

Overview of Operations

BULKSHIPS

DRY BULKERS



MASAFUMI YASUOKA
Senior Managing Executive Officer

VESSELS

2008 364

2009 356

2010 **375**

Iron Ore and Coking Coal Transportation

Chinese iron ore imports, which grew 180 million tons in the space of a year, unquestionably underpinned the market. Overall, iron ore seaborne trade volume rose 100 million tons in 2009 compared with 2008 thanks to China's imports, which offset falls elsewhere. Meanwhile, coal seaborne trade volume, while slightly down in global terms, surged to China, with imports there rocketing from 40 million tons in 2008 to 120 million tons in 2009.

Amid this volatile market, we managed to generate earnings by astutely managing our portfolio of ships. As of the end of fiscal 2009, MOL's fleet consisted of 111 Capesize bulkers and 31 Panamax bulkers. Half of these ships operate on contracts of more than 10 years, one quarter have medium-term contracts, including transport contracts based on a fixed quantity of cargo, so-called contracts of affreightment (COAs), and the remaining quarter operate on spot (short-term) contracts.

RAW MATERIAL IMPORT DEMAND FROM EMERGING ECONOMIES UNDERPINS MARKET

Dry Bulkers experienced, but weathered relatively well, another year of market volatility in fiscal 2009. Much lower freight rates in the aftermath of the Lehman Brothers collapse in the latter half of fiscal 2008 spilled over into the past fiscal year. Average annual Capesize bulker rates were US\$42,000 on the spot market during 2009, compared with US\$77,000 in 2008. Our earnings dropped sharply as a result of the lower rates. However, once again, we were a major contributor to MOL's overall performance. I credit our relatively resilient performance to successful and nimble

cost-cutting as well as strong seaborne trade in iron ore and coal. Our high degree of cost competitiveness gives us an edge in this market.

As of March 31, 2010, MOL operated 375 dry bulkers, which are broken down according to size and purpose into a number of sub-categories, including Capesize bulkers (the largest size among dry bulkers), Panamax bulkers, Handymax bulkers, Small Handy-size bulkers, wood chip carriers, heavy lifters, and short-range bulkers.

Dry bulker business operations are divided into two categories: iron ore and coking coal transportation, which is mainly driven by Capesize bulkers, and other dry bulk transportation conducted by smaller-size dry bulkers.

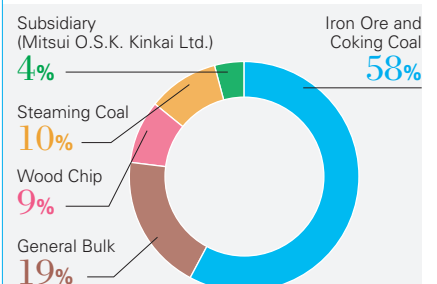


The Capesize bulker
Pleiades Dream



The coal carrier
Ishizuchi

CONSOLIDATED REVENUES BREAKDOWN (RESULTS IN FY2009)



We succeeded with a strategy designed to efficiently use spot vessels and secure medium- to long-term contracts on advantageous terms. This strategy based on our fleet portfolio enabled us to provide flexible services to meet customer demands, and contributed to an increase in our stable profits. We won a number of significant long-term transport contracts in fiscal 2009 that were the culmination of past efforts and achievements. Examples included contracts with Chinese steelmakers Jiangsu Shagang Group Co., Ltd. and Anshan Iron and Steel Group Corporation, as well as resource major Rio Tinto.

The much-talked-about “2010 Problem” looks to be less of an issue than first feared. Initially, around 330 Capesize bulkers were predicted to enter service in 2010. However, only 47 vessels entered service in January-March 2010. Considering the fact that the first quarter of a year tends to see more new ships delivered than in any other quarter, around 170 ships are now expected to enter service in 2010. Make no mistake, there will still be more new ships delivered than in the past, but the market isn’t oversupplied given the underlying demand for cargo space. To be sure, China still needs to invest in infrastructure, which has some industry observers suggesting that China’s iron ore imports will rise nearly 100 million tons year on year in 2010.

Other Dry Bulk Transportation

Fiscal 2009 saw a drop in all types of cargo year on year; however, driven by demand from China and India, there was an overall recovery.

Small and medium-size vessels such as Panamax and Handymax bulkers have seen brisk markets due to increasing coal imports by China and India. Demand is increasing for smaller vessels than Capesize bulkers because only a limited number of ports in Asia can accommodate large vessels. Additionally, the fact that coal shipments are generally arranged in smaller volumes than iron ore shipments supports demand for small and medium-sized vessels; it is not easy to collect enough coal to fill up a Capesize bulker.

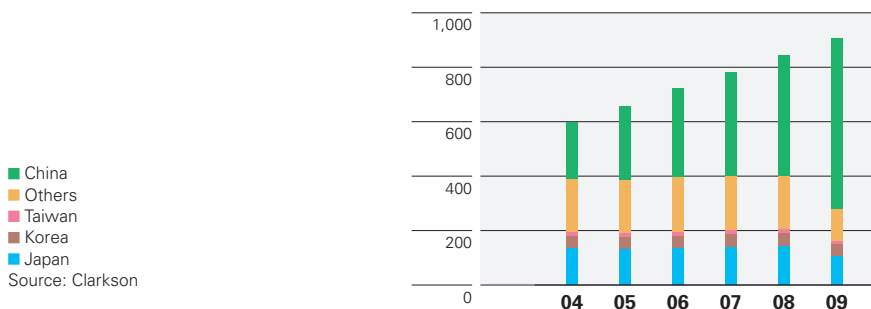
As for grain, trade volume dropped from 248 million tons in 2008 to 230 million tons in 2009. But bumper crops in South America point to a pickup in trade volume in 2010.

For the reasons I’ve just alluded to, we are upbeat about prospects for general cargo bulkers, too. The market is expected to recover to 2008 levels relatively quickly.

In other types of vessel, MOL currently has 36 specialized coal carriers, which predominantly operate on long-term contracts with electricity companies. Wood chip carriers, meanwhile, have generated earnings in recent times by transporting soybean meal (SBM) to Europe with spot vessels because papermakers have reduced production, which led to lower wood chip/pulp imports. A wood chip carrier is suitable for transporting light and voluminous cargoes, like SBM.

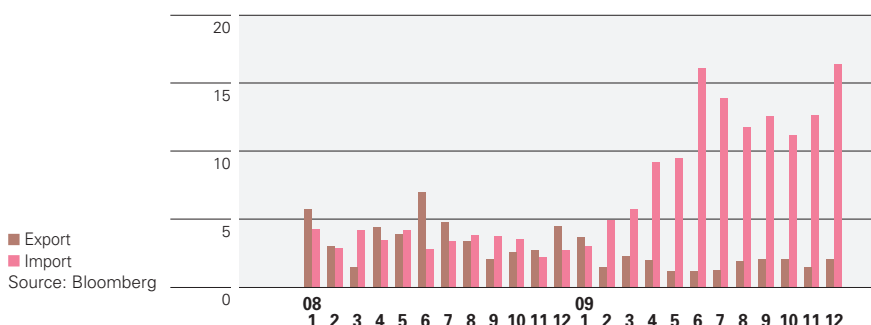
IMPORT AREA-WISE WORLD IRON ORE SEABORNE TRADE

(million tons)



CHINA'S MONTHLY COAL IMPORT AND EXPORT VOLUMES

(million tons)

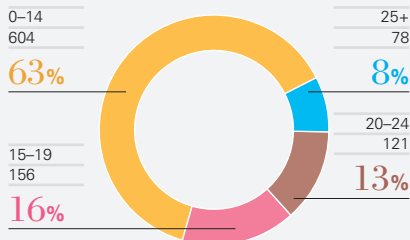


WORLD DRY BULKERS AGE PROFILE

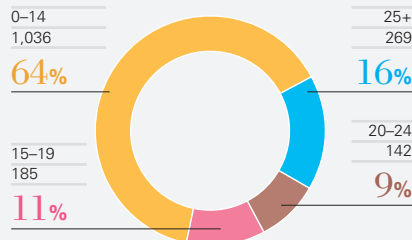
(AS OF JANUARY 2010)

Age	No. of ships	Portion
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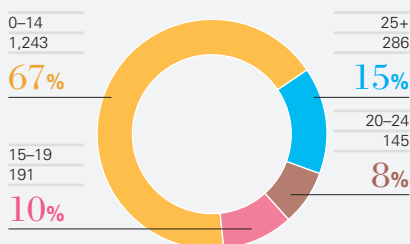
CAPE SIZE (100,000dwt-959 ships)



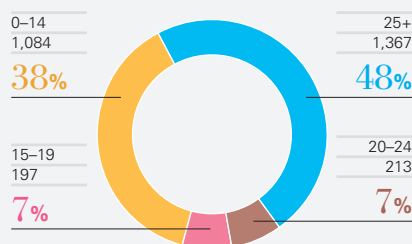
PANAMAX (60-99,000dwt 1,632 ships)



HANDYMAX (40-59,000dwt 1,865 ships)



SMALL HANDYSIZE (10-39,000dwt 2,861 ships)



Source: Clarkson

we have already chalked up some achievements such as transporting coal to an Indian power plant. There is no question in my mind that the Indian steel industry will grow and that coal imports will continue increasing as a result. I expect India will also import iron ore in the near future, even though it can support itself with domestically produced iron ore for now. Brazil also offers good opportunities because it doesn't have its own coal resources.

For a long time, it has been easy to enter the marine transport business. Having just one ship made it possible. However, the recent economic crisis has made safe operations and a strong balance sheet important points of differentiation among shipping companies worldwide. We are implementing various actions to ensure safe operations, which has been a hallmark of MOL, so that MOL is the world's shipping company of choice. Just as important is the environment. That's why we are building an environment-friendly, large-scale iron ore carrier called the *ISHIN-III**. This MOL concept vessel promises to reduce CO₂ emissions by 30%. We are committed to helping preserve the environment through our marine transport business, as well as customer satisfaction.

* ISHIN: **I**nnovations in **S**ustainability backed by **H**istorically Proven, **I**ntegrated Technologies



The wood chip carrier
HK Delight

BIG ADVANTAGE IN MIDTERM MANAGEMENT PLAN

Dry Bulkers is a core driver of MOL's earnings and we aim to ensure it remains a major contributor going forward. By the end of fiscal 2012, we plan to expand our dry bulker fleet to 450 vessels. We have been relatively conservative in our midterm management plan, but we are determined to strive for further growth. We have already ordered new vessels that will enter service during this 3-year management plan period. While we look to expand during the period thereafter, we will take a watchful stance on further investment, closely observing the global business environment.

Another goal during the new plan is preparing for downside market risks in the future, so that we are able to quickly reduce our fleet if necessary. We call this risk control approach *Sakaro* in Japanese, a backward sculling maneuver in rowing parlance. A prerequisite for this approach is a strong financial position, so that will be our first priority. To hedge risk and increase earnings in general cargo bulkers, we will look into the possibility of using freight forward agreements (FFA) more actively and/or other means.

China, India and Brazil will be key markets, and we plan to increase the number of local staff there to enhance our ability to gather market information. Actually, in the dry bulkers field,

BULKSHIPS

TANKERS

TSUNEO WATANABE
Managing Executive Officer



VESSELS

2008	166
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2009	178
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2010	195
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MALaise WEIGHS ON THE MARKET

World oil consumption declined in 2009 for the second straight year, after rising steadily for around 20 years. Although the decline over the past 2 years has been around only 1.7%, the World Scale* for VLCCs (Very Large Crude Oil Carriers) remained low, averaging only 42 in 2009 because of an oversupply of vessels. As a result, this division made a loss in fiscal 2009. I imagine the large market decline stemmed from sentimental factors, that is, an over-reaction to fears that cargo volumes might not increase for the time being. Since the beginning of 2010, increased imports by China has seen the WS rebound to 130, which suggests that market fundamentals were strong.

* World Sale (WS): the freight rate index for oil transportation by sea, Standard WS is set at 100.

In fiscal 2008, our fleet of crude oil tankers became 100% double-hulled. And in May 2010 we completed the double-hulling of product tankers, too. Single-hulled oil tankers are, in principle, banned from operating from 2011 by IMO regulations, which should help restore some balance to the supply-demand equation, for single-hulled oil tankers have no choice but to eventually withdraw from international markets.

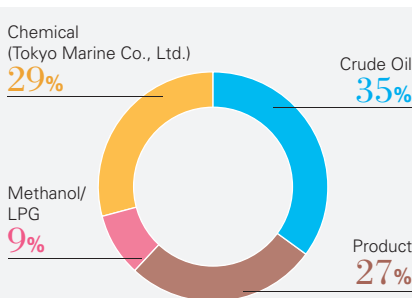
As of March 31, 2010, MOL's fleet comprised 46 crude oil carriers, 51 product tankers, 85 liquefied chemical product tankers and 13 LPG tankers. Most VLCCs and methanol tankers operate on long-term contracts, while the other vessels operate predominantly on short-term contracts. To achieve more stable earnings, we have started to use contracts of affreightment, or COAs, in the other tanker business.

sources other than the Middle East. Based on these assumptions, we plan to expand our fleet from 195 vessels at March 31, 2010 to 220 vessels by March 31, 2013.

Our tanker business already generates more than 60% of its revenues overseas. We have extended our business bases to Singapore, London, Houston and elsewhere around the world and have already gained a global customer base, including oil majors. Now, we can differentiate ourselves from our competitors by offering flexible services to our global customers, leveraging a fleet that is one of the world's largest and most diverse. We plan to take advantage of existing bases worldwide and target emerging markets like Asia, the Middle East and South America, while growing our fleet.

Safe navigation is paramount for any oil tanker business. When oil majors charter ships, for example, they impose extremely strict operational conditions. To meet these exacting demands, MOL has been strategically developing the skills of seafarers and specialists for more than two decades and has put in place ship management bases in Singapore and London. This didn't just happen overnight and other companies can't soon emulate us. Coupled with our strong financial position, this gives us a big advantage.

CONSOLIDATED REVENUES BREAKDOWN (RESULTS IN FY2009)



BIG ADVANTAGE IN THE MID-TERM MANAGEMENT PLAN

Oil demand should increase if certain assumptions hold true: that the world's population increases, standards of living improve and world GDP grows steadily. Furthermore, ton-miles should also increase due to steady oil demand growth from emerging nations as they increasingly look to obtain oil from



VLCC
Perseus Trader

BULKSHIPS

LNG CARRIERS



KAZUHIRO SATO
Senior Managing Executive Officer

VESSELS

2008	60
2009	72
2010	76

STRONG MARKET PRESENCE WINS LARGE CONTRACTS

We have been transporting LNG for around three decades and most of the LNG carriers that we own currently operate on long-term contracts. We made a major contribution to MOL's overall performance in fiscal 2009, just like in past years. Given the volatility seen in other sectors of the shipping industry, our stable earnings structure was particularly meaningful in the past fiscal year.

That's not to say that there aren't still many challenges ahead of us. In recent times, new LNG projects around the world have taken some time to come onstream, making dramatic business expansion unlikely. As projects come to fruition, however, the LNG market will surely expand.

Another issue is the large number of spot vessels that have rapidly come onto the market since around 2004.

While this has quickly created a market for spot vessels, their oversupply has kept freight rates low. As for our LNG operations, we will see long-term contracts for our eight vessels expire towards the end of 2010. We will look to use these vessels in the most effective way possible, with our priority being to convert some of them into Shuttle and Regasification Vessels (SRVs).

Without doubt, our biggest highlight in fiscal 2009 was the signing of a contract for long-term charters of six LNG vessels with ExxonMobil affiliates, out of which four vessels are destined for China. MOL has worked hard to break into the Chinese LNG transport market, so this agreement was truly a significant milestone for us and is the result of working hand in hand with an oil major. We believe that we were selected by ExxonMobil because of our first-class LNG transportation record and sound financial condition.

BIG ADVANTAGE IN THE MID-TERM MANAGEMENT PLAN

Today, MOL's LNG carrier division generates the largest share of its earnings from Japan, which has been the prime market for LNG. But with LNG growing in demand worldwide, the LNG market looks even more attractive for us as a transporter, especially now that we have broken into the Chinese market at last. India is another market offering potential, because it is already a user of LNG and has an extensive domestic pipeline network just like the U.S. India may use this pipeline even more as gas demand grows.

The use of floating regasification facilities is also expected to rise. The first of two new purpose-built SRVs in which MOL has a 50% interest was delivered in the fourth quarter of 2009 and started operations utilizing the new offshore facilities near Boston, U.S. We plan to leverage our experience from this project to tap into the high-potential LNG offshore market. Significantly, we have the option of converting some of the existing vessels coming off long-term contracts I mentioned earlier to provide a fast-track, low-cost option for new projects.

This division also operates Floating Production, Storage and Offloading (FPSO) units. In March 2010, we agreed to invest in the chartering of an FPSO to the Brazilian national oil company, Petrobras. This investment will add another stable profit earner to MOL's portfolio for 15 years from the fourth quarter of fiscal 2010.



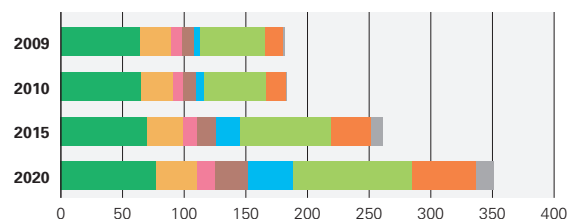
The LNG carrier
Nizwa LNG

LNG DEMAND FORECAST

(million tons)



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



BULKSHIPS

CAR CARRIERS



TOSHITAKA SHISHIDO
Senior Managing Executive Officer

VESSELS

2008	103
2009	89
2010	109

BOLD FLEET DOWNSIZING COUNTERS UNPRECEDENTED DROP IN DEMAND

The Car Carrier Division was probably hit the hardest of all MOL's operating divisions by the fallout from the Lehman Brothers collapse. In 2008, 14 million vehicles were transported worldwide, while in 2009 only 9 million were shipped. This resulted in a loss in fiscal 2009, the first for this division, because we have benefited in the past from constantly rising vehicle shipments.

In response, we boldly downsized our fleet. In fiscal 2008, we scrapped or redelivered 19 vessels. In fiscal 2009, we continued downsizing and have now reduced our fleet by 36 vessels in total (as of March 31, 2010), with 109 car carriers remaining in the fleet at the end of fiscal 2009*.

* In September 2009, Nissan Motor Car Carrier Co., Ltd. was made a consolidated subsidiary, so its ships are included in the total vessel numbers.

Besides fleet downsizing, we took other actions to get through fiscal 2009. We reduced Sunday and night loading, sailed slower, temporarily stopped using the Panama and Suez canals, and downsized the workforce. These cost-cutting measures enabled us to break even in the fourth quarter of fiscal 2009.

BIG ADVANTAGE IN THE NEW MIDTERM MANAGEMENT PLAN

Automobile demand now centers on Asia and smaller vehicles, with demand having peaked for large vehicles in the U.S. The Lehman Shock-precipitated market downturn was unprecedented, but changes in consumer preferences, vehicle production and demand areas have occurred repeatedly until now, at around 10-year intervals. Our business model is therefore designed so that we aren't susceptible to ever-changing market

conditions. While carefully observing these changes, we aim to provide customers with best-fit solutions focused on their needs and based on market information we quickly glean from our worldwide network.

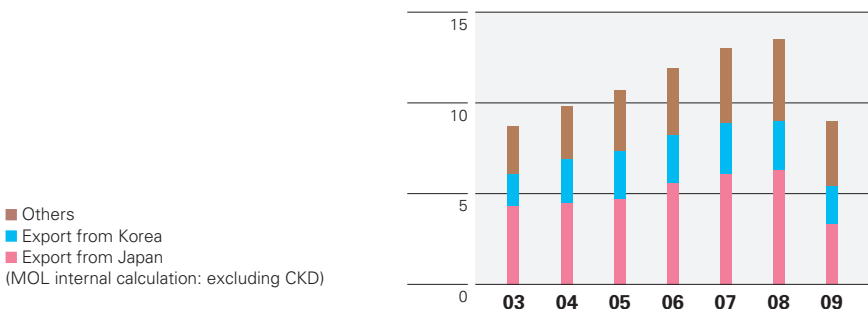
There is no question in my mind that automobile demand will steadily recover. As one of a handful of major car carriers in the industry, MOL aims to maintain a certain fleet size in order to meet the demand. In our new mid-term management plan, we aim to ensure that we can transport around 3.3 million vehicles per year, while preparing for growing demand in cross trades and inbound cargo, as well. Obviously, we remain committed to being one of the world's best in terms of both size and quality.

Consideration for the environment is a priority issue for the auto industry. That's why MOL has supplied the industry with fuel-efficient ships that emit low levels of CO₂. In September 2009, we announced a new concept ship called the *ISHIN-I**. This ship should halve CO₂ emissions during voyages. *ISHIN-I* isn't an inexpensive vessel compared with current ship prices, but we are hopeful that automakers will see the environmental advantages of using this vessel to transport their vehicles.

* **ISHIN**: **I**nnovations in **S**ustainability backed by **H**istorically Proven, **I**Ntegrated Technologies

WORLD CAR CARRIER TRADE

(million units)



The car carrier
Sunrise Ace

CONTAINERSHIPS



JUNICHIRO IKEDA
Managing Executive Officer

VESSELS

2008	130
2009	115
2010	101

FORTHRIGHT ACTIONS FOR MARKETS IN RECOVERY MODE

Containership operations in fiscal 2009 endured a sharp decline in cargo in the wake of the Lehman Brothers collapse. With freight rates also dropping, our sales fell around 30% year on year. While our ordinary loss of ¥57.0 billion was greater than fiscal 2008 as a result, it could have been much worse had we not taken forthright actions. We anticipated this sort of difficult environment from the outset of fiscal 2009 and I think we actually did well to limit the size of the loss. Encouragingly, we are seeing positive results in our operations at the beginning of fiscal 2010.

With MOL's cargo volumes down by 10% as a whole against fiscal 2008, we slashed capacity by more than this figure. We reduced capacity by 30% in Europe, which suffered the brunt of the market downturn. This involved reducing our alliance service from four loops to three. On the Asia-West Africa route, we stopped direct sailings, instead going via Europe to fill space. Capacity was also cut 12% on North America routes and 15% on the South-North route. Cargo volumes in Asia dropped temporarily in the aftermath of the Lehman Brothers collapse, but quickly recovered to finish the year on a par with fiscal 2008.

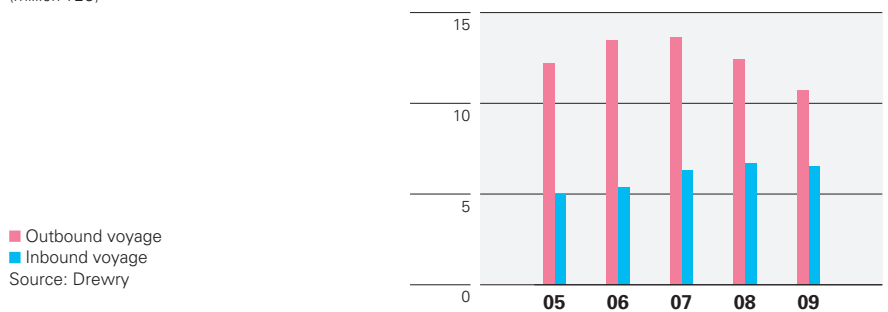
In line with the cargo drop-off, we took swift actions to downsize our fleet, and further rationalize our costs. In fiscal 2009, 14 new chartered ships and 8 newly built vessels entered service. But, we also scrapped 17 vessels and returned 19 chartered vessels. This resulted in a net 14-vessel reduction in our fleet and helped lower costs, as did route

restructuring. Other cost-saving efforts included reducing fuel expenses by removing turbochargers, introducing combustion improvers and executing slow steaming in order to limit bunker consumption. Furthermore, we managed to cut operational expenses by proactively using our own vessel space instead of paying feeder expenses to other companies and so on. Along with organizational streamlining and tightening expenses at subsidiaries, we slashed costs by a total of nearly ¥30.0 billion.

In the first half of fiscal 2009, we saw a significant drop-off in cargo volumes due to inventory adjustments worldwide. However, the container market had recovered much of this lost ground by the end of the fiscal year. Housing-related materials to the U.S. have been slow to recover, but

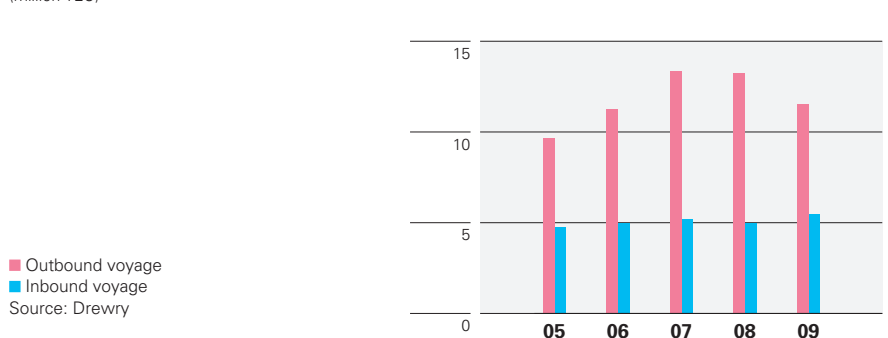
ASIA-NORTH AMERICA CONTAINER TRADE CARGO MOVEMENTS

(million TEU)



ASIA-EUROPE CONTAINER TRADE CARGO MOVEMENTS

(million TEU)



machinery and construction machinery have started to move after shipments stopped completely and most other cargoes are picking up as well. Compared with peak levels before the Lehman Shock, cargo volumes on the North America trade route are now 10% lower. Similarly, cargoes destined for Europe have also climbed to around 10% below their peak, but on South-North routes fully recovered in the latter half of fiscal 2009. We are enhancing our Intra-Asia and South-North routes destined for South Africa and Brazil. MOL transports large volumes of automobile-related products from Japan and Thailand, and electronic products and miscellaneous products from China to Africa, Chile and Brazil. We regard Brazil, in particular, as the largest market, considering its greater purchasing power.

In business other than container-ships, full-scale operations began at the new MOL container terminal in Jacksonville, Florida. This terminal had the misfortune of commencing operations in a year when volumes were noticeably lower due to the Lehman Shock, but its prime location north of Miami, where the population is growing rapidly and many retailers are setting up distribution bases, augurs well for increased volumes once the U.S. economy regains its footing.

The global ocean consolidation business experienced a 20% drop-off in volume as a whole. But, MOL Consolidation Service (MCS) increased cargo volume from 80,000 TEU in fiscal 2008 to its initial goal of 100,000 TEU as it succeeded in gaining more customers. Earnings have grown steadily and it secured a profit in fiscal 2009. MCS now has around 60

corporate customers, mainly medium-sized North American customers, and its service quality has won high marks. While aiming to achieve steady growth in the range of 10% to 20% per annum, MCS expects to see volume increase further if there is a bona fide economic recovery in the U.S. Our alliance with Kintetsu World Express, Inc. is reaping synergies from the use of that company's air freight services, helping our logistics business to grow steadily.

BIG ADVANTAGE IN THE MID-TERM MANAGEMENT PLAN

In fiscal 2010, we expect freight rates to return to 2008 levels. Having cut bunker costs by ¥10 billion through slow steaming and reducing organizational costs by ¥10 billion compared with fiscal 2008, we aim to generate a profit in fiscal 2010. In terms of our midterm management plan for the next 3 years, we are targeting ordinary income of ¥5 billion, ¥20 billion and ¥30 billion in the fiscal years ending March 31, 2011, 2012 and 2013, respectively. We wish to recoup the large loss we made in fiscal 2009 as quickly as possible over the next three years. We have set a sales target of ¥620 billion for fiscal 2012. This is

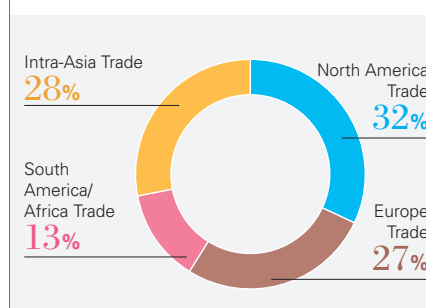


The containership
MOL Endeavor

lower than the ¥680 billion recorded in fiscal 2008 and is therefore by no means an overly ambitious goal. However, as we reduced vessel capacity considerably in fiscal 2009, we expect it will take around three years before our sales return to the former level. Economists are generally predicting that the global economy will move onto a growth trajectory in the latter part of 2010. By then, demand should have moved closer to supply and it should be possible to realize the profit levels of our midterm management plan. Therefore, I am relatively upbeat about the outlook for the container-ship business.

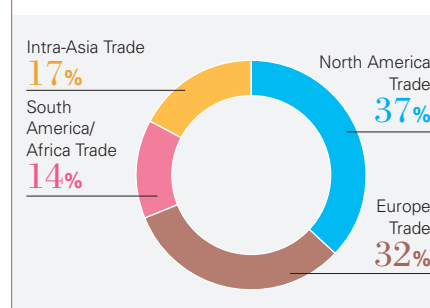
CAPACITY BY TRADES

(RESULTS IN FY2009)



REVENUE BY TRADES

(RESULTS IN FY2009)



The difficult conditions of the past few years have left many of our rivals with weak financial bases, so few shipping companies are in a position to attempt to grab market share by offering unreasonably low freight rates as was the strategy employed by some in the past. Now that all shipping companies are trying their best to raise freight charges and generate cash, we do not expect to see intense freight rate competition anymore. Of course, we must always take into consideration what actions other shipping companies might take once they begin to generate constant profits with higher freight rates realized.

We will put more focus on the South-North route, because we expect this route will have the highest growth rate. Fortunately, we have a long history of operating on this route. In addition, we have ordered fuel-efficient, cutting-edge vessels that we plan to bring into service on the Asia-East Coast South America route in 2011. Ports on this route can accommodate vessels only up to a certain size, so we believe these vessels will afford us a competitive edge in terms of fuel economy and loading capacity.

While our vessel expansion plan calls for 28 vessels to enter service over the next 3 years, the net increase over the period covered by the midterm management plan should be only 9 vessels compared with March 31, 2010, as we plan to return 19 vessels operating on

medium-term and spot charter agreements. Previously, the supply of containerships was predicted to increase by 10% to 15% every year between 2009 and 2011. However, due to cold lay-ups, order cancellations and delayed service entry, this figure has been revised down to around 6% to 7% on average over this 3-year period. This will give the market a well-balanced look in terms of demand and supply. That said, there were approximately 450 ships on cold lay-up as of the end of fiscal 2009, giving some cause for concern in the market. However, it will take some time before all these vessels return to service.

To differentiate MOL from others and maximize profit, we are always on the alert so that we can respond to new market demand quickly. A case in point is our joint terminal operation company in Vietnam's Cai Mep region, where we were one of the first companies to commence direct operations accommodating large vessels. If there is new service demand or markets, then we will swiftly and aggressively target them. Equally, our approach will be to exit rapidly if operations don't go according to plan. Unlike many other companies, MOL isn't dependent only on large vessels. We have a broad range of ships with a fleet based on versatility. Because we can supply ships to meet the demands of any type of port in the world, we can operate a nimble containership business going forward.



The containership
MOL Paramount

In terms of the environment, we have sailed slower in recent times, which resulted in large reductions in CO₂ and fuel consumption. Slow steaming is something customers are getting accustomed to due to growing worldwide interest in environmental conservation, and is also going to slash bunker costs in the future when bunker accounts for a large portion of our operational expenses and prices are expected to be higher than today. Accordingly, we are planning to continue adopting the same approach even when the market recovers.

The containership business remains a growth industry as long as the world's population continues to grow. With the existing supply-demand gap and freight rate fluctuations, this business is becoming more volatile. But I'm convinced that we can generate a return commensurate with our investment in this business over the long term.

FERRY AND DOMESTIC TRANSPORT



YOICHI AOKI
Executive Vice President

VESSELS

2008	46
2009	46
2010	44

GOVERNMENT EXPRESSWAY TOLL POLICY MORE VEXING THAN THE ECONOMIC DOWNTURN

Fiscal 2009 presented us with a number of challenges as our ordinary loss widened to ¥2.3 billion. One challenge was the decreased movement of people and cars because of the economic downturn. More troublesome, though, was government policy that set expressway tolls at a low fixed price, precipitating a shift away from ferries to land transport. Our Kansai-Kyushu (Setonaikai) routes run parallel with an expressway, so those routes were hit particularly hard. In terms of numbers, cargo volume and passengers were down 20–25% and 15–20%, respectively, on those routes, but cargo volume declined only 5% on the Hokkaido route year on year.

Not everything went against us, for the bunker price was substantially lower than in 2008. However, the current bunker adjustment factor (BAF) system* didn't support our profit, because of its formula for settlement. We will therefore endeavor to revise the formula in fiscal 2010.

* BAF: a fuel surcharge assessed by the carrier to cover extra costs.

Our actions for creating profits never end. We pushed ahead with ongoing efforts to rationalize capacity of our ferry fleet. On the Middle Kyushu route, we gradually reduced capacity to four services with four vessels in fiscal 2009; while we had eight services with eight vessels seven years ago. This resulted in a well-balanced supply-demand equation, giving us a better utilization rate and sustaining the freight rate level.

Ferry transport is relatively environmentally friendly and thus has a leading role to play in the Japanese government's important "modal shift" policy. However, if the government persists with its current expressway toll policy, ferry services could very well gradually disappear from Japan's coastal waters and may lessen Japan's ability to achieve its CO₂ reduction target.

In the domestic coastal shipping business, we succeeded in producing stable earnings in fiscal 2009, as demand for the transport of steel recovered, while we kept cutting costs throughout fiscal 2009.

BIG ADVANTAGE IN THE MEDIUM-TERM MANAGEMENT PLAN

As one of MOL's few B2C operations, the ferry business will continue to

raise service quality and strengthen marketing activities to attract more passengers. Ferries are ordinarily moored during the day after their routine voyage overnight, but we started day cruises near ports to make use of this downtime, from spring 2010. We will also make ferry travel even more enjoyable, by offering live jazz bands in restaurant areas with enriched meal services. We will come up with ideas to entice more people to spend their leisure hours on the seas.

Shanghai Super Express (SSE), a unique service connecting Hakata and Shanghai with a lead time nearly on a par with air transport, turned in a strong performance in fiscal 2009. SSE presently operates twice a week on this route and is pursuing better service quality and flexibility.

To improve the environmental friendliness of ferries, we announced an *ISHIN-II** concept vessel in December 2009. This new vessel uses electricity supplied from shore and rechargeable batteries while in port, as well as low-emission LNG as fuel once underway. It promises to cut CO₂ emissions by 50%. We aim to achieve protection of the earth and enhance our stature in the ferry market at the same time.

* ISHIN=Innovations in Sustainability backed by Historically Proven, INtegrated Technologies



The ferry
Sunflower Gold

ASSOCIATED BUSINESSES

YOICHI AOKI
Executive Vice President

VESSELS

2008	5
2009	5
2010	5

STABLE PROFITS AT DAIBIRU, RENOVATION OF NIPPON MARU COMPLETED

Daibiru's real estate operations account for a large share of earnings in associated businesses. Following the completion of the Nakanoshima Daibiru Building in March 2009, the Tosabori Daibiru Building was completed in July 2009. The Central Osaka business district, where these buildings are located, is now under redevelopment, with old buildings being demolished and rebuilt. As both buildings were completed in the early stages of this redevelopment, they were able to receive tenants displaced by ongoing rebuilding work. The Japanese real estate market is still depressed, but Daibiru has many properties in prime locations in Tokyo and Osaka with high occupancy rates and rents, helping sustain highly stable profits for the MOL Group.

The cruise ship business saw earnings deteriorate in fiscal 2009, because a large number of non-operating days were necessary in 2009 for *Nippon Maru* as she underwent extensive renovation in the dock. Now, *Nippon*

Maru is equipped with new features that will surely appeal to cruise customers. The rejuvenated *Nippon Maru* made its maiden voyage in March 2010. Normally, the cruise ship business tends to be affected by prevailing economic conditions. However, the public reaction to our upgraded service has been extremely encouraging.

Our tugboat business is mainly conducted by 6 companies in Japan, operating 40 boats in total. In spite of a decline in the number of vessels entering port, we still managed to generate a profit in these operations with cost-cutting campaigns, including slow steaming.

BIG ADVANTAGE IN THE MID-TERM MANAGEMENT PLAN

Until now, Daibiru has concentrated on renovating key but aging properties in Osaka. It has now changed tack to focus on raising earnings power by renovating properties other than the two Daibiru buildings mentioned above. At present, Daibiru generates slightly more income in Tokyo than Osaka. Because Tokyo properties are more profitable, Daibiru aims to raise

the share of income from Tokyo further within its property portfolio. Based on this strategy, in January 2010, Daibiru acquired a commercial building in Akihabara and followed this up with the acquisition of an office building in Aoyama in April 2010. At present, falling real estate prices in Japan are providing Daibiru with some good buying opportunities which it can take advantage of due to its strong financial position.

The rejuvenated *Nippon Maru* plans to focus on leisure cruises offering premium services. She will offer the type of luxury not seen in Japan before, like superior cuisine, beauty salons, aromatherapy and nail salons, and fitness amenities. This has already helped raise cabin prices and attain a high occupancy rate. Japan has been slow to embrace cruising as a leisure activity. But as the country's population ages, demand for new leisure activities is starting to take root.



Daibiru Corporation acquired AOYAMA RISE SQUARE in Tokyo in April 2010