Financial Issues and Strategy

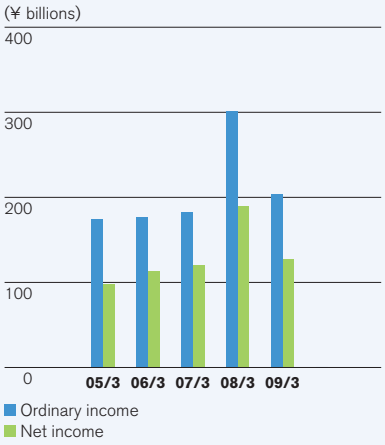
As was the case for many industries with a global scope, the marine transport industry was severely affected by the financial instability and subsequent global economic downturn that developed following the collapse of Lehman Brothers in September 2008. Transport volume dropped off from the third quarter of fiscal 2008 and market rates weakened, making for an extremely difficult operating environment.

Nevertheless, we expect demand for international marine transportation to continue rising, thanks to the world's growing population and increased globalization. MOL has adopted a long-term strategy founded on the assumption that demand will continue to increase over the next 5 to 10 years. Our basic strategy has not changed. We aim to build a fleet that can respond to demand, by adding ships at an appropriate pace and timing. In addition, we have an investment strategy that will seek to use M&As and other techniques to expand into new growth-oriented sectors. That strategy will naturally make it necessary for the company to raise new funds. Because of the global financial crisis, the supply of funds in financial markets has become very tight. The strategic and effective expansion of a company's fleet in growth markets is premised on raising the necessary funds when they are required. However, there are only a limited number of shipping companies that can do this. MOL is striving to maintain its advantage over business rivals in terms of financial stability and credit quality, not only to ensure that the company can obtain funds for new ships but also to gain the trust of customers. This will allow us to respond to difficult business conditions and take advantage of business opportunities.

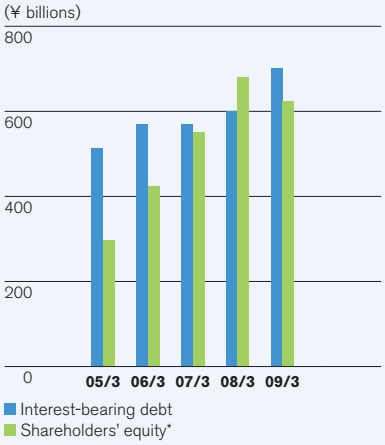
In fiscal 2007, we embarked on a new midterm management plan, "MOL ADVANCE." This plan aims to ensure that the company will be able to maintain steady growth and to strengthen MOL's financial position in support of this. One of the main numerical targets of this plan is to improve the gearing ratio (interest-bearing debt/shareholders' equity)—an important indicator of financial stability—to no more than 100%. We achieved this target in the very first year of the plan, reducing the ratio to 88% as of March 31, 2008. However, due to the deterioration of earnings in the latter half of fiscal 2008, the ratio rose to 113% at March 31, 2009. In fiscal 2009, we project that operating cash flow will once again fall below the demands of capital investment, causing the ratio to rise by a further 10 points or so. The company is responding by cutting costs and seeking to improve operating profitability in other ways. In addition, we are increasing the use of chartered ships and operating leases in order to access the ships required to meet demand. These and other measures to obtain transport capacity without expanding the balance sheet should allow MOL to halt any further increase in the gearing ratio, and maintain its superior financial condition relative to other companies in the marine transport industry.

KENICHI YONETANI
Executive Vice President Executive Officer

ORDINARY INCOME AND NET INCOME



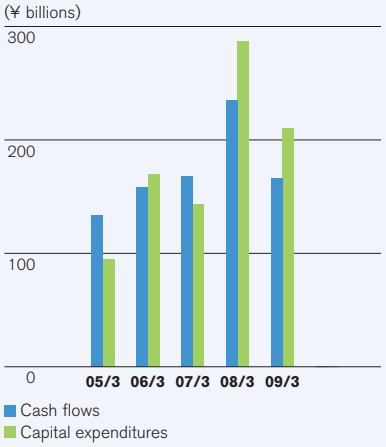
INTEREST-BEARING DEBT AND SHAREHOLDERS' EQUITY



* "Shareholders' equity" in this section comprises the total of owners' equity and accumulated gains from valuation and translation adjustments.

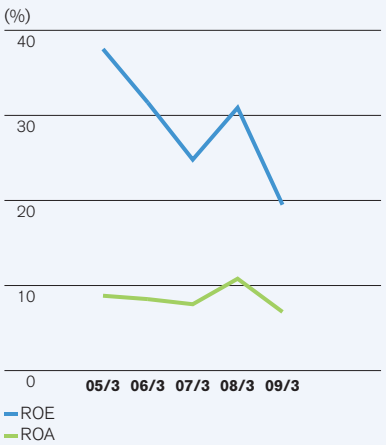
GEARING RATIO AND EQUITY RATIO

CASH FLOWS AND CAPITAL EXPENDITURES



* Cash flow=Net income+Depreciation−Dividend

ROA AND ROE



Fund-Raising and Capital Investment

In fiscal 2007, the first year of our midterm management plan, "MOL ADVANCE," which ends in fiscal 2009, the company added 60 new ships to its fleet. Another 72 vessels were added in fiscal 2008, bringing the total number at the end of March 2009 to 861 ships. In fiscal 2009, we plan to add another 78 ships, at a total cost of around ¥510.0 billion. Meanwhile, we are retiring older vessels and selling or scrapping them, and cancelling unprofitable charter contracts. As a result, we expect to have a total fleet of around 900 vessels by the end of March 2010, about 100 lower than the number estimated in our original business plan.

Of the ships used in MOL's business operations, about 40% are owned directly by either the company or one of its overseas subsidiaries. These assets appear in the "vessels" account of MOL's consolidated balance sheet. The remaining 60% or so are chartered under long-term contracts with vessel owners, and thus do not appear on the balance sheet. Capital expenditures include new ship construction costs, which are roughly equivalent to 40% of total fleet addition costs, as well as the cost of purchasing used vessels (including some vessels purchased under options in the lease agreements), and investments in fixed assets other than ships. Total capital expenditures in fiscal 2008 were ¥210.1 billion.

In order to obtain the necessary funds to cover these capital investments, and to help increase liquidity on hand as a precautionary measure due to the financial instability which followed the collapse of Lehman Brothers, MOL increased its interest-bearing debt by ¥101.4 billion year on year to ¥702.6 billion as of the end of March 2009. As a result, the gearing ratio increased from 88% at March 31, 2008 to 113% in March 31, 2009.

In fiscal 2009, the company expects capital expenditures to once again exceed ¥200.0 billion. However, due to declining profits we project that operating cash flows will not be sufficient to fully cover the cost of these capital expenditures, and the company will need to raise the shortfall from the financial markets. Since it is unlikely that the financial markets will improve dramatically in the short term, the company will employ a wide range of both direct and indirect financing methods to ensure that it can continue to raise the funds it needs on competitive terms.

In line with the company's policy of diversifying its methods of raising cash, the company issued domestic straight bonds in December 2008 and in May 2009, with a total combined value of ¥65.0 billion.

Shareholders' Equity

When the company embarked on its current midterm management plan, "MOL ADVANCE," shareholders' equity stood at ¥550.8 billion at March 31, 2007. In the first year of the plan (fiscal 2007), strong earnings elevated that total to ¥679.3 billion at the end of the fiscal year. In fiscal 2008, the second year of the plan, MOL posted net income of ¥126.9 billion. However, at the end of December 2008, when overseas subsidiaries closed their books for 2008, the yen had strengthened to a value of ¥91=US$1.00. This sudden appreciation of the yen produced a dramatic decline in the book value of "accumulated gains (losses) from valuation and translation adjustments," and consequently, shareholders' equity declined by ¥55.6 billion year on year, to ¥623.7 billion at March 31, 2009.

Two of the numerical targets set out in the MOL ADVANCE plan are to reduce the gearing ratio to no more than 100% as of the end of fiscal 2009, and to improve the equity ratio to at least 40%. However, since it seems unlikely that the global economy will rebound quickly, we now project that MOL will most likely be unable to meet either of these targets. Nevertheless, we are working diligently to establish charter contracts with ship owners and employing other methods to obtain transport capacity via off-balance-sheet methods. Going forward, the company will try to minimize interest-bearing debt, elevate the equity ratio and thus improve the gearing ratio. On this basis, MOL intends to keep its consolidated dividend payout ratio at 20% for the time being.

In March 2006, the company issued convertible bonds (euro yen zero-coupon CBs, due in 2011; total issuance amount: ¥50.0 billion). During 2007, when share prices were rising, bondholders converted about ¥0.9 billion worth of these bonds, but since the share price began to decline, no additional bonds have been converted.

Confirming Progress of Financial Strategy

FY2009 Targets	FY2008 Results	Status
Improve the equity ratio to over 40%	35%	The accumulation of retained earnings made a contribution, but the ratio was dragged down by a large decrease in accumulated gains (losses) from valuation and translation adjustments
Improve gearing ratio to less than 100%	113%	Reflected decrease in operating cash flows and intentional steps to improve liquidity on hand in the wake of the financial crisis since the collapse of Lehman Brothers, which led to higher interest-bearing debt
Improve ROA to over 7%	6.9%	Maintaining ROA at a high level close to target

Credit Ratings

Credit ratings are an important focal point of MOL's financial strategy, since stronger ratings will further enhance the company's ability to procure capital on competitive terms. In fiscal 2007, we successfully achieved the target of boosting the company's rating with some overseas rating agencies to A Category, and its domestic credit rating to AA Category. Although the business environment remains tough amid the severe global economic malaise since the collapse of Lehman Brothers, we will work to secure "highly stable profits" and mitigate the risk of underperformance in market-sensitive profits, to bolster shareholders' equity and strengthen cash flows to improve our financial position and maintain our credit ratings.

Credit Ratings (As of July 1, 2009)

R&I	AA–
JCR	AA–
Moody's	A3
Standard & Poor's	BBB

Cash Management

Since fiscal 2000, the MOL Group has implemented a "Cash Management System" (CMS) to promote the more effective use of available funds by Group companies in Japan. In fiscal 2008, these efforts helped reduce loans for the Group as a whole from outside sources by ¥11.5 billion, thereby reducing total interest expenses by approximately ¥140 million. In the future, the company will broaden the scope of cash management to Europe, Asia and elsewhere, as part of efforts to use funds more efficiently in each overseas region.

Moreover, amid the increase in credit risk after the collapse of Lehman Brothers, the company is working to collect outstanding receivables as quickly as possible, as it further strengthens cash management for the Group as a whole and reduces credit risk.

Global Tax Planning

The "tonnage tax" system is a standardized tax system that is utilized in the global marine transport industry. Amendments to Japan's tax system in fiscal 2008 enable Japanese companies to apply the tonnage tax system from fiscal 2009. MOL has applied for and been granted permission to apply this system. MOL will apply this system over the next 5 years, with approximately 25 vessels subject to tonnage tax in fiscal 2009. The system applies only to Japanese-flagged vessels and there are some other restrictions. However, MOL plans to request that the Japanese government widen the scope of application and make other changes to this system.

Most of MOL's competitors in Europe and Asia have already adjusted their operations to incorporate the so-called "tonnage tax" system. In order to remain competitive, in terms of the relative tax burden, it will be increasingly important to utilize global tax planning. As MOL expands its international operations, the company intends to take advantage of the marine transport-related tax structures of various countries, particularly in Europe and Asia. In March 2009, the Japanese government abolished its former tax on dividends received from overseas affiliates, thus making it easier for the company to repatriate earnings from its overseas operations. This very important change in government tax policies will allow MOL to optimize its investments and expand operations in key overseas markets.

Risk Management

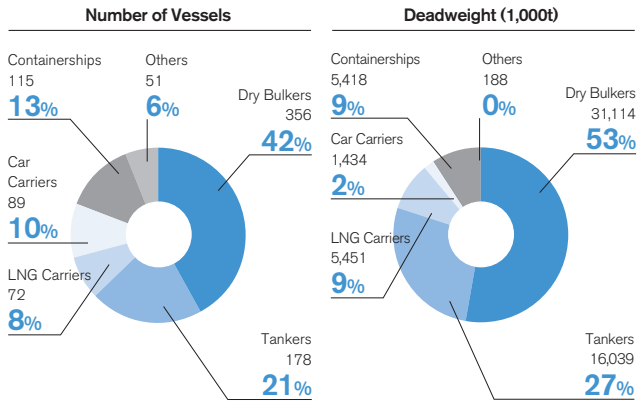
Fluctuations of Cargo Volume, Fleet Supply, and Freight Rates

The global shipping business, like many other industries, is greatly affected by trends in the global economic cycle, and is thus subject to both macroeconomic risk, as well as business risk associated with trends in specific industries. There are a multitude of factors that are subject to change, such as fluctuations in the economies of individual countries, changes in the trade structure, demand for freight space, and market conditions, and cargo volumes, among other factors. A marine transport company needs to respond to these changes quickly and accurately in order to achieve the best performance. With this in mind, MOL has adopted a strategy of "diversifying operations to reduce risk" and "raising highly stable profits" by aligning its fleet to match international marine transport demand in the transport of both raw materials and finished goods. In this way, we strive to maximize returns and sustain profit growth.

Diversifying Operations to Reduce Risk

MOL operates a "full-line marine transport group." As of the end of March 2009, our fleet consisted of 861 vessels ranging from dry bulkers and tankers to car carriers and containerships, capable of transporting a diverse range of raw materials and finished goods. Supply and demand trends fluctuate for each type of ship and each type of cargo. While there are some factors that are closely related, and affect all of these segments in the same way, there are also many factors which affect demand in each sector differently, so the impact in one sector offsets the impact in another in many cases. By maintaining a diverse, well-balanced assortment of ships, MOL can take advantage of this relationship to minimize risk and maximize return.

FLEET COMPOSITION (as of the end of Mar. 2009)
(%)

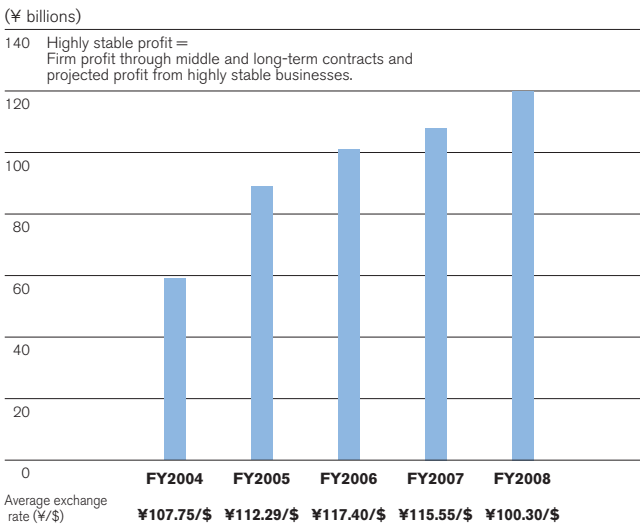


Raising Highly Stable Profits Through the Use of Medium- and Long-term Contracts and Other Means

The company pursues medium- and long-term contracts that allow it to develop long-standing relationships of trust with customers, and ensure a stable future cash flow that will help reduce the risk that market fluctuations could have on its results.

The sudden drop in global demand that followed the collapse of Lehman Brothers in fiscal 2008 illustrates this potential risk. However, MOL's businesses are largely shielded from this sort of impact, providing a stable source of profit. From a long-term perspective, the company aims to expand these stable sources of profit and thereby create an even steadier earnings structure. To achieve this objective, one of the options we will look closely at as a matter of priority is M&As in growing sectors which enjoy a relatively stable cash flow.

ACCUMULATION OF HIGHLY STABLE PROFITS
Highly stable profit + Market-sensitive profit = Ordinary income



Exchange Rate Fluctuations

Apart from some Japanese clients, with whom MOL has concluded transport contracts on a yen-denominated basis, most transactions in the international marine transport business are concluded on a U.S. dollar-denominated basis. Since U.S. dollar-denominated revenue exceeds U.S. dollar-denominated expenses, when the yen strengthens against the U.S. dollar this can have a negative impact on Group earnings. In fiscal 2009, we project that each ¥1-per-dollar change in the yen-U.S. dollar exchange rate will have an impact of approximately ¥1.7 billion on consolidated ordinary income (net of hedging).

As for changes in the value of the euro, MOL's euro-denominated income and expenditures are roughly equivalent, as are euro-denominated receivables and payables. Therefore, changes in the euro-yen exchange rate have a limited impact on consolidated earnings.

Interest Rate Fluctuations

MOL depends mainly on the issuance of corporate bonds and funds borrowed from banks and other financial institutions to meet working capital and capital expenditure requirements. Loans are denominated in either yen or U.S. dollars, with funds procured at variable interest rates affected by interest rate fluctuations. As of March 31, 2009, interest-bearing liabilities totaled ¥702.6 billion, and between 60% and 70% of that loan principal is locked in at a fixed interest rate. As a result, an increase of 1 percentage point in interest rates on both yen-denominated and U.S. dollar-denominated interest-bearing liabilities would impact annual consolidated ordinary income by just over ¥2.0 billion. Although MOL has benefited from ultra-low interest rates in the aftermath of the Lehman Brothers collapse, the company is taking steps to mitigate the risk of a future interest rate rise. It plans to flexibly adjust the ratio of variable-rate and fixed-rate loans through interest swaps and other means according to changes in financial conditions, taking into consideration the balance between variable- and fixed-rate interest.

Bunker Price Fluctuations

The market price of bunker is generally linked to the price of crude oil, and any increase in bunker prices has a negative impact on earnings for the MOL Group. The Group operates a fleet of approximately 860 vessels, whose annual fuel consumption amounts to around 6 million tons of bunker. The company is able to pass on about 60% of the risk to customers. Therefore, an increase of US$1 per metric ton in the average annual price of bunker would lower earnings by a maximum of approximately ¥200 million (net of hedging).

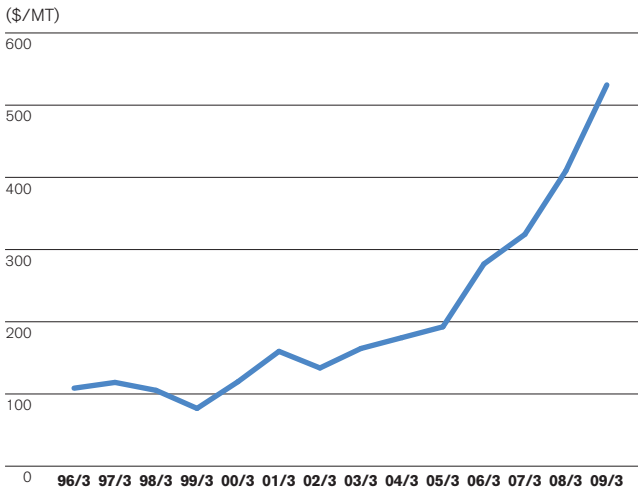
Comparing the fuel consumption of different types of vessels, the speedier containerships with high-horsepower engines consume a far greater volume of fuel per vessel than other types of ships. We estimate that these ships account for just over 50% of the company's total exposure to bunker price fluctuations, which impacts earnings in the containerships division. Therefore, whenever possible, the company tries to gain the customer's understanding and impose or maintain a fuel surcharge on containership operations in order to ensure that earnings in this business remain stable.

The International Maritime Organization has been considering possible measures to address the problem of sulfur oxide and nitrogen oxide emissions generated by ships. Generally, these regulations would take the form of restrictions on the sulfur content of bunker used by ships, or restrictions on the type of electrical generators and shipboard engines that vessels use, in order to reduce nitrogen oxide emissions. Although the details have not yet been clarified, new restrictions are due to be phased in over the period from 2010 to 2025. This is certain to increase fuel costs compared with the cost under present regulations. The company intends to take steps over time to pass on these higher costs via freight rate increases and higher charter fees.

Sensitivity of Earnings to Exchange Rate/Interest Rate/Bunker Price Fluctuations

Exchange Rate (¥/$)	A ¥1 appreciation reduces ordinary income by up to ¥1.7 billion
Interest Rate (%)	A 1 point rise in both yen- and U.S. dollar-denominated interest-bearing debt reduces ordinary income by just over ¥2.0 billion
Bunker Price (US$/MT)	A US$1/MT increase reduces ordinary income by up to ¥0.2 billion.

AVERAGE BUNKER PRICE



Vessel Operations

MOL operates a fleet of approximately 860 ships, and it is therefore impossible to ignore the risks related to various incidents that may occur on the high seas. In order to prevent accidents, the company has introduced a variety of measures such as safety standards, a safety management system, comprehensive crew education and training, and new organizations to support safe operations.

The company's midterm management plan, "MOL ADVANCE," includes comprehensive measures to promote safe operation, in line with its theme of pursuing "growth with enhanced quality." In spring 2007, MOL conducted a thorough revision of its organizational structure, and it plans to invest ¥35.0 billion over the 3-year period from fiscal 2007 to fiscal 2009 with the aim of achieving world-leading transport quality.

DETAILS OF MEASURES TO REINFORCE SAFE OPERATIONS

	Three-year Total Investment (including capital investment)	(¥ billions)
Intangible Factors	**Organizational Restructuring** (Improvement of ship management structure, establishment of Safety Operation Supporting Center, etc.)	¥13.0
	Recruiting and Training Seafarers	
Facilities and Equipment	**Previewing and Implementing Safety Standard Specifications**	¥22.0
	Ensure Thoroughness of Ship Maintenance Policies, etc.	
Total Investment		¥35.0