

Good Conditions

Through the course of our past midterm management plans—MOL STEP and MOL ADVANCE—we expanded our fleet, made our business portfolio more flexible, and rigorously pursued safe navigation. At the same time, we skillfully managed the company, always conscious of risk and unforeseen events.

Conditions were unprecedented in the shipping market in fiscal 2009 and our drop in performance reflected that. It is worth mentioning though that we were one of the few major shipping companies in the world to post a profit. This achievement is testimony to the effectiveness of our management strategies. Importantly, our relatively good condition should give us a big advantage in a recovering shipping market.

on



AKIMITSU ASHIDA
Chairman

Question:

The past fiscal year presented recessionary conditions the likes of which nobody has seen before. Why was MOL able to come through the recession in Good Condition?

Answer:

Quite simply, because I think we managed the company better than many other marine transport companies on various fronts. Our fleet downsizing program, business portfolio diversity, strong balance sheet, and customer confidence in our safe navigation all stood us in good stead amid the recession.



ONE OF THE FEW PROFITABLE MAJOR MARINE TRANSPORTERS IN FISCAL 2009

It was no miracle that we were one of the few major marine shipping companies to post a profit in fiscal 2009 amid the testing conditions. This was the product of managing the company in a different way from others over many years. This difference isn't so readily apparent in good business times. But the harsher the operating environment, the more the difference became evident.

I think one big reason for this difference is the *Sakaro Mission*, the unique risk management strategy we have advocated. Basically, this strategy, which takes its cue from a backward sculling maneuver in rowing, makes us prepared for unforeseen market events. We are always ready to quickly downsize our fleet and we even go as far as to simulate various eventualities. So when the world fell into an economic crisis, our people knew what operational protocols to follow. This allowed us to scale back our operations quickly. We sold or returned some 150 vessels across MOL in the wake of the Lehman Brothers collapse. That took some doing.

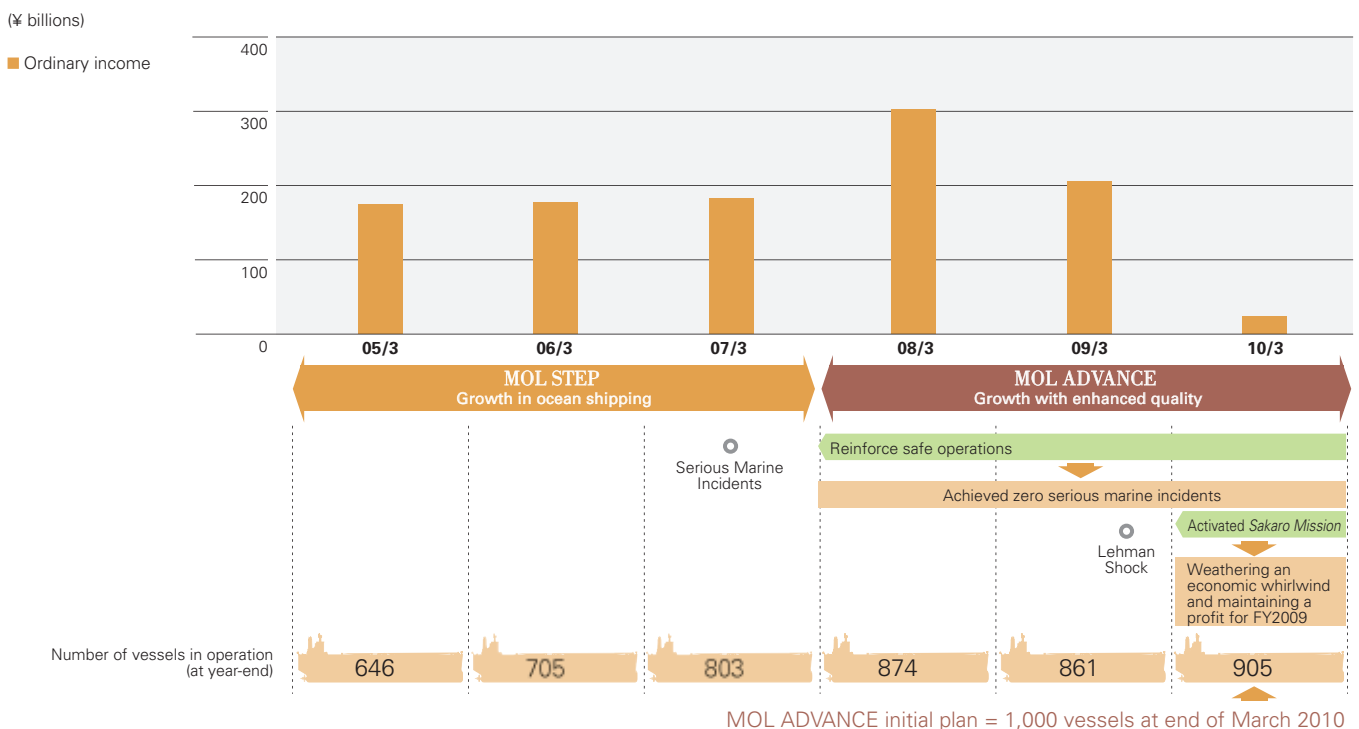
- We sold or returned 34 dry bulkers in the 18 months after Lehman Brothers collapsed.
- We sold or returned 36 car carriers in the space of 18 months after Lehman Brothers collapsed.
- We achieved a net reduction of 30 vessels in our containership fleet from 131 to 101 vessels in 18 months after September 2008.

We have just experienced a once-in-a-century recession. Not once since we were founded have we had to downsize our fleet to the extent we did. Impressively, however, no other company was successfully able to do that in such a short space of time.

ONE OF THE BIGGEST FLEETS AND BEST-MANAGED COMPANIES

The fleet reduction was not the only reason for why we delivered comparatively good results in fiscal 2009. The way we manage our portfolio was instrumental, too. As of March 31, 2010, we had a total of 905 vessels, the largest fleet in the world. Our fleet is also remarkable for its diverse composition of ships. These ships can broadly be broken down into liners and bulk carriers, the latter comprising dry bulkers, tankers, car carriers, and LNG carriers.

MIDTERM MANAGEMENT PLAN PROGRESS



Contract terms are also different within this diversity, with vessels operating on either long-, medium- or short-term (spot) contracts. The result is a portfolio structure that can generate stable profits as a whole, without our performance being unduly susceptible to market conditions—whether good or bad—in any one particular class of vessel.

MOL has always aspired to having the best portfolio mix in the marine transport industry, as a company focused on marine transport. And we will continue to adhere to this strategy going forward. In the past, all shipping companies have tended to fall into the red during a market down-cycle, which has led to the industry being mistakenly branded a cyclical business. However, I think the effectiveness of the strategies we promoted during MOL STEP and MOL ADVANCE were proved under crisis conditions. We have shown that we have one of the best management teams to control one of the world's largest fleets.

NOTHING BEATS EXPERIENCE— OUR GREATEST LEGACY FROM THE ECONOMIC CRISIS

Companies have many assets that are not always obvious to outside observers. For me, one of them is the experience that corporate officers and employees gained from overcoming the adverse conditions I have described in this letter. Over the past decade, we have basically posted higher sales and earnings year after year. But the current recession has presented us with a perfect opportunity to learn how to deal with unfavorable conditions.

Overcoming the crisis didn't just happen by chance. As CEO, I repeatedly held discussions with younger management personnel. Called "Can Do Meetings," these discussions were beneficial in enabling me to keep abreast of the operational frontlines for myself. They also served as an extremely effective way for me to communicate my thoughts to our younger staff directly.

These meetings emboldened corporate officers and employees to confront the economic crisis head-on. They have fostered a culture of fulfilling responsibility without hesitation and allowed staff to bank valuable experience and know-how. This experience is now embedded in the DNA of each and every one of our staff and will be passed on by our talented middle management in the future.

THE MARINE TRANSPORT BUSINESS IS AN ATTRACTIVE GROWTH INDUSTRY

The marine transport business is, by its very nature, a growth industry. One way to look at the market is the transport volume per capita of the world's population. When the world's population was 3 billion people in the 1960s, per capita cargo volume was 0.5 tons a year, meaning the marine transport industry equated to a market of around 1.5 billion tons. The world's population is now 7 billion people and per capita cargo volume has risen to 1 ton a year, meaning the market is now 7 billion tons. With the world's population forecast to grow to 9 billion by 2050, per capita cargo volume should increase to 1.5 tons a year, creating a market of 13.5 billion tons.

Clearly, looking at market size, you can say the global marine transport business is without doubt a growth industry. Maintaining one of the world's largest fleets and managing MOL in the best possible way is vital to converting this market potential into maximum growth.

So is increasing multilateral trade. In fiscal 2009, MOL generated 51% of its revenues overseas, and is now trying to increase this share to 65% in fiscal 2012. But, that is not enough. We still have many things to do to truly globalize our operations, such as enhancing operational functions outside Japan, like in China, Singapore, and Europe.

As a leading player in the global market, MOL aims to quickly recover from the economic crisis and accelerate development in growth markets on a global scale. That's why we chose GEAR UP! as the catchcry for our new midterm management plan.

GEAR UP! IS OFF TO A GOOD START

World seaborne trade is finally picking up after having nosedived, as we embark on the inaugural year of our new midterm management plan.

Seaborne cargo volume of the three largest categories of dry bulk—iron ore, coal and grain—is projected to grow by 10% in fiscal 2010 from 2 billion tons in fiscal 2009. And oil is forecast to grow by 2% to 3% over the same period. China is driving this growth. For the foreseeable future, Asia, and above all China, will be the driving force behind the recovery. That's why we are channeling business resources of bulkships into emerging economies, namely, China and India.

Things are looking up for containerships, too. At the beginning of fiscal 2009, containerships saw cargo volumes plummet by 20% from their peak level. But volumes were only 10% down by the end of the year. Reflecting this improvement, freight rates are rising across the board. In addition, all companies worked to downsize their fleets throughout fiscal 2009 to respond to weaker demand. As a result, current capacity suggests the market is more balanced now—and should stay that way.

ISHIN SYMBOLIZES MOL'S ENVIRONMENTAL COMMITMENT

Another element of our new midterm management plan is substantial investments to develop next-generation vessels with a lower environmental impact. This talk will be backed by action. We have set a time limit of around five years to execute our plan and are determined to progressively bring vessels that emit less CO₂ into service. We have already announced concept plans for a car carrier, ferry and Capesize bulker under the ISHIN name, which means **I**nnovations in **S**ustainability backed by **H**istorically proven, **I**Ntegrated technologies.

While contributing to environmental management in the marine transport business going forward, these vessels should dramatically cut fuel expenses, making our operations more

competitive. As you can see, we are aiming to lead the world in technology, not just on the operational and management fronts in the marine transport industry.

CHALLENGING FUTURE LEADERS TO TAKE MANAGEMENT TO AN EVEN HIGHER LEVEL OF EXCELLENCE

I have been at the helm of MOL as president for the past six years. With the launch of the new midterm management plan, I handed over command to your new president, Mr. Koichi Muto, and became chairman of the Board of Directors.

MOL has established a reputation for management excellence. But we must seek to attain an even higher level of operational excellence in the future. There are a lot of things for Mr. Muto to tackle—such as the increasingly global nature of our operations, ensuring we have a diverse workforce in this context, managing currency and freight rate risks through financial management and nurturing a workforce and organization with a 10-year outlook. But these are also exciting challenges.

As chairman of the Board of Directors, I will oversee and support management. I will spare no effort to help MOL grow further under Mr. Muto's leadership.

June 22, 2010



AKIMITSU ASHIDA
Chairman