery from the February 2006 landslides in Leyte, Republic of the Philippines.

Joint Regional Disaster Prevention Programs

The companies of the Shinwa Kaiun Group, headquartered in the KDDI Otemachi Building (Chiyoda-ku, Tokyo), belong to the joint disaster prevention council of the building, through which they are actively engaged in fire drills and other joint regional disaster prevention programs. In addition, an in-house security and fire brigade has been organized within the Shinwa Kaiun Group, and it promotes crime and disaster prevention inspections and education at the company's offices for both executives and employees.

Support for Culture

Through the Nippon Steel Arts Foundation, Shinwa Kaiun helps fund musical programs at the Kioi Hall, contributing to Japan's cultural development.

Scholarship System

The company provides scholarships to students at the Philippine Merchant Marine Academy (PMMA). The future of marine transport depends on these young people.

Rescue

Under the U.S. search and rescue system, when a question of rescue arises, the closest vessel is requested to perform rescue. For this reason, vessels under the management of Shinwa Kaiun participate in AMVER, a computer-based, voluntary global ship reporting system used worldwide by search and rescue authorities to arrange for assistance to persons in distress at sea. In fiscal 2005, three of the company's ships received citations for meritorious action.

Japan has JASREP, which is the same sort of system, and all vessels under the management of Shinwa Kaiun participate in that system as well.

Reporting of Meteorological Information

Weather charts published by the Japan Meteorological Agency and other organizations draw on data from surface, satellite, and shipboard observation. Correct information on weather and sea conditions is indispensable to safe navigation. Vessels under the management of Shinwa Kaiun are active in reporting meteorological information.

Environmental Report

Shinwa Kaiun Group Environmental Statute

Basic Ideology

Shinwa Kaiun Kaisha, Ltd. and its Group companies will strive to maintain a healthy global environment — a common property of all mankind — as a marine transportation corporate group providing services in worldwide waters.





















Environmental Policies

1. We recognize that a marine accident can cause huge damage to the environment, for example, marine pollution from an oil spill. We will strive to realize zero-marine perils and always remember safe navigation.
2. We will not only comply with laws and regulations concerning the environment, but also will establish our own criteria when necessary, and strive to reduce the burden on the environment.
3. We will establish “Environmental Objective” and “Target” considering the environmental burden impact brought about by marine transportation services and improve environmental preservation activities continually.
4. We will perform energy-saving navigation and develop the technologies for improving it.
5. We will choose environmentally sound supplies when acquiring vessels, instruments, materials, and other products.
6. We will promote resource saving in all corporate activities, including those in land offices, as well as reducing the amount of waste generated by all facilities.
7. We will raise employees’ awareness of environmental issues through environmental education and in-house promotional activities.
8. We will make public announcement of environmental preservation activities periodically.

Established on October 26, 2001

Revised on December 17, 2004

Fiscal 2005 Environmental Management Programs and Fiscal 2006 Implementation

PLAN ⇒			DO ⇒	CHECK ⇒	
Environmental Policies	Environmental Objectives	Target for 2005	Contents of Activities	Verification Results	Achieved
Promotion of Safe operation	Preservation of Marine Environment		<ul style="list-style-type: none">• Adoption of double-hull construction for newly built VLCC• Adoption of air-seal type stern tube sealing device for newly built ships	Adopted in newly built tankers	
		Zero accidental oil spill from ships (continuous for 5 years)	<ul style="list-style-type: none">• Compliance with procedure for receiving/transferring FO and LO• Compliance with regulation for preventing oil pollution	Continuing zero oil-spill effort	
			<ul style="list-style-type: none">• Recommendation to install oil absorbing filter on deck• Instruction of prevention of the oil spill accident	Continuing zero oil-spill effort	
		Complete exchange of ballast water in the ocean	<ul style="list-style-type: none">• Compliance with procedure for changing ballast water	Achieved 100% in all bulk carriers For tankers, exchanged in accordance with the MARPOL Convention and local rules	
		Adoption of TBT free paint as bottom paint (95%)	<ul style="list-style-type: none">• Adoption of TBT free paint as bottom paint for dry-docks and newly built ships	Achieved 95% use of TBT free paint	
Natural Resource Saving and Reduction of Waste	Reduction of Consumption of Natural Resources	10% reduction of fuel oil consumption per unit load over fiscal 1990	<ul style="list-style-type: none">• Improving propulsion efficiency by bottom cleaning and propeller polishing	Carried out on dry-docks	
			<ul style="list-style-type: none">• Preparing of effective operation plan• Increasing loading cargo quantity• Instruction of saving fuel oil consumption in port	Achieved reduction of 15.48% in comparison with fiscal 1990	
		Selection of consumption saving equipment of M/E cylinder oil lubricator	<ul style="list-style-type: none">• Adoption of improvement machineries on newly built ships	Adopted on newly built bulk carriers and tankers	
		Reduction of consumption of papers	<ul style="list-style-type: none">• Advance of electronic library	Promoting use of electronic library	
			<ul style="list-style-type: none">• Promoting paperless operations by introducing onboard vessel-management software	Completed implementation of onboard vessel-management software (Establishment of numerical targets for next fiscal year under consideration)	
		1% reduction of annual power consumption in the office over the previous year	<ul style="list-style-type: none">• Notice on in-house electronic bulletin board• Saving electricity of unnecessary lighting	Use of electricity increased substantially following Head Office move (target not met)	
	Reduction of Waste Generation	Advance of landing shipboard waste (1% increase over the previous year)	<ul style="list-style-type: none">• Complete segregated collection and retention• Management of quantity of shipboard wastes and landing	Met goal of increasing average discharge volume per ship from 4.9M³+80Kg in fiscal 2004 to 7.0M³+277Kg in fiscal 2005	
		Complete segregation of wastes generated in the office (100%)	<ul style="list-style-type: none">• Complete segregation of recyclables, combustibles and noncombustible	Thorough segregation of waste generated in offices	
	Conservation of Air Quality	Reduction of Harmful Air Pollutants	10% reduction of NOx emission per unit load over fiscal 1990	<ul style="list-style-type: none">• Adoption of improvement machineries on newly built ships	Because the method of measuring NOx emissions has not been established, no numerical value for emissions volume can be presented; however, based on a comparison of fuel usage, the company's target has been met (reduction of 15.5% in comparison with fiscal 1990)
10% reduction of CO2 emission per unit load over fiscal 1990			Based on a comparison of fuel usage, the company's target for reduction in CO2 emissions has been met (reduction of 15.5% in comparison with fiscal 1990)		
Supply of low-sulfur fuel (sulfur below 4.5%)			<ul style="list-style-type: none">• Selection and analysis of fuel oil to be purchased	For the first half of fiscal 2005, a figure of 3.11% was measured (target met) (the MARPOL Convention requires 4.5% or less)	
Reduction of dioxin			<ul style="list-style-type: none">• Adoption of incinerators of IMO-approved type on newly built ships	Adopted on newly built bulk carriers and tankers	
Adoption of alternative CFC refrigeration equipment for newly built ships (100%)			<ul style="list-style-type: none">• Adoption of alternative CFC (R404a) refrigeration equipment and air conditioning systems for newly built ships	Adopted on newly built bulk carriers and tankers	
Terminate halon extinguishant for newly built ships			<ul style="list-style-type: none">• Adoption of air foam liquid extinguisher for newly built ships	Adopted on newly built bulk carriers and tankers	
Environmental Education	Promoting an Environmental Mind	Education of shore employees	<ul style="list-style-type: none">• Practice in-house seminar	Implemented in May 2005	
		Education of crew	<ul style="list-style-type: none">• Practice pre-boarding seminar• Practice training in company overseas• Practice shipboard education for crew	100% of crew trained prior to embarkation Implemented in every ship managed by Shinwa Marine	

 : Achieved

 : Partly achieved

 : Need review

[illegible]

PLAN ⇒	DO ⇒	
Target for 2006	Contents of Activities	Term
Zero accidental oil spill from ships (continuous for 6 years)		
	<ul style="list-style-type: none">● Compliance with procedure for receiving/transferring FO and LO● Compliance with regulation for preventing oil pollution	Full year
	<ul style="list-style-type: none">● Recommendation of install oil absorbing filter on deck● Instruction of prevention of the oil spill accident	Full year
Complete exchange of ballast water in the ocean	<ul style="list-style-type: none">● Set forth in sailing instructions● Compliance with procedure for changing ballast water	Full year
Adoption of TBT free paint as bottom paint (95%)	<ul style="list-style-type: none">● Adoption of TBT free paint as bottom paint for dry-docks and newly built ships	October February March
10% reduction of fuel oil consumption per unit load over fiscal 1990	<ul style="list-style-type: none">● Improving propulsion efficiency by bottom cleaning and propeller polishing	Full year
	<ul style="list-style-type: none">● Preparing of effective operation plan● Increasing of loading cargo quantity● Instruction of saving fuel oil consumption in port	Full year
Selection of consumption saving equipment of M/E cylinder oil lubricator	<ul style="list-style-type: none">● Adoption of improvement machineries on existing ships	May
Reduction of consumption of papers	<ul style="list-style-type: none">● Advance of electronic library	Full year
	<ul style="list-style-type: none">● Use Excel software to make AB-logs● Promoting paperless operations by introducing onboard vessel-management software	Full year
1% reduction of annual power consumption in the office over the previous year	<ul style="list-style-type: none">● Notice on in-house electronic bulletin board● Saving electricity of unnecessary lighting	Full year
Advance of landing shipboard waste (1% increase over the previous year)	<ul style="list-style-type: none">● Recovery and reuse of the supplied lashing materials● Complete segregated collection and retention● Management of quantity of shipboard wastes and landing	Full year
Complete segregation of wastes generated in the office (100%)	<ul style="list-style-type: none">● Complete segregation of recyclables, combustibles and noncombustible	Full year
10% reduction of NOx emission per unit load over fiscal 1990	<ul style="list-style-type: none">● Adoption of improvement machineries on newly built ships	January
10% reduction of CO2 emission per unit load over fiscal 1990		January
Supply of low-sulfur fuel (sulfur below 4.5%)	<ul style="list-style-type: none">● Selection and analysis of fuel oil to be purchased	Full year
Reduction of dioxin	<ul style="list-style-type: none">● Adoption of incinerators of IMO-approved type on newly built ships	January
Adoption of alternative CFC refrigeration equipment for newly built ships (100%)	<ul style="list-style-type: none">● Adoption of alternative CFC (R404a) refrigeration equipment and air conditioning systems for newly built ships	January
Education of shore employees	<ul style="list-style-type: none">● Practice in-house seminar	June
Education of crew	<ul style="list-style-type: none">● Practice pre-boarding seminar● Practice training in company overseas● Practice shipboard education for crew	Full year

Shinwa Kaiun is energetically engaged in numerous activities designed to ensure safe navigation and environmental protection, including management of human resources and organizations, the implementation of systems, and improvements to hull construction.

Maintenance and Improvement of Safety Management System

For Shinwa Kaiun, safe operation is one of the most important issues bearing on protection of the environment, and of the marine environment in particular. All of the ships owned by the company are managed by Shinwa Marine Corp., an ocean ship management company with advanced marine experts. It established and execute the safety management system (SMS), and make continuous efforts to maintain and improve it, in order to ensure safety at sea, prevent fatal accidents, and avoid environmental damage, especially to the ocean, as well as damage to property.

Ship Inspections

One of the programs Shinwa Kaiun uses to ensure the safe navigation of the ships it operates is the annual inspection of each vessel owned or operated by the company, based on its own checklist.

The superintendent of the ship management group pays a visit to all the ships managed by Shinwa Marine Corp. every six months to make a condition check, provide guidance to the crew, and confirm that the ship maintenance plan is being carried out. These are in addition to the annual check for quality control and safety management by the marine group.

We also carry out inspections of time-chartered ships in accordance with our standard checklist to maintain the safety level of our whole fleet in cooperation with the ship owners and the ship management company.



Emergency response drill



Security countermeasures drill

Above: Simulated suspicious materials smuggled onto a ship

Below: Firefighting following a detonation

Safety and Environmental Committee

For promotion of safe navigation and environmental conservation, the Safety & Environmental Committee is assembled on a regular basis, with the president serving as chairman (See the diagram on page 7 and the organization chart on page 20). The committee discusses issues of safe navigation management from various perspectives, including research and analysis of marine perils, planning of prevention measures, establishment of risk management systems, and seamen's education and training.

Risk Management

We clarified our measures and systems to prevent and respond to marine perils, and created manuals for crew actions.

We also hold exercises regularly to practice responding to emergencies, assuming the occurrence of a marine accident, and examine the effectiveness of our systems.

Training in countermeasures against terrorist activity is also conducted. Drills involving the company and its ships had been conducted using a scenario in which explosives have been smuggled onto a ship in an overseas port.

Near-miss Reporting Campaigns (Prevention of Human Error)

Heinrich's law resulted from studies on industrial disasters, which says that behind an outbreak of a serious accident, there are 29 small problems and 300 near-misses (i.e. incidents on the brink of an accident), and a large number of unrecognized states and acts preceding those.

The objective of the near-miss reporting campaign is to ensure safety by collecting near-miss information from each ship, analyzing it to identify risk factors and trends, and then take measures for safety. We consider it possible to reduce the probability of accidents if we make a multilateral analysis, looking at the direct cause, and feed the optimal safety measures to our fleet.



Classroom training in Manila.

Seamen's Education and Training

It is generally thought that 80% of marine perils are caused by human error. Seamen's education and training are therefore extremely important to secure safe navigation.

Primarily managed by the Seamen's Training Team, Shinwa Kaiun Kaisha Group provides onboard training sessions, including lectures and on-the-job training, along the lines of its proprietary action plan. In the spring of 2001, we launched our Early Promotion Plan for Junior Officers, which is intended to address the shortage of senior officer that's expected in the near future.

With the increase of seamen from other countries on our group ships, securing and educating competent senior personnel becomes more crucial to ensure safe navigation. The Shinwa Kaiun Kaisha Group continuously researches and examines issues related to employment and education of non-Japanese personnel, with a long-range perspective.

Interview with a captain



Captain
Keiji Yamaoka

Regarding Safe Navigation and Environmental Protection

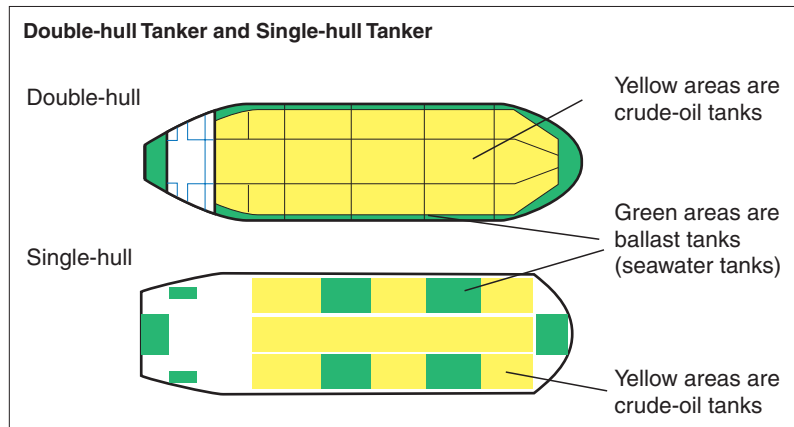
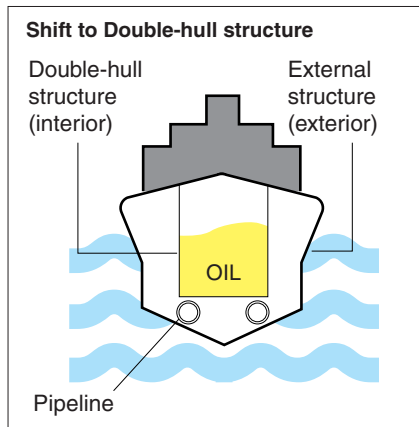
Safe navigation and environmental protection are the ordinary practice of seamen, and a mariner must be constantly aware of them while embarked.

Turning first to safe navigation, this is the direct responsibility of the crew. VLCCs in particular take on crude oil almost exclusively in the Persian Gulf, and crews are unable to go ashore. In addition, their duties often prevent them from going ashore while the ship is discharging its cargo. Cooped up in the ship this way, mental stress can build. I think the first prerequisite to safe navigation is a healthy crew, so we occasionally have a party to relieve this stress.

Secondly, when making a passage plan for entering and leaving port, or for transiting restricted waters, I always make sure the plan will allow me to mentally relax and concentrate, as well as leave me sufficient space and time to complete the process. Thirdly, environmental protection is regulated by international treaty, and I am always extremely careful with regard to pollution of the sea, and especially with pollution due to oil discharge. In addition, I provide guidance and take action to minimize waste generation, ensure thorough sorting, and teach proper disposal.

Transition to a Double-hull Structure

A double-hull tanker has less risk of oil spillage in the event of a collision or grounding resulting in damage to the vessel's outer hull, because the cargo tank is protected by the inner hull. Our newly built oil tankers are all designed with double-hull structures.



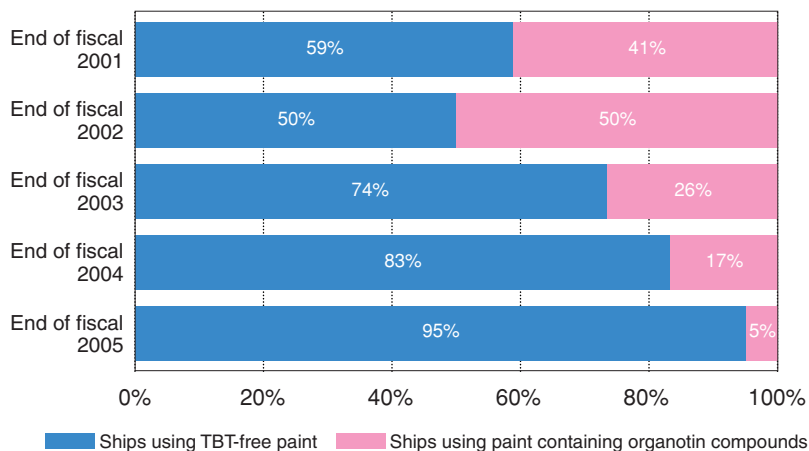
Anti-fouling Hull Paints that Contain without Organotin Compounds

A ship's bottom is vulnerable to sealife such as algae and mollusks attaching themselves to the hull, with consequent speed reduction and increased fuel oil consumption. Due to the excellent anti-fouling effects of paints containing organotin compounds, a number of ships have used such paints.

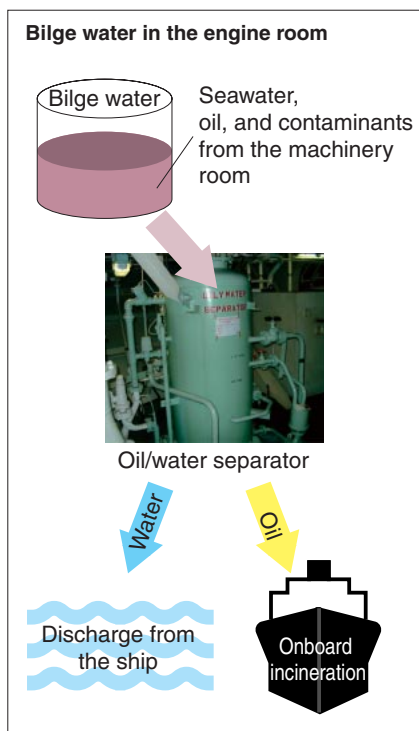
When it was discovered that organotin, an environmental hormone, has harmful effects on human body, the International Maritime Organization (IMO) made the decision to call for a global prohibition on the application of organotin compounds as biocides in anti-fouling systems on ships by 1 January, 2003, and a complete prohibition by 1 January, 2008.

We use anti-fouling paints that do not contain organotin compounds when ships are treated in drydock.

Percentage of Tankers with TBT-free Hull Paint



Note: TBT means Tri-n-Butyl Tin



Disposal of Bilge and Waste Oil from the Engine Room

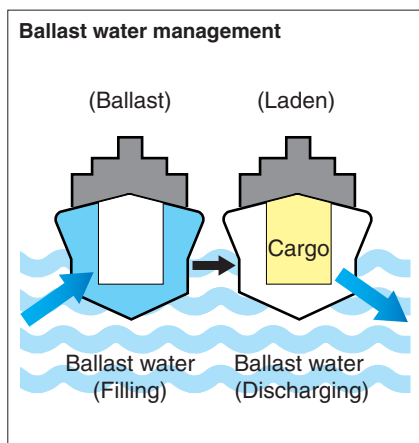
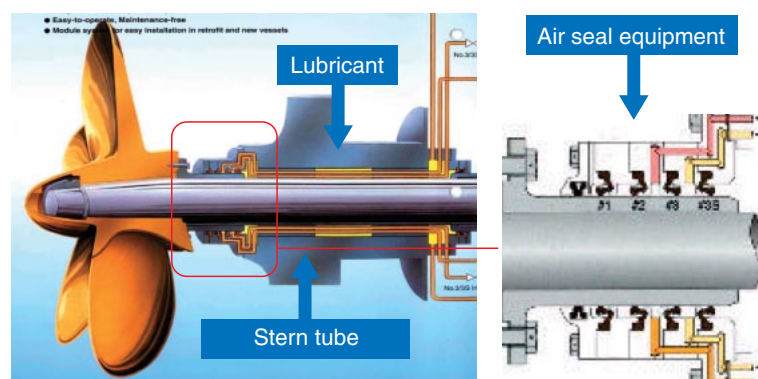
Wastewater with oil generated in the engine room is called "bilge." The bilge is processed with our special filtration system before it is discharged overboard in those areas of the ocean where this is allowed, so that only water without oil is discharged. The water discharged overboard is constantly monitored with an oil sensor, and the discharge stops automatically when the system detects any oil. We perform maintenance on these systems at regular intervals and pay close attention to the bilge discharge. The removed oil is burned onboard as waste oil.

Air-seal Stern Tube Sealing System

A stern tube sealing system prevents the ingress of seawater around the propeller shaft, concurrently preventing the leakage of lubricating oil used in stern tube into the sea.

We have adopted an air-seal-type stern tube sealing system, which is better at preventing the ingress of sea water and the egress of lubricating oil used in stern tube, in all our new ship building.

Use of Stern Tube Air Seal Equipment



Ballast Water Management

Sea water carried by a tanker or a cargo ship in dedicated tanks to secure structural hull strength and maintain adequate drafts for a safe ballast voyage is called ballast water. Ballast water is discharged when cargo is loaded.

Ballast water contains aquatic organisms and pathogens originating in the region where it was taken on, and may be discharged together with the ballast water into the sea where there are no such indigenous harmful aquatic organisms and pathogens, affecting the ecological system, and thus constituting a serious concern. An international treaty for ballast water disposal was adopted in February 2004, which requires ships to install ballast water disposal equipment that meets certain standards starting in 2016. As an alternative method, before the equipment is developed, exchanging ballast water is allowed in the ocean. We comply with the local regulations and recommendations provided by the country of the calling port regarding exchanging ballast water.

Shinwa Kaiun is highly aware of the importance of conserving its resources and using them wisely, and is engaged in a number of resource conservation and waste reduction initiatives on board its ships and in its offices.



A company newsletter article calling for waste segregation.



Waste segregation in the office.



Proper disposal of onboard waste.

Reduction of Power Consumption in the Office

Reduction of power consumption has “cut annual power usage at our offices by 1% in comparison with the previous year.” With this environmental slogan, we are making efforts day and night to reduce annual power consumption at our offices, encouraging power savings with such practices as turning off unused office machines and unnecessary lights.

Power consumption increased substantially in fiscal 2005, following the Head Office move. However, after observation of actual power consumption, together with efforts to extinguish unneeded lighting, new targets will be established.

Office Waste

For thorough separation of waste generated in offices, we have improved the arrangement of waste baskets, and are running an in-house campaign to implement waste separation in compliance with local regulations. In addition to promote the effective use of recyclables, we have since last fiscal year promoted the use of the reverse side of written paper when making copies, and the use of personal coffee and tea cups instead of disposable ones.

Proper Disposal of Onboard Waste

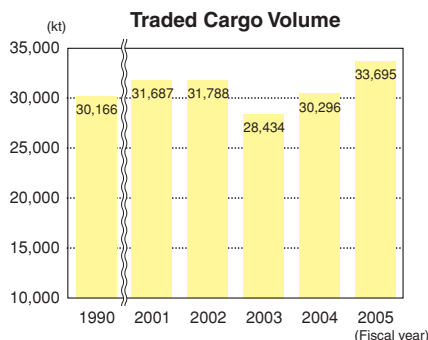
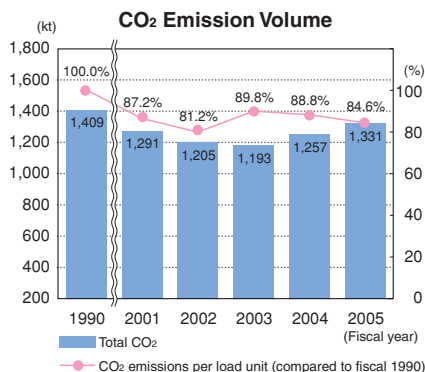
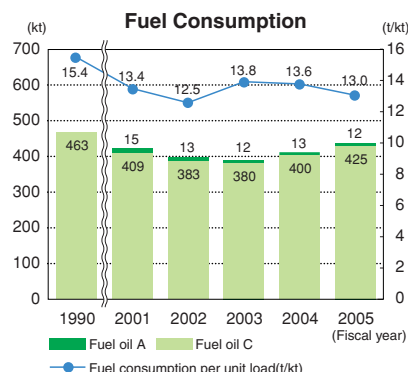
Various kinds of waste are generated by the crew living onboard. Such onboard waste is thoroughly separated and collected as we do onshore, and is either burned onboard or duly disposed of onshore, except those suitable for ocean disposal after milling, such as food waste. Setting a target for shipboard waste carried ashore and disposed of (an increase of 1% over the previous fiscal year), Shinwa Kaiun is managing the volume of onboarded waste disposal and waste carried ashore and disposed of.



The 302,481-ton supertanker, “YUGAWASAN,” which is fitted with a great deal of environmentally friendly, state-of-the-art equipment.

Protection of the Atmosphere

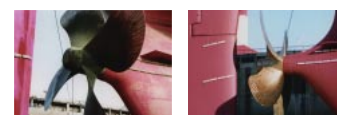
The company is engaged in various effective programs to protect the atmosphere and prevent global warming.



Prevention of Global Warming

Global warming is said to be caused by greenhouse gases such as CO₂. Vessels need to burn fossil fuel such as fuel oil to run, which emits CO₂-containing exhaust fumes. At present, the only effective way to reduce this CO₂ gas is to reduce fuel consumption. We are taking the following measures to reduce fuel consumption.

- Use of energy-saving equipment and devices.
- Improvement of propulsion performance by hull cleaning and water screw polishing.
- Speed reduction and best-route planning in accordance with various situations.
- Minimizing the fuel consumption per transportation unit with efficient shipping schedules and increases in cargo loaded.



Before propeller polishing.

After propeller polishing.



Before hull cleaning.

After hull cleaning.

Prevention of Air Pollution (Prevention of Acid Rain)

Exhaust gases from ships contain nitrogen oxides (NO_x) and sulfur oxides (SO_x), which cause an air pollution inclusive of acid rain.

Regarding NO_x, diesel engines with a power output of more than 130kW installed onboard ships whose construction started on or after January 1, 2000 must comply with the NO_x emission limits defined by treaty. Each of our new vessels carries a new model engine with low NO_x emission.

Also, for SO_x emission control, sulfur content of any fuel oil used onboard ships shall not exceed 4.5%. We procure fuel oil that meets ISO standards in order to SO_x emissions.

Preventing the Generation of Dioxins

To prevent generation of dioxin, incinerators capable of rapidly cooling down the exhaust gas temperature below 350°C were installed for all newly built ships.

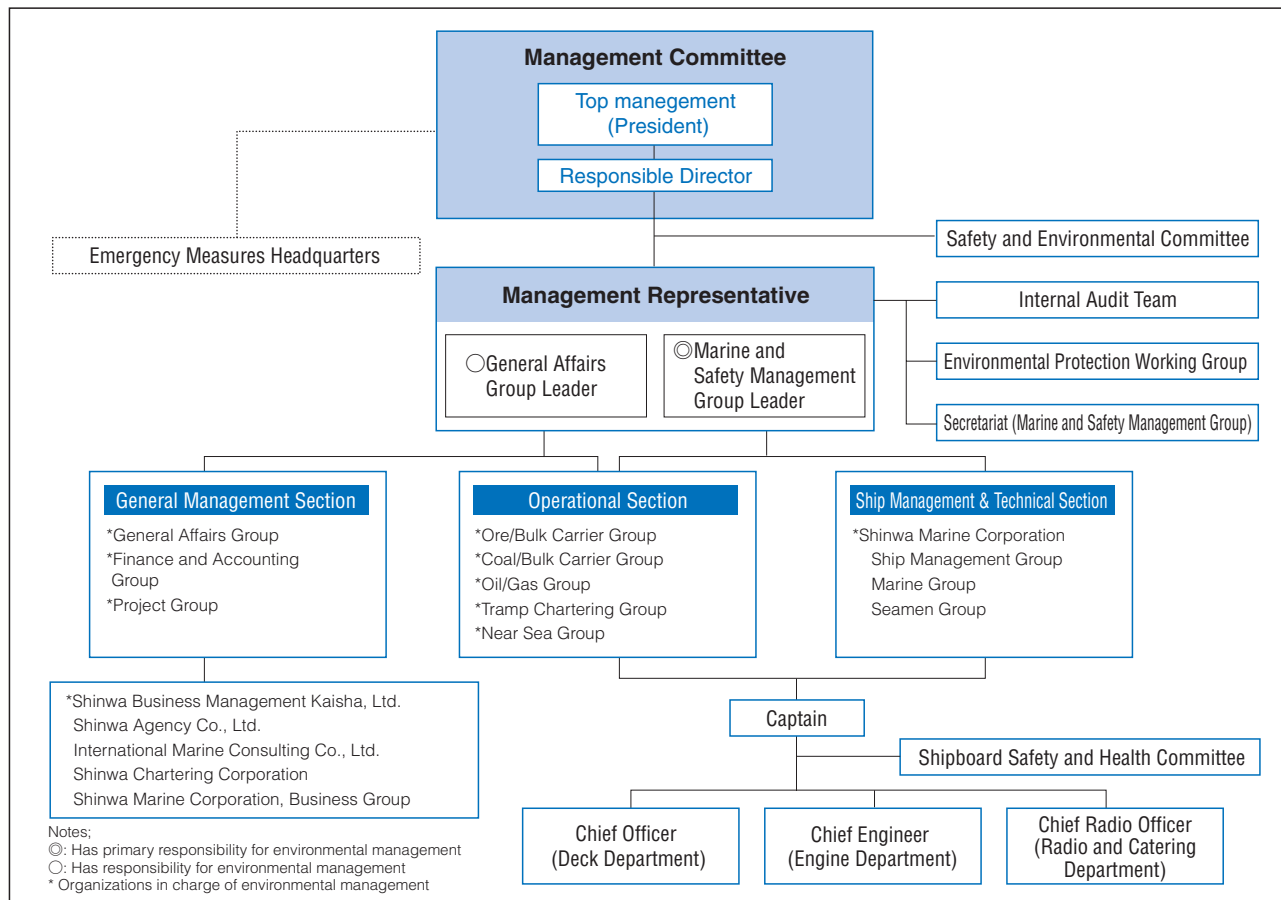
Prevention of Ozone Depletion

Freon and halon are regarded as causes of ozone depletion. Freon was used for onboard freezing and cooling machines, while halon has been used in fire-extinguishing systems.

For our new ships, we have adopted freezing and cooling machines that use alternatives to freon.

New installation of halon fire-extinguishing systems has been prohibited since July 1992, and most of our ships now equip CO₂ fire extinguishing systems or high-expansion foam fire extinguishing systems.

Environment Management System Organizational Chart



History of CSR Activities at the Shinwa Kaiun Group

May 2000	Safe Navigation Committee established.	Shinwa Business Management Kaisha, Ltd.
October 2000	Corporate Philosophy of Shinwa Kaiun Kaisha, Ltd., established.	Shinwa Agency Co., Ltd.
December 2000	Regulations regarding avoidance of accidents at sea and accident countermeasures established.	Shinwa Chartering Corporation
January 2001	Shinwa Marine Corporation received ISO 9002 certification (Class NK)	International Marine Consulting Co., Ltd.
September 2001	Safety and Environmental Committee established.	Shinwa Marine Corporation
October 2001	Shinwa Kaiun Group Environmental Statute formulated.	received ISO 9001-2000 certification
December 2001	Rules regarding control of inside information and insider trading revised.	2003 <i>Environmental Report</i> published.
May 2002	2001 <i>Environmental Report</i> published.	Standards of Conduct established.
November 2002	Investor Relations Committee launched.	2004 <i>Environmental Report</i> published.
December 2002	Regulations regarding disasters at sea and other emergency circumstances revised.	Established guidelines for use of computer equipment, e-mail, and the Internet.
April 2003	ISO 14001 certification received (Class NK) Companies included: Shinwa Kaiun Kaisha, Ltd. Shinwa Marine Corporation	December 2004 Compliance Committee established.
		December 2004 Internal audit regulations established.
		December 2004 Shinwa Kaiun Group Environmental Statute revised.
		June 2005 2005 <i>Environmental Report</i> published.
		July 2005 Shinwa Kaiun Group Safe Operation Management Committee launched.
		May 2006 CSR Committee established. Policy for CSR programs formulated.

Note: For purposes of brevity, this shows only the most recent items, omitting everything before the year 2000.

Glossary

Ballast water

This is seawater pumped into a special tank to serve as ballast when a ship has no cargo aboard. This maintains a suitable draft and stability, and sufficient weight to maintain hull strength. The marine creatures taken on board ships in ballast water and discharged far from its home waters has often been cited as a negative factor on biodiversity. In February 2004 the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments.

Bilge water

Wastewater that collects in the bottom of the engine room, contaminated by fuel oil and lubricants that leak out during the normal operation of a ship's engines. It is treated in oil/water separators and the oil and water disposed of separately.

Chlorofluorocarbons (CFCs)

CFCs are halogenated hydrocarbons containing carbon, fluorine, chlorine, and hydrogen. The word "freon" is often used as a generic term for CFCs. Because they are colorless, odorless, and non-toxic, as well as thermally and chemically stable, they were widely used as refrigerants, propellants, cleaners, solvents, firefighting agents, and aerosol propellants. However, it was discovered that they are harmful to the ozone layer when they are released to the atmosphere, and their manufacture has been prohibited since 1996.

Corporate governance

A framework within which a company prevents misconduct and pursues efficient management, while the shareholders, board of directors, and other concerned parties make decisions with regard to a company's direction and activities. This concept arose in the 1990s as a companion to (or a stage of) regulatory compliance.

Dioxins

Dioxins are highly toxic substances that are primarily formed in the incineration of waste, but also have natural causes such as wildfires and volcanic activity. They can cause cancer, birth defects, immune suppression, and reproductive abnormalities. Because dioxins are formed when substances broken down at over 800 degrees recombine as they cool, the formation of dioxins can be limited by rapidly cooling exhaust gasses.

Double-hull structure

To prevent spillage of cargo crude or fuel oil in the event that a collision or grounding should open a hole in a tanker's hull, the hull of the ship has a two-layer construction.

Draft

The distance between the surface of the water and the bottom of a ship's hull, at any given condition.

Halon

Halon is the group of halogenated hydrocarbons containing bromine instead of chlorine. This name is used internationally. It was widely used as a firefighting agent, but was discovered to be more harmful to the ozone layer than even CFCs, and its manufacture has been prohibited since 1994.

International Maritime Organization (IMO)

The IMO is a specialized organization of the UN, which establishes treaties and international conventions. The IMO promotes cooperation among the governments of every nation with regard to technological and legal issues bearing on marine transport, including maritime safety, improvement in marine transport technology, prevention of pollution of the ocean by ships, and the abolition of discriminatory treatment between countries.

ISO 14001

This is the international environmental standard established by the International Organization for Standardization (ISO) to guide companies in pursuing environmentally responsible business activities. It mandates environmental management policies, organizations and systems, operation, internal audits, and other measures, which are to be continually improved based on the PDCA cycle.

ISO 9001

This is the international standard for quality control and quality assurance established by the ISO. It sets forth the requirements for a quality management system that extends to organizational management to achieve customer satisfaction and operational improvements. The pursuit of customer satisfaction and improvement efforts through ISO 9001 allows a company to maintain the trust of the public and heighten its competitiveness.

ISO 9002

As with ISO 9001, this is an international standard for quality control systems. It is different from ISO 9001 in that it does not include the design and development stages.

Organotin compounds

This refers to organic compounds containing tin, and in an environmental context often refers to tributyltin (TBT) compounds. These compounds were frequently used in anti-fouling paints to prevent crustaceans and other marine life from adhering to ships' hulls and fishing nets. However, it has been designated an environmental hormone that causes birth defects and reproductive abnormalities in marine life.

Ozone layer

An atmospheric layer 20 to 25km above the Earth's surface that is rich in ozone (an allotrope of oxygen). It absorbs much harmful ultraviolet radiation from the sun, protecting creatures on the surface of the planet. Harm to the ozone layer would allow more harmful ultraviolet radiation to reach the surface, with harmful effects such as skin cancer and conjunctivitis.

PDCA cycle

The PDCA cycle is a system for continuously improving environmental management systems. Using this cycle, a company will Plan (set targets and policies, and create a plan to achieve them), Do (execute its plan), Check (verify the outcomes and make adjustments), Act (make changes and improvements for the next step in the cycle), and then Plan and so forth again.

Stakeholder

A person with a direct or indirect material interest in a company's actions, including customers, shareholders (investors), suppliers, employees, society at large, and governmental bodies.

Stern tube air seal equipment

It is necessary to prevent water from entering the ship where the propeller shaft penetrates the ship's hull, and to keep propeller shaft lubricant from leaking into the ocean. In the past, rubber seals and hydraulic pressure were used to prevent the entry of seawater, but the adoption of seals using air pressure also prevents the leakage of oil into the ocean.

Work-life balance

This is a concept promoted by UK Ministry of Trade that involves harmony between a person's professional and personal lives. It means maintaining health and happiness without sacrificing either the workplace or the family. In Japan, the Ministry of Health, Labour and Welfare established a study group in 2003, and is working to achieve the acceptance of this concept through regional governments nationwide.



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