KOICHI MUTO
President

One Direction

Our New Growth Scenario

In fiscal 2012, we implemented Business Structural Reforms (BSR) to make MOL more resilient to the risk of changes in market prices, particularly in dry bulkers. In fiscal 2013, we are now drawing on all our strengths to execute “RISE 2013,” a single-year management plan that is designed to return MOL to profitability. Among other initiatives, this plan seeks to enhance the measures set forth in the BSR, to expand highly stable profits and to strengthen the cost competitiveness of our containership business. Beyond that, we are working in one direction—to put MOL on a new growth trajectory.

Special Charge for Spot Vessels

−¥101 Billion

Why

Fiscal 2012 was the final year of our three-year midterm management plan "GEAR UP! MOL," which began in fiscal 2010. For fiscal 2012, we set the initial target of achieving ordinary income of ¥10.0 billion. However, we ended up posting an ordinary loss of ¥28.5 billion, which was even bigger than the ¥24.3 billion ordinary loss recorded a year earlier, as a result of continued volatility in market conditions in the marine transport industry and strong supply pressures created by new ships. Looking more closely, our fiscal 2012 performance differed to fiscal 2011 in certain respects. On the one hand, we saw a major improvement in the containership business. On the other hand, however, dry bulker market conditions remained as soft as they have ever been, and this negated the profit improvement in the containership business.

The containership business posted an ordinary loss, but held it to ¥11.2 billion. This was an ¥18.6 billion improvement on the ¥29.9 billion ordinary loss it recorded in fiscal 2011. This marked improvement owed much to the restoration of freight rates by adjusting space supplied, and to strengthening the competitiveness of the service network by expanding and enhancing alliances. In stark contrast, the bulkships business, which includes the dry bulker business, saw the ordinary loss worsen by ¥17.8 billion from ¥6.9 billion in fiscal 2011 to ¥24.7 billion in fiscal 2012. This business was severely impacted even more than the previous year by depressed dry bulker market conditions as the number of new ship deliveries remained at a historically high level.

In this way, the deterioration in our fiscal 2012 performance was mainly due to lackluster market conditions for our free vessels*1 in dry bulkers. As the forecast for fiscal 2013 was looking challenging again, we took some forthright actions in the fourth quarter of fiscal 2012. With market conditions not expected to recover until mid-2013 at the earliest based on market participants building a consensus that vessel oversupply had peaked out, we decided not to wait for a recovery in market conditions to turn our performance around. Considering also the expected number of deliveries of tankers and containerships, we implemented Business Structural Reforms (BSR) designed to dramatically raise our information gathering capabilities to enable us to generate earnings even amid soft market conditions. These reforms caused us to take one-time charges of ¥101.5 billion as extraordinary losses (cost of BSR), breaking into retained earnings in fiscal 2012. But we saw this as an opportunity to take the first step toward putting MOL back on a growth trajectory.

The focus of our recent BSR was shifting sales and operations of free vessels in dry bulkers to Singapore, a central point for shipping in Asia and for customers and information. Many MOL customers and brokers already have bases in Singapore, meaning that differences have arisen in the volume of information obtainable from traditional Tokyo-centered sales. Even though advances in information technologies have enhanced communication, there is still no substitute for face-to-face communication in daily business. Tokyo is no longer the ideal location as a sales base in a global market. This is what led us to decide to centralize the free vessels of dry bulkers in Singapore.

Regarding the transfer of operations, mainly time charter agreements were assigned to MOL's wholly owned local subsidiaries in Singapore at market price, resulting in large losses*2 on assignment as extraordinary losses. This accounted for the lion's share of the ¥101.5 billion in cost of BSR. The large net loss of ¥178.8 billion for fiscal 2012 reflected the addition of these extraordinary expenses to the ordinary loss of ¥28.5 billion as well as the impact of reversing deferred tax assets. Importantly, however, the BSR have lowered the cost of MOL's free vessels of dry bulkers now in Singapore to the market rate. We expect this to yield a ¥40.0 billion earnings improvement in fiscal 2013, followed by projected improvements of ¥30.0 billion and ¥20.0 billion in fiscal 2014 and fiscal 2015*3. In other words, we believe that MOL now has one of the world's most competitive fleets of free vessels in Singapore.

*1: **Free Vessel:** So-called free vessels comprise ships contracted at spot rates or on contracts of less than one year. As a result, these vessels are exposed to changing market conditions.

*2: **Large losses:** The assignment losses represent the difference between the original charter rate and the prevailing market rate.

*3: The projected earnings improvement is in comparison with fiscal 2012. Total benefits, which are expected to continue flowing through fiscal 2016 and beyond, match the ¥101.5 billion. While the extent of the benefits will decline year by year, this should not negatively affect earnings, because the number of free vessels will also decline at the same time, reducing the source of costs.

How

There were three main aspects to our BSR. First was accelerating expansion to Singapore, as I mentioned earlier. Second was scaling down market exposure of dry bulkers and tankers. Third was cost reductions at different stages.

(1) Expansion in Singapore accelerated

In the past, MOL has taken steps to develop business operations in Singapore, including transferring sales and operations bases for free vessels in the tanker business. With sales and operations of free vessels in dry bulkers now centered on Singapore, MOL will improve its sales and information gathering capabilities.

(2) Scaling down market exposure of dry bulkers and tankers

Free vessels of dry bulkers and tankers have exerted considerable pressure on MOL's earnings, because they were forced to operate at a loss due to soft market prices. As of September 30, 2012, MOL had 170 dry bulkers and 80 tankers operating as free vessels. By March 31, 2014, MOL plans to reduce these numbers to 120 and 60, respectively. Through a combination of redelivering vessels after expiry of charter contracts, selling vessels owned by MOL, and increasing the number of vessels operating on medium- to long-term contracts, MOL plans to scale back its exposure to market rates. Therefore, MOL does not expect to incur any new extraordinary losses.

(3) Cost reductions at different stages

Along with reforms in both dry bulkers and tankers, MOL is pursuing deeper cost-cutting on a company-wide scale. In addition to past cost-cutting measures such as reducing fuel expenses through slow steaming, MOL will pursue all manner of means to return the company to profitability. It has also cut directors' compensation further and reduced the remuneration of managerial personnel, as well as closed some welfare facilities.

We were able to execute the BSR while leaving sufficient corporate strength amid expectations of a continued difficult business environment with no marked improvement in the vessel supply-demand gap. We were able to do so partly because our comprehensive risk management functioned on a company-wide level. In other words, our total risk management functioned. I have managed the company thus far by constantly looking at the extent to which we can take on challenges or risk based on the volatility of each business segment and our shareholders' equity. We have lessons to learn for sure: the abnormal market conditions are the worst-case scenario and our dependence on free vessels in dry bulkers was a little too high. But we have been able to embark on a new journey to put MOL back on a growth trajectory again because our total risk exposure had not reached the danger zone.

Fiscal 2013 Ordinary Income

+¥60 Billion

Why

The main theme of the single-year management plan RISE 2013 is to "Achieve profitability in fiscal 2013 to make it the first year of MOL's growth stage." Under this plan, in fiscal 2013 we are projecting ordinary income of ¥60.0 billion, which would represent a large improvement of close to ¥90.0 billion from fiscal 2012. Breaking this down, we expect ¥40.0 billion in benefits from BSR, ¥10.0 billion in benefits from extending the depreciation period[*1], ¥25.0 billion in benefits from a weaker yen and bunker price fluctuations (lower prices), and a ¥15.0 billion contribution from cost-cutting. However, if the first two benefits are taken out—they are accounting benefits that do not affect cash—that leaves only ¥10.0 billion in ordinary income. As our business environment remains as difficult as ever, I am urging all corporate officers and employees to see ¥60.0 billion in ordinary income as the minimum target we should achieve and calling on them to work to build up cash flow as an even more important imperative.

*1: The depreciation period for most of the bulkship fleet has been extended to 20 years from fiscal 2013. (The depreciation period for LNG carriers was extended to 20 years in fiscal 2010.)

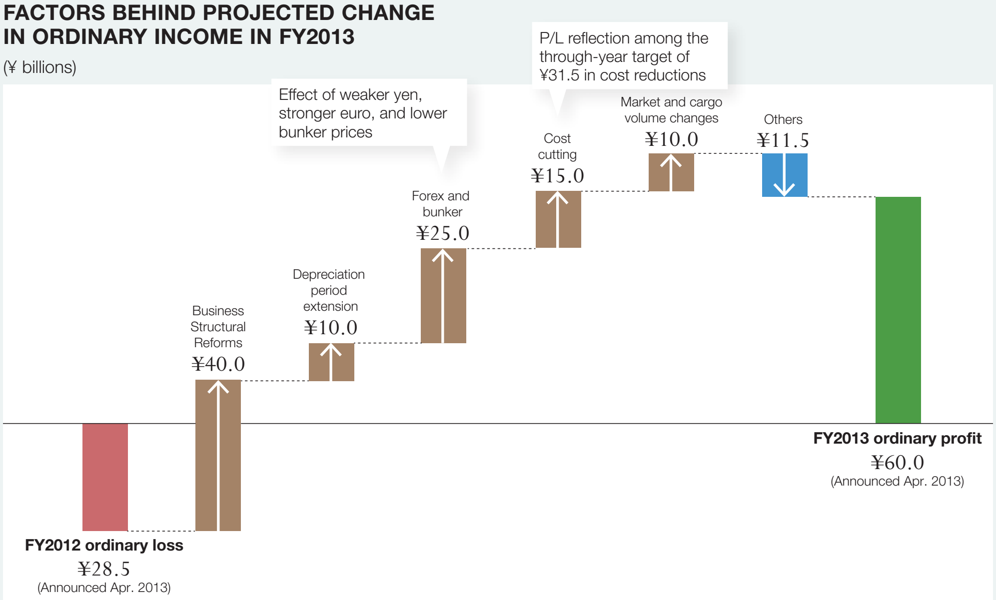
Normally, fiscal 2013 would have seen us launch a new three-year medium-term management plan. Instead we opted for a one-year plan. The reasons warrant an explanation. Given the unprecedentedly difficult business environment, with freight rates softening or remaining low for an extended period of time in all main ship types, including dry bulkers, tankers and containerships because of the continued delivery of numerous new vessels, MOL's urgent task is to create an earnings structure that isn't reliant on market conditions and, based on this policy, to scale back our risk exposure to the market (i.e., the size of our free vessel fleet). At the same time, we will do our utmost to build up highly stable profits from medium- to long-term contracts, leveraging our safe operations and high-quality services. We believe, however, that ensuring we return to profitability in fiscal 2013 is imperative for creating the platform to grow. That is why we decided on a one-year plan.

As above, it is difficult to see market conditions improving substantially in fiscal 2013. But if we can achieve ordinary income of ¥60.0 billion under these conditions, this would represent a start toward transforming our earnings structure and provide proof that we had begun to make progress. RISE 2013 encapsulates that sort of meaning.

That brings me to the positioning of free vessels in our plan. The BSR we executed utilizing shareholders' equity has equipped our free dry bulkers with world-leading cost competitiveness. The spot market is a place where a marine transport company can show its strengths in terms of how well it can utilize its free vessels to both satisfy customers and generate profits. Going forward, MOL plans to continue doing business in the spot market albeit with a smaller fleet and procure vessels with stronger market resilience. I wish to point out that a free vessel itself as a business model is not the problem, but a free vessel with a high cost is. Therefore, there will be no change to MOL's portfolio management approach of pursuing maximum returns while controlling risk through the optimal combination of different types of vessels and cargo transport contract periods.

FACTORS BEHIND PROJECTED CHANGE IN ORDINARY INCOME IN FY2013

(¥ billions)



How

Our ¥60.0 billion ordinary income forecast for fiscal 2013 is based on various premises. Starting with the business environment, there have been signs of an upturn in the macroeconomic environment, highlighted by the U.S. economic recovery and yen depreciation. The yen's value against the U.S. dollar naturally has an impact on our earnings, because freight rates are generally denominated in U.S. dollars in the international ocean shipping business. Given that approximately 80% of our revenues are in U.S. dollars, a 1-yen depreciation in the yen can bolster our ordinary income by ¥2.0 billion. For fiscal 2013, we are assuming a sharp depreciation in the yen with an average exchange rate of ¥95, from the average of ¥82.31 in fiscal 2012. While yen depreciation and euro appreciation will have a slight negative effect, we are projecting a positive effect on earnings of approximately ¥25.0 billion. This includes the positive effect on earnings of lower bunker prices, where we are assuming an average price of US$650 for fiscal 2013, compared with the actual average price of US$662 in fiscal 2012.

On the other hand, our fiscal 2013 earnings forecast does not assume a major recovery in market prices, because the gap between supply and demand for vessels is still expected to take some time to close. Put another way, our ¥60.0 billion ordinary income forecast assumes that market rates will be close to the lowest level. This could probably be seen as the lower limit for estimating our earnings going forward.

In terms of fiscal 2013 divisional forecasts, we are projecting ordinary income in bulkships of ¥40.0 billion. This would equate to a ¥64.7 billion turnaround from the fiscal 2012 ordinary loss of ¥24.7 billion. As we lowered the cost of our 130-strong fleet of free vessels to prevailing market rates due to the BSR, we expect a ¥40.0 earnings boost as a result and dry bulkers to act as a key driving force for the earnings turnaround. Looking at market rates by vessel size, Capesize bulkers are expected to see improved market rates from summer toward the second half of fiscal 2013 in step with the return to normal levels of shipments of iron ore from Brazil, which had stagnated since the start of the year due to heavy rain and scheduled port facility maintenance. A projected reduction in the number of new ships delivered and progress with scrapping are also reasons for the improved outlook for market rates. Contrastingly, small- and medium-sized dry bulkers are expected to see any increase in market rates capped, as more time is needed to eliminate the vessel supply glut. Meanwhile, tankers have suffered from abnormally low market rates, generating an operating loss. But, due to reduced market risk exposure resulting from the BSR and backed by the benefits of unrelenting cost-cutting, a return to profitability of the tanker segment is now in sight. LNG carriers

FY2013 SINGLE-YEAR MANAGEMENT PLAN “RISE 2013”

MAIN THEME:

“Achieve profitability in FY2013 to make it the first year of MOL’s new growth stage.”

OUTLINE OF “RISE 2013”

Transform business model

(1) Enforce our sales structure to meet customer needs and add stable profits through expansion of business in overseas markets.
(2) Scale down market risk exposure (free tonnage)
Realize an appropriate fleet scale through skillful combination of increasing cargo contracts and decreasing fleet by sale or redelivery.
(3) Pursue business opportunities by capitalizing on safe operation know-how and sophisticated services.

Achieve a higher level of business intelligence

(1) Track supply capacity of major shipbuilding countries accurately and increase capabilities in fleet supply and demand analysis.
(2) Pursue business opportunities arising from the shale gas revolution, next-generation fuels, etc.

Reduce costs on an entirely different stage than before

are expected to see higher earnings from the continued generation of highly stable profits, mainly from long-term contracts. With car carriers, we don't expect to see much of a change from the trend among Japanese carmakers of producing vehicles in the region where they are sold. Our forecasts factor in higher earnings from car carriers based on growth in freight in terms of cross trade and inbound trade by capturing growth in emerging markets such as India, Mexico and ASEAN countries as the central focus of our strategy.

Turning to containerships, this business was unable to turn a profit in fiscal 2012, recording an ordinary loss of ¥11.2 billion. This loss was attributable to factors specific to fiscal 2012: delays in securing sufficient cargo in the Asia-to-North America East Coast trade (via the Suez Canal) that was restructured last year, and a drop in freight rates on the East Coast of South America route, where MOL has a major share. However, route profits have improved sharply, with new services for the East Coast of North America route growing in recognition among customers. Coupled with ¥10.0 billion in cost cutting, including reduction of system costs due to the delivery of large vessels, a ¥7.0 billion profit contribution from the yen's depreciation and bunker price decline, and a ¥10.0 billion contribution from freight rate recovery (mainly pushed up by higher reefer container freight rates) and an increase in lifting volume, we are projecting ordinary income in containerships of ¥10.0 billion for fiscal 2013. This would represent a ¥21.2 billion improvement from fiscal 2012. Amid continuing vessel supply pressures, almost all participants in this business will be forced to operate at a loss on freight rates like fiscal 2012, so we expect to see companies move in earnest to restore freight rates themselves, and to limit the cargo capacity by reducing service frequencies and using slow steaming.

The ferry & domestic transport business posted its first profit in five years in fiscal 2012, and associated businesses delivered stable earnings. We therefore expect both businesses to continue making a contribution to earnings in fiscal 2013.

The risk of not achieving the projected earnings is probably in containerships. The number of new ships to be supplied in 2013 is set to increase by 7% from 2012, while demand is forecast to rise by only 3% to 4%, leaving a gap of around 3 percentage points between growth in supply and demand. Most of the large new vessels will ply Europe routes, where demand is rather weak, meaning that if the supply of cargo capacity isn't accurately adjusted, the supply-demand balance could collapse. MOL will of course take steps according to demand such as adjusting the supply of cargo slots, but the potential instability of the supply-demand balance is a risk that must be watched vigilantly.

In a market environment that must be watched at all times, we will manage our businesses with an extreme sense of urgency, setting the goal of achieving profitability with a minimum of ¥60.0 billion in ordinary income in fiscal 2013.

RISE 2013: FLEET SCALE TRANSITION (AS OF APRIL 2013)

(No. of vessels)

			September 30, 2012	4Q FY12	March 31, 2013	RISE 2013 March 31, 2014
Bulkships		Fleet Scale	814		794	729
	Dry bulkers	Fleet Scale	414		404	365
		Free tonnage	170	Execution of Business Structural Reforms		120
	Tankers	Fleet Scale	201		194	177
		Free tonnage	80			60
	LNG carriers	Fleet Scale	68		69	68
	Car carriers	Fleet Scale	131		127	119
Containerships		Fleet Scale	116		115	117
Other		Fleet Scale	51		49	44
Total		Fleet Scale	981		958	890

Note: "Fleet Scale" shows the total number of owned vessels (including those owned by joint ventures) and chartered vessels (long, short-term), at each date.

and More

Our New Growth Scenario

Why

The sound platform created by the execution of BSR and the achievement of ordinary income in fiscal 2013 of ¥60.0 billion will be the first step toward new growth for MOL. Sustainable growth is required of the company to realize its corporate principles of increasing corporate value and contributing to global economic growth and development. To this end, we must transform our business model so that we can deliver something more, every quarter and every fiscal year.

As we execute our RISE 2013 single-year management plan in fiscal 2013, we aim to restore ordinary income to a level where we are profitable based on built-up cash flows without relying on the profit contribution on an accounting basis of BSR.

In the spring of 2014, we plan to announce a new three-year medium-term management plan. This plan will see us aim to strengthen our financial position to the extent that we restore our equity ratio to its former level of at least around 35%, and if possible 40%, after it fell to 25% at the end of fiscal 2012. Trust in the company underpinned by a strong balance sheet is an essential and important prerequisite for securing medium- and long-term contracts, which contribute to highly stable profits, the source of sustainable growth. In fiscal 2013, we first intend to build some momentum by generating net income of ¥50.0 billion and strengthen our ability to generate cash flows by pushing ahead with business model reforms. Thus, we do not envisage repairing our shareholders' equity by increasing capital. In terms of shareholder returns, we aim to maintain the consolidated dividend payout ratio at 20% and will look at raising it to around 30% over the medium- and long-term. We have not decided on dividends for fiscal 2013 at this stage, because we would like to see what RISE 2013 delivers.

How

A key factor in promoting the business model transformation for enabling sustainable growth will be how well we can develop the free vessel business, particularly dry bulkers. In the mid-2000s, when dry bulker market rates were very high, we generated earnings by owning and chartering out free vessels to other shipping companies. However, the situation is different these days because the world has more than enough shipbuilding capacity. Today, it is difficult to envisage a future where market rates soar to unprecedented levels, pushed by the sort of demand we saw in the past, because many ships of the type wanted can be built quickly at low cost. Accordingly, we have abandoned our business model of the mid-2000s of owning and chartering free vessels with the expectation that market rates will continue to rise. Instead, we have returned to our origins as a shipping company. In other words, we will revert to a business model that seeks to build up highly stable profits by offering value-added service, that is, safe operation.

Safe operation is the social mission for MOL as a marine transport company, as outlined in our corporate principles. It is also the most important element for being chosen by customers. That's why MOL has worked to make our safety performance visible to everyone by introducing objective numerical indicators and implementing various measures for reinforcing safe navigation, such as establishing and operating the Safety Operation Supporting Center. Notwithstanding, I must report that in June 2013, the MOL-operated containership *MOL COMFORT* suffered a crack amidships and sank while under way in the Indian Ocean. MOL is yet to pinpoint the cause of this serious marine incident, but I deeply regret the troubles this caused customers and other stakeholders, and the loss of cargo. Together with the shipyard that built this vessel and the classification society, we are working hard to identify the cause of the incident. Meanwhile, in order to eliminate any possibility of recurrence of a similar incident, MOL decided to immediately implement preventive safe operation measures such as reinforcing the hulls of six sister vessels to a level above that of international standards.

We see LNG transport and offshore businesses as becoming core business models that can generate highly stable profits. MOL is currently involved with 85 LNG carriers in the MOL Group (including 16 vessels under construction). This is approximately 18% of the 475 LNG carriers in the world, making MOL the world's largest LNG carrier operator. With market

observers suggesting that another 100 or so vessels will be required by 2020, MOL's track record and presence in LNG transportation will position it well to capture major business opportunities. That's why we see it as a major driving force for our growth strategy. MOL's track record of safe operation has been lauded when securing contracts, so we are determined to maintain and raise the quality of safe operation going forward. When shale gas projects are developed in earnest in North America, it is expected that the number of seafarers required will also increase sharply. It is necessary to plan and prepare for this different stage. We will pursue seafarer expansion in line with business expansion while ensuring the safe operation quality. And, we will secure as many LNG transportation contracts as we can, as the leading player in LNG transportation.

As I said earlier, we are also actively participating in offshore businesses which are connected with seafloor oil and gas field development. MOL isn't directly involved in development itself, but since the development takes place offshore, facilities are needed offshore to produce, store and offload the extracted crude oil and gas and for regasification in the case of LNG. MOL is already participating in three projects providing FPSOs (Floating Production, Storage and Offloading Systems) to Petrobras. And we want to leverage our know-how in LNG carrier transportation to make further inroads into the field of FSRUs (Floating Storage and Regasification Units), which is an area where we can use LNG carriers that come off long-term contracts.

Another field we hope to grow further is Capesize bulkers, the largest type of dry bulkers. We already operate 70 of these ships on medium- to long-term contracts, and aim to increase that number. The dry bulker business is facing extremely difficult market conditions, as evidenced by companies going bankrupt because of low market prices. If viewed another way, however, this presents us with more opportunities to win contracts as the Carrier of Choice, given our financial base, safe operating system and other management resources.

To secure medium- to long-term contracts, I think it is necessary to maintain a certain number of free vessels. High-cost free vessels pressure operations when market rates are low, but free vessels that are resilient to market rates can increase a company's competitiveness and increase the chances of securing medium- to long-term contracts by offering a proposal in combination with such free vessels. That said, as I explained before, we have eschewed our former business model of procuring free vessels and relying on rising market rates.

MOL boasts one of the world's largest tanker fleets. It also has a well-balanced fleet, comprising crude oil tankers, product tankers, chemical tankers and LPG tankers. The nature of the cargo carried means that the operational level required is as strict as that for LNG carriers, and large customers like oil majors are becoming even more demanding in respect of safe operation. There is also a procession of companies exiting this market because they cannot live with these demands. Any company that can meet these demands has an opportunity to grow as a market survivor. In fact, MOL's relative competitiveness is increasing due to its ability to meet these demands, including in terms of its financial strength. On another front, the shale oil and shale gas revolution has everyone talking in the energy transportation sector. Using our business intelligence, we will capture transport demand steadily by spotting changes in trends.

Another growth vehicle is Daibiru Corporation, the fulcrum of our real estate business. Daibiru generates stable earnings from the ownership of many prime properties in Japan. This company is searching for more growth overseas and in 2011 successfully advanced into Ho Chi Minh City, Vietnam. I expect Daibiru to accumulate stable earnings by developing overseas and overseas tenants.

To my regret, MOL recorded losses for two consecutive years in fiscal 2011 and fiscal 2012, causing considerable concern to shareholders and other investors. But we are determined to move back into the black and transform our business structure so that it is impervious to market rates in fiscal 2013 under our RISE 2013 single-year management plan after having executed the BSR in the 4th quarter of fiscal 2012. We will also continue to focus our efforts to the utmost on strengthening safe operations so that we can achieve sustainable growth while contributing to global economic development, and thereby strive faithfully for higher shareholder value.