

Aiming for Quality in Growth in Pursuit of Greater Seamanship

Strategies of the MOL ADVANCE Midterm Management Plan

Why does MOL focus on quality

And why is growth with enhanced quality the main theme of MOL ADVANCE? As discussed in the To Our Shareholders section of this report, the accidents that occurred in 2006 underscored MOL's commitment to safety as the company's highest priority. In the marine transport business, safety is an unconditional prerequisite for growth, and under MOL ADVANCE, MOL's top priority is to ensure safe operations. At the same time, as the world's economies undergo multipolar growth, the marine transport industry is also expanding, and a diverse range of transportation needs is emerging in regions and on routes around the world.

To meet those needs, we will continue to follow the approach that has proven successful in the past, expanding our diverse fleet in anticipation of demand trends. The name of our new midterm management plan—MOL ADVANCE—is both a reference to the further “advances” that MOL will strive to achieve and an abbreviation of Mitsui O.S.K. Lines' Action and Direction at the Vanguard of Creating Excellence. We are determined to remain at the vanguard in securing safe operations and in providing value-added services that accurately meet demand and thereby bolstering MOL's reputation as an excellent company. That determination is a key part of MOL ADVANCE.

growth?



Akimitsu Ashida President

Safety—The Foundation of Growth

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Please give us your analysis of the four accidents involving MOL-operated vessels in 2006.

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Would you discuss the positioning of safe operations in the implementation of the midterm management plan and future safety measures that MOL will take?



Since April 2006, MOL-operated vessels have been involved in four accidents. These accidents have caused a great deal of distress to customers and other stakeholders, and on behalf of everyone at MOL, I would like to express our heartfelt regret.

Although the circumstances and details of these accidents vary, I believe that the accidents have an element in common. Up to 2005, MOL-operated vessels had been involved in very few accidents, and I believe that, as a result, our “accident-awareness” weakened, and that, to some extent, we fell into a formalistic approach to safety. We assumed that what we were doing was correct, and we lacked a sense of the need to make changes based on the status of on-site conditions.

On the other hand, with vessels getting larger and voyages getting longer, structural problems have developed. And we are seeing unprecedented natural phenomenon, such as sudden gusts of wind off Kashima in Japan.

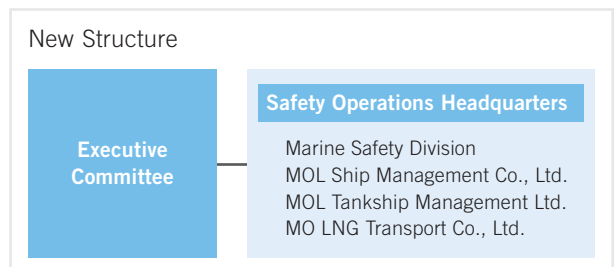
MOL took a comprehensive approach to these accidents, thoroughly analyzed them, and formulated measures to reinforce safe operations.

Maintaining safe operations is our highest priority under MOL ADVANCE, and we have formulated measures to reinforce safe operations that will help to not only prevent the reoccurrence of the same types of accidents that occurred in the past year but also to avoid other types of accidents. By implementing these measures, we aim to raise our transport quality to the top rank in the world.

Specific details about the measures and how they were formulated are discussed in more detail by the executive officer in charge of safe operations on pages 22 to 23. I would, however, like to make two points.

First, the revision of our safe operations organization was based on the conviction that it was necessary to change the formalistic approach that I described above. The Marine Management Division, which was responsible for safe operations, was situated above the ship management companies, to which it gave instructions. We have changed the name of the Marine Management Division to the Marine Safety Division and assigned it the role of laterally providing support to the ship management companies. This step was taken in order to rigorously implement the on-site, ship-oriented approach and break away from the formalistic approach into which we had fallen. We established the Safety Operations Headquarters, comprising the Marine Safety Division and three ship management companies and reporting directly to the Executive Committee. As a result, the distance between head office management and ship management has been reduced.

Second, we took two steps that were unprecedented in the marine transport industry. One step was the establishment of the Safety Operation Supporting Center, which is open around the clock. We have already had reports from ship captains who encountered rough weather that the support they received from the center was useful. The other step was the acquisition of a purpose-built training ship, on which graduates from maritime colleges are trained. MOL is committed to being a vanguard in safe operations.



Concentrating Management Resources on Growth Fields

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Please discuss the financial goals set out in MOL ADVANCE and the issues that MOL will focus on to achieve those goals.

Under MOL STEP, on a consolidated basis, we achieved ordinary income of more than ¥175 billion for three consecutive years, including ¥182.5 billion in the final year. In the next phase of our growth, over the three years covered by MOL ADVANCE, we are targeting ordinary income of more than ¥200 billion a year. The goal of the new plan is to achieve sustained profit growth at a high level. In fiscal 2009, the third year of MOL ADVANCE, our specific financial goals are, on a consolidated basis, revenue of ¥2,060 billion, ordinary income of ¥220 billion, and net income of ¥143 billion. Our targets for key indicators are 11% for the ordinary profit margin; less than 100% for the gearing ratio; more than 40% for the shareholders' equity ratio; and more than 7% for ROA.

To reach these goals, we will focus our management resources on our core business, marine transport, where we anticipate growth. During the course of MOL ADVANCE, we expect our markets to continue to expand.

Specific fields on which we will focus include iron ore and coking coal carriers, where cargo volume has grown by 39% over the past three years. Even if the rate of growth declines in the future, the scale of the market has expanded to the point where the impact of an increase in cargo volume will be substantial. Dry bulk other than iron ore is also expected to show a high level of market activity, and we will take steps to capture emerging profit opportunities. We also expect strong growth in tanker business, especially product carriers.

Container transport, which has increased due to the shift of production sites, is also expected to show continued expansion in the years ahead, most likely at the same pace it has shown in recent years. Container transport will also be supported by increases in the numbers of people with middle-class incomes in newly industrializing countries.

In the 1960s, the ratio of annual marine cargo volume to the world's population was about one-half ton per person. Around 2000, that ratio surpassed one ton per person for the first time, and since then it has increased further. When we formulated MOL ADVANCE, we forecasted volume for each type of cargo, and by combining them, we reached the conclusion that the world's marine cargo would grow by over 5% a year. This works out to about 1.5 tons of marine cargo per person in 2010 and 1.8 tons per person in 2015.

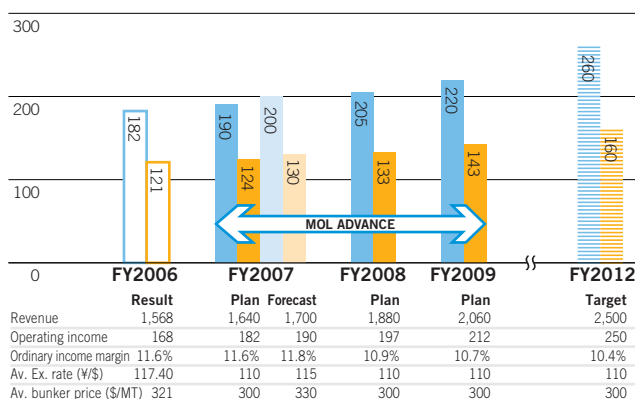
MOL ADVANCE Profit Plan
(¥ billions)

Sensitivity p.a. (FY2007)

Exchange rate
±2.3 bil./¥1 (Max.)

Bunker price
±0.3 bil./\$1 (Max.)

■ Ordinary income
■ Net income



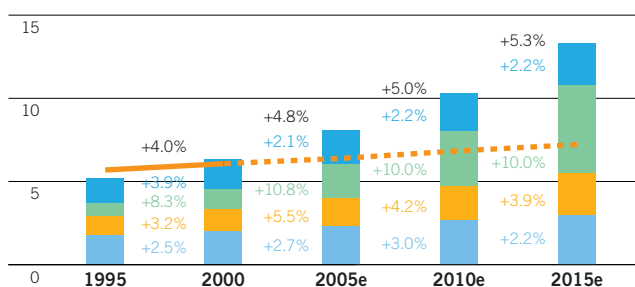
World Population and Seaborne Trade
(billion tons/billion people)

Sources: MOL internal calculation based on UN statistics, Fearnley World Seaborne Trade, Drewry, MSI, etc.

Note: Other cargoes = non-containerized cargoes other than dry bulk and oil

%=Annual growth rates

■ World population
■ Other cargoes
■ Container
■ Dry bulk
■ Oil
e=estimate



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Would you describe your approach to achieving a balance between growth in stable profits and market-sensitive businesses?

To achieve growth with enhanced quality, we cannot simply expand operational scale in tandem with the market. Rather, we need to focus on achieving the optimal balance in our business portfolio between stable earnings and market sensitive profits.

For example, in fiscal 2007, the first year of MOL ADVANCE, we anticipate ordinary income of ¥200.0 billion. Stable earnings represent about 60% of that total. These earnings comprise profits generated through medium- to long-term contracts that are confirmed at the beginning of the term as well as projected profits from highly stable businesses. We will also strive to maintain the ratio of stable earnings to market sensitive profits at about 50:50 over the medium to long term.

In generating both stable earnings and market sensitive profits, the ability to appropriately seize opportunities and order necessary vessels at competitive prices is of the utmost importance. With superior capabilities in this area, MOL has increased its stable earnings at a rapid pace, raising them to a level that is substantially higher than the entire company's profit in fiscal 2003 and earlier fiscal years. Surplus vessels can be operated in the spot or short-term markets, thereby generating high profits. With shipbuilding docks filled until about 2010 or the first half of 2011, one of our strengths is our ability to utilize so-called bridge contracts, where we can offer available ships for use during the period until newly ordered ships are delivered and the related long-term contract starts.

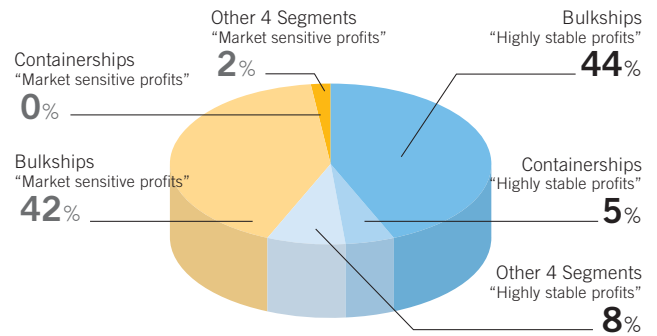
In formulating MOL ADVANCE, we made comparatively cautious assumptions about the market conditions in bulkship operations. Nonetheless, we can plan on steady growth in profits by expanding our fleet while maintaining this type of portfolio.

Portion of Highly Stable Profits

The blue color components show "highly stable profits" (the projected profits from long-term contracts and other highly stable sources of profits)

FY2007 Consolidated Ordinary Income (Forecast at beginning of FY)

Total	200 bil. yen
Highly stable profits	114 bil. yen
<small>(incl. 3 bil. yen, which we aim to accumulate through long-term contracts)</small>	



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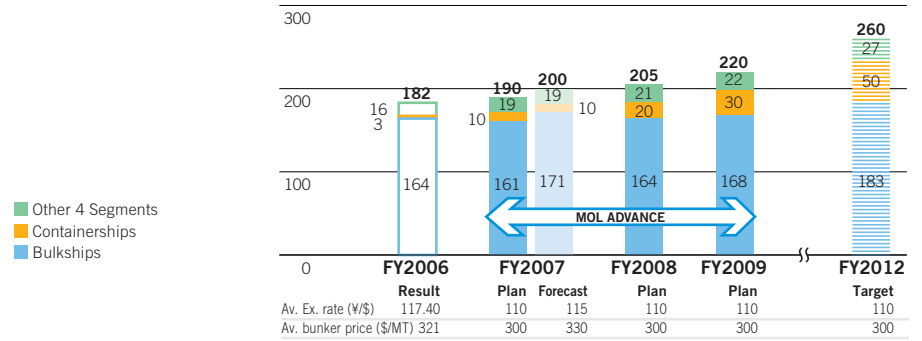
How will MOL operate in containerships in markets that are likely to continue to fluctuate?

In the second half of 2005, following major reorganization moves among companies in the containership industry, rates declined on Asia-Europe routes, and in 2006, that trend spread to transpacific routes. In both cases, market conditions have since recovered, but in containership operations, we need to always be aware of the possibility that market conditions could fluctuate.

Given this type of market in containership operations, as I have stated previously, to secure a return that is appropriate to the level of investment, we need to make unrelenting cost reduction efforts and implement rigorous yield management in order to ensure that we are in the top half of containership operators in terms of profitability, and preferably in the top third. If we do that, we can operate in the black even when market conditions are least favorable and we can generate greater profits when market conditions are favorable. In fiscal 2009, the final year of MOL ADVANCE, we are forecasting revenues of ¥910.0 billion and ordinary income of ¥30.0 billion in our containership operations, but I am not satisfied with these figures. In April 2007, we implemented a reorganization, with trade management functions for North America, Asia, and Europe brought under tighter control at the head office. This was done to speed up communications and to facilitate timely, accurate judgments.

Having solidified our base in this way, under MOL ADVANCE we will expand our capacity by introducing 22 containerships ranging from 5,100TEUs to 8,100TEUs. Consequently, we will reduce our unit costs while maintaining an established presence in a market growing at the high rate of more than 10% a year. We will maintain an operational scale that can meet the demand of customers trading large volumes of cargo and secure a position of leadership in an industry marked by ongoing advances in mergers, acquisitions, and alliances.

Ordinary Income by Segment
(¥ billions)



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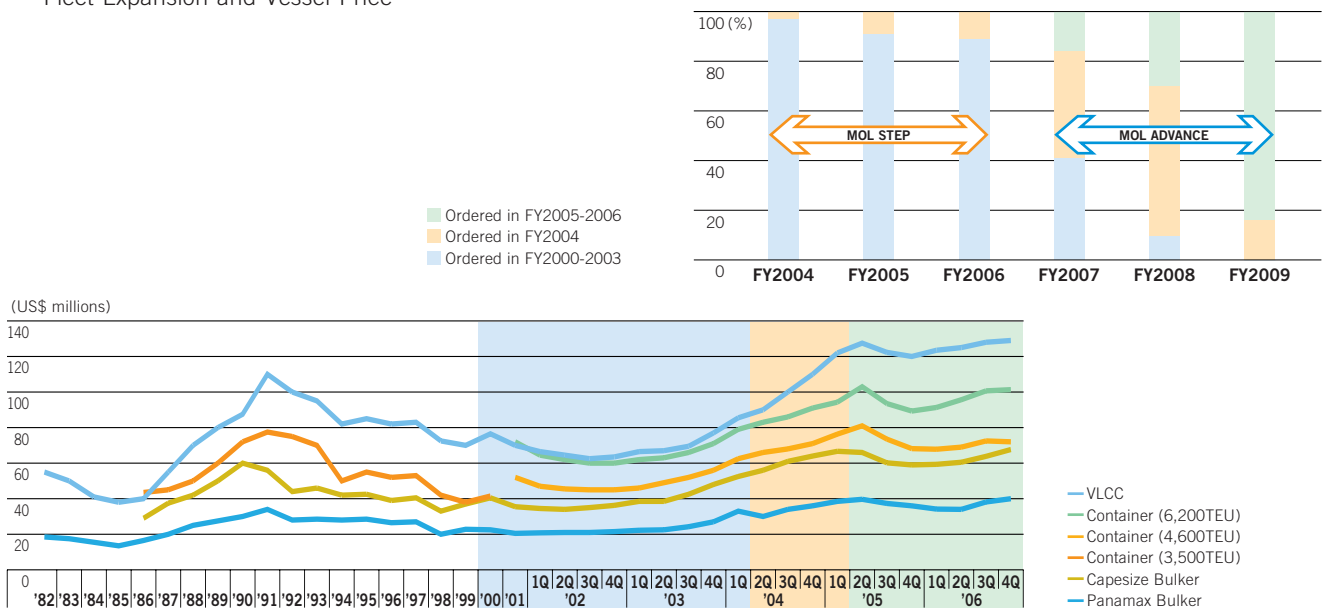
Would you give us an overview of MOL's fleet expansion plans for fiscal years 2007 to 2009?

As a global leader in marine transport, we will aim to grow at a faster rate than the market itself, and accordingly, we will continue to aggressively expand our fleet. We plan to increase the fleet from about 800 vessels in operation at the end of fiscal 2006 to 1,000 vessels in operation at the end of fiscal 2009, and then to 1,200 vessels in operation at the end of fiscal 2012.

From fiscal 2007 to fiscal 2009, we will add 196 vessels, all of which have already been ordered. Of these vessels, 172 are bulkships, about half of which will be used under contracts that have already been signed or in businesses that generate stable earnings. In the subsequent three years, ending fiscal 2012, we plan to add 236 vessels to the fleet. As of the end of March 2007, orders had already been placed for about 25% of those vessels.

In this way, we move quickly to order the ships that our customers want and we work to build a fleet that will offer value in global markets in terms of its breadth, scale, and cost competitiveness.

Fleet Expansion and Vessel Price

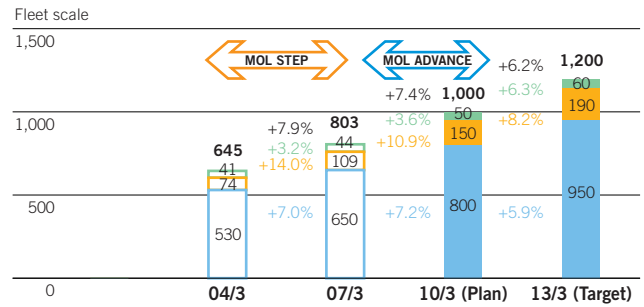


MOL ADVANCE
Fleet Expansion Plan
(number of vessels)

Ships to join MOL fleet	Fleet scale	
	FY2007 to 2009	FY2010 to 2012
Total	196	236
Other ships	2	6
Containerships	22	30
Bulkship	172	200

%=Annual growth rates

- Other ships
- Containerships
- Bulkships



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How will high vessel prices affect your aggressive fleet expansion plans in fiscal 2010 and thereafter? And how would you evaluate the risk of a decline in market conditions in that time period?



As I mentioned, in formulating MOL ADVANCE, we conducted thorough research and forecasted demand and supply as accurately as possible at that point in time. We reached the conclusion that the demand-supply balance is likely to remain tight overall. Based on this assumption, ship prices will not decline substantially, and therefore MOL's competitiveness will not be adversely affected even if we continue to aggressively expand our fleet. Up to the present, we have expanded our fleet systematically, and over the past few years, we have added a number of vessels that were ordered before ship prices increased. As a result, in terms of average cost, we will remain competitive. In fact, the risk of scaling down fleet expansion, which is the risk of missing opportunities, is quite high. Of course, our fleet expansion plan does not call for adding vessels across the board. Rather, we will carefully weigh conditions in each field and add vessels accordingly.

Nevertheless, we are also aware that no one can precisely predict the course of the global economy, and the Group's operating environment could change substantially at any time.

One development that is of considerable interest to MOL is the substantial growth in shipbuilding capacity in China. At this point, we believe that—given the current levels of construction efficiency, design capabilities, supply capacity for major parts, and development of skilled workers—any substantial effects on the future demand-supply balance will not be seen until 2015 or thereafter. However, if the quantitative and qualitative progress in Chinese shipbuilding operations outpaces our expectations, there is cause for concern that excess supply could adversely affect market conditions.

In preparation for that possibility, we have formulated a range of countermeasures. For example, we closely monitor average ship prices by type of vessel, and take steps to ensure that we don't record losses even if market conditions decline. Furthermore, we constantly update lists of ships that can be returned or sold in any fiscal year, and we run simulations of fleet reduction scenarios. Based on those simulations, we have determined that we could reduce the size of our fleet by 15% in fiscal 2012, for example, without incurring any extraordinary expenses.

We will continue to expand the overall size of our fleet, but in specific fields, we will not hesitate to scale back the fleet in accordance with market conditions. The scale and diversity of our fleet gives us tremendous flexibility in making these decisions.

Accelerating Global Development

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What are MOL's policies for business development in markets characterized by ongoing globalization?

We cannot expect substantial growth in marine shipments of cargo from and to Japan, where the economy is mature. With globalization of marine transport poised to accelerate even further, MOL still has a great deal of work to do in strengthening its operations.

To achieve the performance objectives outlined under MOL ADVANCE, it is absolutely essential that we maintain our position in Japan, expand global development, and build strong positions in growing overseas markets.

In containership operations, as production has been shifted to optimal sites, the share of global container trade accounted for by shipments to and from Japan has declined to about 10%. We have already developed bases around the world and built a system that makes full use of personnel and other resources in accordance with market characteristics.

In other divisions, we will utilize existing global resources and establish new information gathering and marketing bases as necessary. For example, we recently established two offices in Russia and the Middle East Headquarters in the UAE, targeting a wide range of business fields, including energy-related business. On the other hand, decisions regarding fleet expansion are made in the head office in principle, with the information acquired at overseas bases used by executives to rapidly make accurate decisions. Mergers and acquisitions involving overseas companies are also an option, as demonstrated by our successful examples in the fields of LNG carriers and dry bulkers. We strive to be a global company that can record sustained growth in markets around the world.

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What regions do you expect to record strong growth, and what are your strategies for those regions?



In natural resources and energy, the volume of shipments to China and other industrializing countries is expected to show continued strong growth. We took the lead ahead of other companies in meeting emerging demand in China, and we have built a strong presence in the China market. Using that presence as a competitive advantage, we will further expand our operations. For example, in the field of iron ore transport, in the first half of 2007, Baoshan Iron and Steel executives presided over the launch of three new vessels that will be operated on long-term contracts. At that time, we were already moving ahead with another round of negotiations with Baoshan, and the two companies have decided to expand their relationship to include long-term contracts to six ships, thereby solidifying MOL's position as Baoshan's main carrier of iron ore.

In India, the pace of growth in crude steel production is accelerating, and imports of coking coal are expected to grow. To meet that demand, we will expand our fleet of small-sized dry bulkers. Also, in Brazil, where MOL has long had a strong presence, we expect growth in exports of iron ore carried over longer distances and accelerating imports and exports of manufactured goods.

In containerships, MOL will further strengthen its networks of east-west, north-south, and intra-regional routes and allocate vessels appropriately.

We have positioned Vietnam, which has recorded rapid economic growth in recent years, as a top priority region. In particular, in the field of container transport, we are expanding services linking Vietnam, which is posting dramatic growth in export cargo, to Japan, Southeast Asia, and Hong Kong. We will draw on our strength as the only Japanese marine transport company with a wholly owned local subsidiary, and in the future we will aggressively participate in such projects as container terminal projects that are under way and in business alliances with shipyards run by the Vietnamese government.

In this way, we will draw on overseas resources in developing our operations. While cross trade currently accounts for 50% of our revenues, we will work to raise that share to more than 60% in 5 years.

Bolstering the Group's Comprehensive Strengths and Competitiveness

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What are your thoughts about bolstering the Group's comprehensive strengths?

In addition to MOL itself, other Group companies also made steady progress over the course of MOL STEP. Group companies are making a growing contribution to the Group's performance. These companies were responsible for ¥19.6 billion of our consolidated ordinary income in fiscal 2003 and ¥61.6 billion in fiscal 2006. In the future, we will shift from a focus on rationalization and cost cutting to a focus on growth and synergies as we work to steadily increase the Group's comprehensive strengths and competitiveness. And we will further enhance the earnings contribution of Group companies.

MOL Group companies in such fields as dry bulkers and tankers have highly advanced capabilities that enable them to generate strong profits, and we will draw on tie-ups within the Group to further enhance our consolidated performance. Also, in logistics and associated businesses, we will allocate management resources to fields where growth is expected.

Creative Cost Saving Program

	(¥ billions)			
	FY2007	FY2008	FY2009	Total
Sales Division (Voyage expenses, container expenses, etc.)	6.5	11.0	11.0	28.5
Administration Division (Administration expenses, interest payments, etc.)	2.5	2.0	2.0	6.5
Total	9.0	13.0	13.0	35.0
MOL (Non-Consolidated)	8.0	12.0	12.5	32.5
Group Companies	1.0	1.0	0.5	2.5

One more effort that we should not forget is the Creative Cost Saving Program. Even when we are achieving good results, it is important to continue to work hard with a spirit of “taking one more step forward” while constantly remaining alert and vigilant. There are limits to the cost savings that can be achieved through unit price reductions. I have instructed everyone in the MOL Group to change their thinking and come up with new ideas, such as how to control the costs that typically increase as a business expands or how to reduce costs through modest investments that improve operational efficiency. In any case, cost reduction initiatives must not affect safe operation, which is the top priority in MOL ADVANCE.



Unwavering Commitment to CSR and Corporate Governance

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Would you describe your thoughts and policies regarding environmental conservation, CSR, and corporate governance?

CSR consists of various elements, but I believe its foundation is to faithfully contribute to society through our business activities—transporting the cargo entrusted to us by our customers in a reliable, safe, speedy manner, with minimum environmental impact. The MOL Group supports sustainable global economic growth through its world-leading transport services.

As I mentioned, safe operations are an absolute necessity. We are starting again from the ground up. And as a global marine transport company, we must aggressively implement initiatives for environmental conservation. Considering the critical issues of global warming and air pollution, we have developed and introduced an energy-saving propeller system, vessel designs that feature reduced wind/water resistance, and emission control systems. What’s more, the MOL Group operates Japan’s largest ferry and domestic coastal service network, positioning us to effectively promote a modal shift toward environmentally friendly solutions in transport and logistics.

Daily business activities are based on an acute awareness of and strict compliance with social norms and corporate ethics. Companies, as social institutions, must be operated and managed in a highly transparent manner. The MOL Group always attempts to study and establish the optimum corporate governance framework. Accordingly, we have made our commitment to the establishment of a governance structure that fulfills stakeholders’ trust, one of the overall strategies of MOL ADVANCE.

Maximizing Shareholder Value

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Finally, how will MOL increase shareholder value?

When I became president three years ago, I put forth what I called the “triple 1” objective. This entailed maintaining revenues above the level of ¥1 trillion, which we had already reached; increasing net income to ¥100 billion; and thereby raising our market capitalization to ¥1 trillion. In the following year, fiscal 2005, I had the pleasure of reporting to shareholders that net income had surpassed ¥100 billion and market capitalization had reached ¥1 trillion.



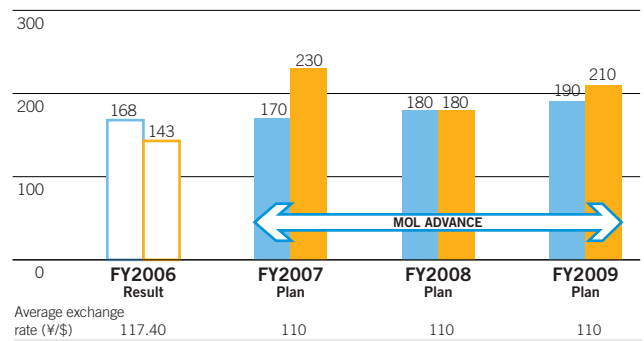
My thoughts about increasing shareholder value as we start the MOL ADVANCE midterm management plan are included in the To Our Shareholders section of this report, so I will not repeat them here. Based on that approach, however, I have put forth the “triple 2, single 1” objective, which calls for achieving revenues of ¥2 trillion, ordinary income of ¥200 billion, and market capitalization of ¥2 trillion under MOL ADVANCE, and then subsequently to raise shareholders’ equity to ¥1 trillion as rapidly as possible. By continuing aggressive capital investment, we will increase revenues, and while maintaining investment efficiency and the net profit margin at high levels, we will raise ordinary income and EPS, and, in turn, market capitalization. As we have stated, we will continue to base dividends on a payout ratio of 20% while working to reinforce shareholders’ equity as rapidly as possible. In this way, in a constantly changing operating environment, we will build a foundation on which to pursue profits by taking appropriate risks and thereby ensure MOL’s sustained growth over the long-term.

I will continue to emphasize transparent management and to take advantage of opportunities—such as results presentations and meetings with investors—to explain MOL’s strategy, direction, and actions. Through communication with shareholders and other stakeholders, I am confident that we can further increase the company’s enterprise value.

Cash Flows and Capital Expenditures (¥ billions)

Cash flows =
Net income + Depreciation –
Dividend

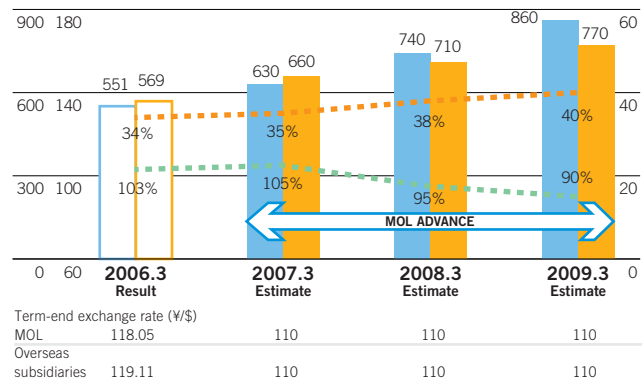
■ Cash Flows
■ Capital Expenditures



Shareholders’ Equity, Interest-bearing Debt Shareholders’ Equity Ratio, Gearing Ratio (¥ billions/%)

Gearing ratio =
Interest-bearing debt/
Shareholders’ equity

■ Interest-bearing debt
■ Shareholders’ equity
■ Shareholders’ equity ratio
(right scale, %)
■ Gearing ratio (left scale, %)



Dividend per Share (non-consolidated) (¥)

