Bulkships
Dry Bulkers

Saburo Koide
Executive Vice President

Big Rise in Profits Across the Board

In fiscal 2007, our dry bulker fleet recorded a historic level of success. Ordinary income from the four shipping divisions which primarily conduct bulkship operations—Dry Bulkers, Tankers, LNG Carriers and Car Carriers—soared by more than ¥100 billion, from ¥163.5 billion in fiscal 2006 to ¥277.5 billion in fiscal 2007. This was largely a reflection of earnings generated by our dry bulker fleet, which is one of the world's largest. Around 2002, MOL took note of the fact that demand for transporting natural resources was starting to rise, and it began a concerted effort to expand its fleet and left its rivals behind. In fiscal 2007, MOL reaped the fruits of those early efforts.

MOL operates some 360 dry bulkers, which are broken down into a number of sub-categories based on their size and purpose—including Capesize bulkers, Panamax bulkers, Handymax bulkers, Small Handysize bulkers, wood chip carriers, heavy lifters, and short-range bulkers. In fiscal 2007, the most successful business segment involved the transport of iron ore and coking coal, raw materials for steel production.

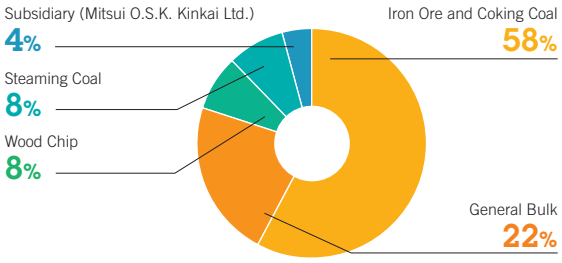
Iron Ore and Coking Coal Transportation

Since the turn of the century, a surge in demand for steel, particularly from emerging economies such as China, has triggered a rapid increase in the seaborne trade of steel raw materials (iron ore and coking coal) each year. This is particularly true for China, where most of the domestic iron ore is of a relatively low grade and, thus, is not suitable for the production of high-grade steel. Therefore, China has been increasing imports of high-grade iron ore (with more than 60% purity) more rapidly than the pace of its domestic crude steel production. In 2004, China imported roughly 200 million tons of iron ore, but by 2007 the figure had nearly doubled, to 380 million tons. Although Australia is still China's main supplier of iron ore, Brazil has now overtaken India as the second-largest supplier, and imports from Brazil are rising at a pace of some 20 million tons per year. Since the distance between Brazil and China is about three times farther than between Australia and China, this has boosted the total ton-miles even faster than trade volume.

The Capesize bulker
London Courage

With transport demand rising, the total handling capacity of major ports on Australia's east coast is becoming increasingly tight, and this has pushed up the market rates for dry bulk shipping. The largest dry bulkers used mainly to transport steel raw materials—Capesize bulkers—commanded an average market rate of US$53,000 per day in fiscal 2006, but that rate had risen to US$125,000 per day in fiscal 2007. Meanwhile, MOL has been expanding its fleet for transporting steel raw materials, adding 12 new ships (10 Capesize and 2 Panamax) during fiscal 2007. This expanded the total fleet to around 130 vessels (about 100 Capesize and 30 Panamax)—making it the world's largest fleet of steel raw material carriers. MOL maintains a ratio of about 4:3:3 between ships operated under long-term contracts, those under medium-term contracts and those on a spot (short-term) basis. The leading steelmakers in Japan, South Korea and China, as well as raw materials majors in Australia and Brazil, are MOL's main clients. This distribution of contract length and clientele allowed MOL to benefit from the increased profitability of high spot market rates and also ensured stable earnings from medium- and long-term contracts, which MOL was able to re-negotiate at favorable rates.

Consolidated Revenues Breakdown (Results in FY2007)



Masafumi Yasuoka
Senior Managing Executive Officer

Other Dry Bulk Transportation

MOL's other dry bulker operations include the use of Panamax, Handymax and Small Handysize bulkers to transport a wide range of items, including steaming coal, grain, steel products, cement, fertilizer, and bauxite. While about 40% of our Panamax bulkers are put into service for the transportation of steaming coal destined to Japanese electricity companies under long-term contracts, other bulkers are operated mainly on a spot basis. Dry bulk cargoes are enjoying steadily rising demand as the world economy expands and diversifies. As a result, each individual category of dry bulker, from Panamax on down, benefited from record-high market rates in fiscal 2007, supporting our strong overall performance.

On top of the above, wood chip carriers, which are originally designed to transport forestry products such as wood chips and pulp to Japanese papermakers are producing unexpected profits after fulfilling their original contracts, as they are now also being used to transport soybean meal (SBM) to Europe; demand for SBM for animal feed has soared in recent years as a substitute for bone meal feed, which has been banned there due to the BSE problem.

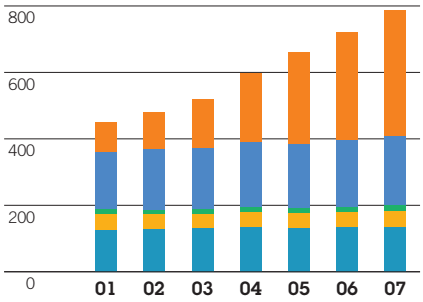
Future Developments and Key Issues

Iron Ore and Coking Coal Transportation

The strength of MOL's iron ore and coking coal shipping business lies in having the world's strongest portfolio of larger dry bulkers both in terms of volume and diversity. Comprising high-quality, cost-competitive, and younger vessels, the portfolio can precisely meet the varying transportation needs of clients. MOL plans to further strengthen this portfolio by adding 53 newly-built, large-scale bulkers by early 2014, increasing its fleet of iron ore and coking coal carriers to 160 vessels.

Some marine transport industry observers are concerned that the completion of a large number of Capesize bulkers in 2010 will weaken the market dramatically. However, looking at the supply of engine components and steel plates for shipbuilding, not to mention the fund-raising capacity of some of the potential buyers, it seems more likely that a substantial portion of such shipbuilding orders will either be cancelled, or their completion will be delayed.

Import Area-wise World Iron Ore Seaborne Trade
(million tons)

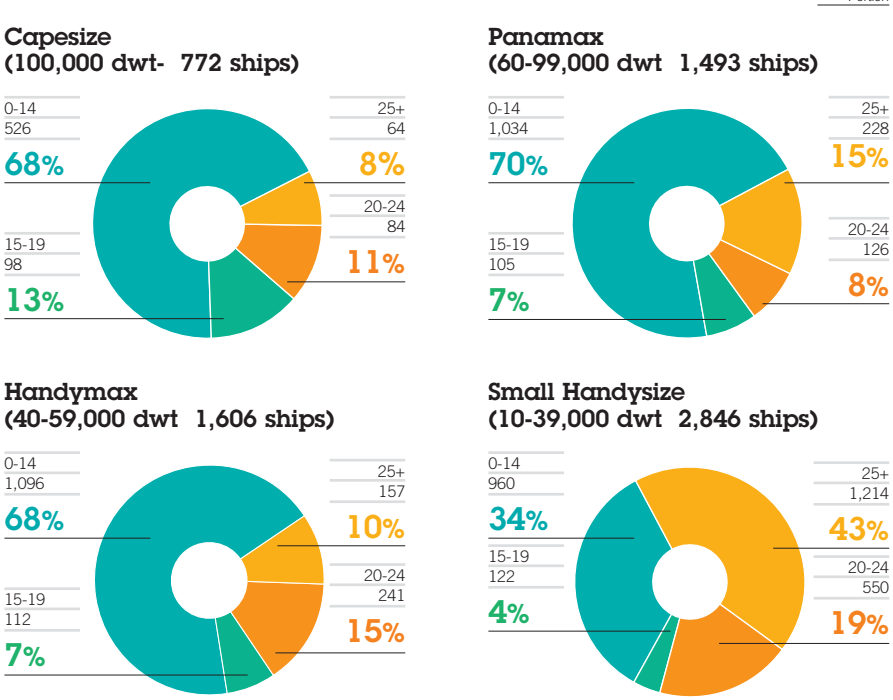


Source: Clarkson

The wood chip carrier
Pro Grace

The coal carrier
Kaien

World Dry Bulkers Age Profile (As of March 2008)



Source: Clarkson

In addition, many of the major materials suppliers have indicated that they will not allow ships aged more than 25 years to call into their loading ports, highlighting a global trend to mothball older ships due to the concerns about the environment. About 20% of the some 770 existing global Capesize bulkers are more than 20 years old, and sooner or later they will have to be retired from service. Therefore, although the market may experience a mild correction by 2010, it is hard to see it returning to the condition it was in prior to the 2003 "paradigm shift." The soaring import demand from newly industrialized countries for steel raw materials should ensure that the market for large bulk marine transport remains relatively firm for the foreseeable future.

Other Dry Bulk Transportation

As regards the transportation of other dry bulk cargoes, MOL anticipates continuing growth in demand for natural resources and raw materials, and is planning to bolster its fleet gradually. Although the U.S. and Europe are experiencing the continued effects of the subprime loan crisis, we think that this will have a limited impact on economic growth in the "BRICs" and "NEXT 11" countries. The underlying strength of demand for dry bulk shipping stems from the fact that the resources and materials being transported support the very foundation of national economies.

Meanwhile, rising oil prices are stimulating demand for steaming coal, for use in power generation. China, in particular, has such a strong demand for energy that in 2007 the country decreased its exports of coal. As a result, neighboring countries such as Japan now need to import coal from countries much farther away. This is likely to push up the total ton-miles of steaming coal shipments for marine transport companies.

MOL is striving to remain at the vanguard of progress in the dry bulker sector. The company has a successful formula; namely, always analyze future market trends, take actions ahead of rivals to collect information, and make the most appropriate decision based on that data to adjust its fleet portfolio to the needs of customers. To this end, the company is working to develop and maintain a high-quality fleet that can properly address demand.

The coal carrier
Mizunagi Maru

Fleet Expansion Plan Iron Ore and Coking Coal Carriers

Launching period: April 2008 to early 2014

		Type (1,000 dwt)	No. of vessels	Uses/special features
Iron ore and coking coal carriers	Capesize	300	4	Ore carriers provide efficient transportation on long-distance routes. Used for long-term contracts.
		250	2	
		230	7	
		200	1	Large-scale Capesize bulkers mainly for long-term contracts.
		170	27	Standard-type Capesize bulkers for various uses. Strong demand in the spot market.
		110	10	"Mini-Capesize" bulkers can call in at smaller discharging ports in Japan.
	Over-Panamax	80	2	Standard-type Over-Panamax vessels for various uses.
		Total	53	

Bulkships
Tankers

Tsuneo Watanabe
Managing Executive Officer

Product and Chemical Tankers Remain Strong

The year under review was challenging for MOL's tankers business. Although earnings contributions from product and chemical tankers were healthy in fiscal 2007, demand for crude oil tankers was somewhat weaker than in the previous fiscal year. Meanwhile, the introduction of measures to improve operating safety increased ship management costs, making it difficult to avoid a year-on-year decline in income in tanker operations.

While the supply-demand balance in the market for crude oil tankers will be determined largely by the pace of the transition to double-hulled vessels, an oil spill caused by a single-hulled VLCC unrelated to MOL in South Korea in November 2007 has accelerated the move away from single-hulled tankers by customers. This is likely to strengthen market conditions for crude oil tankers in 2008. MOL will sell off its last remaining single-hulled tankers by the end of 2008, meaning its entire crude oil tanker fleet of 43 vessels will be double-hulled two years ahead of the deadline stipulated by international agreements.

Product tankers carry a variety of petroleum-based products, including naphtha. In recent years, oil-producing countries in the Middle East have been building refineries domestically, and therefore there has been an increase in the transport of refined products over the long route from the Middle East to North America. Meanwhile, global diversification of petrochemicals facilities has led to an increase in marine transport volume of these products as well. MOL has done its best to anticipate these changes in trade patterns. Over the past few years, the company has been working to expand its fleet in this business sector, and now operates 43 product tankers and 55 chemical tankers.

Future Developments and Key Issues

The IEA estimates that oil demand in 2008 will increase by 2% year on year. MOL's past experience suggests that demand for crude oil transportation usually rises at a pace that exceeds growth in total demand, and that demand for the transport of petroleum products and petrochemicals tends to grow at an even faster pace. Oil and the products derived from it have become the very foundation of our modern lifestyles, and this fact provides a solid underlying base for demand growth. Therefore, MOL is expanding its fleet of 166 oil tankers, with plans to have 250 ships in operation by 2013.

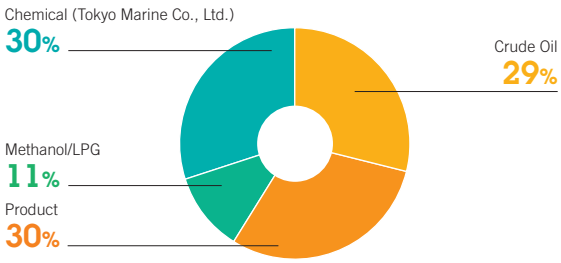
The VLCC
Grand Sea

Regarding the new ships that will be added to the fleet, some were ordered when ship prices were relatively low. Therefore, our tanker fleet becomes more cost competitive as it grows. With this fleet, MOL will be able to respond even more flexibly to customer needs and changes in the business environment. In this way, the company aims to win customer approval, and ensure that when they think of tanker transport, they will think of MOL first. This will allow us to reap the fruits of new business developments at the earliest possible date.

We expect LPG tankers to be another growing sector. Based on the expectation that LPG demand will grow more in the near future both in terms of energy resources and as a petrochemical feedstock, MOL has ordered 7 new Very Large Gas Carriers (VLGCs) due for delivery in 2009–2010. We expect this advance investment to pay "dividends" in due course.

However, while the expansion of our fleet is a key issue, the one thing that MOL wants to increase most is operating safety. Safe shipping is the very foundation of MOL's oil tanker operations. In addition to implementing the MOL Safety Standard, which is one of the highest in the shipping industry, the company has set even stricter criteria for its tanker fleet. This allows the company to respond to the high standards of safety required by major oil companies and other customers.

Consolidated Revenues Breakdown (Results in FY2007)



Bulkships
LNG Carriers

Yoichi Aoki
Senior Managing Executive Officer

Stable Profits, but LNG Project Delays

Since MOL commenced operation of its first LNG tanker in 1983, the company has steadily expanded its LNG business. Today, MOL has the largest LNG transport business in the world.

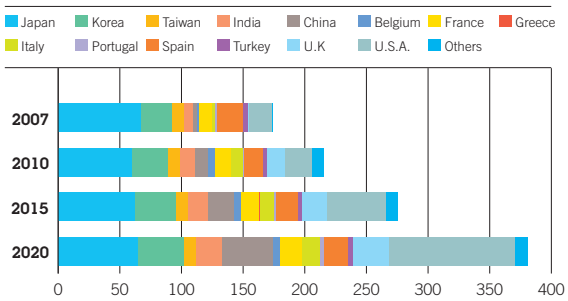
The LNG transport business is based to a large extent on long-term contracts, and as a result we enjoy a high degree of certainty in our medium-term planning. We play a key role in MOL's strategy for achieving stable growth.

During fiscal 2007, we continued to bolster our LNG carrier fleet, with 2 new carriers entering service. We plan to increase our 60-strong fleet to 80 carriers to maintain our current world market share of around one-quarter since we estimate there will be around 350 LNG carriers worldwide by the end of MOL ADVANCE.

Recently, there have been delays reaching final investment decisions on new greenfield projects; those projects originally designed to start in 2009–2011 are now expected to begin in 2012 or 2013. This is partly because of escalating materials and construction costs, and environmental concerns as well as political uncertainties in LNG exporting countries. But still, we see no sign of a slowdown in long-term demand, and anticipate higher demand worldwide given LNG's environmental advantages.

The LNG carrier
Energy Progress

LNG Demand Forecast
(million tons)



Source: The Institute of Energy Economics, Japan, etc.

Future Developments and Key Issues

In the bidding process for new contracts, there has been a renewed emphasis not only on price, but also on quality of service, especially in ship management. We now have ship management bases in Japan, the U.K., Oman, Indonesia, Algeria and the U.S. Each base shares the latest information periodically with the view to upgrading quality. Securing seafarers for LNG vessels is also crucial to ensuring quality, because the operation of LNG ships requires high-grade skills. We have thus poured our efforts into educating seafarers in our training facilities in the Philippines, Indonesia, India and the Netherlands.

There is ongoing technological progress in the LNG market, highlighted by "Onboard Regasification" or "Floating Storage Regasification Units (FSRU)" in the open ocean, for environmental reasons. Several countries, such as the U.S. and the U.K., have begun receiving natural gas in this way near densely populated cities as it is cost competitive and a quick alternative to onshore terminals. In March 2007, MOL and Höegh LNG signed long-term contracts with SUEZ LNG Trading for two shuttle & regasification vessels (SRVs) that are scheduled to start delivering LNG to a terminal located offshore Boston, in the U.S. state of Massachusetts from around November 2009. Another technological development is the "Floating LNG (FLNG)" to produce LNG on board at loading ports. We will strive to contribute to such new developments.

The LNG market is gradually changing. As we take steps to meet the various demands for LNG ahead, we will endeavor to drive growth by offering high-quality, value-added services, and in this way stay ahead of the pack in the LNG shipping industry.

Bulkships
Car Carriers

Toshitaka Shishido
Managing Executive Officer

Supply-demand Tightening Due to Huge Demand Increase

Global exports of completed vehicles totaled more than 13.5 million units last year, a new record and a rise of 12.5% year on year. In fact, exports have surged since 2000, thanks to a paradigm shift in the auto shipping industry. For instance, Japanese cars are in high demand due to their fuel efficiency, and more nations now export cars. At the same time, the Middle East, Africa, South America, and Russia are importing more cars. As one of the world's premier operators of car carriers, MOL is well positioned to continue benefiting from export growth.

The biggest issue we face right now is tight supply-demand. Car carriers are specialized ships, so it takes time to build them, making it difficult to stay in step with a sudden change in demand. In addition, MOL has cooperated in a variety of ways to meet our customers' urgent demand for ship space, in areas like land transport and using other kinds of carriers to transport vehicles, but this has come at a significant cost. We think new rules should be developed to address pressing issues via joint efforts between shipping companies and automakers.

To offset the short supply of vessels and strengthen our competitiveness, we plan to add 13 and 11 new vessels in fiscal 2008 and fiscal 2009, respectively. Simultaneously, we will exclude old ones from our fleet, thereby further enhancing the safety of our operations. There is concern in the industry that a large number of car carriers will come into operation going forward, but given high raw material prices and issues with production capacity at shipmakers this seems unlikely to happen.

The car carrier
Sanderling Ace

Future Developments and Key Issues

Car exports are spreading to every part of the world. So, we plan to raise our fleet of car carriers from approximately 100 at present to 120 during MOL ADVANCE. In the past, most of our car carriers originated their journeys from Japan, but now 18 of our 100-strong fleet do not call in at Japanese ports at all. Complex routes are increasing, too, even prompting us to add 2 carriers that can withstand Baltic Sea ice, for example.

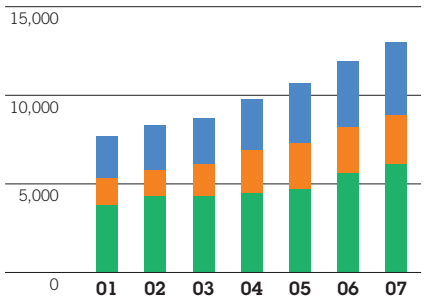
We have worked hard over the years on adding new customers along with expanding our fleet; in fact, we now engage in business with almost all automakers that export vehicles. This has consequently enabled us to reduce customer- and region-related risks.

Over the long term, we need to adjust our operations to respond to the increasingly high-level and complex services our customers will require. MOL currently has 20 specialists who gather information and manage carrier operations at frontlines in key global areas outside Japan. In addition to long-standing offices in the USA, Europe, and Southeast Asia, we have established offices in India, China, and South America. Targeting business from Russia, we have also initiated a Baltic Sea service. MOL now operates everywhere automobiles are exported.

Seeking the best solutions all the time, we will keep on working to enhance our professional services in terms of both quality and quantity.

The car carrier
Wisteria Ace

World Car Carrier Trade
(thousand units)



■ Others
■ Export from Korea
■ Export from Japan
(MOL internal calculation: excluding CKD)

Containerships

Masakazu Yakushiji
Executive Vice President

Volume Expanding but Costs Rising

Operations went largely as expected this year, but an unprecedented rise in fuel oil prices hurt earnings. We had assumed an average bunker oil cost of $330/MT, but the bunker price rose as high as $409/MT, meaning fuel costs were about ¥16 billion higher than expected. But still, by making hardworking efforts to cut costs and raise freight rates, primarily on Asia-Europe routes, we managed to post ordinary income of ¥7 billion, while we had initially expected ¥10 billion in ordinary income.

The containership industry saw an 11% rise in shipments worldwide during the period under review, but our shipments rose by 13% to 3.2 million TEU as a result of our aggressive fleet expansion and development of new shipping routes.

There was little growth in trade volume along Asia-North America routes (a 1.4% increase), our biggest market, and freight rates remained steady on those routes. Because it is common in this trade to negotiate freight rates once a year in early spring and the bunker surcharge system had only a limited effect, we struggled to absorb sharp increases in fuel prices after summer and the corresponding increase in inland transport costs. These were the main reasons that earnings fell short of our initial target. As freight rates on North America routes are negotiated once per year and the bunker surcharge system only minimally offsets higher fuel prices here, MOL and other operators were unable to stay on top of the steep rise in fuel prices throughout the year.

Asia-Europe routes drove an overall increase in demand. Trade volume on these routes rose 20% year on year, and we managed to offset the rise in fuel prices via a rise in freight rates. Freight negotiations for Asia-Europe routes take place quarterly, meaning that our bunker surcharge system was able to offset the effects of fuel price rises more effectively than on North America routes.

Asia-South America routes remain strong, too, as trade continues to expand. However, trade volume on the Europe-South Africa and inter-Asia routes rose only slightly, contrary to our expectations.

Fleet Expansion, and Route & Regional Development

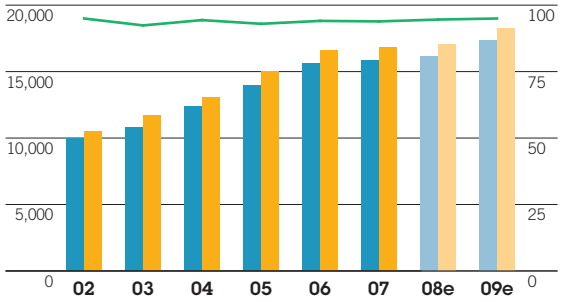
MOL is continuing to upgrade its fleet. In fiscal 2007, we launched 11 new large-scale containerships: 4 in the 8,100 TEU class, 3 in the 6,500 TEU class, and 4 in the 4,800 TEU class. We expect these larger vessels to yield a unit cost reduction, along with higher cargo volumes.

MOL has also moved aggressively into new regions. For instance, we started an Asia-Eastern Mediterranean service (November 2007), added 3 new routes to the Middle East (April 2008), and also added a new route to North America from Asia via the Suez Canal (June 2007).

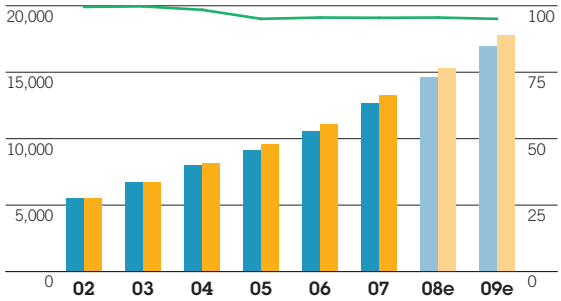
Last year, we did little route consolidation, but we expect to do more in the coming years. In addition, the new vessels we have ordered are priced advantageously, which puts us in a better position than others to reduce unit costs going forward.

In our terminal business, we have begun construction of an MOL terminal in Jacksonville, Florida, which is scheduled to begin operations at the beginning of 2009. In addition, a consortium we participate in has

Asia-North America Container Trade: Supply-Demand Forecast [Eastbound]
(left scale: thousand TEU, right scale: %)



Asia-Europe Container Trade: Supply-Demand Forecast [Westbound]
(left scale: thousand TEU, right scale: %)



been chosen as a terminal operator in Rotterdam; this terminal is scheduled to begin operations in 2013.

Future Developments and Key Issues

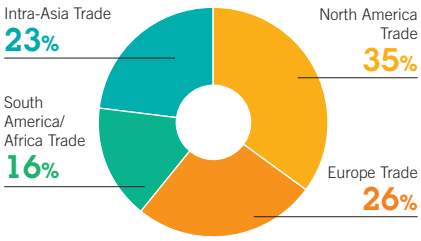
We expect seaborne trade volume in containers to continue growing by 10% a year and we are therefore planning to substantially improve profits. We need to outperform competitors in this highly competitive but growing business segment, and overcome issues such as steeply rising fuel costs to improve profitability.

One way we plan to outperform the industry is by maintaining an optimal demand-supply balance at all times, that is, by adjusting our supply volume swiftly in response to burgeoning demand growth. We must also gather new information in a timely manner and act on it faster and without hesitation, having full belief in our forecasts and prospects. We will re-allocate our fleet capacity to optimally match cargo demand in each trade so that we focus our resources more effectively on routes with greater prospects. We will also pursue the optimal combination of calling ports to reduce cargo expenses.

In order to cope with skyrocketing fuel prices, we will do our best to increase the coverage ratio of the bunker surcharge to absorb the surging fuel cost. Also, we will reduce fuel consumption by slow steaming.

Implementing these strategies, we aim to improve profitability and to enhance our competitiveness as a company that aspires to be ranked among the top global container operators.

MOL Containerships' Capacity by Trades (Results in FY2007)



The containership
MOL Creation

Logistics

Masakazu Yakushiji
Executive Vice President

Recording Steady Growth

At MOL, we see logistics as an integral part of our comprehensive customer services, and something that generates synergies with our core marine transport business. At the same time, MOL's logistics operations have posted steadily increasing profits since fiscal 2004; in fiscal 2007, ended March 2008, they recorded ordinary income of ¥2.2 billion.

One area that we are expanding is our ocean consolidation business, or OCB (also called buyer's consolidation). OCB has been of great benefit in terms of forecasting container cargo movements, as it can quickly amass customer information. Also, our OCB business is able to choose, within limits stipulated by the customer, the marine transport company it works with, which enables the efficient use of MOL ships. As a result of these things, our logistics operations continue to grow. In fiscal 2006, the business handled 50,000 TEU, but this rose to nearly 70,000 TEU in fiscal 2007.

One of the main drivers of that growth in fiscal 2007 was an additional OCB contract with IKEA. We first signed a contract with IKEA in 2006 departing from north China. The additional OCB contract, departing from Shanghai, China, from July 2007, should approximately double annual handling units for IKEA. Our OCB customers are increasing. A new customer in fiscal 2007 was Shoe Carnival, a major U.S. shoe retailer which chose MOL to be its consolidator in

China and Hong Kong. It recognized the services MOL Consolidation Service Limited (Hong Kong) has provided them in Asia, as well as our containership services and the various services such as customs clearance provided by our strategic business partner Kintetsu World Express, Inc. Providing Shoe Carnival with comprehensive cargo information via MOL Consolidation Service's STARLINK system has helped make Shoe Carnival's logistics more efficient.

MOL Logistics Group's warehouses in Europe

STARLINK is a transfer inventory management system that provides customers with real-time cargo information at the SKU (stock keeping unit) level over the whole logistical process, from product order to shipping. This system can also be linked with customers' warehouse management systems, and it enables customers to view cargo information via the Internet.

Finally, we should note that we are expanding our proprietary network in China while also increasing the number of branch offices we have there.

Future Developments and Key Issues

Right now our OCB business has about 30 customers. We are aiming to increase cargo volume handled to 100,000 TEU as quickly as possible. Meanwhile, the next step for our OCB business is expanding its presence in Vietnam and India. We see the rapid increase in container shipping to and from these areas as a significant business opportunity.

Our strategy for the logistics business has focused on determining customer needs and providing the optimal solutions for each customer, minimizing the assets we own. This strategy didn't tie us to facilities we established, making our solution proposals more creative, and thus we have been able to maximize customer satisfaction. We plan to continue this strategy.

We will maintain our focus on providing high-quality services to our customers at competitive prices.

Ferry and Domestic Transport

Takehiko Yamamoto
Managing Executive Officer

Profitability Firmly in Place

The ferry cargo business remains on a solid footing. Thanks to the Japanese government's modal shift policy favoring environmentally friendly modes of transport, demand for ferry cargo space has risen during the past few years, resulting in weekday space utilization of about 100%. In addition, late-night operation of so-called casual ferry services, which we introduced in the Tokyo metropolitan area/Hokkaido route in 2007, has received full support from major customers. MOL also made efficiency gains by integrating MOL Group ferry companies. Although high fuel costs drove profits down, the business posted ordinary income of ¥500 million. The bunker surcharge helps recoup some of the rise in costs, but due to the time lag before the surcharge takes effect, we could not defray the entire cost increase this year.

Moreover, MOL Naiko, Ltd., which handles domestic transport of such cargo as coal, heavy oil, steel, and salt, saw profits surge in fiscal 2007, due primarily to strong demand. We will continue to expand MOL Naiko's business fields by leveraging synergies with our international shipping operations as has been the case in the past several years. In addition, the Shanghai Super Express, which connects Hakata with Shanghai in only 28 hours, turned profitable for the first time owing to a favorable reception from customers. This service is based on the concept of "sea price & air transit," or SPAT, which aims to stake out the middle ground between airlines and container shipping. There are currently two round-trip voyages a week, but we expect to increase this going forward.

Future Developments and Key Issues

Although we have achieved almost 100% utilization rates for cargo space, utilization rates for passenger space on our ferries are not always high. The exception is peak seasons like summer holidays. We, therefore, see good potential for increasing our revenues without incurring additional navigation costs.

To capture this potential, we are continuing to enhance onboard service quality and yield management skills, which we believe will attract more passengers and boost demand. As part of this drive, we put two new boats on our Inland Sea route that feature improved interior designs and upgraded food services. These boats also offer barrier-free access and cabins where passengers can bring pets. We expect more passengers to support these enhanced services.

As the Japanese population ages, we expect the ferry passenger market to see stable growth, bringing with it more business opportunities.

Sunflower Gold commissioning ceremony

Associated Businesses

Takehiko Yamamoto
Managing Executive Officer

Strong Office Building Business

Daibiru Corporation, which owns 18 buildings in Tokyo and Osaka, accounts for about 70% of the ordinary income from associated businesses. Sales in fiscal 2007 totaled ¥32 billion, while ordinary income was ¥9 billion. This business produces stable profits that are not impacted by currency or fuel oil price fluctuations. As such, it helps boost consolidated earnings.

A major development during the year under review was the integration of MOL's real estate management businesses, which had been divided among MOL Group companies. This integration should result in improved efficiency and customer service.

As regards port-related services, MOL is one of the top domestic tugboat operators, and also has stakes in tugboat companies in Hong Kong and mainland China. Based on expectations for high growth in Asia for tugboat operations, we plan continued expansion.

Reflecting skyrocketing fuel prices, sales of PBCF (see page 50), which help improve fuel efficiency, remained as brisk as in the past few years. This boosted the income of wholly owned subsidiary Mitsui O.S.K. Techno-Trade, Ltd., which sells ship parts and related goods.

Future Developments and Key Issues

Performance by office buildings in major metropolitan areas should remain strong in the interim. To take maximum advantage of the fact that all of Daibiru's real estate holdings are in prime areas, we plan to rebuild some of Daibiru's properties, further strengthening our position in the market.

The number of cruise ship passengers has risen significantly in recent years, due to the aging of the Japanese population. As a result, we decided to overhaul the *Nippon Maru*, making it even more luxurious; the overhaul will be completed by the spring of 2010. Specifically, we plan to add more cabins, restaurants, and lounges in an effort to increase passenger satisfaction; we also plan to add spa facilities. By making the popular *Nippon Maru* even more appealing, MOL will boost its brand image in the cruise ship market and increase awareness of MOL's success in B to C fields.

Computer graphic of renovated *Nippon Maru*