Interview With the President

MOL ADVANCE Challenge

In fiscal 2007, MOL continued to set records. Our earnings grew 60% year on year to an all-time high. Dry bulkers turned in an unprecedented performance. But not everything went our way during the past year. Soaring bunker costs and an appreciating yen were among some of the challenges we faced. In this section, MOL's president responds to questions about how the company plans to sustain its current high level of earnings in this operating environment.

Akimitsu Ashida
President

Aggressive Management Spurs Dramatic Growth in Fiscal 2007

Q:

You have set bottom-line records six years running, and fiscal 2007 net income was up around 60%, far more than expected. To what do you attribute this success?

A: There was basically no change in fiscal 2007 in structural factors from the previous fiscal year, as demand for marine transport rose and ships remained in short supply. However, the market environment was marked by many negatives. For instance, bunker oil prices skyrocketed, while the U.S. economy suffered at the hands of the subprime loan problem.

Regardless, we were able to post record earnings, thanks to a successful business strategy. Some people have the impression that a surge in the dry bulker market was the reason for our record-breaking performance. That is true, but so too is the fact that we harnessed expanding demand for transporting natural resources. That we performed as well as we did in the face of escalating bunker prices, the higher yen and lackluster results in containers is meaningful. For me, it underscores the continued strength of our earnings ability from MOL STEP (FY2004–2006) to MOL ADVANCE (FY2007–2009). It proves we were right in concentrating business resources on growth sectors of the marine transport industry. This gave quite a boost to our overall performance.

MOL Group Midterm Management Plan

MOL ADVANCE

Mitsui **O**.S.K. **L**ines' **A**ction and **D**irection at the **Van**guard of **C**reating **E**xcellence

Long-Term Vision: To make the MOL Group an excellent and resilient organization that leads the world shipping industry

Main Theme: "Growth with enhanced quality"

—Ensuring safe operation is the highest priority, while achieving sustainable growth and enhancing quality.

Overall Strategies

Safety
Strategy 1: Implement comprehensive measures to reinforce and ensure safe operation

Growth
Strategy 2: Focus management resources heavily on growing fields in the ocean shipping industry

Global
Strategy 3: Accelerate globalization and enhance sales capabilities in emerging markets

Group
Strategy 4: Enhance Group-wide strength and competitiveness

Aiming for Quality in Growth

Sustainable expansion of sales and profits

Governance
Strategy 5: Establish a governance structure that fulfills stakeholders' trust

Q:

MOL's ordinary income of ¥302.2 billion was due to various factors, some expected and some not. Can you tell us more?

A: First of all, let me explain that MOL divides earnings into "highly stable profits" and "market-sensitive profits." Our goal is to generate a high level of earnings by augmenting steady growth in "highly stable profits" with "market-sensitive profits." In fiscal 2006, we achieved our goal of growing "highly stable profits" to account for 50% of our ordinary income. In fiscal 2007, we lifted these profits further to ¥108.0 billion. Most of this came from middle- and long-term contracts, which are quintessential highly stable profits.

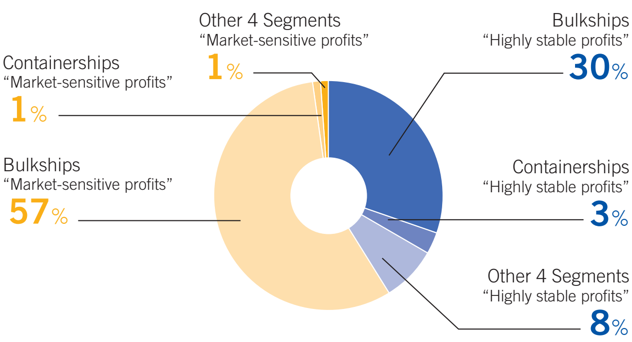
"Market-sensitive profits" are impacted by unexpected factors. We initially expected these profits to account for about ¥80.0 billion in ordinary income, but the total ended up at ¥194.2 billion. This extra did not come to us by luck, but because we were able to put ships, primarily dry bulkers, into service in a timely fashion with an eye to the spot market. We were able to strategically allocate our ships between short-term contracts and medium-term contracts, as we have the world's largest fleet, both in terms of volume and diversity, to respond to market dynamics.

Highly Stable Profits and Market-sensitive Profits (FY2008)

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

FY2008 Consolidated Ordinary Income (Forecast at beginning of FY)

Total	300 bil. yen
Highly stable profits	123 bil. yen



Maintaining Earnings Momentum in Choppy Seas

Q:

Some say that the business environment will get tougher in fiscal 2008. Why do you think you can sustain ordinary income of ¥300.0 billion despite this?

A: We expect to encounter head winds, and strong ones at that: in nautical terms, strong winds and high waves are likely, with a small craft advisory likely. For instance, we expect the average bunker oil price to rise 30% year over year from US$409 to US$530, and we now anticipate a yen-dollar rate of ¥100/US$, down from ¥115.55/US$ the previous year. These things alone will reduce expected ordinary income by about one-third, or ¥95.0 billion. However, we are confident that ordinary income will again total at least ¥300.0 billion in fiscal 2008. For one, we will add 84 vessels to the fleet in fiscal 2008 (24 dry bulkers, 24 tankers, 14 LNG carriers, 13 car carriers, and 9 containerships). In addition, lower-profit medium-term contracts for bulkers are up for renewal at higher rates, and we expect a rise in containership profits thanks in part to freight charge revisions. Finally, we plan relentless cost cutting. We will leverage MOL's strengths to achieve a challenging target even under difficult circumstances. Fiscal 2008 should see a clear division between strong shipping companies and the others.

Overall Profit Plan

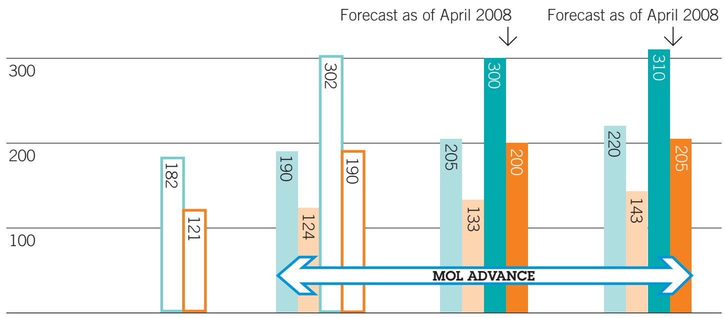
(¥ billions)

Sensitivity p.a.(FY 2008)

Consolidated ordinary income basis

Exchange rate: ±3.8bil./¥1(Max)
Bunker price: ±0.3bil./$1(Max)

Ordinary income
Net income



	FY2006 Result	FY2007 Plan	FY2007 Result	FY2008 Plan	FY2008 Forecast	FY2009 Plan	FY2009 Forecast
Revenue	1,568	1,640	1,946	1,880	2,050	2,060	2,200
Ordinary income margin	11.6%	11.6%	15.5%	10.9%	14.6%	10.7%	14.1%
Av. Ex. Rate (¥/$)	117.40	110	115.55	110	100	110	100
Average Bunker Price ($/MT)	321	300	409	300	530	300	530

Plans: As of March 2007

Q:

Some say the marine transport business is cyclical, making it difficult to sustain high profits. What would you say to this?

A: MOL operates many different kinds of ships, including iron ore and coal carriers, general bulk carriers, woodchip carriers, crude oil tankers, product and chemical tankers, LPG and LNG carriers, car carriers, and containerships. Each of these areas is subject to different environments.

Over the past five years, dry bulker and tanker market rates have been highly volatile. However, the market rates in these two sectors are not correlated. What's more, containership market rates show no relationship to either dry bulkers or tankers. For instance, although dry bulker market rates were sluggish in 2005, containership market rates were high; the reverse was true in 2007. In other words, you should not base your opinion of the overall marine transport market on prices in a few sectors. This is a common mistake among many shipping industry watchers.

There are no indices that describe the overall condition of the marine transport market, so people tend to assume prices in certain sectors apply to the market as a whole. At MOL, we operate many different kinds of ships under very different sector environments, covering pretty much the entire marine transport business. This comprehensiveness is unique to major Japanese shipping companies, something foreign investors may not understand.

MOL has a diverse business portfolio, and the MOL Group's growth strategy is based on its varied fleet and large volume of ships. This enables MOL's overall business performance to be shielded from negative changes in individual markets. By controlling overall risk and investing heavily in ships for sectors expected to see growth, we should be able to sustain expansion.

Q:

Marine transport only appears to be a growth industry due to the current tight supply of ships, doesn't it?

A: Everyone says that. They want to make the business seem mature and unappealing. When someone raises questions like this, I say they are "missing the forest for the trees," as they fail to see the paradigm shift the industry has undergone. Usually, a company that posts constant increases in earnings is called a "growth company." So, it wouldn't seem fair that we are not seen in this light despite nine and six years of successive revenue and net income growth, respectively.

I think this is an opportune time to revisit the paradigm shift in the industry. The global economy is undergoing multi-polar growth, resulting in large economic blocs in places like Europe, China, and South America. This has yielded significant growth for marine transport. Much of the focus is on exports of natural resources and energy from resource-rich countries to China. However, economic growth in these resource-rich countries as well as China is driving movement of food and consumer goods as well; moreover, countries are sourcing things from farther and farther away and from more locations. One only need look at ever-increasing ton-miles for evidence of this, with ton-miles having risen 6.3% annually over the past 5 years. In the past, all that mattered was the U.S. economy, but now one must look at the world picture. Affected by past experiences, many marine transport companies have not increased their fleets to keep up with this rapid market expansion. This is why you see tight supply-demand nowadays.

Q:

MOL plans to increase the number of bulkships it operates from 693 at March 31, 2008 to 950 at the end of fiscal 2012, an increase of 37%. This is rather ambitious. Where does your confidence come from?

A: The paradigm shift I just noted. Movement of crude oil, iron ore, and other commodities is expected to steadily increase over the next 5 to 10 years. Given this, it makes perfect sense to expand our fleet. Some are concerned that a large volume of new ships will come on the market in 2010, pushing market rates down considerably—the so-called "2010 problem"—but we are not worried. Although there may be some impact from the "2010 problem," we think it will be short-lived due to strong demand. Marine transport is our core business, and we make capital spending decisions based in part on information about seaborne trade gathered from our front-line sales and operations. We also make sure we understand customer trends precisely by building long-term stable relationships with customers. In this way, we are different from speculators, who do not actually operate ships and don't have any customers. Speculators rely only on forecasts of rising ship prices and market rates provided by consulting firms.

Fleet Expansion Plan

(Number of Vessels)

	Fleet scale at the end of Mar. 2008 (Actual)	Ships to join MOL Fleet (FY2008–2009)	Fleet scale at the end of Mar. 2010 (Plan)	Ships to join MOL Fleet (FY2010–2012)	Fleet scale at the end of Mar. 2013 (Target)
Bulkships	693	138	800	158	950
Containerships	130	18	150	34	190
Others	51	1	50	3	60
Total	874	157	1,000	195	1,200

Note: Number of vessels at the end of fiscal years includes spot-chartered ships and those owned by joint ventures.

Q:

The level of containership earnings suffers in comparison to the extremely strong bulker business. Fiscal 2008 and thereafter is crucial in this context. Regardless, you are planning to increase your containership fleet from 130 ships at the end of March 2008 to 190 ships at the end of March 2013, a 46% increase. Is this an attempt to take advantage of scale?

A: The containership business was profitable in fiscal 2007, but we were disappointed with earnings given the amount of business resources invested. In the past, we thought increasing scale would lead to greater profits, but a look at our global peers has changed our minds about the scale-profits relationship. That is, even some mid-sized containership companies like ourselves have been able to post large profits. As in bulkers, where we look to turn shifting market conditions into business opportunities, in the containership business we want to fashion an organization structure that allows us to dynamically take on risk as justified. The keys to growing profits will be how swiftly we can implement necessary steps such as altering routes according to market trends, careful yield management, extensive research on global factors that push up costs, comprehensive information gathering, and effective cost reductions. MOL increases the size of its fleet to stay abreast of increasing container cargo demand. Having a fleet of 190 ships without such a strategy would be foolhardy indeed.

Tackling the Challenge of Raising Corporate Value

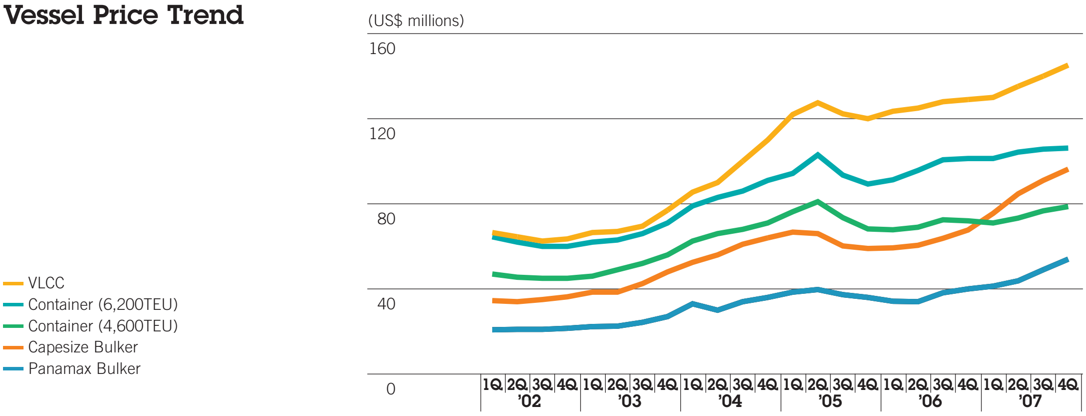
Q:

You have increasingly been stressing customer satisfaction in recent years. What exactly do you mean by customer satisfaction?

A: The global economy is undergoing multi-polar growth, which has led to a paradigm shift in marine transport. I think a marine transport company of our size has a duty to help sustain multi-polar global economic growth.

An excellent marine transport company understands the needs of its customers well, and provides them with the optimal ships exactly when they need them. During fiscal 2007, I can say that MOL came very close to this ideal. The *Brasil Maru*, which was completed last December, was quite literally a joint product with a key customer, down to ship type, size, and contract details.

Vessel Price Trend



There is currently a shortage of ships. It will take four to five years for ship owners to take delivery of ships that are ordered now, making it difficult to supply customers with ships in a timely manner if we wait until we have a long-term contract before placing an order. Accordingly, we are aggressively working to anticipate customer needs and order ships before we have contracts in place. This is not just a question of getting the timing right, but also of anticipating the type of port facilities and waterways that will be used and what kinds of new cargo may emerge; that is, who will want what kind of ships in the future. For instance, 7 VLGCs ("Very Large Gas Carriers" for LPG transportation) due for delivery between 2009 and 2010 were ordered before we had a shipping contract in hand. We placed the order because we saw LPG as an important energy source in the future and one where transportation needs would soar accordingly.

Q:

You are looking to maintain ordinary income of ¥300.0 billion, but won't ROE fall significantly as you increase shareholders' equity?

A: Let me begin by saying that MOL's ROE is not low from a global standpoint. In fiscal 2007, our ROE was 30.9%. Some people have pointed out that MOL's ROE will decline as we continue to amass profits, assuming there is no change to our capital structure policy. However, we must have enough capital to take on the risks necessary for implementing our two-pronged strategy: 1) generating momentum in marine transport earnings via a balance between "highly stable profits" and "market-sensitive profits" and 2) creating a business model that enables us to achieve ordinary income of ¥300 billion at cruising speed. To use a maritime term, if a ship's freeboard* is too low, then even small waves can cause it to capsize. Think of shareholders' equity as reserve buoyancy. We want to sustain an absolute shareholders' equity of ¥1 trillion, as we are taking more aggressive steps to grow our marine transport business, with its attendant risks, including appreciation of the yen and rising bunker prices. We see a solid shareholders' equity as a springboard to future growth.

We are also focused on ROA. Our ROA reached 10.8% in fiscal 2007. Maintaining high asset efficiency and business profitability will enable us to be flexible about capital procurement as we work to increase corporate value.

* The distance from the waterline to the uppermost deck of a ship, measured amidships at the side of the hull; this indicates reserve buoyancy.

Q:

Many Japanese companies introduced anti-takeover measures again this year. Please tell us about MOL's stance on this matter.

A: At this time, we have no plans to introduce any anti-takeover measures. Instead, we plan to increase corporate value via sound management, proactive capital investment, healthy shareholder returns, and proactive IR activities. We will work to ensure ROE is in line with shareholder expectations, while also keeping our financial position solid. While maintaining an appropriate dividend payout ratio, we plan to continue using free cash flows to expand our fleet to generate even more earnings. Doing so should help boost shareholder returns down the road.

Since the beginning of this year, major European and U.S. investors have been recommending corporate governance reforms at Japanese companies. However, MOL has been taking steps to improve its governance for some time now. For example, MOL's Board of Directors is composed of 11 members, 3 of whom are outside directors. All outside directors have a high degree of independence and backgrounds that enable them to make judgments from a shareholder's perspective. Our outside directors attend nearly all Board of Directors' meetings, and they are unafraid to say whatever is on their minds. I am confident that our Board has a high degree of independence.

Q:

Finally, I understand that you are aiming for a market capitalization of ¥3 trillion. Please tell us more about this.

A: Right now our market capitalization is ¥1.6 trillion, and while I am pleased people think we can more or less double it, that may be asking too much. Market capitalization is a combination of current profits and future estimates, and while we can manage our own profits, we have to leave estimates up to the capital markets. Still, I cannot understand why our forward P/E ratio (8.8 times as of June 23, 2008) is so low. We can keep explaining that our ability to generate cash is now much better, as we have done in the past, but it seems a lot of investors fixate only on short-term earnings momentum and are concerned only with risks; this must be why our P/E ratio remains low. During the three years of MOL ADVANCE, we expect to produce ordinary income of at least ¥300 billion each year, so shouldn't our Company have a higher valuation? Should investors agree, maybe ¥3 trillion isn't out of the question after all.