Maintain course, Full speed ahead

"We have concluded the first year of the midterm management plan 'STEER FOR 2020,' which was crafted with the intention of adjusting the Company's rudder to head for our desired course in 2020. I've been at the helm of MOL for the past five years as president but have now decided to hand over management duties to the new president, Junichiro Ikeda. In my new role as Chairman of the Board of Directors, I am in a position where I can strengthen governance and support management. I will support President Ikeda's leadership as he continues uniting the Company's comprehensive strengths to solve the issues that face us and to reinforce sustainable growth."

Progress Made in the First Year of the Midterm Management Plan and Subsequent Evaluation of Results

Q. Fiscal 2014 was the first year of "STEER FOR 2020," which centered on solid growth through innovative changes. Please tell us about the progress of the overall strategies and your evaluation of the results.

Although we did not achieve the targets for our financial results, I'd say we got off to a good start in line with the general direction of the strategies.

Solid growth through innovative change, the main theme of "STEER FOR 2020," refers to moving away from business dependent on strong markets and instead accumulating long-term and stable profits to contribute to solid growth. To achieve these aims, our main strategies are the Three Innovations: Innovation of Business Portfolio, Innovation of Business Model and Innovation of Business Domain.

The core of these strategies is Innovation of Business Portfolio. The aim of this strategy is to allocate management resources to fields where we expect to secure strong growth and long-term, stable profits, especially to LNG carriers and offshore businesses. In fiscal 2014, we made great strides toward achieving our goals, especially in LNG carriers, where we secured new long-term contracts for 10 vessels. Under the plan, we aimed to increase the size of MOL's LNG carrier fleet from 67 vessels at the end of fiscal 2013 to 120 by the end of fiscal 2019. Including those under construction, our fleet has grown to 92 vessels as of the end of fiscal 2014. Another major accomplishment was securing a long-term contract for six very large ethane carriers, a new field.

With the second strategy—Innovation of Business Model—we aim to rein in effects from market volatility and build a corporate structure that can record solid profits regardless of market conditions. To do this, we are reducing market exposure in dry bulkers and tankers as we transform our fleet for higher market tolerability and competitiveness while also continuing to focus efforts on transport fields, where we provide added value in response to customer needs. Market exposure is being reduced mostly according to the plan. With small and medium-sized dry bulkers, we are beginning to establish a business model where we don't own a large number of ships and try to slot in cargo, but instead first secure cargo and then ready the necessary vessels, including short-term chartered ships. We are also making solid progress in strengthening our cost competitiveness, including the disposal of unprofitable vessels.

Turning to Innovation of Business Domain, in which we outlined expanding our business domain to both the upstream and downstream of marine transport, we secured a long-term contract for one FPSO and entered the shuttle tanker business by establishing a joint venture with Viken Shipping. And as for the container terminal business, the automated terminal at the Port of Los Angeles began operations in November 2014. Another accomplishment was launching a joint venture with the Synergy Group in India to begin external sales of our ship management knowhow.

Although we were able to rack up solid accomplishments in line with the general direction of the overall strategies in this way, we unfortunately fell 27% short of our originally planned target of ¥70.0 billion in consolidated ordinary income for fiscal 2014, instead recording ¥51.3 billion.

Underlined words are explained in the Glossary on page 74.

Q. What were the factors that kept the Company from attaining the financial targets?

The biggest factor was the inability of containerships to turn a profit

In bulkships, while the dry bulker market stagnated, tankers saw a lot of activity beginning in autumn last year due to the low price of oil. Supported by hefty, stable profits, the segment as a whole posted profits at about the level originally forecast. The primary reason we did not meet the target despite strong tailwinds from the weak yen and lower bunker prices was containerships. Containerships not only failed to turn a profit, it actually widened its losses from the previous fiscal year and even performed more poorly than some other containership companies.

Port congestion on the U.S. West Coast and within Asia hurt revenues across the industry, but the following detrimental factors were unique to MOL. As Brazil's economy stalled due to lower natural resource prices, cargo flows stagnated on the Asia-South America route, in which MOL had been leveraging its historically superior presence. This pushed down freight revenues from the route. The commencement of operations of the automated terminal at the Port of Los Angeles was delayed about half a year from schedule. In addition, we incurred wide losses on bunker price hedges placed at the beginning of the fiscal year.

Effects from the Changing Business Environment and the Falling Prices of Crude Oil and Natural Resources

Q. Considering the assumptions about the business environment at the time "STEER FOR 2020" was formulated, do you think revisions are necessary due to subsequent changes in the business environment?

I believe that, regardless of the short-term market conditions, we must respond by calmly assessing the situation without losing sight of the big picture.

Our understanding of the business environment provided the basis for the formulation of the midterm management plan. These assumptions can be divided into the short-term environment and the medium- to long-term environment. The short-term business environment (essentially foreign exchange rates, bunker prices, and marine transport markets for each vessel type) did not progress quite as expected. However, the medium- to long-term environment, which formed the basis for focusing on solid growth through innovative changes, proceeded just as we expected. There was a surplus of shipbuilding facilities, and demand rose for transporting new energy sources. I think we need to calmly observe major trends and respond with resolute direction, without losing sight of the big picture due to short-term changes in the environment.

The drop in crude oil prices led to lower fuel prices and simultaneously lifted the tanker market due to increased trade, including demand for reserves, of crude oil and refined petroleum products. The additional trade provided strong tailwinds for the Company's operating results. Despite concerns over slowing projects in the LNG carrier business, the projects MOL incorporated into its plan have been largely unaffected and are proceeding mostly as expected. On the other hand, lower natural resource prices contributed to economic stagnation in natural resource exporting countries, especially Brazil, and this did in fact have a negative impact on containerships. So while there were pluses and minuses, it appears that on the whole the positive effects outweighed the negative ones.

Underlined words are explained in the Glossary on page 74.

STEER FOR 2020

Main theme: **Solid growth through innovative changes**

Overall Strategies

Three Innovations

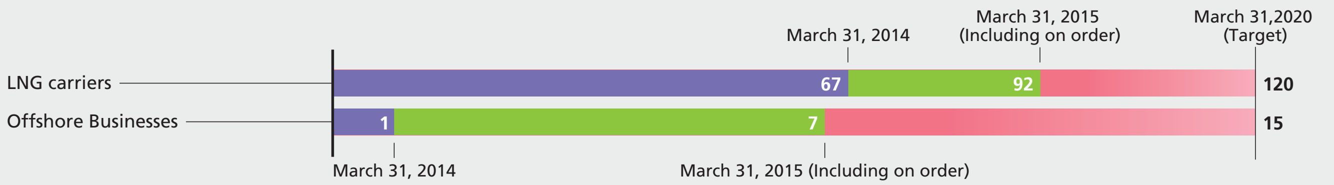
I	II	III
Innovation of Business Portfolio	**Innovation of Business Model**	**Innovation of Business Domain**
Allocate management resources earlier and significantly to businesses where we expect high growth and stable long-term profits	Transform our fleet for higher market tolerability and more competitiveness Focus on businesses that offer added value and meet customer needs	Create value chains by expanding business domain to both upstream and downstream of ocean shipping transport

Profit Targets/Financial Targets (Billions of yen)

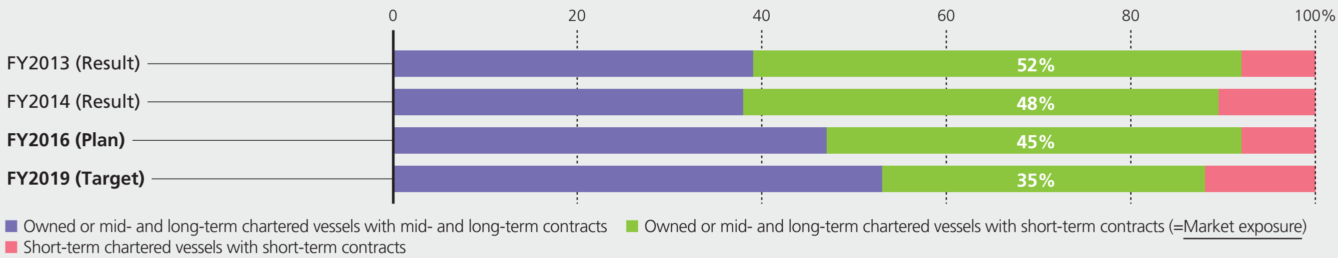
	FY2013	FY2014	FY2015 (Forecast)*3	FY2016 (Plan)	FY2019 (Target)
Revenue	1,729.4	1,817	1,820	1,900	2,100
Ordinary income	54.9	51.3	60	100	140
(Highly stable profits)			(55)	(55)	(75)
Net income	57.3	42.3	43	80	110
ROA*1	2.4%	2.1%	2.3%	4-5%	
ROE*2	9.5%	5.8%	5.4%	above 10%	
Equity ratio	29%	30%	31%	(around FY2019)	35-40%
Net gearing ratio	135%	135%	127%	(around FY2019)	100%
Exchange rate JPY/US$	99.79	108.34	118.00	100	100
Bunker price US$/MT	610	529	380	620	620

*1 ROA =Ordinary income/ Average total assets at the beginning and the end of the fiscal year
*2 ROE =Net income/ Average shareholders' equity at the beginning and the end of the fiscal year
*3 As of April 30, 2015

Expansion of LNG carrier and Offshore business (Innovation of Business Portfolio / Innovation of Business Domain)



Downsize Market Exposure in Dry Bulkers and Tankers (Innovation of Business Model)



Unfinished Business

Q. With the first year of "STEER FOR 2020" wrapped up, what business remains to be finished?

The first thing is rebuilding the containership business.

Of course we must continue to steadily implement concrete measures related to the Three Innovations, but the most pressing priority for MOL is rebuilding the containership business. Previously mentioned temporary factors like port congestion, delayed start of automated operations at the Port of Los Angeles or losses on bunker hedges in fiscal 2014, will mostly disappear by fiscal 2015, but we need to address the structural factors. As part of these efforts, we have already decided to launch new joint service with Maersk and MSC for the Asia-South America East Coast route in July. We can expect sizable rationalization effects by reshuffling the ports of call and decreasing the number of vessels deployed while maintaining capacity. Along with this rationalization of unprofitable routes, we are accelerating disposal of relatively expensive small and medium-sized vessels. In addition, we recently ordered six large 20,000 TEU containerships as we look to the future. We plan to launch these ships on the Asia-Europe route in 2017, and expect improved fuel efficiency and decreased unit costs.

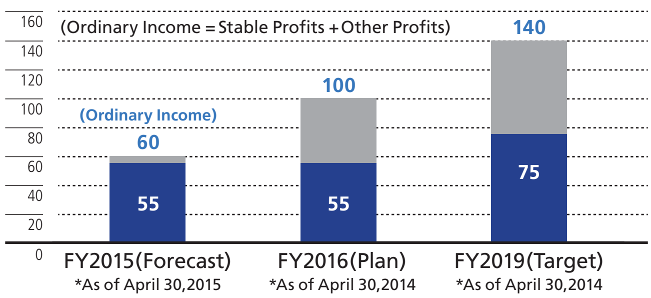
Q. Interest-bearing debt is increasing, so what are your thoughts on strengthening the financial foundation?

Behind the increase in interest-bearing debt are businesses that generate long-term and stable profits.

Because of large initial investments centering on LNG carriers and offshore businesses in line with "STEER FOR 2020," interest-bearing debt will be hard to suppress until fiscal 2016. What I'd like to emphasize here, though, is that these investments are being made in order to generate long-term and stable profits in the future. Although strengthening the financial foundation is important, it isn't necessarily management's overriding goal. When there is an investment opportunity that can assuredly contribute to stable profit—the foundation of future growth—management should pursue it without hesitation. Behind the temporary increase in interest-bearing debt are remarkably stable businesses, which will certainly help strengthen MOL's financial foundation in the long-term.

Meanwhile, we have been continuing to move assets off the balance sheet. By accumulating solid profits, we plan to improve the net gearing ratio to 100% and the equity ratio to 35–40% by around fiscal 2019.

Building up Highly Stable Profits (Billions of yen)



Highly Stable Profits

1) Profits that are fixed, or expected to be fixed during this midterm management plan, from contracts of two years or more.
2) Projected profits from highly stable businesses.

(The included segments: Drybulkers, Tankers, LNG Carriers, Offshore businesses, Associated businesses and Others)

■ Stable profits ■ Other profits

Initiatives as Chairman

Q. Following your appointment as chairman, what do plan to pursue going forward?

As Chairman of the Board of Directors, I will do all I can to make corporate governance more transparent.

Working with the president, I'd like to improve corporate value, especially by improving corporate governance and supervising Group companies. As for corporate governance, I'm proud of the fact that MOL led Japan in carrying out management reforms from the shareholders' perspective, including having had external directors since 2000, but I think we now need to consider further improvements to corporate governance in response to the needs of the times.

I'm currently advancing discussion on pertinent topics at the Board of Directors' meetings, such as what kind of system is needed to amply fulfill the oversight function expected of the board and how we can ensure the level of transparency that needs to be achieved for our shareholders and other external stakeholders. With Japan's Corporate Governance Code, which has now come into effect, I will continue working hard as the Chairman of the Board of Directors to reinforce our management foundation.

Summation of Five Years as President

Q. What are your thoughts as you reflect on the turbulent time during your term as president?

I did what had to be boldly done for MOL's future.

Some people say the five years since I became president in June 2010 have been turbulent. In MOL's history of over 130-years, however, I believe there were harsher times. I think I can safely say that I consistently kept the long-term in mind, focusing on what needed to be done for the future and decisively carrying it out. Of course, I feel genuine regret for our shareholders that we posted the largest loss in the Company's history in fiscal 2012. However, this was also due to our focus on the future, having executed the Business Structural Reforms for dry bulkers.

We seized business opportunities that generate long-term, stable profits (such as those presented by the shale revolution) and accumulated contracts. In my five years as president, I approved investments for 120 new vessels. Over 70% of these are for LNG carriers, offshore businesses, dry bulkers, tankers and other vessels that will generate stable profits for about 20 years. The remaining 30% or so were for investments to raise the cost-competitiveness of containerships, car carriers, chemical tankers, ferries and other vessels. There were almost no orders for free vessels with speculation on strong market conditions. If stable profits could be expected, I approved the investment, even for projects that presented a high degree of technical difficulty, including the Russian Yamal project to transport LNG across the Northern Sea route by ice class vessels.

I concentrated MOL's business intelligence, thought about what needed to be done at that particular point in time while looking ahead to the next ten to twenty years, and implemented those initiatives. That direction is clearly reflected in "STEER FOR 2020." Essentially, I issued a rudder command to effect a great corporate change in direction. Although there is still unfinished business, including securing and training seafarers and rebuilding the containership business, I'd like the new president Junichiro Ikeda to maintain course, accelerate and proceed full steam ahead.

Underlined words are explained in the Glossary on page 74.

What we are doing now for 2020 and beyond

"I, Junichiro Ikeda, assumed the position of president on June 23rd. As president, my main duty is to safeguard the strategies of the midterm management plan "STEER FOR 2020," launched under the direction of the previous president Koichi Muto, ensuring the strategies are carried out effectively and elevating MOL as a truly global corporation."

Issues and Resolutions for the Second Year of "STEER FOR 2020"

Q. Please tell us about the issues and strategies heading into the second year of "STEER FOR 2020."

A major medium- to long-term issue is the advancement of globalization. An immediate, pressing issue is rebuilding the containership business.

As for "STEER FOR 2020," solid progress was made in the first year of the plan under the leadership of the previous president Koichi Muto. We've already attained substantial accomplishments in Innovation of Business Portfolio and Innovation of Business Model, and I will continue to steer this course. In Innovation of Business Domain, however, we need to further ramp up our efforts, and I'd like to fulfill my role as president by motivating or, when necessary, even directing the sales division.

I believe the globalization of MOL is the key to further support the Three Innovations. You might find it surprising that the Company, which has a network of trade routes spanning the globe, would aim for globalization, but there are various facets of globalization. In what might be called a first phase, globalization of our customer base has already progressed considerably and it's probably safe to say that each department has finished establishing overseas bases to facilitate this.

What we need to strengthen going forward, however, is the second phase: recruiting globally competitive personnel. For example, in such energy-related fields as LNG carriers and offshore businesses, which aim to expand overseas going forward, we need to recruit experts like those that have worked for global resource majors in Europe or the United States. While we are already conducting this type of hiring in some fields, we need to reinforce our efforts. Related human resource measures will be another major issue. For example, how should we compensate and motivate our hires based on their experience and accomplishments?

Simultaneously we will devote attention to elevating MOL's brand around the world as the third phase of globalization. Even if each business receives high praise from customers, that doesn't necessarily mean MOL receives global recognition for being the world's largest full-line marine transport group, which operates a wide array of vessels and is able to meet comprehensive transport needs. By raising MOL's profile as a full-line marine transport group, it's my aim to have our clients around the world think first and foremost of consulting MOL for their transport needs.

As for pressing issues, it goes without saying that we need to rebuild the containership business. We are already taking measures to resolve MOL's unique structural problems, including measures to rationalize North-South trade. I will give my all to see this is implemented without fail and that the business becomes profitable.

Q. Please tell us about the medium- to long-term strategies for containerships.

I aim to get the Company in the top one-third in terms of cost competitiveness and seek synergies with the container terminal business.

The key to rebuilding the containership business is strengthening cost competitiveness and securing efficient revenue streams. If we can enter the top tertile of major containership companies in terms of cost competitiveness, we could weather the ups and downs of the market. We've already been working towards this goal. Although we slipped in ranking between fiscal 2013 and fiscal 2014, we maintained a similar position before then, so we have both latent abilities and executable abilities. We will swiftly recover our leading position in the top third by successfully implementing measures to resolve structural problems once we have quickly eliminated temporary negative factors.

Let's examine the trade routes separately. On East-West routes, operating through the G6 Alliance and lowering unit costs by launching large vessels remain effective strategies. Currently, we have chartered 14,000 TEU vessels from another company to tide us over. But using this time, we determined the optimal vessel size and were able to order 20,000 TEU vessels, which are the largest ships able to transit the Suez Canal, at a competitive price. On the other hand, medium-sized vessels continue to cascade from East-West routes to North-South routes and Inter-Asian routes, where the market environment is expected to remain unstable. On these routes, we need to streamline our core fleet and switch over to a trade route operation structure that takes advantage of short-term chartered vessels. In this respect, MOL has been slow to dispose of small and medium-sized vessels but is now accelerating these efforts.

As for securing efficient revenue streams, we are working to pursue comprehensive yield management and strengthen our sales capabilities.

These measures will maintain MOL's presence in container shipping, but our target business model is combining this business with the container terminal business—a part of Innovation of Business Domain. The container terminal business is expected to generate relatively stable profit and, typical of the capital-intensive industry, profit margins rise rapidly after exceeding certain volume thresholds. We are able to secure a high level of stable income by operating highly competitive terminals like the automated one at the Port of Los Angeles and attracting vessels operated by alliances of which MOL is a member. Aiming to expand this business model beyond North America, we are currently pursuing new investment opportunities with Brookfield, a major Canadian fund with which we agreed to a strategic alliance in January 2014.

Profit Opportunities and Risk Controls

Q. The marine transport market for dry bulkers and containerships was worse than expected under "STEER FOR 2020." How do you plan to control the impact of this kind of market volatility?

We will continue to strengthen total risk control.

The foundation of management at a marine transport company lies in working to correctly perceive the balance of supply and demand and the market conditions while keeping the big picture in mind. But what is more important is recognizing as a company the total volume of risk, namely the size of the impact that would be incurred if you misread the business environment. Based on this, you should take only risks that the company is capable of taking and that are worth taking. MOL calls this total risk control. "STEER FOR 2020" is based on this idea, and we are continuing to reduce market exposure. However, the risk positions are, once taken, not easily lifted. In formulating "STEER FOR 2020," there were indications from outside officers that the Company's quantitative risk analysis was insufficient. In light of such reflections, we are currently working to reinforce total risk control.

Q. In LNG carriers and offshore businesses, some are voicing concerns about the impact of the decrease in crude oil prices and geopolitical risks. What do you think the impact will be on MOL?

We devote considerable effort to evaluating opportunities and risks. While there may be some delays in new projects, I don't think there will be a large impact on achieving the plan's goals.

The drop in crude oil prices is certainly worsening the profitability of some shale gas fields, and I think some of the new developments are being put on hold at the moment. However, MOL is not participating in any upstream shale gas projects. We placed orders with a shipyard after concluding a contract with a highly reliable customer to charter LNG carriers over the long term, only for projects that had received final investment decisions. In this way, we are strategically selecting the risks we take as a marine transport company. The same goes for other projects in LNG carriers and offshore businesses. Conversely, when we determine that we can control for related risk by making use of the Company's insight and technical capabilities as a marine transport company, we will pursue even challenging initiatives and earnings opportunities. The Russian Yamal project mentioned by the chairman is an example of this. While some people are also concerned about the geopolitical risks associated with the project, we can effectively control them through the contract.

Projects aiming to secure future contracts are mostly competitive ones incorporated into the plan. Some of those are even government projects. Accordingly, I believe these projects will proceed steadily even if they are somewhat delayed.

Underlined words are explained in the Glossary on page 74.

The Social Significance of the Marine Transport Industry and How MOL Creates Value

Q. What do you think is the significance of the marine transport industry in society?

It is the duty of a marine transport company to move things across the ocean to enrich the lives of people around the world.

I believe the social significance of the marine transport industry, especially the international marine transport industry, is to make people happy by transporting things. Of course there is spiritual enrichment, but I think the physical sense of fulfillment and economic improvement makes it easier to really feel happy. This means supporting economic growth by transporting oil and iron from resource rich countries to resource poor ones, or delivering a region's special delicacy to people all over the world.

Enriching the lives of people all around the world by moving things across the ocean is the duty of a marine transport company.

What's more, per unit CO_2 emissions from transport are smallest in the marine transport industry, and we can reinforce this advantage by increasing the size of vessels or developing even more energy-efficient technology. That is why we can say the marine transport industry provides a mode of transport that enriches people all over the world while also being gentle on the environment. It is an indispensable industry for society. In their work, I'd also like our employees to be proud of this important role.

Q. What strengths and competitive elements underpin the sustainable growth of MOL?

Definitely credibility. MOL has been backed by credibility for over 130 years.

Beginning with MOL, Japan's marine transport companies have mirrored the progress of Japan's economy. MOL has also grown by developing ships and services to meet customer needs across the archipelago of Japan, which developed by importing resources and exporting products. I think you can say that MOL's strength lies in its credibility, which has been cultivated over the years as we worked to gain the trust of Japan's customers, who have high standards, including seeking improvements in transport efficiency and thoroughly safe transport. Although credibility cannot be seen with the eyes, it attracts customers and business partners. Credibility could be the ability to uncover customer needs and offer appropriate solutions, the approach of the Company to work hard with an indomitable fighting spirit to make that solution a reality, the track record of safe transport, or the technical capabilities underpinning everything. All of these comprise the Company's credibility. Through all those things we gain new transport opportunities, further polishing our credibility and creating a virtuous cycle. Thanks to this, MOL has amassed the intangible asset of credibility, in addition to its more tangible asset: the world's largest fleet with a wide range of vessel types. Our credibility has long since been accepted by customers outside Japan as well and is even today helping us secure overseas projects.

For example, in January 2015, we safely delivered the first LNG carrier made in a shipyard in China by a non-Chinese shipping company. I think one of the reasons we were chosen as a shipping company partner for this challenging project was, without a doubt, our credibility. Thanks to our participation in this project, we gained the trust of China Shipping, who co-owns the vessels, and secured a separate opportunity to participate in a project for China.

Capitalizing on our strengths comprising both tangible and intangible assets accumulated over our more than 130 years of history, we continue to fulfill the social duty of marine transport. This then helps us accumulate more tangible and intangible assets and, through this process, we improve corporate value in a broad sense.

Improving Shareholder Value

Q. Please describe your thoughts on improving shareholder value and providing shareholder returns.

I will continue to improve medium- to long-term shareholder value and strengthen shareholder returns by seizing prime business opportunities and accumulating stable profits.

To improve medium- to long-term shareholder value, I will continue to decide on investments aimed at accumulating stable profits and strengthening cost competitiveness in line with "STEER FOR 2020."

There is no change in MOL's policy on shareholder returns to maintain a dividend payout ratio of 20% and raise this to around 30% as our financial standing improves over the medium to long term. By first carrying out investment aimed at securing future stable profits, MOL expects to achieve its financial targets, equity ratio of 35% to 40% and net gearing ratio of 100%, no earlier than around fiscal 2019. However, we have determined that now is the best time to seize business opportunities and actively invest in sources of stable profits. Sound financial standing is also important for securing long-term contracts. Business opportunities will not wait for us. Prioritizing capital investment and improvement in financial standing will, I believe, lead to improved shareholder value over the medium- to long-term. This is the time frame, and I would like to request the understanding of our shareholders.

Of course, when deciding on investments, we use ROI and other standards to facilitate the selection. Aiming to improve our ability to generate cash, we are encouraging all business divisions to strive to strengthen cost competitiveness and improve operating efficiency. Through this, ROA will be lifted to between 4% and 5% within the term of "STEER FOR 2020," and ROE should reach 10% early on in the plan, a level we seek to maintain or improve. I intend to increase ROE by consistently raising profits. Looking at our present capital requirements and financial standing, it would be illogical to raise ROE in the short term by such a measure as stock buyback. On the other hand, the funding necessary for capital investment is mostly backed by long-term contracts, and if cash flows from operating activities prove insufficient, we could easily cover the rest with bank loans. There is neither need nor plan to cover capital investment by raising capital.

I think it's helpful to realize that there is a baton in management that is carried by one person and handed off to the next. Just like a long-distance relay race, each person gives their all to get closer to the goal. It goes without saying that each year's operating results are important. But if you only focus on that amid changing business environments, you lose sight of the goal you should be aiming for, namely meeting shareholders' expectations by improving medium- to long-term corporate value.

I have been entrusted with the baton from the previous president Koichi Muto. Over its more than 130 years of history, there have been times when MOL has encountered great swells, but I think our forebears succeeded in opening many navigable channels through their ingenuity and drive. When I reflect on this, I am once again moved deeply by the meaning of "excellent and resilient" in the Company's long-term vision "To make the MOL Group an excellent and resilient organization that leads the world shipping industry." To ensure that I carry the baton forward in a way that contributes to the next 130 years, I, too, will boldly face change and advance full steam ahead.