

BULKSHIPS

Dry Bulk



KENICHI NAGATA
Senior Managing Executive Officer

Fiscal 2012 in Review

The market for dry bulk shipping, especially the largest class of ships—Capesize bulkers—has been negatively affected by the recent delivery of many newly built vessels, which has caused an oversupply in the market¹. During the 2012 calendar year, the average daily charter rate fell below US\$10,000 and drifted at the lowest level recorded since the Baltic Exchange first began publishing market rates. The supply of new vessels has also affected market conditions for Panamax and smaller vessels. This vessel supply pressure¹, combined with the impact on demand of an economic slow-down in China and drought in North America during the summer, generally kept average daily charter rates for those sizes of vessels below US\$10,000. Steaming coal carriers enjoyed somewhat stronger demand and maintained high operating rates, as coal-fired thermal power plants which had been damaged by the Great East Japan Earthquake came back on line and revived coal shipment volume. Wood chip carriers experienced sluggish conditions due to the impact of softer markets for small and medium-sized dry bulkers with which they compete in some cargoes.

MOL's dry bulkers business worked to maintain highly stable profits by securing long-term contracts to transport iron ore and coking coal mainly by Capesize bulkers, and for wood chip carriers, steaming coal carriers and other vessels. The company also improved operational efficiency, with these actions leading to higher earnings and lower costs. Meanwhile, we are aggressively scrapping older Capesize bulkers and wood chip carriers to lower the average age of the fleet and boost ship quality, thus allowing MOL to offer high-quality transport services

Vessels

12/3 392 → 13/3 404

Thousand deadweight tons

12/3 34,911 → 13/3 34,928

Note: Figures include spot-chartered ships and those owned by joint ventures.

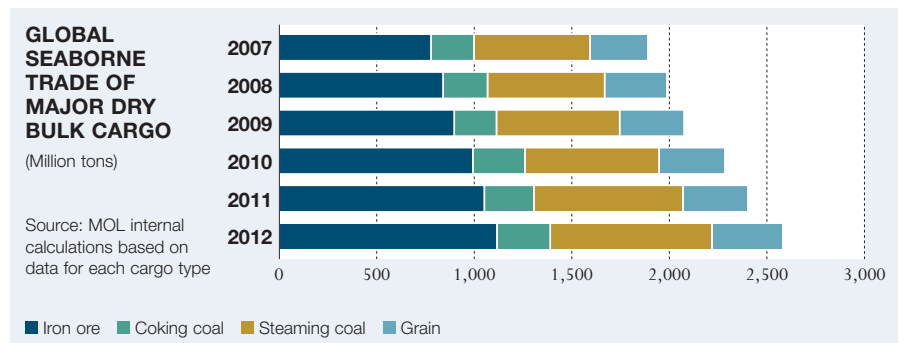
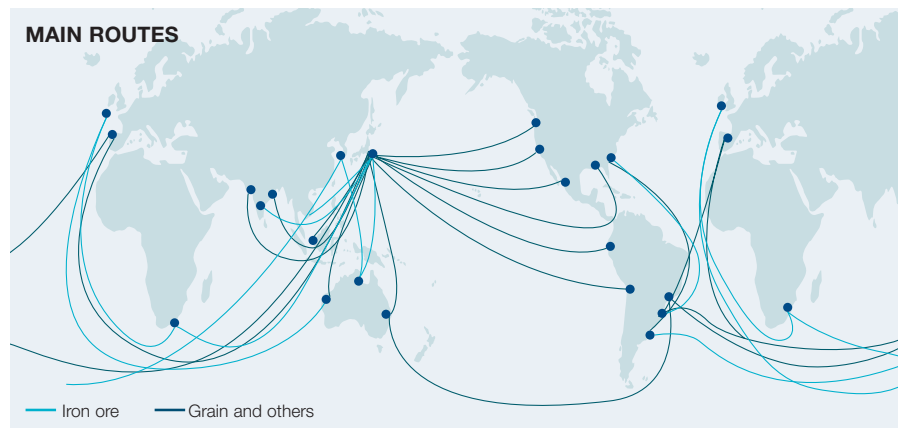
to customers. Nevertheless, depressed market conditions for Capesize bulkers prevented the company from covering losses on free vessels² exposed to the market with highly stable profits from medium- to long-term contracts. Furthermore, in Panamax and smaller vessels, the higher ratio of free vessels created an unprecedented unprofitable business environment. As a result, losses in this segment were substantially larger than in fiscal 2011.

To address these harsh market conditions, MOL initiated steps to revive competitiveness and return to profitability as quickly as possible. Sales and operations for free vessels has been transferred from Tokyo to

Singapore as part of Business Structural Reforms (BSR), which was executed in the fourth quarter (Jan-Mar 2013). Charter contracts of about 130 free vessels, mostly small and medium-sized vessels, were assigned to wholly owned Singapore subsidiaries³, one by one, at present market value at that time. The disparity between original charter rates and the current market rates was booked as an extraordinary loss, which was the main factor of the total charges related to the BSR of ¥101.5 billion.

Fiscal 2013 Profit Recovery Scenario

In fiscal 2013, we aim to restore earnings from the record ordinary loss we posted in fiscal 2012 to a profit. For now, this is the one target that we believe must be achieved. The majority of the ¥101.5 billion in restructuring charges taken in fiscal 2012 was generated by the dry bulker segment. This includes the assignment of the approximately 130 free vessels, allowing them to operate at costs that are much closer to market level. For example, the cost of small and medium-sized dry bulkers operated by MOL Bulk Carriers Pte. Ltd. has fallen to less than US\$10,000/day. At this level, the segment will be able to take a big step towards recovering its competitive vigor. We estimate that these business restructuring



measures will reduce fleet costs by ¥40.0 billion in fiscal 2013. The weaker yen will also benefit the company, and it plans to lower costs by reducing navigating speeds and through other means. This should make it possible for the segment to return to profitability.

The outlook for the dry bulk market in fiscal 2013 is likely to be influenced by the decreasing number of deliveries for new Capesize bulkers and the scrapping of vessels. This process is likely to ease some of the pressure on the supply-demand gap. Looking at the demand side, shipments of iron ore from Brazil, which were delayed due to heavy rain at the beginning of the year, as well as the regularly scheduled maintenance of port facilities conducted during the rainy season, should return to normal. This is likely to revive demand and improve market conditions over the summer and the remainder of the year. Panamax bulkers may continue to experience problems due to the continuous delivery of new ships, which is preventing the market from achieving a substantial improvement. However, MOL is assuming the market will improve slightly as demand is not likely to be as weak as it was in fiscal 2012 when there were unusual factors such as the drought in the U.S.

Looking Ahead

Prior to the Lehman Shock, MOL and its competitors raced to build new ships amid soaring rates in the dry bulk markets. To some extent, it seems that companies took their eyes off the most basic, underlying purpose of the shipping industry—"to transport cargoes for customers." Many of the newly built vessels were ordered without actual contracts from direct clients and were thus exposed to fluctuations in the spot charter markets. As a result, MOL found itself with too many free vessels and unable to fully manage market risks.

Traditionally, the mission of the shipping business has been to build a fleet that closely matches and responds to the various needs of customers, provide the best possible service, and perform a central function in the customer's supply chain. It is also important to have an appropriate balance of ships for long-term, medium-term and short-term contracts in line with customers' needs. In this sense, it is necessary to have some free vessels in a company's fleet. What is important is that vessels generating stable profits should be increased in parallel with any increase in the number of free vessels. In other words, exposure to the spot market should be limited to a level which can be covered by the highly stable profits from long-term contracts. In fiscal

2013 and beyond, MOL intends to intensify its focus on total risk management, seeking to increase the number of vessels generating highly stable profits and limit exposure to the spot market for free vessels.

In terms of generating highly stable profits centered on large vessels operating on medium- to long-term contracts, an operator cannot attract contracts merely by procuring the cheapest ship available. Shipping customers can choose from among a large number of providers, which makes earning the trust of cargo owners key. This trust includes the level of technical support for cargo shipments, a track record of making deliveries on schedule and safe ship operation, as well as a solid financial base. In addition to these fundamental qualities, a shipping company must maintain close communication with clients, and provide them with a sense of security. By focusing on these factors, MOL aims to enhance the competitiveness of its dry bulk operations and thereby increase highly stable profits.

Regarding free vessels, by relocating the hub of this business to Singapore, MOL hopes to enhance sales and operations as Singapore is located at a crossroad of global shipping lanes. Many ocean transport companies are based in the country and information on the business is thus concentrated there. By taking advantage of centering its activities in Singapore, MOL expects to increase the

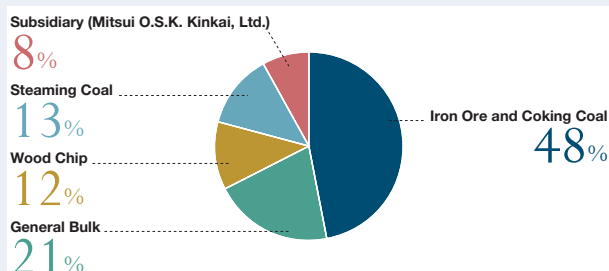
DRY BULKER FLEET TABLE

(As of March 31, 2013)

Vessel Type	Standard DWT	No. of Vessels	Use
Capesize	170,000	103	Steel raw materials (iron ore, coking coal)
Panamax	72,000	38	Iron ore, coking coal, steaming coal, grains, etc.
Handymax	55,000	68	Steaming coal, grains, salt, cement, steel products, etc.
Small Handy-size	28,000	52	Steel products, cement, grains, ores, etc.
Steaming coal carriers	93,000	41	Steaming coal
Wood chip carriers	50,000	44	Wood chips, soybean meal, etc.
Other (Heavy lifters, coastal vessels)	12,000	58	—
Total		404	

CONSOLIDATED REVENUES BREAKDOWN

(Results of FY2012)



Glossary

- *1 During calendar 2012, a total of 215 new Capesize bulkers were completed and delivered worldwide. Deducting the 75 older vessels that were scrapped during the year, there was a net increase of 140 vessels. At the end of December 2012, there were 1,510 such vessels in operation, an increase of 10% from the previous year. This followed a 16% increase in 2011. This increase in shipping capacity severely weakened the structural supply-demand balance in the bulk markets, and represents the main reason for the historically low level of charter rates. While there are expected to be half as many new Capesize bulk deliveries in 2013 as in 2012, there is still an obvious sentiment of over-capacity. The number of new Panamax vessels to be delivered in 2013 is also expected to remain high. Thus, the market outlook for 2013 is still challenging.
- *2 **Free vessel:** Vessels that operate on spot contracts (contract period of less than one year) and are thus exposed to changing market conditions.
- *3 **Singapore subsidiaries:** MOL Cape (Singapore) Pte. Ltd. and MOL Bulk Carriers Pte. Ltd. Charter contracts of Capesize bulkers were assigned to MOL Cape (Singapore) Pte. Ltd., while those of Panamax and smaller vessels were assigned to MOL Bulk Carriers Pte. Ltd. Both are wholly owned subsidiaries of MOL based in Singapore.
- *4 **COA (Contract of Affreightment)** is a type of contract to transport cargo based on weight or volume. They are usually concluded on a long-term basis to transport large bulk cargoes of iron ore, coal or crude oil. The contracts are based on the volume of cargo transported and the delivery period, so vessels are not specified and the method of transporting the cargo is left to the discretion of the shipping company.

number of COA⁴ and other actual shipping contracts to transport cargo. This may allow us to reduce the number of free vessels exposed to market fluctuations. In addition, MOL intends to redouble efforts to develop business in Southeast Asia, India and Australia through Singapore subsidiaries³, allowing ships to combine cargoes on routes within the region and thereby reduce the number of ships travelling on non-income-generating ballast voyages. In this way, MOL aims to generate higher profitability than the market average.

Although MOL's aim is to develop a business structure that is not reliant on market conditions, we also believe that the market reached its bottom in fiscal 2012, and that it will gradually begin to recover from here on. The number of new Capesize bulkers to be delivered in 2013 is expected to be half the number of vessels delivered in 2012¹. In the latter half of the year, therefore, market sentiment should begin to improve and we anticipate a certain rebound in rates. In the market for Panamax and smaller vessels, many loading ports are placing stricter regulations on the age of ships, and rapid advances in fuel performance are increasing the obsolescence of old ships. With global environmental restrictions being tightened as well, it is becoming too expensive to repair or upgrade many older vessels. Owners are scrapping ships instead. As more of these older ships are taken out of service, market conditions are likely to improve gradually. Nevertheless, it is unrealistic to expect the dry bulker segment to return to the lucrative conditions it experienced in the mid-2000s. It will probably remain difficult to make large profits on the operation of free vessels.

Some ship owners and shipping companies, particularly outside Japan, have responded to falling ship prices by continuing to invest in new construction. However, most expect the dry bulker markets to remain weak for the time being, which conversely may give MOL the option of chartering some vessels at low rates. As noted above, the primary consideration for the company at present is to stabilize and improve earnings. On the other hand, MOL will maintain a flexible and alert stance on ways to obtain shipping capacity and respond to market trends. In this way, while maintaining some degree of free vessel capacity, the company intends to build a cost structure that can generate profits

even without a large rise in market rates.

As outlined above, the company aims to return operations to the black in fiscal 2013 by minimizing exposure to market conditions. At the same time, we will place top priority on the basics of transporting cargo for customers safely and efficiently.

MOL will work to improve sales capabilities to respond to customers' various needs, while making full use of the cost-competitive fleet built up through the BSR. In this way, MOL intends to put the dry bulker business back on a trajectory of sustainable growth.

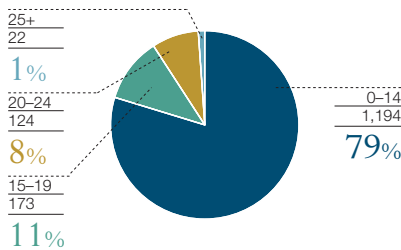
WORLD DRY BULKERS AGE PROFILE

(As of March 2013)

Age	No. of ships	%
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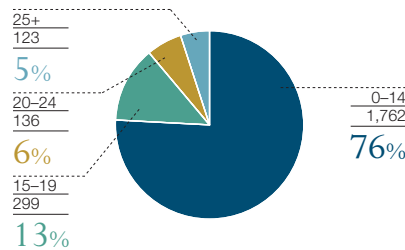
CAPESEIZE

(100,000 DWT-, 1,513 ships)



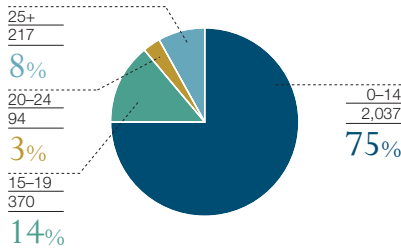
PANAMAX

(60-99,000 DWT, 2,320 ships)



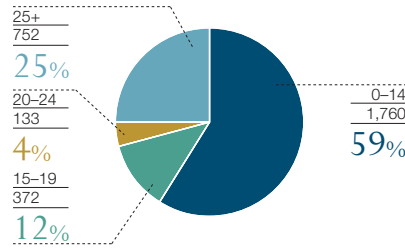
HANDYMAX

(40-59,000 DWT, 2,718 ships)



HANDYSIZE

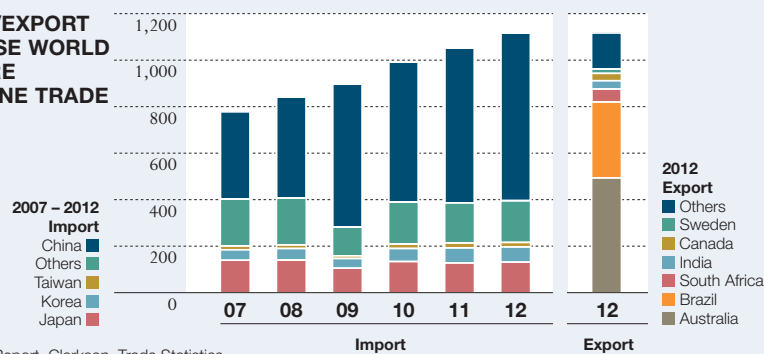
(10-39,000 DWT, 3,017 ships)



Source: Clarkson March 2013

IMPORT/EXPORT AREAWISE WORLD IRON ORE SEABORNE TRADE

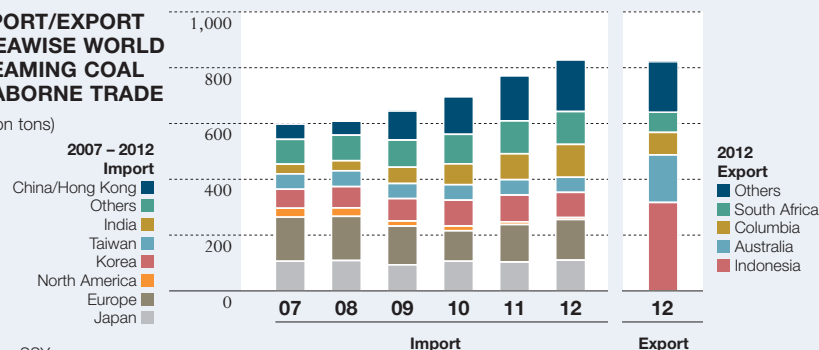
(Million tons)



Source: Tex Report, Clarkson, Trade Statistics

IMPORT/EXPORT AREAWISE WORLD STEAMING COAL SEABORNE TRADE

(Million tons)



Source: SSY

BULKSHIPS *Dry Bulkers*
The Capesize bulker
ORE SAO LUIS
(Tubarao, Brazil)

ORE SAO LUIS is a Capesize bulker that transports iron ore between Brazil and China under a long-term contract with Brazilian resource company Vale. MOL strives to provide safe, reliable ocean transport services, taking advantage of its advanced safe operation management system and fleet scale to meet continually growing demand for iron ore transport.



BULKSHIPS

Tankers



TSUNEO WATANABE
Senior Managing Executive Officer

► Fiscal 2012 in Review

Demand for oil dropped off following the Lehman Shock in 2008, and this coincided with the delivery of many new vessels, creating a wider gap between supply and demand for shipping capacity. For the past four years, that gap has remained a critical factor in depressing the market for tanker transportation. While there are signs of recovery for some types of tanker vessels, the tanker business as a whole has posted losses for the past four consecutive fiscal years.

As of the start of 2012, there were 588 Very Large Crude Oil Carriers (VLCCs)—the largest ships used to transport crude oil—in operation worldwide. During 2012, 49 more VLCCs were delivered, while 21 were scrapped. Thus, the number of ships in operation increased approximately 5% during the year, to 616. China, among other leading oil consumers, expanded oil imports from distant countries in South America and West Africa. This produced a slight, albeit temporary, improvement in the VLCC market, but an economic slowdown in China caused crude oil inventories to swell. Coupled with traditionally low demand during the summer, market conditions deteriorated. Though a slight pick-up during the high-demand winter months eased the sense of vessel overcapacity, it was not enough of an improvement to close the supply-demand gap. The market as a whole therefore remained depressed.

The product tanker market remained range-bound during the first half of the fiscal year, but in the latter half there was an improvement due to several factors. Strong naphtha demand in East Asia and overall demand for fuel oil during the winter boosted shipping volume. On top of that,

Vessels

12/3 200 → 13/3 194

Thousand deadweight tons

12/3 18,756 → 13/3 19,037

Note: Figures include spot-chartered ships and those owned by joint ventures.

the closure of refineries in Australia caused an increase in trade volume, improving market conditions in the Pacific region. With the additional boost from demand in Africa and South America, the market recovered all around the globe.

The chemical tanker market remained harsh in 2012 due to soft economic growth in China, the largest source of demand, and the fiscal crisis in Europe. Since the start of 2013, however, the chemical tanker market has shown signs of recovery as a whole, as demand for transporting vegetable oils and others increased while the market of product tankers, which can also transport them, upturned.

LPG tanker rates rose in the first half of 2012 with an increase in LPG export

volume from the Middle East. However, economic sanctions placed on Iran by the EU disrupted LPG shipments from that country. This crippled the balance of supply and demand for Very Large Gas Carriers (VLGC) and caused market conditions to weaken in the second half of the fiscal year.

MOL operates 17 methanol tankers on long-term charter contracts, meaning that it has a 40% share of the market. The steady contribution from these tankers supports the earnings of the tanker business.

The company introduced Business Structural Reforms in fiscal 2012, which included the sale of five crude oil tankers. This helped reduce MOL's exposure to market risk. As of September 30, 2012, we operated 80 free vessels in this segment; but this number had been reduced to 74 by March 31, 2013.

► Recovery Scenario Toward Profitability in Fiscal 2013

During 2013, the number of new VLCC deliveries is expected to drop to just 35—fewer than in 2012. Furthermore, tighter safe operation standards are increasing maintenance costs for older ships, and driving up costs related to vessel inspections. It is likely that many older vessels will be scrapped as a result of becoming less profitable. And the oil majors are now avoiding the use of VLCCs that are over 15 years old; there are about 70 VLCCs which have been in service for more than 15 years in the world. It is

MAIN ROUTES



TANKER FLEET TABLE

(No. of vessels)

	11/3	12/3	13/3	Pool Management
Crude oil tanker	48	46	47	VLCC
Product tanker	60	62	61	LR1
Chemical tanker	85	79	75	Plan to start in autumn 2013
LPG tanker	13	13	11	VLGC
Total	206	200	194	

therefore likely that the owners of these older ships will choose to scrap the vessels in the near term. As this process continues, the market should gradually return to more normal conditions.

Although the business environment has been very harsh of late, the success of the Business Structural Reforms and progress on the current "RISE 2013" management plan are helping to reduce the market exposure risk in fiscal 2013. Not only are conditions for product tankers improving, but U.S. exports of LPG are beginning to improve the VLGC market as well. Diligent efforts to reduce costs are also helping to improve earnings conditions, and a return to profitability is in sight.

Looking Ahead

In order to meet global demand for energy, the absolute volume of oil consumption is expected to continue rising. According to the U.S. Energy Information Administration (EIA), total energy demand worldwide is likely to increase by around 50% between 2010 and 2035, and demand for oil is expected to increase by 30–35%. This will create a steady increase in shipping volume of crude oil and petroleum products.

Oil tankers play a vital role in supporting the global economy, but operating profit, the net result of freight revenues minus operational expenses, has fallen close to zero. It is abnormal for such conditions to last so long. In order to alter these conditions, it is necessary to address structural changes in trade patterns and prevailing business transactions of oil in a manner of a commodity deal.

In recent years, as the market price of crude oil has fluctuated dramatically, it has come to be traded like any other commodity. The same is very true of petroleum products and petrochemicals. The linkage among oil and these products is intensifying, and the entire petroleum sector has been transformed into a single market. In the past, it was typical for crude oil transportation contracts to be concluded on a 10-year basis or longer. However, the contract period is tending to be shortened. Since oil prices are so volatile, oil shippers cannot maintain their competitiveness if they do not change to match market conditions. In the product tanker market, the cargoes are already commoditized, and the same thing is happening in the LPG tanker and chemical tanker business fields.

There has also been a structural shift in the nature of the petroleum product trade. The development of shale oil reserves in the U.S. has reduced the shipping oil volume to the U.S., one of typical long-distance trades. On the other hand, oil refineries in leading industrialized countries outside North America are being closed down, while shipments from facilities in the Middle East, India and the U.S. are increasing. Furthermore, demand is shifting from the leading industrialized countries to places such as the Middle East, Africa and South America. As a result, Singapore has become an important player for these trades, and the main theme of MOL's business structural reforms was to accelerate expansion in Singapore. Having stepped up efforts to make Singapore the center of sales and ship operations early, we are starting to see the benefits of this.

Meanwhile, as the petroleum market becomes increasingly interlinked and commoditized, MOL is striving to develop businesses that more fully meet the needs of customers. The key, in our view, is to establish a reputation as a leading player in all sectors of the transport market, from crude oil to petroleum products and petrochemicals. By itself, MOL cannot change the current market conditions. However, we believe a pool system is the best business platform to make ourselves regarded as the No. 1 player.

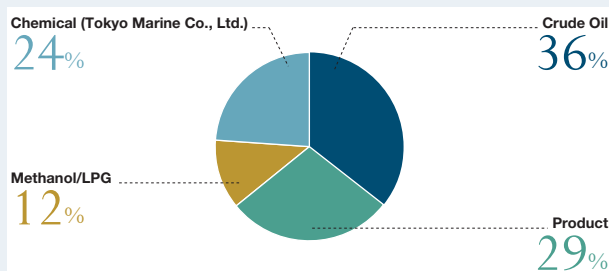
In 2011, we jointly established Straits Tankers Pte. Ltd., a ship pool

management company for LR1 product tankers (approx. 75,000 DWT). This company operates 30 LR1 vessels at present. In VLGCs, we are operating VLGCs in a pool through a Singaporean subsidiary. This subsidiary operates 12 vessels at present. In another move, in 2012 we established Nova Tankers A/S as a VLCC pool management company together with four other companies. All of MOL's spot operations have been transferred to this company, which presently operates 44 vessels. As with other pools, it is leveraging economies of scale to provide high-quality services in all sea areas to garner more support from customers. At the same time, it is improving profitability by raising efficiency in vessel allocation through reductions in ballast voyages and so forth. In the fall of 2013, chemical tanker operations will be turned over to another pool management company created in cooperation with a European shipowner, under the name Milestone Chemical Tankers Pte Ltd. In this way, MOL hopes to achieve unprecedented efficient operations in this sector as well.

Due to the current abnormal market conditions, it is still too soon to identify any confirmed impact from these measures. However, when business players offering high-quality services survive and the market returns to normal, our entire tanker business, including the spot trades, will be able to make a major contribution to MOL's sustainable growth.

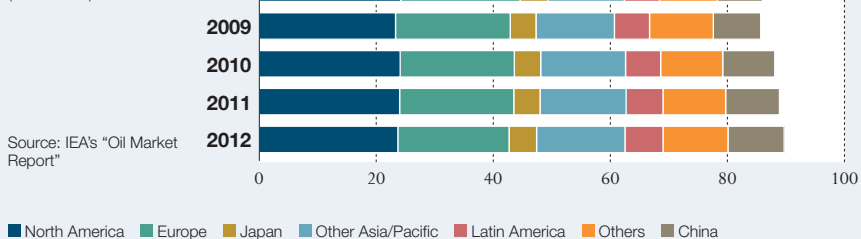
CONSOLIDATED REVENUES BREAKDOWN

(Results of FY2012)



GLOBAL OIL DEMAND

(Million b/d)



BULKSHIPS *Tankers*
The VLCC
SELENE TRADER
(Keiyo Sea Berth, Chiba)



Singapore-based Nova Tankers A/S, a VLCC pool management company MOL established together with four other companies, currently owns 44 vessels. Young vessels, sophisticated vessel management capabilities and the sound financial bases of the partner companies are the source of this VLCC pool's competitiveness. It is leveraging economies of scale to provide high-quality services in all sea areas that have garnered the support of customers.



BULKSHIPS LNG Carriers



TAKESHI HASHIMOTO
Managing Executive Officer

■ Fiscal 2012 in Review

As a result of the unprecedented deterioration in market conditions for the shipping industry, MOL as a whole posted a loss for the second consecutive fiscal year. On the other hand, earnings from LNG carriers, which were mainly derived from long-term contracts, roughly matched levels in the previous fiscal year, lending continued support to the company's highly stable profits; nearly all of MOL's 69 LNG carriers are operated under long-term contracts. Furthermore, the volume of global trade of LNG remained strong. Although economic stagnation in Europe has depressed demand in that region, this has been offset by increased demand from Japan's electric power companies. Consequently, the spot charter rate remained as firm in fiscal 2012 as in the previous fiscal year.

During fiscal 2012, there was a growing disparity in spot charter rates; the rates for aging vessels diverged from those for newer, more advanced vessels. This reflects the fact that older vessels are less efficient to operate, consuming more fuel while offering less cargo tank capacity. This trend has not been a tailwind for MOL, since the company has been in the LNG carrier business for a long time and has many older vessels in its fleet. However, MOL has been able to keep the negative impact to a minimum, because of its fairly strong profit structure. As above, most of the company's earnings from LNG carriers come from vessels operating under long-term contracts.

In fiscal 2012, the company succeeded in attracting orders which placed three new LNG carriers under long-term contracts to deliver LNG to Japan. One of these is a Moss-type¹ LNG carrier of the largest

Vessels

12/3 69 → 13/3 69

Thousand deadweight tons

12/3 5,306 → 13/3 5,310

Note: Figures include spot-chartered ships and those owned by joint ventures.

class that is able to transit the expanded Panama Canal. The other two are Moss-type LNG carriers with four spherical tanks covered by a continuous cover. This peapod-shaped continuous cover is integrated with the ship's hull, achieving weight reduction while maintaining overall hull rigidity. All three vessels will adopt a new steam turbine engine that reuses steam for heating. This will also reduce fuel consumption. And they feature an advanced heat insulation system that offers the lowest LNG vaporization rate—0.08%/day—of any LNG carrier in the world. Its environment-friendly and economically advanced design also effectively controls surplus boil-off gas².

With the three vessels described above, MOL has procured long-term contracts for nine ships in total since 2010—five transport cargo to Japan and four travel delivery routes to China. These vessels are due to be delivered one by one from 2014, thus contributing to highly stable profits.

MOL is also continuing aggressive development of its offshore businesses. For example, in the FPSO³ business, the company has already taken part in two projects for Brazil's national oil company, Petrobras, and in fiscal 2012 MOL was chosen to participate in a third project, which is due to commence operations in 2015.

■ Fiscal 2013 Earnings Growth Scenario

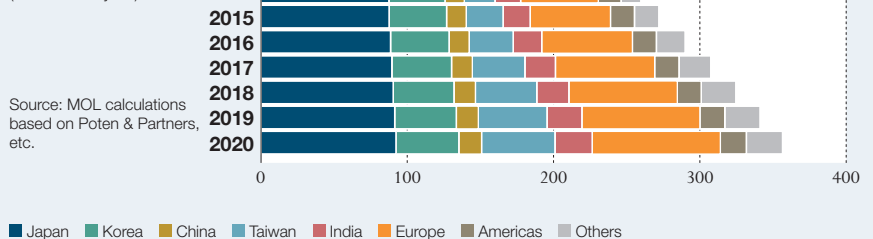
In fiscal 2013, earnings are expected to increase in response to cost reduction and the impact of a weaker yen, among other factors. The company's single-year management plan—"RISE 2013"—aims to restore the company to profitability overall. The LNG carrier business can continue to contribute greatly to this goal since it provides highly stable profits that are not excessively affected by short-term market fluctuations. The company will also work aggressively to lay the groundwork for new long-term contracts, as part of the ongoing effort to expand highly stable profits.

MAIN ROUTES



LNG DEMAND FORECAST

(Million tons/year)



Source: MOL calculations based on Poten & Partners, etc.

■ Japan ■ Korea ■ China ■ Taiwan ■ India ■ Europe ■ Americas ■ Others

Looking Ahead

Since the start of fiscal 2013, the company has concluded contracts for two additional projects, one in Japan and one overseas.

In May 2013, MOL secured a long-term contract (for one ship) to transport LNG from the Ichthys LNG Project in Australia to Japan. This contract marks the first time that an LNG carrier wholly owned by a Japanese shipping company will serve on joint transport for an electric power company and a gas company in Japan.

In the other project, MOL will take part in a project to supply LNG to China Petroleum & Chemical Corporation, known as "SINOPEC," which will obtain its LNG from Australia Pacific LNG Pty Limited. It will be a massive LNG transport project, involving the use of six newly built LNG carriers. All six of the vessels are being built by Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. (Hudong) in China. This is our second big milestone in the burgeoning business of LNG transportation to China, after our participation in the ExxonMobil China project⁴, which was announced in March 2010. MOL has 30 years of experience and expertise in the LNG transport business, and has earned a very positive reputation for safe and stable operations. This reputation and the experience gained through the ExxonMobil China project has allowed MOL to develop a relationship of trust with Chinese partners, and contributed to the company's selection to take part in this project. Engagement in this project will enhance MOL's presence in the business of transporting LNG to China, and strengthen its close relationships with Chinese partners for further cooperation and opportunities. All of the LNG carriers for the above project and the ExxonMobil China project are due to be completed and delivered by 2017. This will give MOL a fleet of 10 LNG tankers delivering LNG to China.

Global demand for LNG stood at around 240 million tons in 2012. Demand is expected to increase further in the future. This is because LNG is attracting attention as a clean energy resource amid surging demand for energy in emerging countries. LNG is also in higher demand in Japan after the Great East Japan Earthquake and in Europe where there are moves away from nuclear power generation. By 2020, global demand for LNG could rise to as high as 400 million tons. In order to meet this rising demand, it is estimated that

around 100 additional LNG carriers will be required, in addition to ships that have already been ordered.

While the expectation of rising demand has pushed up spot charter rates for LNG carriers, it has also contributed to speculative orders for new LNG carriers. Between 2013 and 2017, over 100 new carriers are due to be delivered. Considering that there are already approximately 370 LNG carriers operating worldwide, the number of these ships in operation is expected to reach approximately 480 by 2017. Expectations of a supply glut could contribute to a weakening in spot market conditions from the latter half of 2013. On the other hand, a number of new LNG projects currently under development in Australia and elsewhere are due to start full-scale operations from around 2015. When these projects begin supplying LNG, their output is likely to take up all of the additional capacity created by the new vessels. For that reason, we believe that the market will once again start to face a shortage of LNG vessels from around 2016.

Since demand for LNG carriers is expected to increase dramatically over the next few years, we plan to expand our fleet of LNG carriers to around 110 vessels by 2020, and intend to further enhance our industry-leading position in the LNG transport business. It will be important for us to utilize our skills and know-how as the world leader in safe operations in order to accomplish this goal. Ingenuity is also required to meet a broad range of customer needs, as are networks to put solutions into effect.

Another critical prerequisite to building a larger fleet of LNG carriers is the training and retention of skilled crews on board LNG carriers. MOL has launched its own seafarer education and training program and is building education and training infrastructure. This training program complies with SIGTTO⁵ and TOTS⁶

requirements, and also recently received certification from Norway's Det Norske Veritas AS (headquarters in Oslo) for compliance with the Competence Management System (CMS)⁷. Operation of this CMS enhances MOL's existing training program by identifying the skills required of seafarers and the current situation and pinpointing issues in this regard so as to continuously improve the program. By continuing to develop and conduct this seafarer training program to expand the LNG fleet, making revisions whenever necessary, MOL is striving to develop the skill of seafarers who will help it maintain its status as the world leader in safe operations.

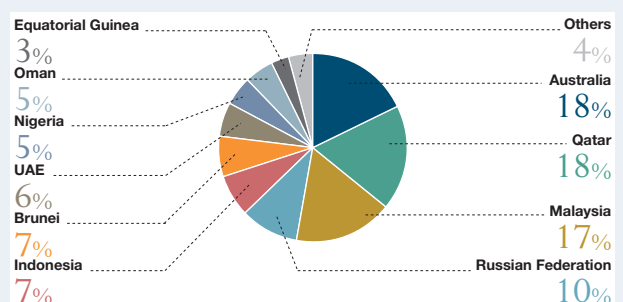
Glossary

- *1 **Moss-type tankers (developed by Norway's Moss Rosenberg)** are LNG carriers which have independent spherical cargo tanks.
- *2 **Boil-off gas:** This refers to the gas released from LNG during transport, due to vaporization caused by external heat.
- *3 **FPSO (Floating Production, Storage and Offloading System):** A facility for producing oil and gas offshore. The oil is stored in tanks in the facility and directly offloaded to tankers for direct transport to the destination.
- *4 **ExxonMobil China Project:** This project is a joint venture between MOL and Chinese partners, to transport LNG from Papua New Guinea and Australia to China under long-term contracts. MOL has ordered four new LNG carriers from Hudong to be used in this project, and the first completed vessel is to be delivered in early 2015.
- *5 **SIGTTO:** The Society of International Gas Tanker & Terminal Operators Ltd. This organization is responsible for setting standards for safe operations in the LNG industry, covering everything from LNG production to the transport and consumption of natural gas. These include the "SIGTTO Standards" for the training of LNG carrier crews.
- *6 **TOTS:** Tanker Officer Training Standard. This is a standard set by the International Association of Independent Tanker Owners (INTERTANKO) for the training of personnel working on tanker vessels, either on board ship or at ports of call. It is designed to raise the skill level of these workers.
- *7 **Competence Management System (CMS)** is a management system which assesses the skills of crew members and identifies any disparities between these skills and the standards required to achieve the corporate goals of a shipping company. The system is designed to continuously improve the quality of crew training programs.

JAPAN'S LNG IMPORTS BY COUNTRY (%)

(%)

Source: BP Statistical Review of World Energy 2013



BULKSHIPS LNG Carriers
The Moss-type LNG Carrier
ENERGY PROGRESS
(Tokyo Bay)



There are approximately 370 LNG carriers operating worldwide at present. MOL operates 69 vessels, including 45 managed vessels, making the company's fleet of LNG carriers the largest in the world. MOL has outstanding orders for 16 vessels, all of which will be managed by MOL. With demand for LNG carriers expected to surge over the next few years, MOL plans to increase the size of its LNG carrier fleet to around 110 vessels by 2020.



BULKSHIPS

Car Carriers



TAKASHI KURAUCHI
Senior Managing Executive Officer

▀ Fiscal 2012 in Review

There were initial expectations that exports of completed Japanese cars would grow on the back of a shift towards vehicle production for export following the termination of government subsidies for purchases of eco-friendly cars. Nevertheless, growth in exports of completed cars from Japan remained elusive, mainly due to increasingly prolonged market stagnation in Europe. Furthermore, Japanese carmakers increasingly produced cars in the markets where they were to be sold as part of moves to step up local production for local consumption. Under this environment, we increased business in such areas as exporting cargo from Asian countries other than Japan as well as handling cross trade and inbound cargo, and worked to secure new business opportunities. As a result of these measures, this segment recorded much higher profits than those of fiscal 2011, when the Great East Japan Earthquake hit the Japanese economy.

Global auto sales reached 81 million units in 2012, a new record high for the second straight year. The number of vehicles transported by sea worldwide also reached a new record high of approximately 14 million units, exceeding the 13 million unit figure set in 2007. MOL transported 3.9 million units, a record for the company.

One of the defining features of the ocean transport of automobiles in recent years has been the ongoing diversification of trade patterns. In the past, the main routes were from Japan to Europe and the U.S. Today, however, we are seeing more countries producing and consuming automobiles. Vehicle exports are increasing not only from BRICs nations, but also Thailand, Mexico, Indonesia, Turkey, Morocco, South Africa and other countries. In this changing

Vessels

12/3 128 → 13/3 127

Thousand deadweight tons

12/3 2,055 → 13/3 2,063

Note: Figures include spot-chartered ships and those owned by joint ventures.

business environment, it is vital to respond flexibly to information concerning loading and discharging locations, which changes by the day. As a result, we are seeing an increase in the number of vehicles we transport on cross trades and inbound trades.

▀ Fiscal 2013 Earnings Growth Scenario

Looking at prospects for 2013, we expect exports of completed vehicles from Japan to stay at roughly the same level, or perhaps decline year on year. Shipments to Europe should stay stagnant due to the ongoing euro fiscal crisis. Meanwhile, Japanese automakers are likely to continue their policy of manufacturing vehicles in the

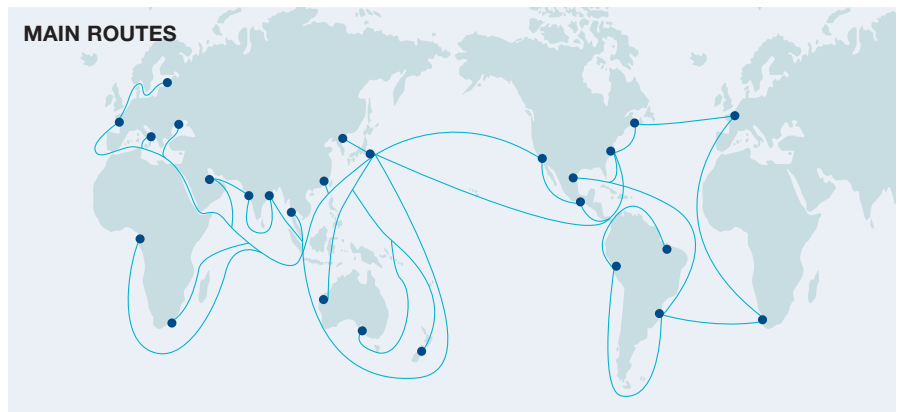
region where they are sold, even if the yen softens. They are also expected to increase auto production in the U.S., Mexico, Russia and elsewhere. In the U.S., where auto sales remain brisk, sales are shifting towards larger cars, which are the forte of the "Big Three" U.S. automakers. Even though we anticipate these factors going forward, we expect our earnings to increase, considering the weaker yen.

Since the start of 2013, the yen has weakened considerably. If it should reach levels of more than ¥100 to the U.S. dollar, some models of vehicles manufactured in Japan might still be competitive in overseas markets. Consequently, if the yen should remain at current levels for a few years, it is possible that there might be a revival of auto production in Japan, and a recovery in exports of completed vehicles from Japan. Nevertheless, based on the current strong trend towards production of vehicles in the region where they are sold, MOL has not reflected such a comeback scenario in its earnings forecasts for fiscal 2013.

▀ Looking Ahead

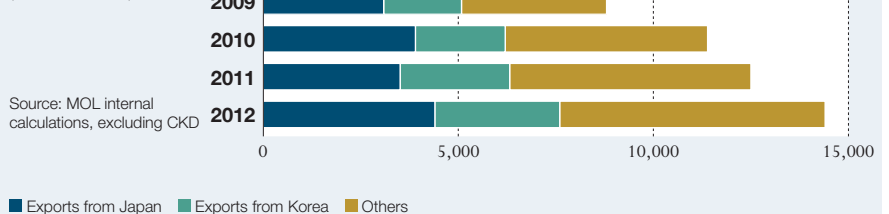
Global auto sales are currently being driven by growth in the markets of India, Brazil, Russia and China. Unit sales are expected to reach 84 million in 2013, 90 million in 2015 and as high as 100 million in 2020. Although sales in Europe are not likely to rebound as long as the eurozone countries face fiscal problems, rising demand in the U.S. for large-model SUVs and

MAIN ROUTES



GLOBAL CAR SEABORNE TRADE

(Thousand units)



pickup trucks is likely to boost sales to around 15 million units a year. While there will be regional variations in the strength or weakness of the auto market, the trend in demand worldwide is likely to support a steady increase in unit sales. The ocean transport of automobiles is also likely to increase, though the overall pace of growth is expected to weaken, due to the trend towards local-based production.

Transportation patterns will become ever more complex than in the past. For example, Thailand and South Africa have become major auto exporters, and India is also emerging as a major auto exporting country. There are a number of other countries that have become key production bases, such as Mexico, Brazil, Turkey and Morocco, and cars built in these countries are sold over a wide area, creating many new trade routes. This reflects the fact that automakers are always considering a range of factors, including exchange rate-related risks, when selecting the most appropriate base for production.

In order to avoid exchange rate-related risks, automakers not only seek to increase local production, but often produce the same model in several countries. By doing so, they can adjust their operations flexibly in response to exchange rate fluctuations, seeking the most profitable combination of production site and site of final sale. To do this, they need to establish the necessary production and transport network. For example, vehicles manufactured in Mexico are not only sold in the U.S.; increasingly, they are being shipped to Europe and Asia for sale. Manufacturers need to set up an export structure to handle these shipments. In this way, many new seaborne trades are developing. In response, MOL must try to deal adroitly with the complexity of customers' shipping needs. It must also take steps to compete successfully against railroads and other forms of cargo transportation.

In order to turn this competitive opportunity into a new source of income, MOL needs to intensify its efforts to achieve efficient distribution and operation of its vessels, while offering services that help customers reduce their logistics costs. To this end, the company has continued to align its fleet, placing priority on the standardization of vessel size by designating 6400 RT-type car carriers as the company's "basic standard." These car carriers are the largest vessels at present, with high usability in various sea lanes and ports across the

globe, and account for over 60% of the vessels in MOL's car carrier fleet. In recent years, some companies have placed orders for even larger, 7000 RT and 8000 RT-type car carriers. However, MOL recognizes that size alone is not what matters. Based on a comprehensive evaluation of factors such as fuel efficiency and vessel cost, as well as the physical restrictions of various ports around the world and the average loads and shipment volumes needed on the world's main shipping routes, MOL has determined that the 6400 RT-type vessels currently are the best solution to respond to and match our customers' needs. By maintaining a large fleet of similarly sized vessels, it is easier for MOL to respond to problems such as bad weather or port congestion that hinders shipping schedules. In case these problems emerge, the company can respond flexibly to the situation and dispatch a replacement vessel of the same size, thereby ensuring that customers receive reliable service.

The MOL Group's fleet of car carriers is currently the largest in the world in terms of the total number of ships in operation. However, the key to the company's competitive strategy is not simply to assemble the largest fleet. In the future, it will become increasingly important to anticipate the needs of customers and respond flexibly by providing finely tuned services that meet these needs. This is the foundation of MOL's strategy for increasing earnings. For example, in the

past it has been relatively difficult to respond to the trade in short-range cargo transport, such as shipments between ports in Southeast Asia, or cargo transport within the North American and South American continents. MOL will respond with efforts to establish a shipping network that serves these short-distance shipping needs, and will pursue new cargo movements from Asia other than Japan while minimizing the operation of empty vessels.

In newly emerging economies, the development of inland transport infrastructure has an impact on the shipping business in terms of the number of vehicles exported. MOL has responded with measures such as developing terminal operations at the Ennore Port in India and inland transport businesses in the country. In addition to operations in India, MOL has launched terminal operation businesses in Australia and Turkey. In each of these cases, it is essential for us to generate synergies with our mainstay ocean transport business, while working to strengthen ties with customers who are expanding into each region.

In June 2012, MOL began operating the world's first hybrid car carrier, the *EMERALD ACE*. The ship is equipped with lithium-ion batteries that are charged by solar power generation systems while at sea. The *EMERALD ACE* then uses this power while at berth, which allows the diesel power generators to be completely shut off. As a result, the *EMERALD ACE* can achieve "zero emissions while at berth." Having actually operated this vessel, MOL has confirmed a reduction in the environmental burden.

CAR EXPORT FROM JAPAN

(Thousand units)



Source: MOL internal calculations, destination-wise/excluding CKD

CAR EXPORT FROM EMERGING COUNTRIES

(Thousand units)



Source: MOL internal calculations based on FORIN data, etc.

BULKSHIPS *Car Carriers*
The Car Carrier
ELEGANT ACE
(Durban, South Africa)



The *ELEGANT ACE*, a 6400 RT-type car carrier departing from the South African port of Durban. The “4 Continents Express Service” does an anti-clockwise loop around the Atlantic Ocean calling in at ports on four continents (Africa, Europe, North America and South America), starting from Durban. Since its launch in 2001, this service has won high marks from customers for providing stable, regular services with dedicated vessels. At present, MOL’s share of the transport of finished vehicles from South Africa exceeds 50%.



CONTAINERSHIPS



JUNICHIRO IKEDA
Senior Managing Executive Officer

► Fiscal 2012 in Review

In fiscal 2011, almost all containership companies were forced to operate in the red, particularly on East-West routes, due to overheated freight rate competition. Critical reflection on this state of affairs led to changes in the overall market in fiscal 2012 as companies independently made adjustments to the supply of vessels and moved to restore freight rates. This improved rate levels to a certain extent. MOL also aggressively promoted operational efficiency improvements and cost reductions by strengthening the competitiveness of its service network, through alliances called TNWA¹ and G6², and by more fully implementing slow steaming and other measures. As a result, we improved earnings by ¥18.6 billion compared to the previous fiscal year, although fiscal 2012 ended with an ordinary loss of ¥11.2 billion.

Worldwide containership trade volume in 2012 increased by 4.1%, but vessel supply also rose by 6.1% as supply growth outstripped demand growth, as was the case in the previous fiscal year³. A significant number of ultra-large containerships with capacity exceeding 10,000 TEU were delivered and this was the main cause of the increase in supply. There was concern about the negative impact on supply and demand because these ships would operate mainly on European routes, but containership companies dealt with the problem by reining in supply through such measures as laying up vessels, reducing service frequencies, and slow steaming, which helped restore freight rates toward the beginning of spring to a considerable extent. Freight rates gradually softened from the summer onward, however, due to prolonged

Vessels

12/3 115 → 13/3 115

Thousand deadweight tons

12/3 6,205 → 13/3 6,370

Note: Figures include spot-chartered ships and those owned by joint ventures.

sluggishness in cargo movement to Europe. That said, the operating results of European routes on a full-year basis improved substantially over the previous year.

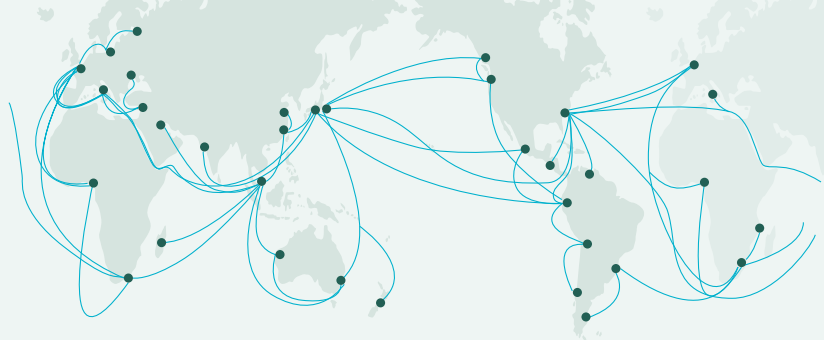
Regarding cargo movement on other routes, trade was firmly rooted along Asia-North American routes, while in Inter-Asia trade increased. This reflected the return to normal levels after trade was impacted last fiscal year by the flooding in Thailand. The increase was also the result of companies shifting production to ASEAN countries and away from excessive clustering in China. North-South routes were affected by import restrictions in Argentina, but cargo movement was maintained.

Consequently, on Asia-Europe routes, freight rate levels improved year on year despite cargo movement slowing, and on Asia-North American and other routes, we were able to significantly increase lifting numbers. In addition to these developments, yen depreciation (¥78.85/US\$ in fiscal 2011 to ¥82.31/US\$ in fiscal 2012) and a slightly lower bunker price (US\$667/MT in fiscal 2011 down to US\$662/MT in fiscal 2012) played a part as well, and we were able to significantly improve earnings on all routes. However, the containership division overall was not able to return to the black, despite stable income from the terminal business and the logistics business.

► Fiscal 2013 Profit Recovery Scenario

In fiscal 2012, we were only able to reduce the division's margin of loss, but in fiscal 2013 we are targeting positive ordinary income of ¥5.0 billion (as of the July 31, 2013 announcement). This would represent an improvement of approximately ¥15 billion compared to fiscal 2012. This forecast is premised on an improvement in external conditions, specifically, substantial yen depreciation (¥82.31/US\$ for fiscal 2012 versus an assumption of ¥99.20/US\$ for fiscal 2013) and a lower bunker price. The forecast also reflects the Europe-originated

MAIN ROUTES



CONTAINERSHIP SEABORNE TRADE

(1995 = 100)



Source: MOL internal calculations based on Clarkson Research Service Shipping Review Database Spring 2013

G6 Alliance expanding to the North American East Coast, reduced slot costs and increased lifting volume derived from large vessels being added to the fleet, as well as additional progress in restoring freight rates, including reefer containers. Additionally, in order to improve our earnings regardless of market conditions, we intend to aggressively promote cost cutting and other self-reliant efforts under the division's three-year plan, "Operation CORE" (Count On Reliability and Excellence), which runs from fiscal 2012 to fiscal 2014.

For Asia-North America routes specifically, with the G6 Alliance expanding its range to include the North American East Coast, we will promote even more efficient vessel allocation and cost reductions and work to increase lifting numbers while accommodating North American-bound cargo, which is expected to remain firm. In addition, through GRI^{*4}, PSS^{*5} and other measures, we will continue to restore freight rates. On Asia-Europe routes, we will actively work to increase stable contracts with cargo owners known as BCOs^{*6} that do not go through NVOCCs^{*7} and increase lifting numbers by utilizing space on new large vessels that will be delivered during fiscal 2013. Also on Asia-Europe routes, although it is expected that market conditions for freight rates will potentially soften

given economic conditions in Europe, we will continue to restore freight rates through GRI, PSS and other measures while tightening vessel supply by such means as laying up vessels, reducing voyages, and implementing slow steaming. We also plan to increase lifting numbers by accommodating increased cargo movement along Inter-Asia and North-South routes.

In the terminal business and the logistics business, which support containership routes, we will generate steady profits. Capital investment is currently being made in the terminal business, primarily overseas. At the Port of Los Angeles, we are investing in automation using IT, conversion to on-dock rail and other projects. At Cai Mep Port in Vietnam, terminal business operations have been stable since commencing in January 2011. At Rotterdam Port, we are making investments with a view to commencing operations in 2014. From fiscal 2014 onward, when all of these overseas terminals are operating, the terminal business will contribute in a major way to enhancing its presence as a stable business in the containership division. The logistics business also continues to generate steady profits. Leveraging the respective strengths of MOL Logistics (Japan) Co. Ltd., Utoc Corporation, MOL Consolidation Service Limited, Mitsui O.S.K. Lines (Thailand) Co.,

Ltd. and other group companies involved in logistics, the MOL Group as a whole is actively working to raise service quality while promoting development of business in emerging countries. We intend to accelerate these activities and translate achievements into profit growth.

Looking Ahead

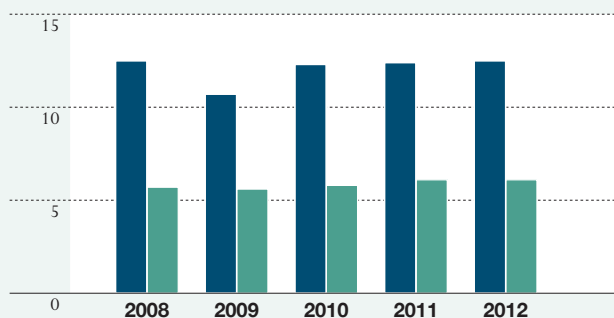
With growing uncertainty in the global economy, management of the containership business has become increasingly difficult. However, we will work to provide high-quality marine transport services while bolstering cost competitiveness. To accomplish this, we moved headquarters' functions of MOL's Liner Division to Hong Kong in July 2012 due to the location's long history as a base for the shipping business, its proximity to growth regions, and its strong established infrastructure.

As was said before, the division is currently executing its own three-year plan, Operation CORE, which covers from fiscal 2012 to fiscal 2014. The ordinary loss in the containership division was ¥29.9 billion in fiscal 2011 when the plan was conceived, and even if market conditions have not improved since that time, the plan is targeting improvement in profits of ¥40 billion to ¥50 billion over the 3 years of the plan so that ordinary income in the range of

ASIA-NORTH AMERICA CONTAINER TRADE CARGO MOVEMENTS

(Million TEU)

■ Outbound voyage
■ Inbound voyage

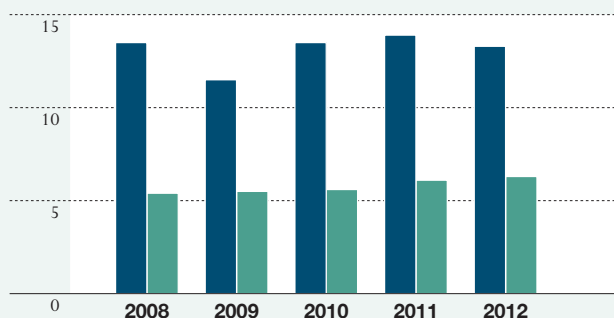


Source: Piers/JoC etc., excluding Canada cargo

ASIA-EUROPE CONTAINER TRADE CARGO MOVEMENTS

(Million TEU)

■ Outbound voyage
■ Inbound voyage



Source: Drewry, including Mediterranean cargo

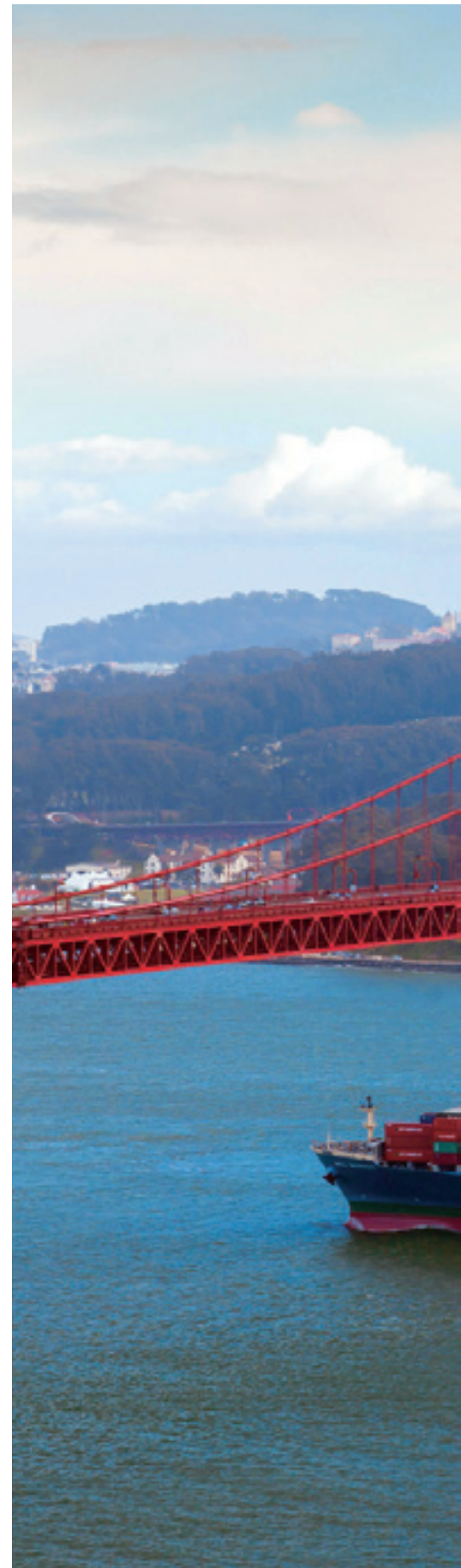
Glossary

- The New World Alliance (TNWA)** is an alliance of three companies, MOL, APL (Singapore) and Hyundai Merchant Marine (South Korea). It has conducted joint operations on Asia-North America and Asia-Europe routes since the 1990s.
 - The G6 Alliance** is an alliance of six companies and represents the integration of TNWA and the Grand Alliance (Nippon Yusen Kaisha (Japan), Hapag-Lloyd AG (Germany) and Orient Overseas Container Line (Hong Kong)). The alliance began operating jointly in Asia-Europe (Northern Europe and Mediterranean) routes in March 2012 and expanded its framework to include North American East Coast routes in May 2013.
- ^{*3} 2012 calendar basis. Source: Drewry
- ^{*4} **GRI (General Rate Increase):** Increasing prices across the board to boost rates that have fallen.
- ^{*5} **PSS (Peak Season Surcharge):** Charging premium rates during peak seasons when cargo movement increases.
- ^{*6} **BCO (Beneficial Cargo Owner):** A cargo owner that contracts directly with containership companies without going through an NVOCC or other intermediary. Cargo control is handled internally by the cargo owner's logistics divisions. Most BCOs are multinational corporations that regularly import and export certain amounts of cargo.
- ^{*7} **NVOCC (Non-Vessel Operating Common Carrier):** Also called Freight Forwarders. These companies handle freight transport operations using existing shipping companies but do not possess their own modes of transport.

¥10 billion to ¥20 billion can be earned continuously. To meet these targets we intend to improve cost competitiveness by reducing slot costs and lowering organizational costs per unit by putting large vessels into operation, and acquiring volume discounts from terminals, railways and other companies against a backdrop of increasing cargo volume.

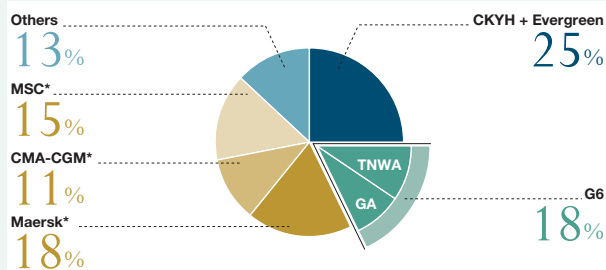
In addition, under the slogan "Count on MOL," we will continue disclosing key performance indicators for transport quality (on-time performance percentages), environmental protection (reduction ratios for CO₂, NO_x and SO_x emissions from containerhips) and safe operations (the number of long-time operational stoppages per year for 3 or more consecutive days) to promote MOL's safety and service quality and continue working to differentiate ourselves from competitors.

Global economic development is currently supported by an international division of labor, so economic growth in different regions is connected and causes transport to increase between them. Maritime shipping is the key mode of inter-region transport, and the containership business in particular helps spread prosperity brought about by international specialization to more countries, industries and people in that it handles cargo for innumerable customers. In this growth market, we have continually provided stable, sophisticated transport quality to earn widespread trust. We intend to continue working to achieve sustainable growth and establish containerhips as a truly CORE business of MOL.



SHARE BY MAJOR CARRIER ALLIANCE OF THE EUROPE ROUTES

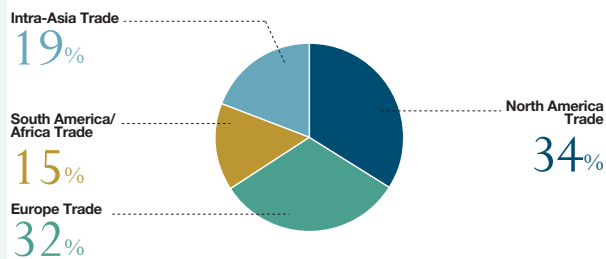
(As of March 2012)



*The "P3 Network," a new alliance, is scheduled to be launched in April-June 2014.
Source: MDS

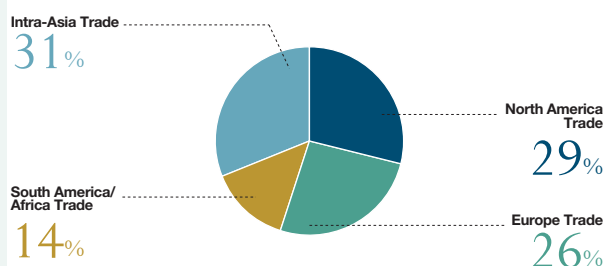
REVENUE BREAKDOWN BY TRADE

(Results of FY2012)



CAPACITY BREAKDOWN BY TRADE

(Results of FY2012)



CONTAINERSHIPS

The Containership

MOL MISSION

(San Francisco, U.S.)

MOL's containership division is working to protect the environment as part of the "Count on MOL" initiative. Besides its low fuel consumption and outstanding capacity, *MOL MISSION* has pre-empted new regulations regarding safety and the environment. This containership boasts double-hull fuel tanks to reduce the risk of fuel oil leaks. In addition, it is equipped with low sulfur fuel tanks, electronically controlled main engines and an onshore power supply system, among other features that give consideration for the environment.



FERRY & DOMESTIC TRANSPORT



HIROKAZU HATTA
Managing Executive Officer

► Fiscal 2012 in Review

In fiscal 2012, we returned to profitability for the first time in 5 years on an ordinary income basis, generating growth in revenues and contributing ¥1.2 billion to ordinary income. We have been pursuing this immediate goal ever since this business slipped into the red in fiscal 2008, steadily pursuing profitability with cumulative efforts to cut costs and rationalize operations. However, the Great East Japan Earthquake in 2011 had a major impact on the Eastern Japan ferry route. The mother port for vessels running the Kita-Kanto–Hokkaido route, Oarai Port, was completely out of service for around three months. Ships had to be diverted to the Port of Tokyo, and the effort to rebuild operations and profitability was extremely difficult.

In fiscal 2012, the effects of the earthquake began to decline, with total cargo volume and revenues returning to pre-disaster levels. The ferry business also felt the beneficial impact of a business integration, conducted in fiscal 2011, to rationalize ferry operations in Western Japan^{*1}. This contributed directly to the earnings recovery, as did the restart of thermal power generation facilities operated by the electric power companies, which increased demand for fuel oil and coal transported by MOL's domestic coastal shipping business. As a result, this business division returned to the black.

► Fiscal 2013 Earnings Growth Scenario

We expect to see benefits from streamlining and further cost reductions in this business division during fiscal 2013. This should offset an anticipated modest decline

Vessels

12/3 45 → 13/3 44

Thousand deadweight tons

12/3 158 → 13/3 159

Note: Figures include spot-chartered ships and those owned by joint ventures.

in revenues caused by route rationalization and other factors, and allow the division to achieve profit growth.

► Looking Ahead

Although it is difficult to imagine the domestic marine transport business fading in the foreseeable future, it is no longer a business segment which offers the prospect of steady or dramatic earnings growth. Over the past 20 years, this industry has gradually consolidated and the number of ferry operators in Japan has declined significantly. Domestic marine transport has become a mature industry in Japan, but conversely, it is also difficult for new players to enter the business. While existing companies formerly were able to achieve growth through consolidation and rationalization, the industry has now entered an era in which knowledge and ingenuity must be used to create opportunities for growth.

One example of a potential growth opportunity in the ferry business is the development of ships that function as a sort of “moving hotel,” such as the popular “Dangan Ferry”^{*2}. By developing other ways to make services both time- and cost-effective for tourists, we are striving to attract tourism-related demand. In addition, the introduction of tighter regulations on domestic, long-distance trucking services opens up business opportunities for night-time ferry services, which can be more cost-effective and safer while reducing environmental impact. Many truck operators are becoming increasingly aware of these advantages and shifting from road to ferry transport. This has the potential to drive growth in ferry operations.



Glossary

^{*1} The two ferry companies serving the Osaka/Kobe–Kyushu route—The Diamond Ferry Co., Ltd. and Kansai Kisen Kaisha—were integrated to form Ferry Sunflower Ltd.

^{*2} “Dangan Ferry” is an overnight round-trip service which arrives at the destination port in the morning and departs there the same evening. Travelers spend two nights aboard ship, and thus do not require lodging on land.

FERRY & DOMESTIC TRANSPORT

The Ferry

SUNFLOWER FURANO

(Oarai District, Ibaraki Port, Ibaraki)

Tractors haul trailers into ferries. Once inside, the tractor is detached from the trailer and only the person-less trailer is transported to the destination port. Ferries help ease the burden on truck drivers and reduce the risk of traffic accidents. They are also an environmentally friendly mode of transport.



ASSOCIATED BUSINESSES

HIROKAZU HATTA

Managing Executive Officer

▀ Fiscal 2012 in Review

This division comprises MOL's real estate, tugboat, cruise ship and other businesses. More than half of the profits in this division are accounted for by the real estate business, particularly Daibiru Corporation. In this company's main operating regions—the business districts of Tokyo and Osaka—office building vacancy rates remain at high levels, and this continues to constrain rent income. However, Daibiru's properties are located in excellent locations and provide a high level of service, which has allowed the company to maintain high occupancy rates relative to the overall market average, supporting solid results. Losses in the cruise ship business were reduced, while tugboat and other associated businesses remained generally solid. As a result, ordinary income in the division increased compared with fiscal 2011, to ¥10.7 billion.

▀ Fiscal 2013 Earnings Growth Scenario

In fiscal 2013, we expect ordinary income to remain essentially unchanged, at ¥10.5

billion. Daibiru continues to generate a stable flow of income, and we expect profit contributions from the tugboat business to roughly match fiscal 2012's levels. Although the cruise ship business will remain in the red, we will pursue deeper reforms in line with the single-year management plan "RISE 2013," so that it can make a contribution to profit growth of this division.

▀ Looking Ahead

Due to depressed conditions in the marine transport industry, MOL posted a consolidated ordinary loss in fiscal 2012 of ¥28.5 billion. However, associated businesses contributed ordinary income of ¥10.7 billion, thus greatly moderating the scale of the overall loss. In fiscal 2013, as MOL is taking steps to reform the cruise ship business, it is more likely that all business segments and all group companies will return to profitability. In the real estate business, Daibiru completed construction of the Daibiru Honkan in March 2013, and expects to finish construction of another building (provisional name: New Shin Daibiru) in March 2015. In fiscal 2013, Daibiru embarked on a new medium-term management plan entitled "Design 100" Project Phase-I. This 5-year plan, which continues through the end of fiscal 2017,

aims to expand revenues and profits by approximately 20%, thus allowing the company to continue making steady contributions to MOL group earnings.

In the tugboat business, we will use high-performance "Japan Brand" tugboats and try to appeal to customers based on sophisticated skill at maneuvering vessels. As our entry to the Vietnamese market in 2010 demonstrates, the tugboat business will leverage new port development in the Asian region to capture new demand. Under this strategy, we have ordered additional tugboats, focusing mainly on high-powered tugboats, as we reshape the tugboat fleet, which was composed of 39 boats in Japan and 16 boats overseas (as of the end of fiscal 2012).

The cruise ship business, along with ferry operations, is a rare example of a business in which MOL has direct access to individual consumers. Although the company operates a fleet of over 900 vessels, the only people who might know one of these vessels by name are the cargo owners who contract them. On the other hand, the name of our leading cruise ship, the *NIPPON MARU*, is known by a large number of people. It contributes disproportionately to public recognition of MOL and helps the company draw attention from the market. As the cruise ship business has an influential role to play in this way, we will strive to attract more passengers and increase earnings in an effort to stabilize this business.

ASSOCIATED BUSINESSES

The Tugboat

KAMIYA

(Cai Mep Port, Vietnam)

Vessels in the Asian region are becoming larger, reflecting buoyant marine transport in the region. To accommodate these larger vessels, new ports are being opened and existing ports are expanding in Asian countries. The opening of these new ports will create new demand for tugboats. MOL plans to expand its overseas tugboat operations with high-quality tugboats and the expertise it has built up in Japan.

