MOL
Mitsui O.S.K. Lines

# Annual Report 2007

Year ended March 31, 2007

# MOL Group Corporate Principles

1. As a multi-modal transport group, we will actively seize opportunities that contribute to global economic growth and development by meeting and responding to our customers' needs and to this new era.

2. We will strive to maximize corporate value by always being creative, continually pursuing higher operating efficiency and promoting an open and visible management style that is guided by the highest ethical and social standards.

3. We will promote and protect our environment by maintaining strict, safe operation and navigation standards.

# Contents







**Forward-Looking Statements**

This annual report contains forward-looking statements concerning MOL's future plans, strategies and performance. These statements represent assumptions and beliefs based on information currently available and are not historical facts. Furthermore, forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, worldwide competition in the shipping industry, customer demand, foreign currency exchange rates, price of bunker, tax laws and other regulations. MOL therefore cautions readers that actual results may differ materially from these predictions.

# Financial Highlights

Mitsui O.S.K. Lines Ltd. Years ended March 31

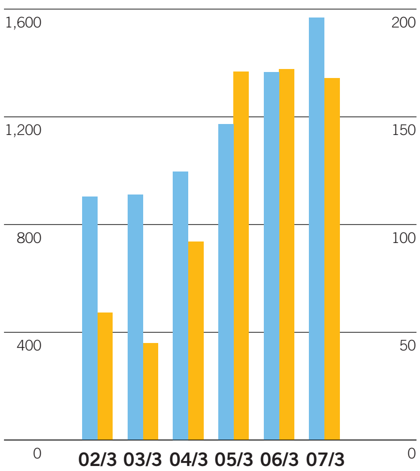
| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | **2007** |
| **For the year:** | | | | | | | |
| Shipping and other revenues | **¥1,568,435** | ¥1,366,725 | ¥1,173,332 | ¥ 997,260 | ¥ 910,288 | ¥ 903,943 | **$13,286,192** |
| Shipping and other expenses | **1,300,038** | 1,101,459 | 917,149 | 824,902 | 787,540 | 761,507 | **11,012,605** |
| Selling, general and administrative expenses | **100,324** | 92,273 | 84,388 | 80,232 | 77,392 | 82,663 | **849,843** |
| Operating income | **168,073** | 172,993 | 171,795 | 92,126 | 45,356 | 59,773 | **1,423,744** |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | **16,171** | 16,817 | 11,764 | 6,613 | 3,387 | 4,426 | **136,984** |
| Income before income taxes and minority interests | **197,854** | 188,290 | 155,057 | 89,776 | 25,114 | 24,851 | **1,676,018** |
| Income taxes, current | **(63,042)** | (61,200) | (52,587) | (35,346) | (10,872) | (6,101) | **(534,028)** |
| Income taxes, deferred | **(7,468)** | (7,570) | (1,205) | 2,152 | 1,435 | (6,633) | **(63,261)** |
| Minority interests | **(6,404)** | (5,788) | (3,004) | (1,191) | (967) | (1,572) | **(54,248)** |
| Net income | **120,940** | 113,732 | 98,261 | 55,391 | 14,710 | 10,545 | **1,024,481** |
| **At year-end:** | | | | | | | |
| Current assets | **405,474** | 340,355 | 299,835 | 299,544 | 289,645 | 251,388 | **3,434,765** |
| Current liabilities | **482,810** | 433,023 | 429,695 | 398,091 | 423,838 | 375,032 | **4,089,878** |
| Net vessels, property, plant and equipment | **847,660** | 769,902 | 665,320 | 477,621 | 569,234 | 619,645 | **7,180,517** |
| Total assets | **1,639,940** | 1,470,824 | 1,232,252 | 1,000,206 | 1,046,612 | 1,079,090 | **13,891,910** |
| Long-term debt due after one year | **398,534** | 399,617 | 340,598 | 311,021 | 395,589 | 475,696 | **3,375,976** |
| Net assets/Shareholders' equity* | **620,989** | 424,461 | 298,258 | 221,535 | 164,790 | 166,970 | **5,260,390** |
| Retained earnings | **375,443** | 275,689 | 182,143 | 101,991 | 56,469 | 47,818 | **3,180,373** |
| **Amounts per share of common stock:** | Yen | | | | | | U.S. dollars |
| Net income | **¥101.20** | ¥ 94.98 | ¥ 81.99 | ¥ 46.14 | ¥ 12.16 | ¥ 8.76 | **$0.857** |
| Net assets/Shareholders' equity | **460.78** | 354.95 | 249.53 | 185.06 | 137.44 | 138.78 | **3.903** |
| Cash dividends applicable to the year | **20.00** | 18.00 | 16.00 | 11.00 | 5.00 | 5.00 | **0.169** |

(Translation of foreign currencies)
The Japanese yen amounts for 2007 have been translated into U.S. dollars using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. $1.00, solely for the convenience of readers. (The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.)

(Amounts per share of common stock)
Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

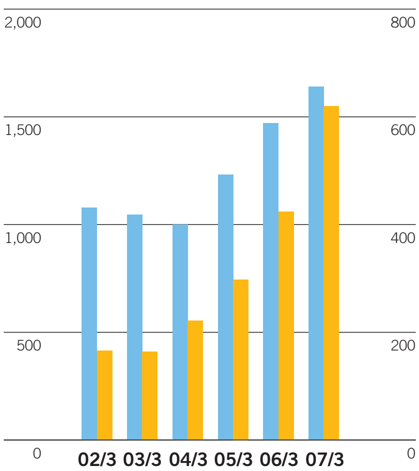
* Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise the sum of shareholders' equity as previously defined, minority interests and share subscription rights.

### Revenues and Operating Income
(¥ billions)



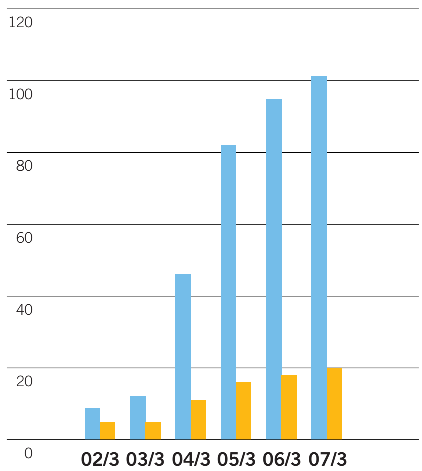

Revenues (left scale)
Operating income (right scale)

### Total Assets and Net Assets/Shareholders' Equity
(¥ billions)




Total assets (left scale)
Net assets/Shareholders' equity (right scale)

### Net Income and Cash Dividends per Share
(¥)




Net income per share
Cash dividends per share

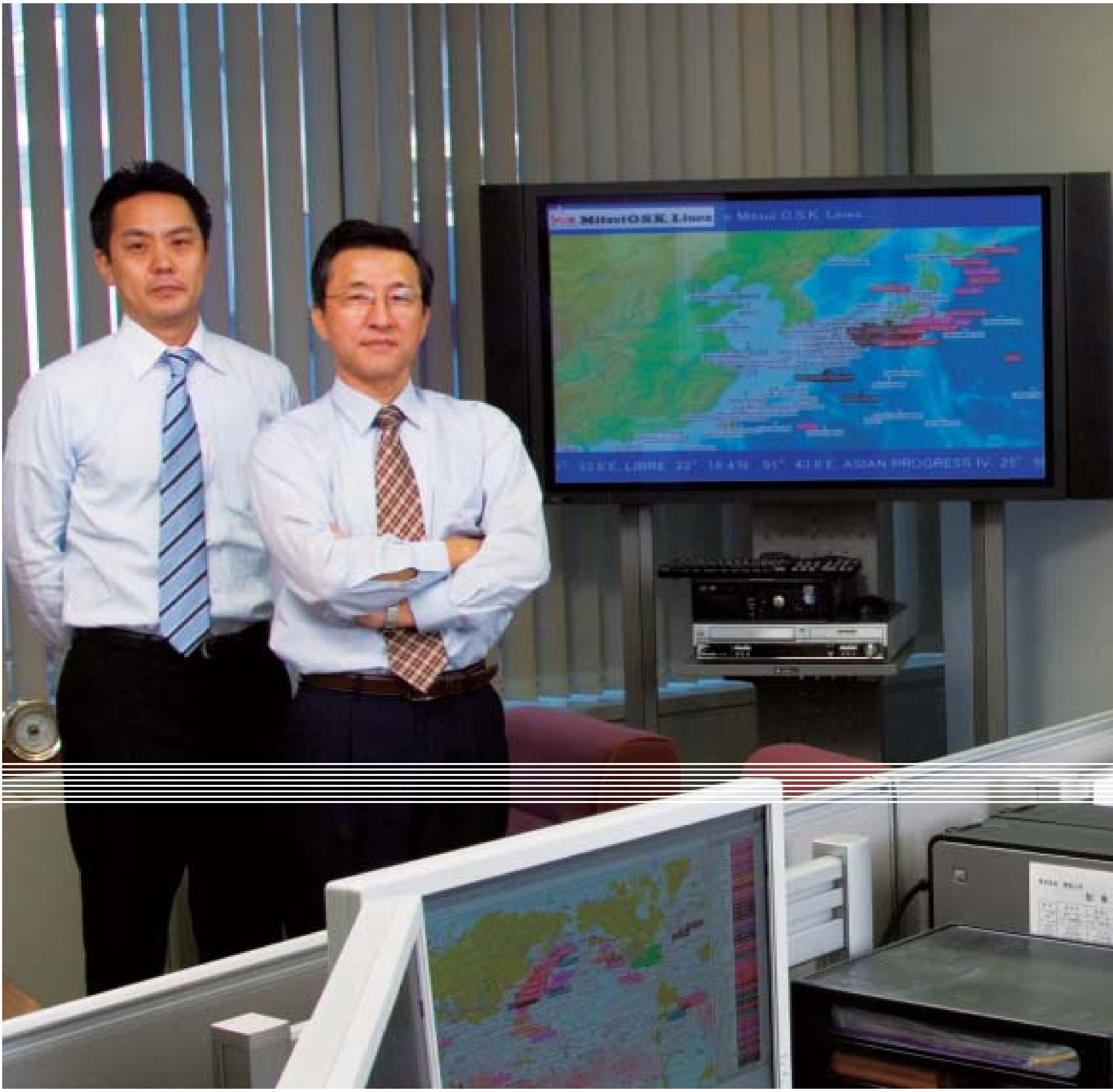
In operating a fleet of more than 800 oceangoing vessels, nothing is more important than the seafarers that man the ships. The outstanding skills and know-how of MOL's seafarers, as well as their superb seamanship, are an indispensable part of the company's ability to provide consistent high quality in services and vessel operations.

# The People Who Support MOL

# Quality

Day and night, MOL's head office is monitoring ships around the world to ensure the safe and efficient transportation of a wide range of cargoes, from natural resources and energy to finished products. The staff of the Safety Operation Supporting Center—and everyone else at the head office—are working closely together with vessels to ensure the highest quality of transport services.

# The People Who Support MOL



# Quality

# To Our Shareholders

Kunio Suzuki *Chairman* Akimitsu Ashida *President*

## Another Record Performance Proves the Strength of MOL's Strategy

Fiscal 2004, ended March 2005, was the first year of the MOL STEP three-year management plan. In its annual report for fiscal 2004, MOL described the plan as *A Big Step Toward Sustainable Growth*. Looking back at our results, that description proved to be accurate. Our ordinary income increased from ¥90.6 billion in fiscal 2003 to ¥175.0 billion in fiscal 2004 and then continued to rise, reaching ¥176.5 billion in fiscal 2005 and ¥182.5 billion in the past fiscal year, which was the final year of MOL STEP. Over the same period, our net income increased 2.2 times, rising from ¥55.4 billion to ¥120.9 billion. During the course of MOL STEP, seaborne trade was generally strong, but the marine transport industry also faced difficult challenges, including market fluctuations and spiraling fuel prices, which nearly doubled. In this challenging operating environment, MOL was the only international shipping company in the world that sustained growth in profits at a high level.

In fiscal 2006, MOL once again proved the strength of its strategy, which was detailed in the previous two year's annual reports as *Five Solutions for Issues Critical to Further Growth* and *A Proven Model for Value Creation*. With a focus on fields that have the potential to expand over the long term, we moved aggressively and took the lead over other companies in bolstering our fleet. As a result, our bulkships recorded growth in ordinary income from ¥135.3 billion to ¥163.6 billion, which, together with growth in other segments, offset the lower profits in the containerships segment. Also, as a result of cost-reduction efforts spanning many years and measures to effectively control various risks, we were able to secure a profit of ¥3.2 billion in containership operations. On the other hand, with some companies falling into the red, market conditions reversed, as we had anticipated.

That success was a result of our balanced portfolio. Although we strived to secure stable earnings from medium-to-long-term contracts, we did not shy away from the spot market. Rather, we emphasized a balance between stable earnings and emerging opportunities in the spot market, and as a result we were able to move quickly and capture developing opportunities throughout the marine transport industry.

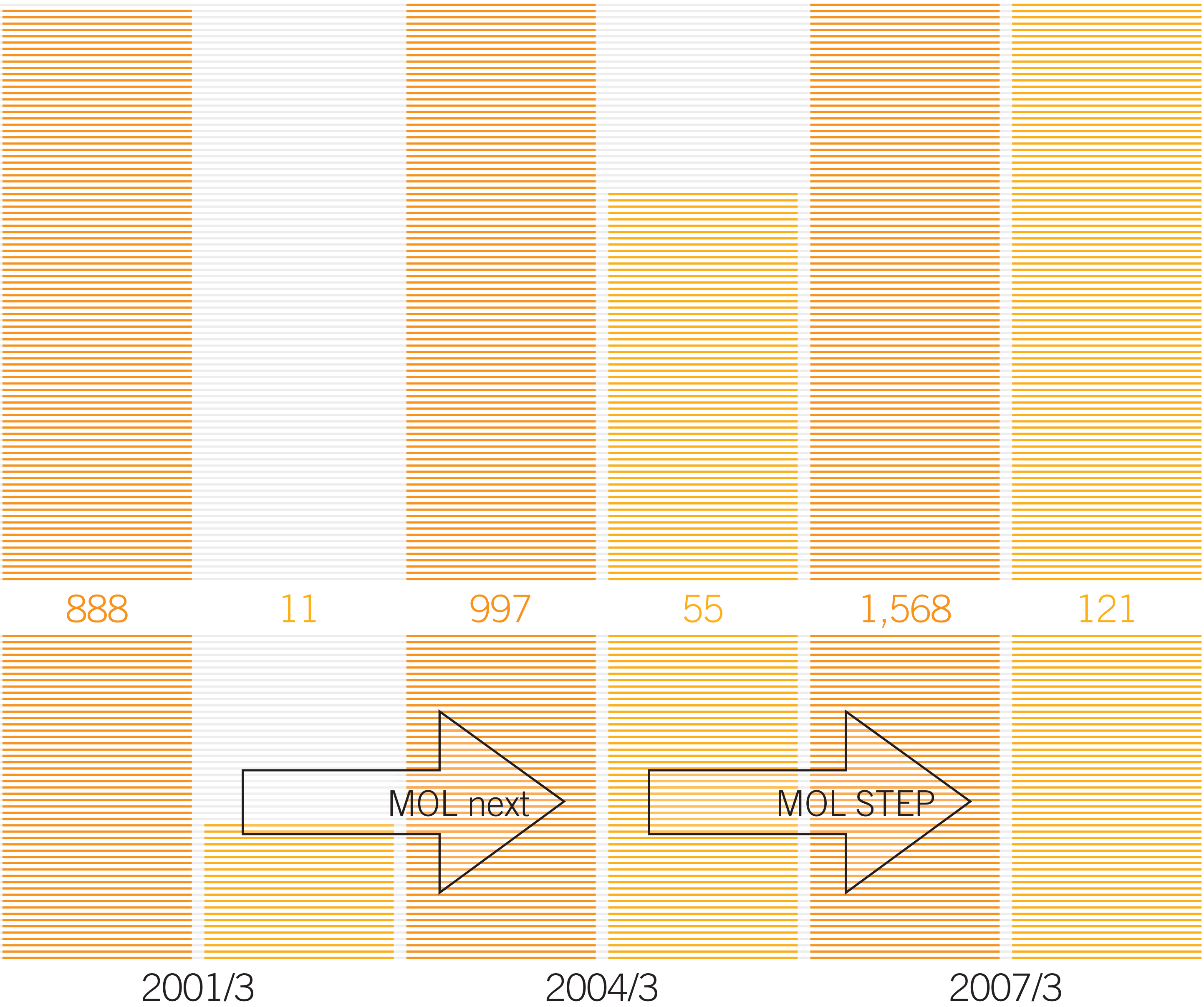
From the level of ¥11.00 per share in fiscal 2003, we have increased dividends each year, raising them to ¥20.00 per share in the past fiscal year. In January 2007, our stock price set a new high for the first time in 17 years, and our market capitalization at the end of March 2007 was ¥1,576.6 billion, 2.4 times the level at the start of MOL STEP.

# *MOL next* through *MOL STEP*—Six Years of Progress

- MOL has made steady progress over the past six years.
- Revenues have increased about 1.8 times.
- Net income has increased about 11-fold.

Revenue (¥ billions)
Net Income (¥ billions)

## Net income: from ¥10.9 billion to ¥120.9 billion



## Positioned to Benefit from the Paradigm Shift in the Marine Transport Industry

Our growth has been supported by multipolar expansion of the world's economies. In addition to the role of the U.S. as a growth engine, multiple new drivers of economic growth have taken on important roles, including the BRICs and other rapidly growing industrializing economies, as well as Europe expanding to the east. That is the reason why the global economy continues to post favorable economic expansion, despite a number of adverse factors.

With its central role in international trade, the marine transport industry has also posted strong growth. Since 2000, China has recorded particularly rapid economic expansion, with dramatic gains in imports of natural resources and energy. China now accounts for more than 45% of global iron ore shipments.

Moreover, in industrialized regions, such as the U.S. and Europe, consumer goods are imported in containers from China, and other Asian countries that have come to be known as "the world's factories." Recently, regions benefiting from robust exports of natural resources and energy—such as Brazil and Middle Eastern countries—as well as Eastern European countries, have also started to import increased amounts of consumer goods and machinery. Manufacturing in such industries as cars, chemicals, and refined petroleum products is also being shifted to the most cost-competitive locations.

This trend is generating higher demand for transport over longer distances, and with a shortage in shipping capacity, the supply-demand balance has tightened. The global shipping industry has been transformed by this paradigm shift, and MOL has done an excellent job of positioning itself to benefit from these market conditions. We accurately forecasted market trends, allocated vessels appropriate for cargoes and trade routes for which we anticipated strong demand, and provided customers with efficient shipping solutions. Through this approach, we have transformed MOL into a high growth company.

In formulating MOL ADVANCE, the new midterm management plan, we once again conducted rigorous market research, acquired data from the front lines of sales and marketing operations, and forecast marine cargo movements over the medium to long term. Our conclusion is that we expect the annual average growth in ocean cargo trade to exceed 5% over the medium term. As the global economy continues to expand, we are confident that MOL will record further growth and development.

## The Next Phase of Growth

Targeting the next phase of growth, in March 2007, we announced MOL ADVANCE, which is discussed in detail in the interview section on page 12 to 21. The main theme of the new plan is *Growth with Enhanced Quality*.

Safety will be the most important task under MOL ADVANCE. Since April 2006, MOL-operated vessels have been involved in four major accidents, causing considerable distress to customers and other related parties.

Everyone at MOL has taken this matter very seriously. We have returned to the basics and are doing our utmost to ensure safe operation, which is the foundation of the Group's business activities. In addition to "growth," which was a key focus of our efforts under the preceding MOL next and MOL STEP plans, under MOL ADVANCE we have reinforced our commitment to safe operations as our top priority. We are aiming to achieve the world's highest level in both service and safety, in other words, to achieve quality in growth under MOL ADVANCE.

Moreover, to achieve growth with enhanced quality, we cannot simply expand our fleet as the market grows. We need to control investment within an allowable range of risk while continually monitoring the overall risks faced by the group. While we strengthen our financial position, we will continue to focus on maintaining the optimal balance in our business portfolio between stable earnings and market-sensitive profits. To do so, we need to make well-timed investments while carefully considering the appropriate scale and cost-competitiveness of our entire fleet.

## Building Shareholder Value

Our approach to the creation of shareholder value includes a focus on bolstering our financial position, which is also closely linked to the achievement of growth with enhanced quality. Marine transport is a growing industry, but success in the field requires the ability to control a range of risks. When interest rates are high, for example, a strong credit rating is needed to raise funds at competitive interest rates. MOL dealt with significant exchange rate fluctuations in the

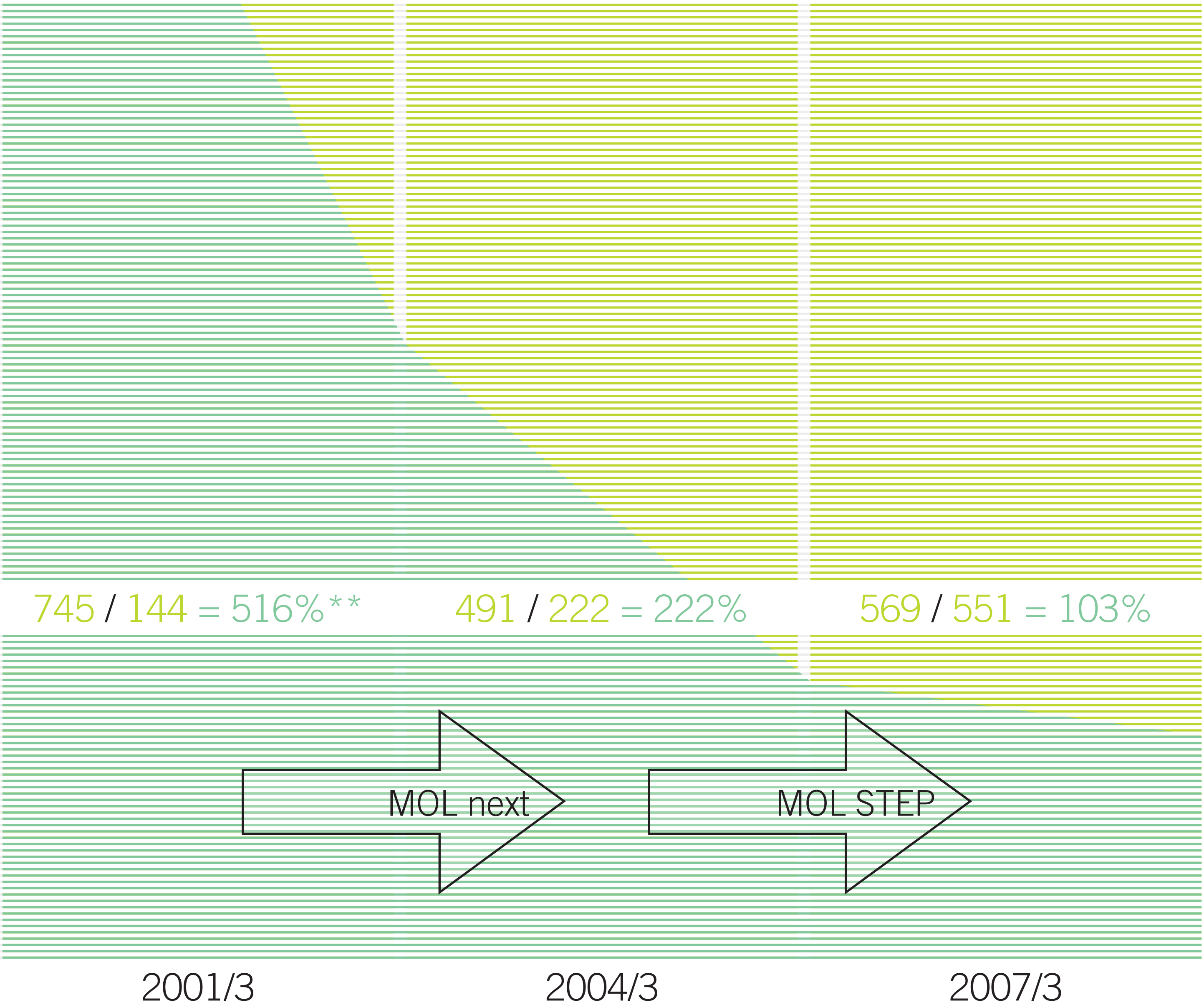
## *MOL next* through *MOL STEP*—Six Years of Progress

- MOL has strengthened its financial resources.
- Interest-bearing debt has been reduced by ¥175.2 billion.
- Growth in shareholders' equity* by ¥406.4 billion has substantially improved the gearing ratio.

### Interest-bearing Debt (¥ billions)
### Gearing Ratio (%)

* The figure corresponding to "shareholders' equity" in FY2006 is the total of owners' equity and accumulated gains from valuation and translation adjustments, as prescribed under Japan's new Corporate Law. Since shareholders' equity has been employed as a quantitative target in MOL's planning hitherto, the same term is used for the fiscal year under review. In other words, throughout this annual report (excluding the financial statements), where the term "shareholders' equity" is used in regard to FY2006 and subsequent years, the corresponding figure comprises the total of owners' equity and accumulated gains from valuation and translation adjustments.
** Interest-bearing Debt/Shareholders' Equity = Gearing Ratio

## Interest-bearing debt: from ¥744.6 billion to ¥569.4 billion



1980s and 1990s, and we know that, if our operations are adversely affected by exchange rate trends, the ability to quickly allocate funds to enhance our competitiveness is instrumental in the creation of shareholder value over the long term. Above all, a strong financial position enables us to take decisive action to meet demand by making timely investments and targeting the returns that can be earned from prudent risk-taking.

Over the three years of MOL STEP, our shareholders' equity increased from ¥221.5 billion to ¥550.8 billion, our gearing ratio improved from 222% to 103%, and our equity ratio rose from 22% to 34%. Our objective is to raise the equity ratio to more than 40% by the final year of MOL ADVANCE, and subsequently to increase shareholders' equity to ¥1 trillion as rapidly as possible.

On the other hand, we will continue to allocate cash flow to capital investment. We increased the scale of our operations from 645 vessels at the end of March 2004 to 803 vessels at the end of March 2007, and in order to reach 1,000 ships by March 2010, we will invest about ¥620.0 billion. At the same time, we will place the orders needed to meet our objective of having 1,200 vessels in operation by the end of March 2013. We will maintain our investment efficiency by keeping ROA at the 7% level and work to add shareholder value through gains in EPS.

We will continue to base dividends on a payout ratio of 20%, and we will address the need to increase the ratio under our medium and long term management policies. Of course, even while we hold the dividend payout ratio constant, growth in our profits will result in an increase in the total amount of dividends that we pay.

## Emphasizing the One S and Four Gs—Safety, Growth, Global, Group, and Governance

To prepare for further growth during the course of MOL ADVANCE, we will continue to emphasize what we call the "1 S and 4 Gs"—Safety, Growth, Global, Group, and Governance. Specific measures that will be implemented in accordance with the "1 S and 4 Gs" are described in more detail in a subsequent section of this report.

We believe that our human resources are the key element in pursuing the "1 S and 4 Gs," and this belief has been strengthened by the events of the past year, including the growth recorded in a challenging environment and the four major accidents.

Medieval Chinese philosopher Chu Hsi said "When there is ch'i (utmost sincerity and concentration), it can go through even gold and stone." To us, this means that nothing is impossible if we have the determination and a can-do spirit.

MOL has the determination and the spirit to take on the challenge of achieving quality in growth. In December 2006, we opened a new training facility near Tokyo to enhance the training and education of onshore and seagoing employees from Japan and overseas. Moreover, in July 2007, with the objective of strengthening and enhancing our human resources to enhance safety, we will begin to operate our own purpose-built training ship. As we move forward, we will make full use of the group's human resources, which include onshore and seagoing personnel of many nationalities, as well as the group's accumulated know-how, knowledge, and experience, to record continued growth on a global scale. In this way, we will make steady progress toward the achievement of our long-term vision of making the MOL Group "an excellent and resilient organization that leads the world shipping industry."

We concluded the MOL STEP plan on a strong note, and we have begun to implement MOL ADVANCE. With multipolar growth in the world's economies, global demand for ocean shipping is expected to continue to show high rates of growth. At this point, we look forward with confidence and anticipation. We would like to ask for your continued support in the years ahead as we take on new challenges and strive to record further growth.

June 21, 2007

Kunio Suzuki Chairman

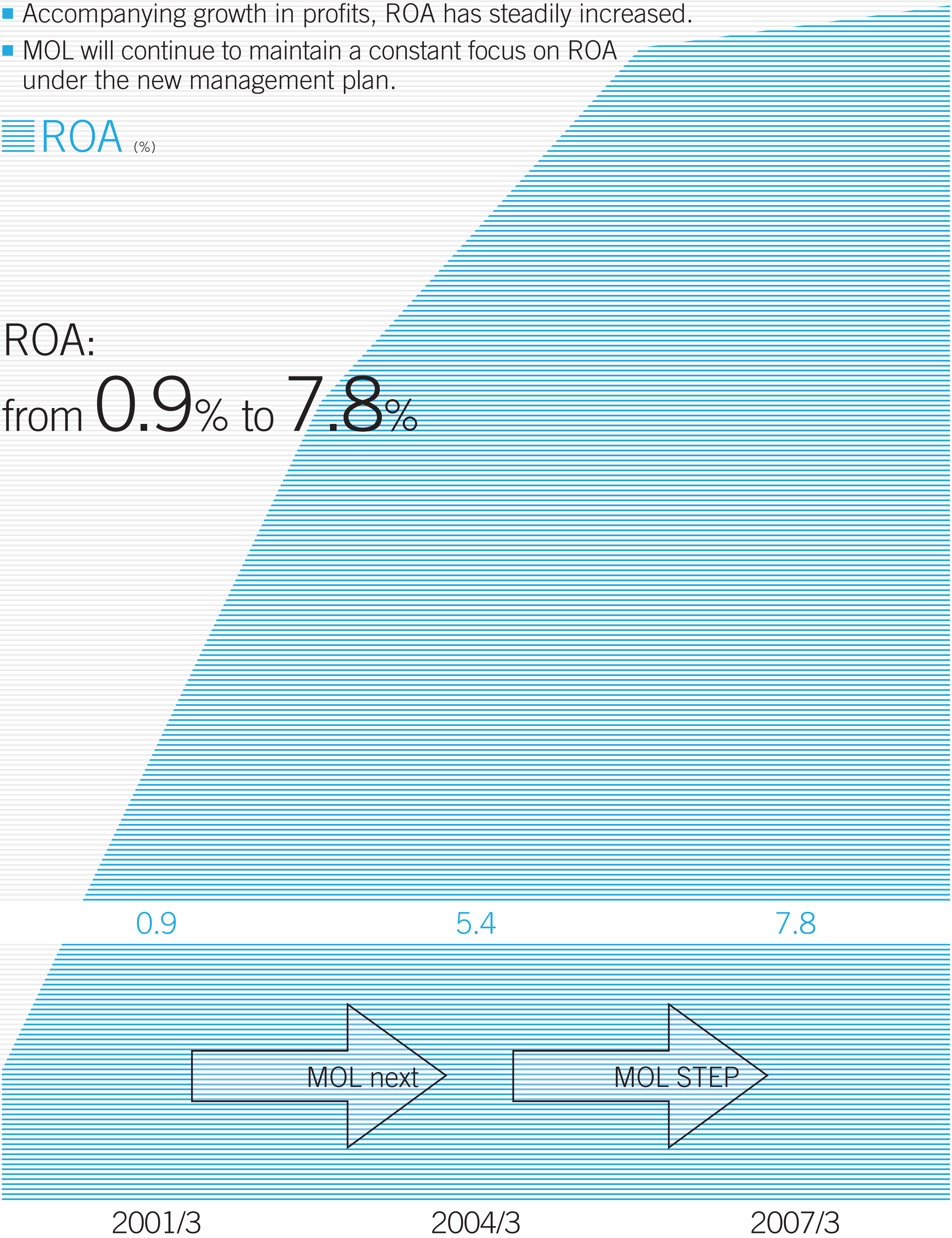
Akimitsu Ashida President

# *MOL next* through *MOL STEP*— Six Years of Progress

- With the scale of MOL's operations expanding, total assets have increased.
- Accompanying growth in profits, ROA has steadily increased.
- MOL will continue to maintain a constant focus on ROA under the new management plan.

ROA (%)

ROA:
from 0.9% to 7.8%



## Aiming for Quality in Growth in Pursuit of Greater Seamanship

### Strategies of the MOL ADVANCE Midterm Management Plan

# Why does MOL focus on quality

And why is growth with enhanced quality the main theme of MOL ADVANCE? As discussed in the To Our Shareholders section of this report, the accidents that occurred in 2006 underscored MOL's commitment to safety as the company's highest priority. In the marine transport business, safety is an unconditional prerequisite for growth, and under MOL ADVANCE, MOL's top priority is to ensure safe operations. At the same time, as the world's economies undergo multipolar growth, the marine transport industry is also expanding, and a diverse range of transportation needs is emerging in regions and on routes around the world.

To meet those needs, we will continue to follow the approach that has proven successful in the past, expanding our diverse fleet in anticipation of demand trends. The name of our new midterm management plan—MOL ADVANCE—is both a reference to the further "advances" that MOL will strive to achieve and an abbreviation of Mitsui O.S.K. Lines' Action and Direction at the Vanguard of Creating Excellence. We are determined to remain at the vanguard in securing safe operations and in providing value-added services that accurately meet demand and thereby bolstering MOL's reputation as an excellent company. That determination is a key part of MOL ADVANCE.

growth?

# Safety—The Foundation of Growth

## Q

### Please give us your analysis of the four accidents involving MOL-operated vessels in 2006.

Since April 2006, MOL-operated vessels have been involved in four accidents. These accidents have caused a great deal of distress to customers and other stakeholders, and on behalf of everyone at MOL, I would like to express our heartfelt regret.

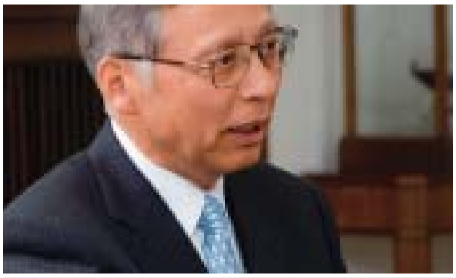
Although the circumstances and details of these accidents vary, I believe that the accidents have an element in common. Up to 2005, MOL-operated vessels had been involved in very few accidents, and I believe that, as a result, our “accident-awareness” weakened, and that, to some extent, we fell into a formalistic approach to safety. We assumed that what we were doing was correct, and we lacked a sense of the need to make changes based on the status of on-site conditions.

On the other hand, with vessels getting larger and voyages getting longer, structural problems have developed. And we are seeing unprecedented natural phenomenon, such as sudden gusts of wind off Kashima in Japan.

MOL took a comprehensive approach to these accidents, thoroughly analyzed them, and formulated measures to reinforce safe operations.

## Q

### Would you discuss the positioning of safe operations in the implementation of the midterm management plan and future safety measures that MOL will take?



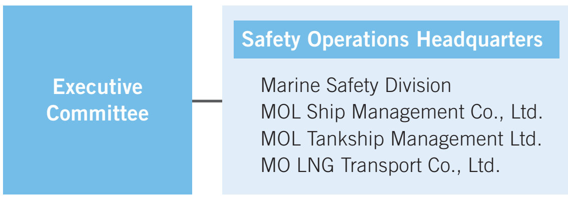
Maintaining safe operations is our highest priority under MOL ADVANCE, and we have formulated measures to reinforce safe operations that will help to not only prevent the reoccurrence of the same types of accidents that occurred in the past year but also to avoid other types of accidents. By implementing these measures, we aim to raise our transport quality to the top rank in the world.

Specific details about the measures and how they were formulated are discussed in more detail by the executive officer in charge of safe operations on pages 22 to 23. I would, however, like to make two points.

First, the revision of our safe operations organization was based on the conviction that it was necessary to change the formalistic approach that I described above. The Marine Management Division, which was responsible for safe operations, was situated above the ship management companies, to which it gave instructions. We have changed the name of the Marine Management Division to the Marine Safety Division and assigned it the role of laterally providing support to the ship management companies. This step was taken in order to rigorously implement the on-site, ship-oriented approach and break away from the formalistic approach into which we had fallen. We established the Safety Operations Headquarters, comprising the Marine Safety Division and three ship management companies and reporting directly to the Executive Committee. As a result, the distance between head office management and ship management has been reduced.

Second, we took two steps that were unprecedented in the marine transport industry. One step was the establishment of the Safety Operation Supporting Center, which is open around the clock. We have already had reports from ship captains who encountered rough weather that the support they received from the center was useful. The other step was the acquisition of a purpose-built training ship, on which graduates from maritime colleges are trained. MOL is committed to being a vanguard in safe operations.

New Structure



# Concentrating Management Resources on Growth Fields

## Q

**Please discuss the financial goals set out in MOL ADVANCE and the issues that MOL will focus on to achieve those goals.**

Under MOL STEP, on a consolidated basis, we achieved ordinary income of more than ¥175 billion for three consecutive years, including ¥182.5 billion in the final year. In the next phase of our growth, over the three years covered by MOL ADVANCE, we are targeting ordinary income of more than ¥200 billion a year. The goal of the new plan is to achieve sustained profit growth at a high level. In fiscal 2009, the third year of MOL ADVANCE, our specific financial goals are, on a consolidated basis, revenue of ¥2,060 billion, ordinary income of ¥220 billion, and net income of ¥143 billion. Our targets for key indicators are 11% for the ordinary profit margin; less than 100% for the gearing ratio; more than 40% for the shareholders' equity ratio; and more than 7% for ROA.

To reach these goals, we will focus our management resources on our core business, marine transport, where we anticipate growth. During the course of MOL ADVANCE, we expect our markets to continue to expand.

Specific fields on which we will focus include iron ore and coking coal carriers, where cargo volume has grown by 39% over the past three years. Even if the rate of growth declines in the future, the scale of the market has expanded to the point where the impact of an increase in cargo volume will be substantial. Dry bulk other than iron ore is also expected to show a high level of market activity, and we will take steps to capture emerging profit opportunities. We also expect strong growth in tanker business, especially product carriers.

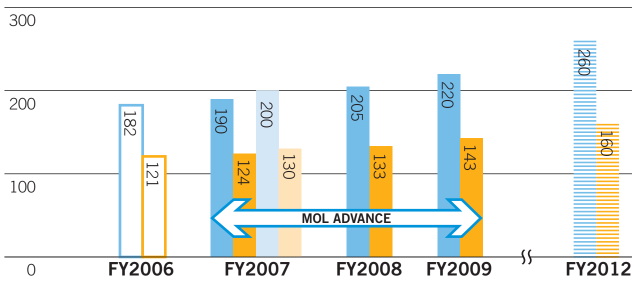
Container transport, which has increased due to the shift of production sites, is also expected to show continued expansion in the years ahead, most likely at the same pace it has shown in recent years. Container transport will also be supported by increases in the numbers of people with middle-class incomes in newly industrializing countries.

In the 1960s, the ratio of annual marine cargo volume to the world's population was about one-half ton per person. Around 2000, that ratio surpassed one ton per person for the first time, and since then it has increased further. When we formulated MOL ADVANCE, we forecasted volume for each type of cargo, and by combining them, we reached the conclusion that the world's marine cargo would grow by over 5% a year. This works out to about 1.5 tons of marine cargo per person in 2010 and 1.8 tons per person in 2015.

### MOL ADVANCE Profit Plan
(¥ billions)

Sensitivity p.a. (FY2007)

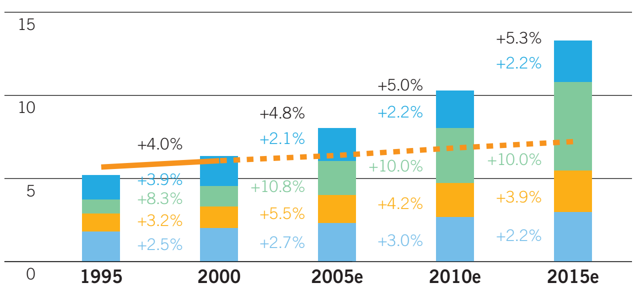
Exchange rate ±2.3 bil./¥1 (Max.)
Bunker price ±0.3 bil./$1 (Max.)




| | FY2006 Result | FY2007 Plan | FY2007 Forecast | FY2008 Plan | FY2009 Plan | FY2012 Target |
|---|---|---|---|---|---|---|
| Revenue | 1,568 | 1,640 | 1,700 | 1,880 | 2,060 | 2,500 |
| Operating income | 168 | 182 | 190 | 197 | 212 | 250 |
| Ordinary income margin | 11.6% | 11.6% | 11.8% | 10.9% | 10.7% | 10.4% |
| Av. Ex. rate (¥/$) | 117.40 | 110 | 115 | 110 | 110 | 110 |
| Av. bunker price ($/MT) | 321 | 300 | 330 | 300 | 300 | 300 |

### World Population and Seaborne Trade
(billion tons/billion people)

Sources: MOL internal calculation based on UN statistics, Fearnley World Seaborne Trade, Drewry, MSI, etc.
Note: Other cargoes = non-containerized cargoes other than dry bulk and oil
%=Annual growth rates



Q

## Would you describe your approach to achieving a balance between growth in stable profits and market-sensitive businesses?

To achieve growth with enhanced quality, we cannot simply expand operational scale in tandem with the market. Rather, we need to focus on achieving the optimal balance in our business portfolio between stable earnings and market sensitive profits.

For example, in fiscal 2007, the first year of MOL ADVANCE, we anticipate ordinary income of ¥200.0 billion. Stable earnings represent about 60% of that total. These earnings comprise profits generated through medium- to long-term contracts that are confirmed at the beginning of the term as well as projected profits from highly stable businesses. We will also strive to maintain the ratio of stable earnings to market sensitive profits at about 50:50 over the medium to long term.

In generating both stable earnings and market sensitive profits, the ability to appropriately seize opportunities and order necessary vessels at competitive prices is of the utmost importance. With superior capabilities in this area, MOL has increased its stable earnings at a rapid pace, raising them to a level that is substantially higher than the entire company's profit in fiscal 2003 and earlier fiscal years. Surplus vessels can be operated in the spot or short-term markets, thereby generating high profits. With shipbuilding docks filled until about 2010 or the first half of 2011, one of our strengths is our ability to utilize so-called bridge contracts, where we can offer available ships for use during the period until newly ordered ships are delivered and the related long-term contract starts.

In formulating MOL ADVANCE, we made comparatively cautious assumptions about the market conditions in bulkship operations. Nonetheless, we can plan on steady growth in profits by expanding our fleet while maintaining this type of portfolio.

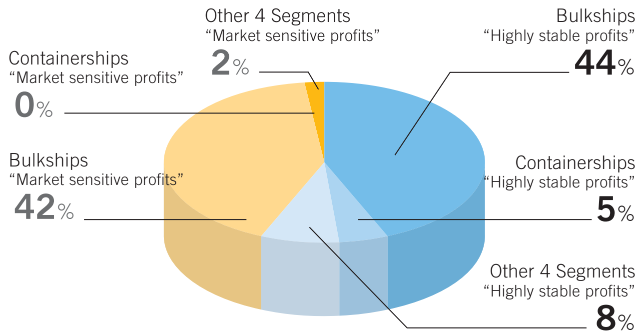
### Portion of Highly Stable Profits

The blue color components show "highly stable profits" (the projected profits from long-term contracts and other highly stable sources of profits)

FY2007 Consolidated Ordinary Income (Forecast at beginning of FY)

| | |
|---|---|
| Total | 200 bil. yen |
| Highly stable profits | 114 bil. yen |

(incl. 3 bil. yen, which we aim to accumulate through long-term contracts)




Q

## How will MOL operate in containerships in markets that are likely to continue to fluctuate?

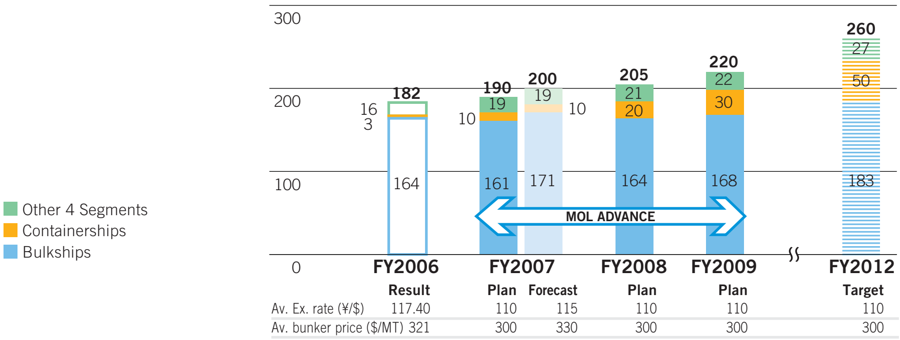
In the second half of 2005, following major reorganization moves among companies in the containership industry, rates declined on Asia-Europe routes, and in 2006, that trend spread to transpacific routes. In both cases, market conditions have since recovered, but in containership operations, we need to always be aware of the possibility that market conditions could fluctuate.

Given this type of market in containership operations, as I have stated previously, to secure a return that is appropriate to the level of investment, we need to make unrelenting cost reduction efforts and implement rigorous yield management in order to ensure that we are in the top half of containership operators in terms of profitability, and preferably in the top third. If we do that, we can operate in the black even when market conditions are least favorable and we can generate greater profits when market conditions are favorable. In fiscal 2009, the final year of MOL ADVANCE, we are forecasting revenues of ¥910.0 billion and ordinary income of ¥30.0 billion in our containership operations, but I am not satisfied with these figures. In April 2007, we implemented a reorganization, with trade management functions for North America, Asia, and Europe brought under tighter control at the head office. This was done to speed up communications and to facilitate timely, accurate judgments.

Having solidified our base in this way, under MOL ADVANCE we will expand our capacity by introducing 22 containerships ranging from 5,100TEUs to 8,100TEUs. Consequently, we will reduce our unit costs while maintaining an established presence in a market growing at the high rate of more than 10% a year. We will maintain an operational scale that can meet the demand of customers trading large volumes of cargo and secure a position of leadership in an industry marked by ongoing advances in mergers, acquisitions, and alliances.

## Ordinary Income by Segment

(¥ billions)




# Q

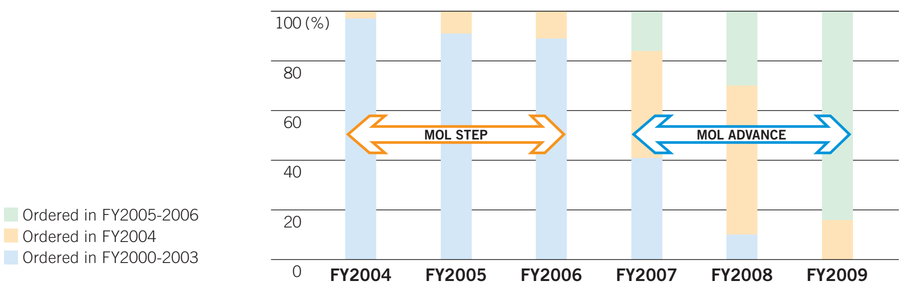
## Would you give us an overview of MOL's fleet expansion plans for fiscal years 2007 to 2009?

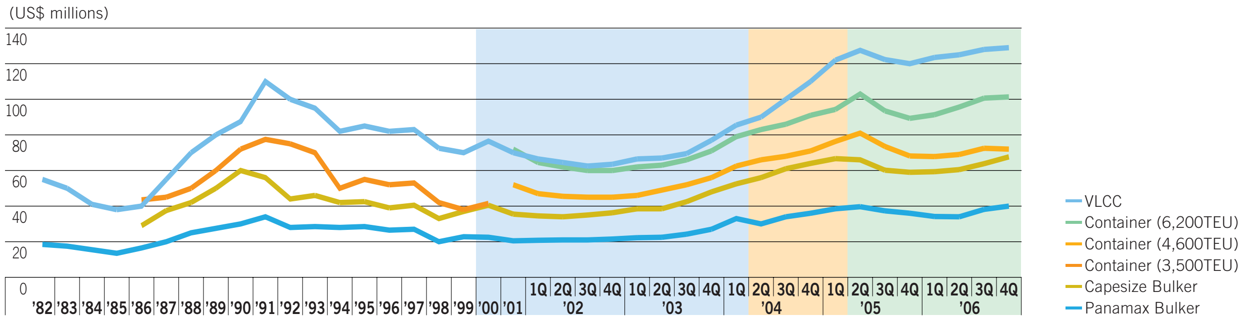
As a global leader in marine transport, we will aim to grow at a faster rate than the market itself, and accordingly, we will continue to aggressively expand our fleet. We plan to increase the fleet from about 800 vessels in operation at the end of fiscal 2006 to 1,000 vessels in operation at the end of fiscal 2009, and then to 1,200 vessels in operation at the end of fiscal 2012.

From fiscal 2007 to fiscal 2009, we will add 196 vessels, all of which have already been ordered. Of these vessels, 172 are bulkships, about half of which will be used under contracts that have already been signed or in businesses that generate stable earnings. In the subsequent three years, ending fiscal 2012, we plan to add 236 vessels to the fleet. As of the end of March 2007, orders had already been placed for about 25% of those vessels.

In this way, we move quickly to order the ships that our customers want and we work to build a fleet that will offer value in global markets in terms of its breadth, scale, and cost competitiveness.

## Fleet Expansion and Vessel Price



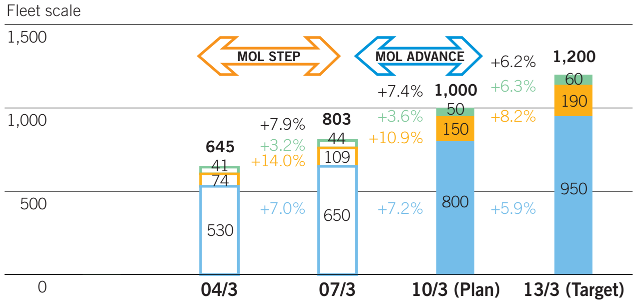



MOL ADVANCE
Fleet Expansion Plan
(number of vessels)

Ships to join MOL fleet

| | FY2007 to 2009 | FY2010 to 2012 |
|---|---|---|
| Total | 196 | 236 |
| Other ships | 2 | 6 |
| Containerships | 22 | 30 |
| Bulkship | 172 | 200 |

%=Annual growth rates
Other ships
Containerships
Bulkships




## Q

### How will high vessel prices affect your aggressive fleet expansion plans in fiscal 2010 and thereafter? And how would you evaluate the risk of a decline in market conditions in that time period?

As I mentioned, in formulating MOL ADVANCE, we conducted thorough research and forecasted demand and supply as accurately as possible at that point in time. We reached the conclusion that the demand-supply balance is likely to remain tight overall. Based on this assumption, ship prices will not decline substantially, and therefore MOL's competitiveness will not be adversely affected even if we continue to aggressively expand our fleet. Up to the present, we have expanded our fleet systematically, and over the past few years, we have added a number of vessels that were ordered before ship prices increased. As a result, in terms of average cost, we will remain competitive. In fact, the risk of scaling down fleet expansion, which is the risk of missing opportunities, is quite high. Of course, our fleet expansion plan does not call for adding vessels across the board. Rather, we will carefully weigh conditions in each field and add vessels accordingly.

Nevertheless, we are also aware that no one can precisely predict the course of the global economy, and the Group's operating environment could change substantially at any time.

One development that is of considerable interest to MOL is the substantial growth in shipbuilding capacity in China. At this point, we believe that—given the current levels of construction efficiency, design capabilities, supply capacity for major parts, and development of skilled workers—any substantial effects on the future demand-supply balance will not be seen until 2015 or thereafter. However, if the quantitative and qualitative progress in Chinese shipbuilding operations outpaces our expectations, there is cause for concern that excess supply could adversely affect market conditions.

In preparation for that possibility, we have formulated a range of countermeasures. For example, we closely monitor average ship prices by type of vessel, and take steps to ensure that we don't record losses even if market conditions decline. Furthermore, we constantly update lists of ships that can be returned or sold in any fiscal year, and we run simulations of fleet reduction scenarios. Based on those simulations, we have determined that we could reduce the size of our fleet by 15% in fiscal 2012, for example, without incurring any extraordinary expenses.

We will continue to expand the overall size of our fleet, but in specific fields, we will not hesitate to scale back the fleet in accordance with market conditions. The scale and diversity of our fleet gives us tremendous flexibility in making these decisions.

# Accelerating Global Development

## Q

### What are MOL's policies for business development in markets characterized by ongoing globalization?

We cannot expect substantial growth in marine shipments of cargo from and to Japan, where the economy is mature. With globalization of marine transport poised to accelerate even further, MOL still has a great deal of work to do in strengthening its operations.

To achieve the performance objectives outlined under MOL ADVANCE, it is absolutely essential that we maintain our position in Japan, expand global development, and build strong positions in growing overseas markets.

In containership operations, as production has been shifted to optimal sites, the share of global container trade accounted for by shipments to and from Japan has declined to about 10%. We have already developed bases around the world and built a system that makes full use of personnel and other resources in accordance with market characteristics.

In other divisions, we will utilize existing global resources and establish new information gathering and marketing bases as necessary. For example, we recently established two offices in Russia and the Middle East Headquarters in the UAE, targeting a wide range of business fields, including energy-related business. On the other hand, decisions regarding fleet expansion are made in the head office in principle, with the information acquired at overseas bases used by executives to rapidly make accurate decisions. Mergers and acquisitions involving overseas companies are also an option, as demonstrated by our successful examples in the fields of LNG carriers and dry bulkers. We strive to be a global company that can record sustained growth in markets around the world.

## Q

### What regions do you expect to record strong growth, and what are your strategies for those regions?

In natural resources and energy, the volume of shipments to China and other industrializing countries is expected to show continued strong growth. We took the lead ahead of other companies in meeting emerging demand in China, and we have built a strong presence in the China market. Using that presence as a competitive advantage, we will further expand our operations. For example, in the field of iron ore transport, in the first half of 2007, Baoshan Iron and Steel executives presided over the launch of three new vessels that will be operated on long-term contracts. At that time, we were already moving ahead with another round of negotiations with Baoshan, and the two companies have decided to expand their relationship to include long-term contracts to six ships, thereby solidifying MOL's position as Baoshan's main carrier of iron ore.

In India, the pace of growth in crude steel production is accelerating, and imports of coking coal are expected to grow. To meet that demand, we will expand our fleet of small-sized dry bulkers. Also, in Brazil, where MOL has long had a strong presence, we expect growth in exports of iron ore carried over longer distances and accelerating imports and exports of manufactured goods.

In containerships, MOL will further strengthen its networks of east-west, north-south, and intra-regional routes and allocate vessels appropriately.

We have positioned Vietnam, which has recorded rapid economic growth in recent years, as a top priority region. In particular, in the field of container transport, we are expanding services linking Vietnam, which is posting dramatic growth in export cargo, to Japan, Southeast Asia, and Hong Kong. We will draw on our strength as the only Japanese marine transport company with a wholly owned local subsidiary, and in the future we will aggressively participate in such projects as container terminal projects that are under way and in business alliances with shipyards run by the Vietnamese government.

In this way, we will draw on overseas resources in developing our operations. While cross trade currently accounts for 50% of our revenues, we will work to raise that share to more than 60% in 5 years.

# Bolstering the Group's Comprehensive Strengths and Competitiveness

## Q

### What are your thoughts about bolstering the Group's comprehensive strengths?

In addition to MOL itself, other Group companies also made steady progress over the course of MOL STEP. Group companies are making a growing contribution to the Group's performance. These companies were responsible for ¥19.6 billion of our consolidated ordinary income in fiscal 2003 and ¥61.6 billion in fiscal 2006. In the future, we will shift from a focus on rationalization and cost cutting to a focus on growth and synergies as we work to steadily increase the Group's comprehensive strengths and competitiveness. And we will further enhance the earnings contribution of Group companies.

MOL Group companies in such fields as dry bulkers and tankers have highly advanced capabilities that enable them to generate strong profits, and we will draw on tie-ups within the Group to further enhance our consolidated performance. Also, in logistics and associated businesses, we will allocate management resources to fields where growth is expected.

Creative Cost Saving Program

(¥ billions)

| | FY2007 | FY2008 | FY2009 | Total |
|---|---|---|---|---|
| **Sales Division** (Voyage expenses, container expenses, etc.) | 6.5 | 11.0 | 11.0 | 28.5 |
| **Administration Division** (Administration expenses, interest payments, etc.) | 2.5 | 2.0 | 2.0 | 6.5 |
| **Total** | 9.0 | 13.0 | 13.0 | 35.0 |
| MOL (Non-Consolidated) | 8.0 | 12.0 | 12.5 | 32.5 |
| Group Companies | 1.0 | 1.0 | 0.5 | 2.5 |

One more effort that we should not forget is the Creative Cost Saving Program. Even when we are achieving good results, it is important to continue to work hard with a spirit of "taking one more step forward" while constantly remaining alert and vigilant. There are limits to the cost savings that can be achieved through unit price reductions. I have instructed everyone in the MOL Group to change their thinking and come up with new ideas, such as how to control the costs that typically increase as a business expands or how to reduce costs through modest investments that improve operational efficiency. In any case, cost reduction initiatives must not affect safe operation, which is the top priority in MOL ADVANCE.

## Unwavering Commitment to CSR and Corporate Governance

Q

### Would you describe your thoughts and policies regarding environmental conservation, CSR, and corporate governance?

CSR consists of various elements, but I believe its foundation is to faithfully contribute to society through our business activities—transporting the cargo entrusted to us by our customers in a reliable, safe, speedy manner, with minimum environmental impact. The MOL Group supports sustainable global economic growth through its world-leading transport services.

As I mentioned, safe operations are an absolute necessity. We are starting again from the ground up. And as a global marine transport company, we must aggressively implement initiatives for environmental conservation. Considering the critical issues of global warming and air pollution, we have developed and introduced an energy-saving propeller system, vessel designs that feature reduced wind/water resistance, and emission control systems. What's more, the MOL Group operates Japan's largest ferry and domestic coastal service network, positioning us to effectively promote a modal shift toward environmentally friendly solutions in transport and logistics.

Daily business activities are based on an acute awareness of and strict compliance with social norms and corporate ethics. Companies, as social institutions, must be operated and managed in a highly transparent manner. The MOL Group always attempts to study and establish the optimum corporate governance framework. Accordingly, we have made our commitment to the establishment of a governance structure that fulfills stakeholders' trust, one of the overall strategies of MOL ADVANCE.

## Maximizing Shareholder Value

Q

### Finally, how will MOL increase shareholder value?

When I became president three years ago, I put forth what I called the "triple 1" objective. This entailed maintaining revenues above the level of ¥1 trillion, which we had already reached; increasing net income to ¥100 billion; and thereby raising our market capitalization to ¥1 trillion. In the following year, fiscal 2005, I had the pleasure of reporting to shareholders that net income had surpassed ¥100 billion and market capitalization had reached ¥1 trillion.

My thoughts about increasing shareholder value as we start the MOL ADVANCE midterm management plan are included in the To Our Shareholders section of this report, so I will not repeat them here. Based on that approach, however, I have put forth the “triple 2, single 1” objective, which calls for achieving revenues of ¥2 trillion, ordinary income of ¥200 billion, and market capitalization of ¥2 trillion under MOL ADVANCE, and then subsequently to raise shareholders’ equity to ¥1 trillion as rapidly as possible. By continuing aggressive capital investment, we will increase revenues, and while maintaining investment efficiency and the net profit margin at high levels, we will raise ordinary income and EPS, and, in turn, market capitalization. As we have stated, we will continue to base dividends on a payout ratio of 20% while working to reinforce shareholders’ equity as rapidly as possible. In this way, in a constantly changing operating environment, we will build a foundation on which to pursue profits by taking appropriate risks and thereby ensure MOL’s sustained growth over the long-term.

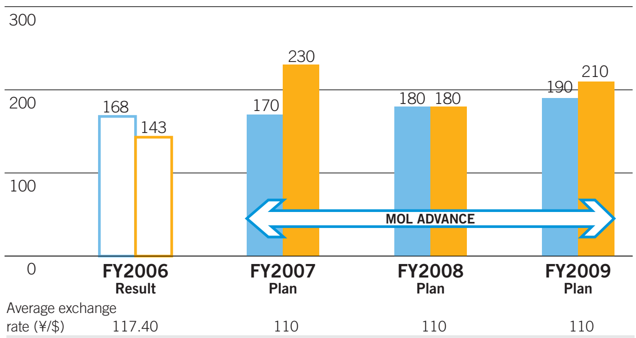
I will continue to emphasize transparent management and to take advantage of opportunities—such as results presentations and meetings with investors—to explain MOL’s strategy, direction, and actions. Through communication with shareholders and other stakeholders, I am confident that we can further increase the company’s enterprise value.

## Cash Flows and Capital Expenditures

(¥ billions)

Cash flows = Net income + Depreciation – Dividend

Cash Flows
Capital Expenditures

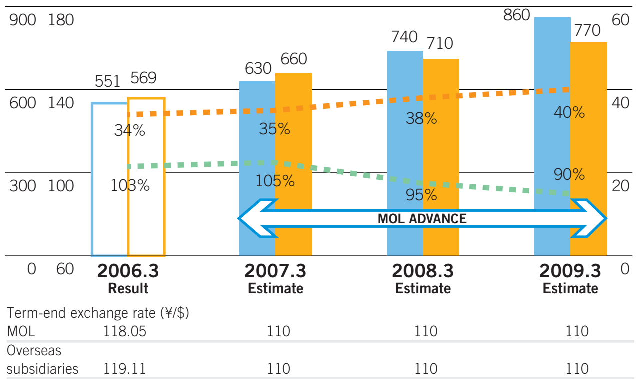



## Shareholders’ Equity, Interest-bearing Debt Shareholders’ Equity Ratio, Gearing Ratio

(¥ billions/%)

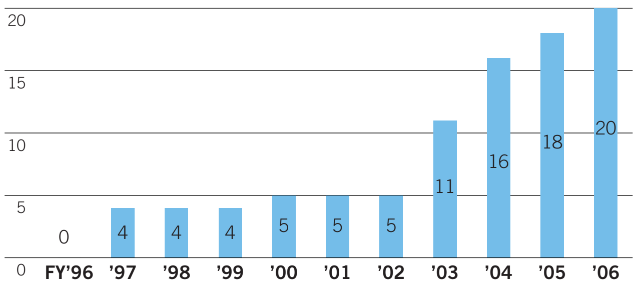
Gearing ratio = Interest-bearing debt/ Shareholders’ equity

Interest-bearing debt
Shareholders’ equity
Shareholders’ equity ratio (right scale, %)
Gearing ratio (left scale, %)



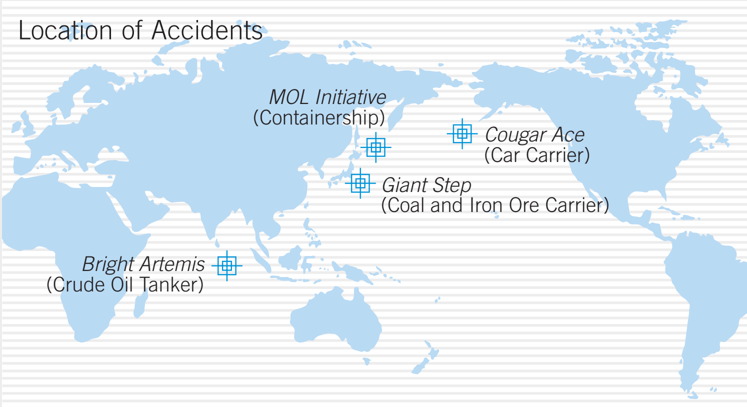

## Dividend per Share (non-consolidated)

(¥)



# Overview of Accidents and Measures to Reestablish Safety

## Overview of Accidents




In the past year, four MOL-operated vessels were involved in serious accidents. In April 2006, the containership *MOL Initiative* had a fire in its engine room offshore Nemuro, Hokkaido. In July, the car carrier *Cougar Ace* listed heavily in the Pacific. In September, the crude oil tanker *Bright Artemis*, which went to assist a ship in distress, was struck by that ship, resulting in a crude oil spill. In October, near Kashima Port in Ibaraki Prefecture, the coal and iron ore carrier *Giant Step* was moving offshore to avoid rough weather when it went aground and the vessel's hull cracked and broke. Eight crew members lost their lives and two are still missing.

These accidents caused tremendous distress to all related parties, and all of the directors and employees of the MOL Group have taken this situation to heart. We are committed to returning to the basics and doing our utmost to reinforce the safety of our operations in accordance with the conviction that safety is the foundation of our business.

In the Interview With the President section that starts on page 12, the president discusses the steps that MOL has taken to restructure its safe operation organization.

In the following interview, Captain Soichi Hiratsuka, the executive officer in charge of safe operation, describes the results of internal and external investigations and, based on those results, the safety measures that we are implementing, with a special emphasis on seafarers and reestablishing MOL seamanship.

## Accident Investigation and Countermeasures

### Q. Would you discuss the activities of the Emergency Committee for Enhancement of Operational Safety, which was formed after the accidents?

Following the accidents, President Ashida communicated a message of "returning to the basics" to everyone in the company, and the emergency committee was established with his direction.

The first approach was MOL's independent investigation. Committee members spoke directly with ship management companies, manning companies, and seafarers in conducting the investigation. In addition, a questionnaire was distributed to MOL vessels to verify the level of understanding of MOL's notifications and instructions related to safe operation.

The second approach was an investigation by overseas authority Det Norske Veritas (DNV). DNV held group discussion workshops in such cities as Tokyo, Singapore, London, and Manila—the hubs of MOL's ship management and manning operations.

As a result, we identified three problem areas:

1. The workload of seafarers has increased.
2. Fail-safe equipment and facilities that exceed international standards are required.
3. Measures must be taken to respond to today's abnormal climate.

With these problem areas as a focus, we began to implement the "measures to reinforce safe operation."

### Q. Please talk about measures for seafarers.

MOL has established seven overseas crew training centers. To increase the skills of our crew members, we will take additional steps

Soichi Hiratsuka
*Executive officer, Deputy Director-General of Safety Operations Headquarters*

to further enhance the education and training provided at these centers. In addition to requirements for seaman's certificates that meet international standards, we will extend the scope of our unique MOL RANKSTEP program, which institutes rigorous technical requirements for each level of officers on our vessels.

In the future, MOL will recruit about 400 to 500 graduates a year from maritime colleges around the world. The initial training of these cadets will be conducted on the *Spirit of MOL*, a training vessel. This is the world's first purpose-built training vessel owned directly by a shipping company. They will be trained on this vessel for the first four to six months of their one-year onboard training, and they will receive MOL's standard training in safety and conduct as seafarers. These new multinational recruits will support the company's growth in the years ahead, and by being trained together aboard the *Sprit of MOL* we want to cultivate a consciousness that they are all MOL seamen.

Crew Training Centers of MOL


For seafarers working on our ships for the first time, and for those with limited experience on the routes or vessel types to which they have been assigned, we will institute a policy of allocating multiple crew members to a single position. With the scale of our operations expanding, we will implement this redundant staffing for a round-trip voyage or a segment of a voyage in order to ensure a smooth transition from predecessors to successors and the mastery of necessary skills. This policy will include captains and chief engineers. In addition, we will add additional crew members to vessels as needed, such as maintenance workers.

## Q. Please discuss measures for fail-safe facilities and equipment that exceed international standards.

We have adopted various safety facilities and equipment that conform to international rules. From the viewpoint of fail-safe specifications, we have completely reviewed the MOL Safety Standards for safety facilities and equipment. We studied other companies' measures, actively introduced those that we think will be effective in maintaining and increasing safety, and adopted them as MOL's standard specifications. These standards will apply to vessels already in service as well as newly built vessels, and we plan to make an additional investment of about ¥13 billion over the next three years.

For example, based on the lessons learned when a ballast management problem caused a car carrier to list heavily, central ballast control systems will be made a part of standard specifications. Also, after investigating the bulker accident off Kashima, we have decided to add the hawser quick-release apparatus that is used on new vessels to ships that are already in service.

## Q. How will MOL respond to today's abnormal climate?

In recent years, we have seen dramatic changes in hydrographic, oceanographic, and atmospheric phenomena. To provide more-detailed information to vessels at sea and to facilitate close communication with the Head Office, in February 2007, we opened the Safety Operation Supporting Center in the Head Office building. The center also provides guidance for overall vessel operations. We have installed systems that enable the center to access the most up-to-date weather information and instantly provide that information to vessels, personnel in charge of ship operation, and agencies. Also, two officers are on duty around the clock to monitor the movement of vessels. The center provides necessary information and advice to support safe operation from onshore.

## Q. Please discuss MOL's approach to safe operation in the future.

Safe operation is a never-ending theme. We have established the permanent Safety Assurance Committee, which will confirm the progress and effectiveness of measures to reinforce safe operation and propose necessary corrective measures. We will also invite presidents of ship management companies to serve as committee members and provide front-line insights on vessel safety. In addition, we have communicated the "measures to reinforce safe operation" to ship management companies and manning companies, and we have implemented Safety Conference briefing sessions for seafarers on leave in Mumbai, Manila, and Zadar.

Finally, against a background of advances in telecommunications technologies, vessel operations have been upgraded to a very high level. However, seafarers aboard our vessels are ultimately responsible for making decisions and taking action in constantly changing conditions. Learning from the accidents that occurred in the past year, the on-site captains and chief engineers have responsibility for making precise judgments and taking decisive action, and the crew members are responsible for following regulations and orders and earnestly performing their duties. We need to develop a work environment that supports those types of accurate judgments and actions. It is by reestablishing MOL seamanship—with everyone on land and at sea working together—that we will maintain safe operations in the years ahead.

Details of Measures to Reinforce Safe Operation

| | Investment (including capital investment) Unit: ¥ billions | |
|---|---|---|
| | Three-year total | |
| Intangible Factors | **Organizational Restructuring** | ¥13.0 |
| | (Improvement of ship management structure, establishment of Safety Operation Supporting Center, etc.) | |
| | **Recruiting and Training Seafarers** | |
| Facilities and Equipment | **Previewing and Implementing Safety Standard Specifications** | ¥22.0 |
| | **Ensure Thoroughness of Ship Maintenance Policies, etc.** | |
| Total investment | | ¥35.0 |

MOL Group Midterm Management Plan (FY2007–2009)

# MOL ADVANCE

**M**itsui **O**.S.K. **L**ines' **A**ction and **D**irection at the **Van**guard of **C**reating **E**xcellence

## Long-Term Vision: To make the MOL Group an excellent and resilient organization

## Main Theme: "Growth with enhanced quality"

—Ensuring safe operation is the highest priority, while achieving sustainable growth and enhancing quality.

### Overall Strategies

#### Safety

**Strategy 1:**
Implement comprehensive measures to reinforce and ensure safe operation

**Comprehensive measures** to reinforce and ensure safe operation, backed by a **total investment of ¥35 bil.**
➔Zero accidents, world-leading transport quality
➔Gain customers' ongoing trust

#### Growth

**Strategy 2:**
Focus management resources heavily on growing fields in the ocean shipping industry

- Advance order of vessels: **196 for delivery from FY2007 to 2009**
  ➔Expansion of fleet: 803 in Mar. 2007 to **1,000 in Mar. 2010**
  = Ensure fleet expansion exceeding growth of seaborne trade
- Maintain/reinforce the strategically balanced business portfolio
  = Emphasize a balance between stable earnings and benefits of market conditions

Aiming for Quality in Growth ➔ Sustainable expansion of sales and profits

#### Global

**Strategy 3:**
Accelerate globalization and enhance sales capabilities in emerging markets

- Develop business on a global scale to meet growth and diversification of trade
- Expand businesses in emerging markets and take a proactive approach to potential business (India, Russia, Vietnam, Middle East, etc.)

#### Group

**Strategy 4:**
Enhance Group-wide strength and competitiveness

- Contribution of Group companies to consolidated ordinary income **(Target: ¥62 bil. in FY2009)**
- Restructure corporate organization and create synergy to promote further growth of Group companies
- **Creative efforts on cost reduction (Target for 3 years: ¥35 bil.)**
- Expand business scale in fields related to logistics and businesses associated with ocean shipping

#### Governance

**Strategy 5:** Establish a governance structure that fulfills stakeholders' trust that leads the world shipping industry

## Consolidated Financial Targets

(Assumption: Average Exchange Rate ¥110/US$, Average Bunker Price US$300/MT)

(¥ billions)

| | FY2006 (Results) | FY2007 (Plan) | FY2008 (Plan) | FY2009 (Plan) | FY2012 (Target) |
|---|---|---|---|---|---|
| Revenue | 1,568 | 1,640 | 1,880 | 2,060 | 2,500 |
| Ordinary Income | 182 | 190 | 205 | 220 | 260 |
| Net Income | 121 | 124 | 133 | 143 | 160 |
| Ordinary Income Margin | 12% | 12% | 11% | 11% | 10% |
| Shareholders' Equity | 551 | | | 860 | |
| Shareholders' Equity Ratio | 34% | | | 40% or more | |
| Gearing Ratio*1 | 1.03 times | | | 1 time or less | |
| ROA*2 | 7.8% | | | 7% or more | |

*1=Interest-bearing debt/Shareholders' equity
*2=Net Income/Average Total Assets at beginning and end of fiscal year

## Fleet Expansion Plan

(Number of Vessels)

| | Fleet scale at the end of Mar. 2007 (Actual) | Ships to join MOL Fleet (FY2007–2009) | Fleet scale at the end of Mar. 2010 (Plan) | Ships to join MOL Fleet (FY2010–2012) | Fleet scale at the end of Mar. 2013 (Target) |
|---|---|---|---|---|---|
| Bulkships | 650 | 172 | 800 | 200 | 950 |
| Containerships | 109 | 22 | 150 | 30 | 190 |
| Others | 44 | 2 | 50 | 6 | 60 |
| Total | 803 | 196 | 1,000 | 236 | 1,200 |

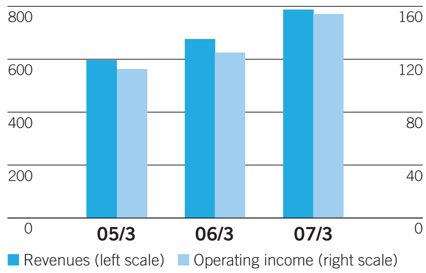
Note: Number of vessels at the end of fiscal years includes spot-chartered ships and those owned by joint ventures.

# MOL at a Glance

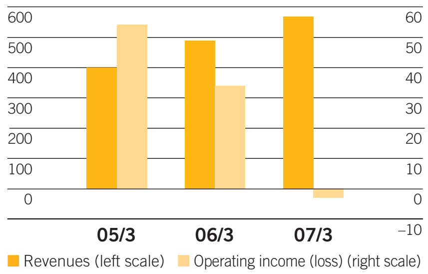
The following is a summary of MOL's business activities based on the business segments that were adopted beginning in the fiscal year that ended in March 2005.

Performance (¥ billions)

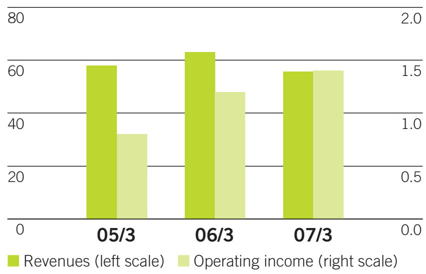
## Bulkships



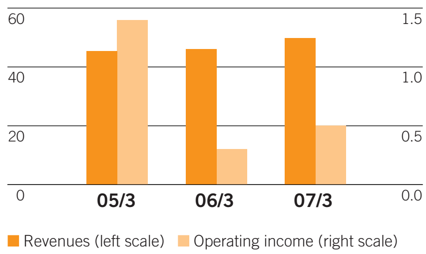

## Containerships



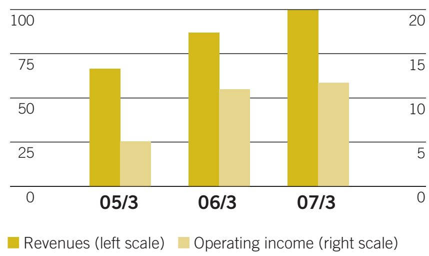

## Logistics



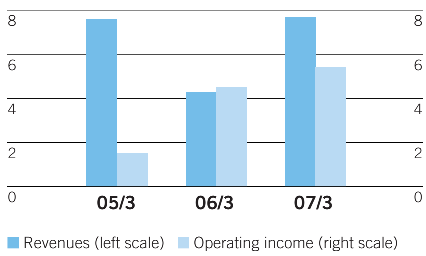

## Ferry & Domestic Transport




## Associated Businesses




## Others




Please see page 73 for sales and operating income figures.

## Business Description

With a fleet of 336 vessels, MOL is the world's largest operator of dry bulkers, which transport iron ore, coking and steaming coal, wood chips, grain, and other cargo. MOL is also a leader in energy transport markets. A total of 162 tankers carry crude oil, refined products, chemicals, and LPG, and MOL plays a central role in the LNG carrier market, participating in projects with a total of 58 vessels. In addition, operating a core fleet of 95 car carriers, MOL provides vehicle transport services of the highest quality and has earned a reputation for reliability. This segment, which maintains a balance between medium- to long-term contracts and short-term contracts, is playing a major role in MOL's earnings growth.

MOL has a fleet of 109 containerships and a well-balanced service network that links all of the world's major regions, including east-west routes as well as north-south and intra-Asia routes. With this global network, MOL can meet transportation needs anywhere in the world. In addition, MOL, APL, and Hyundai Merchant Marine make up The New World Alliance (TNWA), which covers 101 containerships. The combination of an extensive global network and a highly competitive cost structure has reinforced MOL's position as one of the world's leading containership operators. This segment also includes container terminal operations in Japan, the U.S., and Thailand.

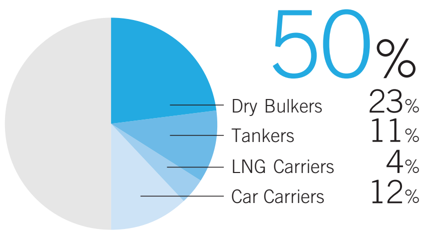
The primary goal of this segment is to maximize synergies with other MOL business segments. To that end, logistics operations use a "market-in" approach to offer services that precisely match the needs of customers. Backed by the MOL brand, the segment is recording steady growth. With core operations comprising strategic investments in China and the ocean consolidation business, the segment is providing optimal logistics solutions to meet customer needs for high-value-added services. An alliance with Kintetsu World Express, Inc., strengthens MOL's ability to be a one-stop source of sea and air freight services.

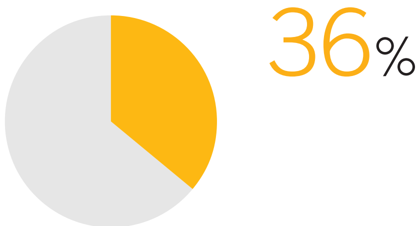
With an extensive domestic service network, this segment offers a variety of high-quality transportation services. In recent years, a solid earnings structure has been established through unified operating and sales activities among Group companies as well as through optimized scheduling. In addition, MOL services are attracting attention as a model for the Japanese government's modal shift policy, which is aimed at protecting the environment. As Japan's largest ferry operator, the MOL Group is positioned to reap significant benefits from anticipated growth in demand. This segment also includes domestic transport of bulk cargoes, such as coal, steel, and salt.

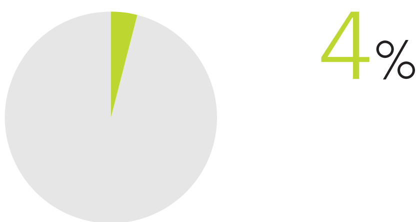
The main activities in this segment are the office and residential building leasing operations of Daibiru Corporation and one of the largest tugboat businesses in Japan. Other businesses include marine consulting, maritime engineering, trading, and temporary staffing. Almost all of the segment's activities are in fields related to ocean transport. The segment also operates a cruise ship business that includes the *Nippon Maru.*

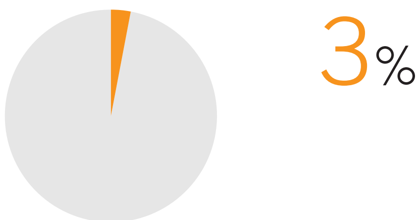
The activities of this segment include ship operations, chartering, ship management, and finance. Most of these activities involve the provision of administrative functions for the MOL Group.

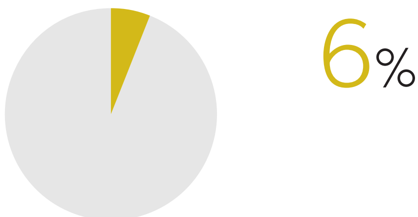
## Sales Breakdown by Segments

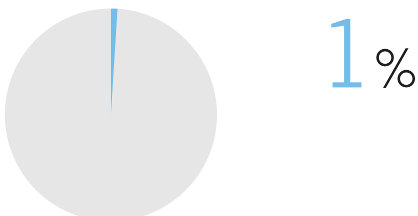


# Overview of Operations
# —Progress in MOL STEP and Strategies of MOL ADVANCE

## Bulkships *Dry Bulkers*

Saburo Koide
*Executive Vice President*

### Substantial Contribution to Earnings under MOL STEP

In the fiscal year ended March 2004, which was the first year of MOL STEP, the bulkships segment* recorded ordinary income of ¥61.6 billion, and by the final year of the plan, ended March 2007, the segment's ordinary income had risen to ¥163.5 billion. Dry bulker operations contributed a substantial portion of that increase—which exceeded ¥100.0 billion. The dry bulker division also registered strong growth in revenues, which increased more than 1.7-fold over the three years covered by MOL STEP.

* The bulkships segment has four divisions: dry bulkers, tankers, LNG carriers, and car carriers.

As is well known, a key factor behind this performance was strong demand for iron ore in China. With infrastructure projects actively under way throughout the country, China's crude steel production has increased, and, as a result, imports of iron ore have soared, rising from 146 million tons in 2003 to 326 million tons in 2006. At 60 million tons, the average annual increase in imports over this period was enough to require 50 to 60 new Capesize bulkers each year.

Nonetheless, those benefits of meeting that demand were only available to those who moved aggressively. Initially, many considered the increase in demand to be nothing more than a temporary spike. And in fact, market conditions did undergo fluctuations. However, looking back over the past three years, market conditions never returned to their pre-2003 levels, and recent trends in the futures market indicate a strong consensus that market conditions will remain stable at a high level at least through 2010.

MOL was the first company to anticipate the strong growth in demand for the raw materials used in steel production, and by December 2003, we had ordered 30 Capesize bulkers to be delivered from 2004 to the first half of 2007. Shortly thereafter, demand began to grow at a pace exceeding expectations, and with vessels incurring demurrage, a temporary capacity shortage developed. We moved aggressively to meet customer demand, taking steps to procure about 20 vessels on medium-term contracts of three to five years. As a result, with a series of newbuilds joining our fleet, we were able to conclude new medium-to-long-term contracts with customers in Japan, China, Europe and other markets while operating highly cost-competitive vessels on the spot market in areas with strong demand. In this way, we were able to take full advantage of the favorable market conditions.

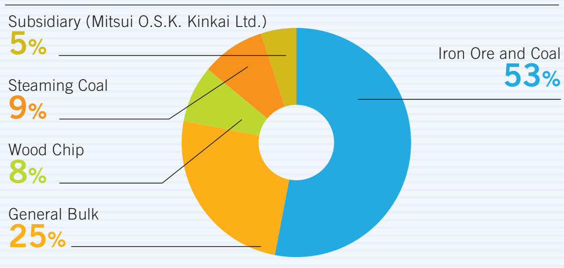
By expanding our fleet of iron ore and coking coal carriers from about 110 vessels at the end of March 2004 to about 130 at the end of March 2007, we have further increased the flexibility of our fleet of these vessels, which is the largest in the world. Currently, about 40% of our iron ore and coking coal carriers operate on long-term contracts, 30% on medium-term contracts, and 30% on spot rates. This balanced portfolio enables us to control the influence of short-term market fluctuations and generate a high level of stable earnings year after year.

The coal and iron ore carrier
*Baosteel Elevation*

In general cargo bulker operations, we carry a wide range of cargo in Panamax and Handy vessels. This field has also recently seen notable growth in demand and strong, stable market conditions. Over the course of MOL STEP, we worked to procure newly built box-shaped Handy bulkers designed for transporting steel products. Consequently, we were able to create highly profitable around-the-world routes that follow shipments of steel products from Asia and then Europe with shipments of copper ore and other products from South America to Asia. This is, however, simply one of many vessel allocation patterns.

In the fiscal year ended March 2007, market conditions declined at one point, and we took that opportunity to use vessels on medium-term charters to meet rising demand

Consolidated Revenues Breakdown (Results in FY2006)



Masafumi Yasuoka
*Managing Executive Officer*

in other areas, such as coal for China, which has become a coal-importing country, and cement for the U.S. These initiatives made a contribution to the higher earnings in the dry bulker division.

MOL equity method affiliate Gearbulk Holding Ltd. has the world's largest fleet of open-hatch gantry-craned bulkers, which are used for transporting such cargo as pulp and aluminum ingots. Gearbulk Holding has recorded higher profits accompanying growth of long-distance transport, such as shipments of pulp from Chile to China. In dedicated bulkers, which carry steaming coal and wood chips, we have expanded our fleet and generated stable earnings through long-term contracts. At the same time, we have placed orders for additional vessels to meet future demand.

## Ready for Further Growth under MOL ADVANCE

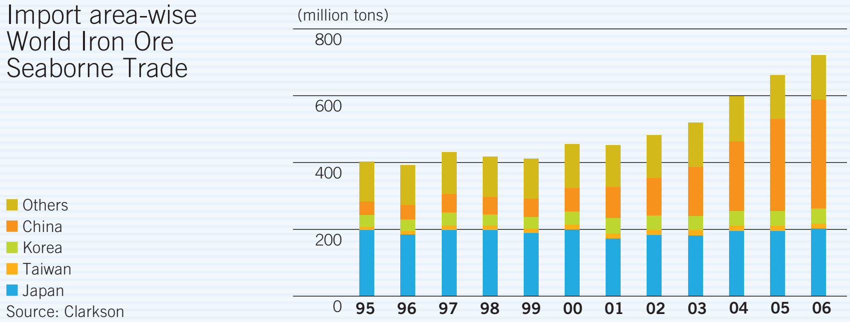
Coinciding with the release of MOL ADVANCE, we also announced plans to expand our fleet of iron ore and coking coal carriers and other bulkers. We will increase the number of iron ore and coking coal carriers from the current level of 130 vessels to 150 by March 2010, and by March 2012 the fleet will have reached 160 to 170 ships. We will expand our fleet of other bulkers from the current level of 80 vessels to 100 by March 2010. As shown in the accompanying table, the distinctive features of our fleet include not only its scale but also the range of bulker types that it includes.

Our fleet expansion plans are based on thorough market research. We look carefully at such factors as where cargo will originate and where it will be carried, what types of ships will be needed to carry it, and what types of vessels will be in short supply. Because the expansion of our fleet is based on this type of thorough research, we have the ability to provide large numbers of various types of ships. Along with safe operation, that ability is the aspect of service quality for which customers have the greatest need, and under MOL ADVANCE it will be the key focus of our efforts to achieve growth with enhanced quality.

The dry bulker division is carefully tracking three key trends. First, newly industrializing economies continue to record strong growth. In 2007, there are no signs of a slowdown in China's imports of iron ore, while India has begun to cut back on exports of iron ore on account of its own economic growth. As a result, there is growing reliance on shipments from distant markets, such as Brazil. Also, the increase in shipments is not limited to steel-related products. As was the case with Japan in its period of rapid economic growth, a developing country typically records growth in demand for iron ore and coal, followed by foodstuffs and feed, and then by minor bulk cargoes, such as nonferrous metals and construction materials. One example of that pattern is the rapid growth in the long-distance shipment of soybeans from Brazil to China. In addition to the BRICs, the so-called Next 11, including Vietnam and Turkey, will also have an influence on global ocean shipping.

The second key trend is the influence of domestic shipping. Currently, international shipments of dry bulk cargoes total about 2.7 billion tons a year, but according to MOL research, domestic shipments in China alone total about 300 million tons a year, and that amount is expected to reach 1.0 billion tons a year by 2012. A similar trend can be seen in India and Russia. In newly industrializing

Import area-wise World Iron Ore Seaborne Trade

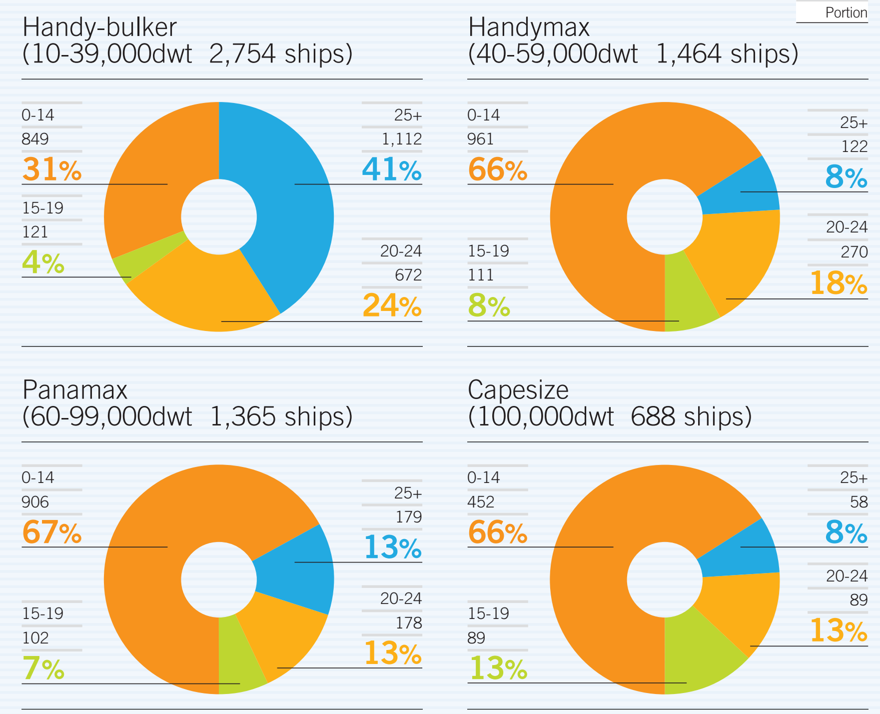



Source: Clarkson

The coal carrier
*Hanabusa*

The handy bulker
*Pacific Elfin*

## Dry Bulkers Age Profile (As of March 2007)



Source: Clarkson

countries with domestic markets extending over vast geographic areas, demand for domestic shipping has the potential to tighten the demand-supply balance for dry bulker operations in the years ahead.

The third key trend is restrictions on the use of ships. Since April 2006, Australian mining companies have refused to use ships more than 25 years old, and this factor has contributed to the ongoing tight market conditions. This trend has spread to other countries, with China setting an upper limit of 33 years. Within five years, about 150 Capesize bulkers, or more than 21% of the worldwide fleet, will be more than 25 years old. In addition, of about 2,750 Handy bulkers currently in operation, more than 1,100 are more than 25 years old. This is one reason why MOL believes that the tight demand-supply situation will not be significantly alleviated and that there will likely be a shortage of capacity, especially for Handy bulkers, even if the construction of dry bulkers increases.

On the other hand, high ship prices are often mentioned as a risk factor. Capesize bulkers, which cost about $35 million for orders placed in 2001, would cost about $80 million if ordered today for delivery in 2012. However, customers want shipping companies that can meet high levels of demand, and they are prepared to pay reasonable prices for vessel types that enable efficient transport. We have already signed long-term contracts for half of the 44 iron ore and coking coal carriers that we will introduce from April 2007 to the first half of 2012, and we expect that figure to eventually increase to 60%. General cargo bulkers are typically operated on the spot market. For this category, we charter vessels on contracts of about five years with options to extend, and sometimes with the condition that charter fees decrease in later years. In this way, we stabilize profits in preparation for market rate fluctuations.

By implementing these types of aggressive yet carefully thought-out measures, MOL's dry bulker operations will be able to make a substantial contribution to higher revenues and profits in the bulkships segment in the current fiscal year, ending March 2008, and to continue to generate a high level of profits in subsequent years, even if market conditions weaken to some extent.


The woodchip carrier
*Chuetsu Spirit*

## Fleet Expansion Plan Iron Ore and Coking Coal Carriers/ General Bulk Carriers

Launching period: April 2007 to early 2012

| | | Type (1,000 dwt) | No. of vessels | Uses/special features |
|---|---|---|---|---|
| Iron ore and coking coal carriers | Capesize | 300 | 5 | Ore carriers for use on long-term contracts. Efficient transport over long distances. |
| | | 230 | 6 | |
| | | 200 | 6 | Large-scale Capesize bulker for long-term contract. |
| | | 170 | 15 | Standard Capesize vessels. Strong demand for spot market operation. |
| | | 110 | 8 | Vessels operated on long-term contracts. Meet specifications of destination ports |
| | | 80 | 4 | Standard Over-Panamax vessels. COA and spot market demand. |
| | | Total | 44 | |
| General bulk carriers | Panamax | 78-82 | 5 | Transport of grain, etc. |
| | *The following vessel types have cranes. They can be used in ports without unloading facilities.* | | | |
| | Handy max | 52-58 | 23 | Transport of a wide range of cargo, such as coal, salt, cement, and grain |
| | | 50 | 12 | Box-shaped vessels. Excellent design for transport of steel products. |
| | Small handy | 32-37 | 15 | Box-shaped vessels. Transport of steel products, cement, grain, ore, etc. |
| | | 24-35 | 5 | Transport of cement, grain, ore, etc. |
| | Total | | 60 | |

Masashi Seki
*Managing Executive Officer*

## Well-Timed Fleet Expansion Supports Strong Profit Growth Under MOL STEP

We made strong progress over the course of the MOL STEP plan, with the cumulative total of our recurring profit over the past three years exceeding the plan's original target level by more than 100%. This performance is the result of an early lead MOL took in making aggressive investments in tankers since 2002, which we were able to use to meet soaring demand. Today, MOL has one of the largest and most diversified tanker fleets in the world.

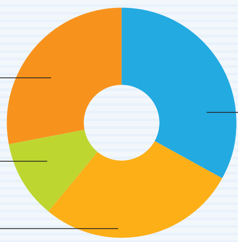
During the three years covered by MOL STEP, we added 53 vessels to our fleet, including 22 product tankers that we use to take advantage of growing demand in the spot market. We also added vessels operated under long-term contracts, namely 11 crude oil tankers, 3 methanol carriers, and an LPG carrier. As a result, we achieved the portfolio composition outlined in MOL STEP, realizing a fifty-fifty balance between long-term, stable earnings and attractive profit opportunities on the short-term market. Subsidiary Tokyo Marine, which added 16 new ships to its fleet of chemical tankers, was another source of earnings growth. These vessels, which require advanced operational technology and a high level of expertise, are a sector in which the MOL Group maintains a strong competitive advantage.

In the fiscal year ended March 2007, MOL continued to enhance its tanker fleet. We took delivery of 19 vessels, including 8 product tankers, all of which were ordered at favorable prices, and 3 new VLCC tankers. As of March 31, 2007, 91% of our tankers featured double-hull construction.

In the second half of the past fiscal year, market conditions turned sluggish due to warm winter weather. For the full year, the average market rates for crude oil and refined petroleum product tankers were down year on year. As a result, our profits in the fiscal year ended March 2007 were down slightly from the previous fiscal year. However, our profits in the past year were nearly double the level recorded in the fiscal year prior to the start of MOL STEP, despite the fact that VLCC worldscale rates were about the same. This result demonstrates the success of the fleet expansion and diversification initiatives that we implemented over the course of MOL STEP.

VLCC
*Kasagisan*

### Consolidated Revenues Breakdown (Results in FY2006)




## Targeting Sustained Growth under MOL ADVANCE

To achieve growth with enhanced quality, we will begin the three years of MOL ADVANCE by further bolstering our measures for safe operation. We recognize that to obtain orders, we need to maintain a position of leadership in ship management and to meet the specific needs of each individual customer. In addition, we plan to replace single-hull ships with new vessels and complete the transition to double-hull tankers in advance of the 2010 deadline that has been determined by international agreement. This accelerated transition will have a temporary adverse effect on our profits, but we believe it is an indispensable step in building a foundation for further growth.

On this foundation, we will continue to bolster our fleet, increasing both its scope and its size. We plan to add 60 vessels over the course of MOL ADVANCE, for a total of 200 tankers by March 2010. In the VLCC category, the customer preference for double-hull vessels has strengthened, and due to the retirement of single-hull vessels, supply should remain tight and market conditions will likely be strong. With 8 newly built vessels that we will operate on long-term contracts, our VLCC operations will continue to provide stable earnings. Also, with refineries coming on-line in Middle Eastern oil-producing countries, we anticipate higher demand for the long-distance transport of refined products and chemicals from these markets. Accordingly, we will build 21 new product tankers and 19 chemical tankers. Moreover, 7 new VLGCs will be used to meet new demand for LPG transport, as described in the feature section (page 34–35) of this annual report. These will be the first VLGCs that MOL operates on the spot market.

With the stronger fleet that will result from these measures, the tanker division will be able to contribute to MOL's earnings growth, and, by the conclusion of MOL ADVANCE, we expect the division's profits to substantially exceed the level achieved under MOL STEP.

*Yoichi Aoki*
*Senior Managing Executive Officer*

MOL is a pioneer in LNG transport, and one of our key competitive advantages is the number of vessels in our fleet that will be completing 20 to 25 year contracts in the years ahead. LNG carriers can be used for up to 40 years if they are properly maintained, and a specialized survey by a ship classification society, known as the condition assessment program (CAP), has recently been developed. We can have the clients continue to use the vessels that have completed the long-term contracts, and we can also use them in combination with new vessels to serve new projects. In this way, we can provide the clients with the solution to alleviate the burden of initial investments. Also, the spot market is expected to take on a growing role, reaching about 20% of the total market and recording solid growth in fiscal 2010 and thereafter.

In the bidding process used for new contracts, there has been a renewed emphasis on not just price but also quality of service, especially in ship management. LNG markets are characterized by ongoing technological progress, such as the onboard regasification of LNG in the open ocean. As we take steps to meet the growing demand for LNG in the years ahead, we will strive to secure growth with enhanced quality by offering value-added service based on an unyielding commitment to safety.

## Steady Expansion Under MOL STEP

Since MOL commenced operation of its first LNG tanker in 1983, the company has steadily expanded its LNG business. Today, MOL has the largest LNG transport business in the world.

The LNG transport business is based to a large extent on long-term contracts, and as a result we enjoy a high degree of certainty in our medium-term planning. Under MOL STEP, we achieved our objectives and fulfilled our key role in MOL's strategy for achieving stable growth. MOL has an interest in 17 of the 70 LNG carriers that have been launched worldwide since April 2004, and we had a fleet of 58 vessels in operation at the end of March 2007. Profits were up year on year.

Over the three years of MOL STEP, we signed contracts for 11 projects and 23 vessels. In both 2004 and 2005, orders were placed for 50 to 60 LNG carriers worldwide. A substantial portion of those were speculative orders placed by new market entrants, and as a result competition to secure contracts intensified. In 2006, speculative orders decreased, and the total number of vessels ordered declined to about 30.

During the past fiscal year, we concluded an agreement for the project that will employ a revolutionary new technology. In March 2007, MOL and Hoegh LNG confirmed the signing of long-term contracts with SUEZ LNG Trading for two shuttle & regasification vessels (SRVs) that will be specially designed to deliver LNG to a terminal located offshore Boston, in the U.S. state of Massachusetts.

## Maintaining Our Leading Position under MOL ADVANCE

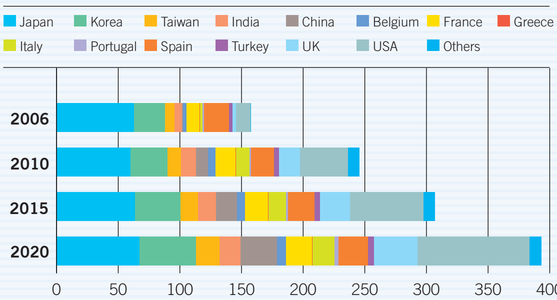
The global LNG market holds substantial potential for MOL. Demand is expected to grow further, with global LNG consumption rising to 250 million tons by 2010 and 400 million tons by 2020.

With the world's largest LNG carrier fleet and a proven record for safety, reliability, and efficiency, MOL stands ready to meet rising demand for marine transport of LNG. Over the course of MOL ADVANCE, we will expand our fleet from 58 LNG carriers to 80, maintaining our share of about one quarter of the worldwide fleet, which is expected to total 350 vessels.

Overall, we anticipate growth in shipments to North America and Europe via the Atlantic Ocean and Mediterranean Sea. In North America, LNG's advantages will drive growth in its market share, and we foresee strong demand. In the Pacific, Australia and Sakhalin will be key points of origin for shipments to the west coast of North America, and Asia will maintain its position as a major destination.

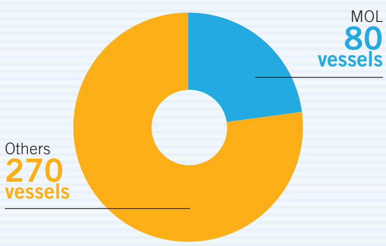
LNG carrier
*IBRI LNG*

### LNG Demand Forecast
(million tons)




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

### MOL LNG Fleet "One-quarter (1/4) of the World LNG fleet"




World LNG fleet as of April 2007; 350 vessels including the newbuildings to be delivered through early 2010.

Toshitaka Shishido
*Managing Executive Officer*

## Solid Growth in Cargo Volumes Under MOL STEP

MOL is one of the world's premier operators of car carriers. In the three-year period covered by the MOL STEP plan, we continued to make steady gains in car carrier operations. Shipments from Asian markets, principally Japan and South Korea, recorded especially strong growth. Over the past three years, exports from Japan and South Korea rose 34%, while the number of vehicles carried by MOL increased 38%. In 2006, global exports totaled 12 million completed vehicles, of which exports from Japan and South Korea accounted for 70%. Shipments from emerging automobile production regions, such as Latin America and South Africa, were also strong.

The car carrier
*Liberty Ace*

A key factor behind the higher shipment volumes was substantial growth in exports of fuel-efficient Japanese cars in an environment characterized by rising gasoline prices. In addition, Middle Eastern countries, where economies were buoyed by higher oil prices, were a source of growing demand for cars.

In a market characterized by an ongoing shortage of shipping capacity, MOL continued to bolster its fleet. We introduced 13 high-capacity car carriers over the past three years, including 3 in the past fiscal year.

Our continued focus on improving quality and efficiency—and our commitment to providing service that is reliable as well as rapid and smooth—paid off with steady gains in performance. In addition to services that all customers require—such as the provision of shipping capacity to meet demand and preventing any damage to cargo—we also offer distinctive value-added services, such as so-called "hot delivery," which leverages our ability to provide detailed information about where vehicles are loaded on a car carrier. Over the course of MOL STEP, the company's car carrier operations recorded steady increases in cargo volumes and sales.

## Positioned to Achieve MOL ADVANCE Targets

To achieve growth with enhanced quality in terms of safety and added value, we will take steps under MOL ADVANCE to further improve our service so as to secure the ongoing support of customers.

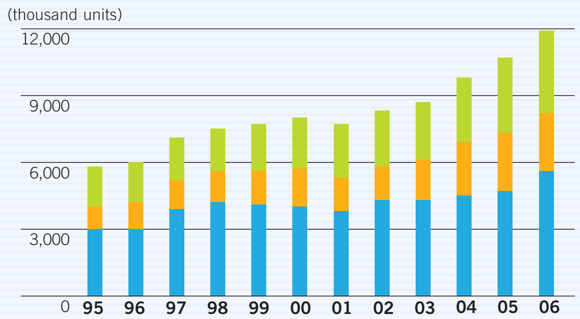
The cost of manufacturing cars in industrialized countries will continue to increase, while the cost of ocean shipping for cars will remain low in comparison. As a result, we anticipate growing demand for car carrier services on routes extending outward from cost-competitive production hubs, which will include such countries as South America, South Africa, Thailand, and India.

Exports from China are also likely to surge. In 2005, MOL handled the first export shipment of cars produced in China by a Japanese automaker. In addition, the market for domestic car transport is expanding, and through joint ventures with local companies, MOL is already handling car shipments on domestic coastal routes. With this strong, comprehensive market presence, MOL is well positioned to meet growth in demand for exports from China.

The Car carrier
*Bravery Ace*

We expect global shipping volumes to remain strong and the shortage of capacity to continue. We therefore plan to add 25 car carriers during MOL ADVANCE, including high-capacity ships that can accommodate 6,400 vehicles. Our large fleet enables us to provide the flexibility and reliability that automakers demand, and our commitment to environmentally friendly shipping operations is an added advantage in securing business. Overall, throughout the course of MOL ADVANCE we will focus on continually enhancing quality and customer service on a foundation of safety in both ship operations and cargo handling.

World Car Carrier Trade



Special Feature in Overview of Operations

# MOL's Tanker Operations—Leading the Way Toward Growth with Enhanced Quality

Under MOL ADVANCE, we use four key words to summarize our approach to achieving growth with enhanced quality—*Safety, Growth, Global, and Group*. In this section, we will use the Tanker Division as an example of those key words in action.

## Safety—Reinforce and Ensure Safe Operation

The international oil majors apply their own standards for the approval of vessels and operators in a process known as vetting. Captain Naoki Kamono, of MOL Tankship Management Ltd., described the background. "Tankers carry liquid cargo, so spills pollute the marine environment. And at the discharge port, the ship's power is used to transfer the cargo to the onshore storage tanks. That means that safe transport and delivery demand meticulous ship management capabilities and seafarers with advanced skills, both at levels that satisfy the requirements of the consignee. The ship inspection checklist from the OCIMF[1] includes 800 items. And in 2004, the international oil majors introduced a scheme known as TMSA[2] and clarified their policy of only signing long-term contracts with highly rated companies. Under this scheme, ship management companies answer questions regarding 250 items. This process shines a spotlight on the level of their ship management knowledge and the extent to which they have translated that knowledge into action."

Inspection of the crude oil tanker *Pacific Alliance*

In April 2006, MOL established MOL Tankship Management to centralize the management of tanker operations and facilitate close communication with the Tanker Division. Under the new ship management structure, policies are directly formulated and implemented with head office authority. The Tanker Division took the initiative in implementing this type of management system to further enhance its ability to meet the high standards of the oil companies. Four months later, the VLCC *Bright Artemis* was involved in an accident. MOL has responded to the accidents that occurred in the past year by further tightening its safety standard specifications on a companywide basis. These specifications incorporate every conceivable standard for the safe operation of tankers, and through the implementation of these standards, our tanker operations will be clearly differentiated from those of our competitors.

Through these types of safety policies and initiatives, we will gain a strong competitive advantage and reinforce our position as a first-rate company that can meet the needs of the world's oil companies.

1. Oil Companies International Marine Forum
2. Tanker Management and Self-Assessment

## Growth—Identify Growth Fields and Build the Optimal Portfolio to Serve Them

Currently, product tankers are playing the lead role in supporting growth in MOL's Tanker Division. In 2002, we decided to make a major increase in our fleet, which has grown from its previous size of about 15 vessels to its current scale of 43. We plan to have 70 tankers in operation by 2011.

The factors behind the decision to expand our product tanker fleet extend back to the end of the cold war. As borders began to fall, the division of labor extended across the world and the production of a growing range of goods was shifted accordingly. MOL anticipated the emergence of a similar trend in the markets for petroleum and petroleum products, with production facilities situated in the optimal locations, from which the products would be transported to their destination markets. Moreover, in the case of petroleum products, the optimal production site—as measured by cost—changes frequently, and for that reason, we also anticipated demand for the two-way transport of cargo. We believed that if global oil consumption expanded at a rate of 2% a year, then the ocean transport of oil would record growth of 3%, and the ocean transport of petroleum products would grow at an even higher rate. And with environmental considerations taking on a growing prominence—there have been no new refineries built in the United States since 1976—we anticipated ongoing growth in U.S. imports of petroleum products.

Kazunori Nakai *General Manager, Tanker Division*

However, product tankers are operated almost exclusively on the spot market, while MOL emphasizes sustained growth. Nonetheless, we took several major steps to expand our fleet of product tankers. The reason was explained by Kazunori Nakai, the current head of the Tanker Division and a person who played a key role in the growth of MOL's product tanker business. "As we accumulated marketing and operational experience with product tankers, we discovered ways to generate higher revenues than other companies and to stabilize profits, even in the spot market. By expanding our fleet and extending our operations around the world, we can utilize those techniques even more effectively."

In addition to these market-sensitive operations, the Tanker Division also generates stable earnings through the transport of crude oil, principally with VLCCs. By offering complete services, including high-level ship

See next page for continuation of overview of operations

management, we have built strong, long-term relationships with oil companies not only in Japan but also in many other countries around the world. By 2009, we plan to raise the VLCC long-term contract percentage from the current level of 80% to more than 90%, thereby further strengthening the base of stable earnings in our tanker operations. Moreover, methanol carriers, which are operated exclusively on long-term contracts, provide another source of stable earnings. MOL was the first company to identify the demand for these specialized vessels, and we currently have a 50% share of the market.

In October 2006, MOL made an investment in a new growth field. We placed orders for VLGCs, with capacities of around 80,000 cubic meters, to transport LPG. We have decided to expand the number of VLGCs that we operate on the spot market to 10 by 2009.

Methanol and LPG Tanker Group Leader Masahiko Okubo, who took the lead in driving this project forward, said “currently, the scale of the LPG market is about 50 million tons, but in the future, as new LNG projects in Qatar and other countries come onstream, they will also produce LPG, which is an associated gas, in quantities of at least 16 million tons. As the scope of exporters diversifies beyond Saudi Arabia to include other countries, the price will decline and demand will increase. At the same time, the structure of the market will likely shift from a reliance on transport on medium-to-long-term contracts to an emphasis on the spot market.”

In this way, MOL accurately forecasts trends, identifies growth fields, and then carefully assesses total risk, emphasizing a balance on stable earnings and market-sensitive profits as it expands its fleet. That is our strategy for achieving growth with enhanced quality.

## Global—
### Accelerate Globalization and Enhance Capabilities in Emerging Markets

The Tanker Division has actively developed its operations in global markets for many years. We began to operate VLCCs to the United States at an early stage. In product tanker operations, it is the broad scope of our network, which extends around the world, that supports our high earnings capacity.

In newly industrializing economies, China-related business will continue to play an important role in our operations. For example, MOL was the first foreign company to conclude a middle term time charter contract in China. Also, together with a major Chinese shipping company, we have established a joint venture VLCC operating company, which has three vessels in operation. Moreover, through another joint venture, MOL subsidiary Tokyo Marine is playing a role in meeting the growing demand for coastal transport of chemical products in China.

London team for product tanker operation

In Latin America, Brazil has especially strong potential for both import and export trade, and as the first Japanese vessel operator to conclude long-term VLCC contracts with Brazilian oil company Petrobras, MOL is well positioned to meet that demand.

Together with Oman Shipping Company S.A.O.C, with which MOL has cultivated an especially close relationship through LNG transport operations, we have established joint venture companies that own LR1 and LR2 product tankers, a VLCC, and a VLGC.

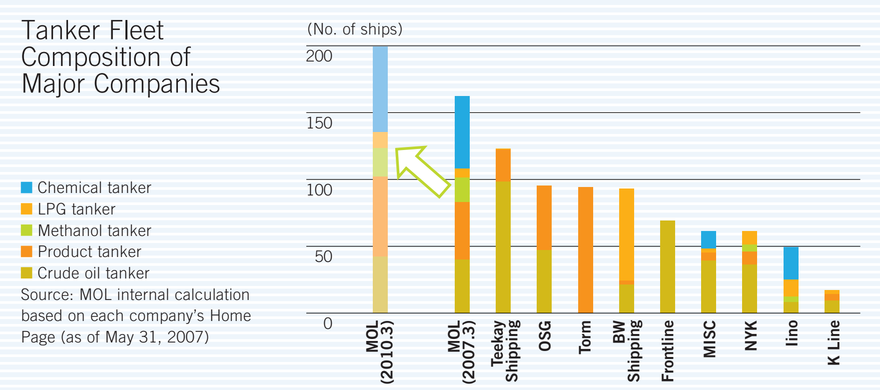
In April 2006, we opened the MOL Middle East Headquarters. The headquarters’ first senior representative, Yoshinori Shimizu, discussed the presence of the MOL Group in the region. “As Middle Eastern nations launch a range of projects, they are becoming not only producers of oil but also points of origin for a variety of other products carried by tankers. The commencement of a single project will result in the shipment of a variety of cargo, including crude oil, petroleum products, chemical products, LNG, and LPG, all of which MOL can transport. Among energy shipping companies, MOL has staked out the best market position in the Middle East.”

Yoshinori Shimizu (left), Senior Representative of MOL Middle East Headquarters in Dubai, U.A.E.

## Group—
### Growth Driven by Groupwide Strengths

MOL owns 87% of consolidated subsidiary Tokyo Marine Co., Ltd, which is responsible for the MOL Group’s chemical tanker operations. Chemical tankers handle about 300 kinds of chemical products, and, like liners, they carry more than one type of cargo at a time. As a result, the operation of chemical tankers requires an advanced level of specialized know-how. In entering this field, MOL chose to acquire Tokyo Marine—one of the world’s big four chemical carrier operators—in 1996. With support from MOL, Tokyo Marine has aggressively expanded its fleet and increased its earnings as the shift of production to the most competitive locations has spurred growth in the transport of chemical products. We anticipate that Tokyo Marine will make an even stronger contribution to MOL’s consolidated results in the future.

Growth driven by the expertise of Group companies—this is also a key part of MOL’s strategy for achieving growth with enhanced quality.



## Containerships

Masakazu Yakushiji
*Executive Vice President*

### Proactively Dealing with Market Trends Under MOL STEP

Under MOL STEP, our original profit objective in containership operations was a three-year cumulative total of ¥50.0 billion in ordinary income. We got off to an excellent start, and we reached that goal in the first year of the plan. Accordingly, we established new MOL STEP Review objectives in 2005. Subsequently, however, our profits were adversely affected by lower freight rates on European routes and higher crude oil prices.

Freight rates on European routes declined by about 20% in the second half of the fiscal year ended March 2006, due principally to the effects of industry mergers and acquisitions. This trend also led to lower rates on North American routes. Moreover, with the price of crude oil spiraling upward, bunker prices and the cost of inland transport in the United States reached unprecedented levels. These conditions underscored the difficulty of consistently achieving a high level of profits in the containership business.

Nonetheless, the cumulative total of ordinary income generated under MOL STEP— ¥96.2 billion—substantially exceeded the plan's original objectives. In addition, the ordinary income margin, at about 7%, marked an important step forward.

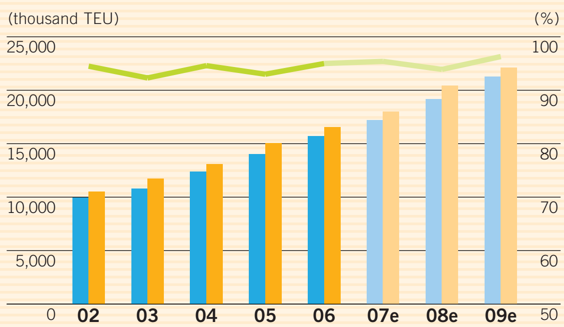
It is important to note that in the past fiscal year, the market conditions were so difficult that nearly half of the world's containership operators suffered losses. Despite these challenging conditions, however, we recorded an ordinary income of ¥3.2 billion, an indication of the underlying strength and flexibility of our containership operations. Moreover, as we expected, market conditions bottomed out and turned upward before our containership operations began to record losses overall. This performance is a result of the measures that we have implemented since the 1990s to boost our cost competitiveness. One of the keys to profitability in this market is container inventory control, in which MOL boasts distinctive expertise. When setting freight rates, we can effectively use yield management techniques to make detailed estimates, helping us to maintain our profitability and competitiveness.

As we anticipated, the market environment was characterized by continued growth in global shipments. There had been concern about the so-called "2006 issue," where the launch of many large vessels—8,000TEU and larger—would lead to excess capacity on European routes in 2006. In the end, however, this problem did not materialize; the supply-demand balance was exceptionally tight, and containerships were operating at full capacity on European routes throughout 2006.

The containership
*MOL Express*

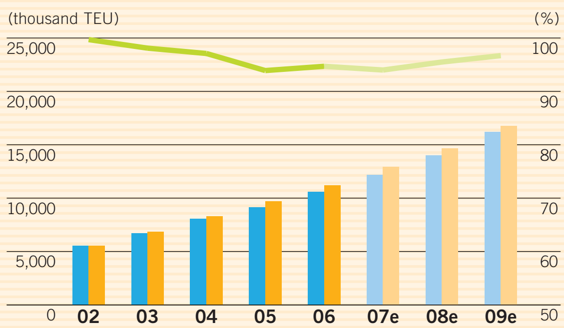
Demand was supported by the shift of production to China, India, and other Asian markets as well as by the strong economic growth recorded in former Eastern Bloc countries. Also, a "cascade down" effect resulted in many vessels being reallocated to North American routes and to routes where demand was strong, including shipments to South America, the

**Asia-North America Container Trade: Supply-Demand Forecast [Eastbound]**




Source: MOL estimate

**Asia-Europe Container Trade: Supply-Demand Forecast [Westbound]**




Source: MOL estimate

Middle East and local routes in Asia. As a result, capacity did not increase as much as some forecasters had anticipated.

Over the past three years, we have aggressively developed new routes, reinforcing our service structure to meet needs stemming from the globalization of our customers and taking steps to diversify risk. In this way, we have established a position as a leading global containership operator.

In 2005, for example, we acquired rights to certain Europe-South Africa routes. We have worked aggressively to expand other north-south routes as well. In addition, intra-Asia routes, centered on Vietnam, have also been a focus of our efforts. As a result, the number of loops in intra-Asia/Oceania services has nearly doubled, from 19 three years ago to 36.

## Positioned for Solid Gains under MOL ADVANCE

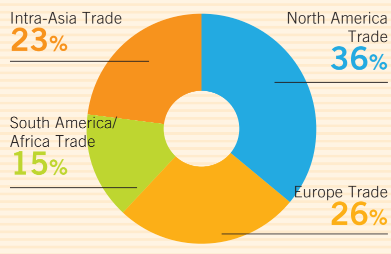
Under MOL ADVANCE, we will strive to steadily improve our earnings capacity through meticulous customer service. We will aim to increase our market share on the east-west trades from 3.5% to 5% and to further expand our network of north-south services and Asia services. We anticipate a solid contribution to earnings from these routes, especially the north-south trades. Natural resource exporting regions, such as South America, are benefiting from higher resource prices, and Brazil will be an especially promising market. Our MOL ADVANCE objectives include net sales of ¥910 billion and ordinary income of ¥30 billion in the final year of the plan.

For the fiscal year ending March 2013, we have set objectives of revenues of ¥1,200.0 billion and ordinary income of ¥50.0 billion. This is not a projection of the level of profits that we believe we can generate in peak market conditions. Rather, these are our objectives for profits on average that we can record even in the face of ongoing fluctuations in market conditions and costs.

Global trade is expected to continue growing at about 10% a year, with the north-south trades recording expansion of about 15% to 20%. Because there is a strong market trend toward fewer numbers of customers shipping larger amounts of cargo, a large-scale fleet will be essential for us to provide reliable services to those customers and enhance our cost competitiveness in the years ahead. Under MOL ADVANCE, we will add 22 large containerships with capacities ranging from 5,100TEU to 8,100TEU. The largest of these will be used on east-west routes, with certain medium-sized vessels shifted to other routes. We will also expand medium-term charters. In this way, we will continue to build a closely interwoven network of routes linking various countries. As a result, our total capacity on all routes will increase by 67%.


TraPac container terminal on the west coast of the U.S.A.

MOL Containerships' Capacity by Trades (Results in FY2006)




Over the three years of MOL STEP, the market environment in containership operations changed at a dramatic pace, and at times those changes exceeded our expectations. Nonetheless, container cargo has shown the highest rate of growth of any type of cargo. Our experience has demonstrated that excessive declines in freight rates will be corrected and that if we maintain a high level of competitiveness, we can earn an appropriate return over periods of several years. Under MOL ADVANCE, we will strive to further improve the quality of our services and increase the competitiveness of our cost structure in order to continue to validate this approach to the containership market.

# Logistics

Masakazu Yakushiji
*Executive Vice President*

## Continued Progress under MOL STEP

MOL's logistics operations have the primary role of generating synergies with the company's core marine transport businesses. Before the start of MOL STEP, we faced ongoing challenges in establishing a profitable foundation in logistics. We have made strong progress under MOL STEP, however, turning profitable in the year ended March 2005 and earning ordinary income of ¥2.3 billion in the past fiscal year.

This achievement reflects the success of the steps that we have taken to restructure unprofitable businesses and unify our logistics activities under the MOL brand. It also validates our approach to the logistics business. Rather than making upfront capital investments in logistics facilities and then providing them to customers, we seek to achieve a solid understanding of customer needs and then provide the optimal solutions to meet those needs, working together with the best partners if necessary.

Our primary target is the ocean consolidation business (OCB), which is commonly known as buyer's consolidation. Our OCB operations have now reached an annual volume of about 50,000 TEU, and we will continue working to expand the scale of these operations to the level of the major logistics companies. We are nearing the point where these operations will start making a solid contribution to MOL's earnings, and OCB is generating substantial synergies with MOL's container operations. Buyer's consolidation cargo is said to account for about 60% to 70% of transpacific eastbound cargo, and the information obtained through OCB operations makes it easier to accurately forecast trends in the container business.

We made continued progress in the past fiscal year, including the start of consolidation services in China for the IKEA Group, Europe's leading mass merchandiser of furniture and interior goods. In addition to our know-how and our track record in China, our ability to provide customers with detailed cargo information services is highly regarded.

MOL Consolidation Service Limited was established in October 2006 as MOL's first wholly owned logistics subsidiary in China. This new company will be the linchpin of our services in China, which is posting substantial growth as a point of origin for OCB cargo.

As a key step in that direction, in November 2006, we entered a tie-up with California Cartage Company LLC (Cal Cartage), one of the leading providers of logistics services in the U.S. Cal Cartage offers a wide range of services, including import trucking, warehousing, deconsolidation, and regional delivery. Our tie-up enables us to provide seamless door-to-door logistics solutions from Asia to the United States, with MOL Consolidation Service and other regional companies handling operations at the point of origin and Cal Cartage providing domestic services in the U.S.

Under MOL STEP, the development of air forwarding operations was assigned a top priority, on a par with OCB, as another means of enhancing the synergies between our logistics operations and our core marine transport operations. While we continue to grow MOL Logistics Co., Ltd. as a global logistics provider in our group, we need to keep up with the fast-growing airfreight market even more steadily. For that purpose, in 2005, we forged a successful strategic alliance in air forwarding with Kintetsu World Express, Inc. (KWE). Through this alliance, we can offer our customers the benefits of the global network of KWE, which is the eighth largest air forwarder in the world.

## Pursuing Synergies Under MOL ADVANCE

Under MOL ADVANCE, logistics is positioned as a growth field, and we are targeting an ordinary income margin of 5% and ordinary income of ¥5.0 billion. For the first time, logistics will be included in MOL's base of stable earnings. Nonetheless, the key objective of our logistics operations will remain the same—generating synergies with MOL's core marine transport businesses.

In OCB, we are aiming to expand the

MOL Logistics Group's warehouse in Singapore

scale of our operations to an annual volume of 200,000 TEU by 2009. One key to that growth will be the STARLINK cargo information system, among the most advanced in the industry. STARLINK is an original MOL system for providing customers with real-time cargo information—at the stock-keeping unit (SKU) level—from production line to display window. Linking STARLINK with customers' warehouse management systems enables complete transfer inventory control.

Another key to growth in the scale of our operations will be an expanded network in China. To enhance our domestic network in that market, we will build up the network of MOL Consolidation Services while bolstering our alliance with KWE.

To achieve quality with enhanced growth, we will maintain our focus on providing the highest-quality logistics solutions and will strive to meet the needs of customers by offering the best service at competitive prices.

# Ferry and Domestic Transport

Takehiko Yamamoto
*Managing Executive Officer*

## Solid Progress Under MOL STEP

Over the three years covered by MOL STEP, ferry and domestic transport operations made solid progress. Although we were adversely affected by the unexpected rise in bunker prices, we successfully implemented a number of restructuring measures. As a result, following three years of losses, we have been consistently profitable since the fiscal year ended March 2005, despite the fact that in the past fiscal year, our annual bunker expenditures for ferry operations were up by ¥6.5 billion in comparison with five years earlier.

Key factors in our turnaround included an overall increase in cargo volume—which was partially attributable to the Japanese government's modal shift policy favoring environmentally friendly modes of transport—and customer acceptance of bunker surcharges.

We have also had excellent results in consolidating unprofitable routes, merging operations, and offering joint service. For example, we acquired the Oarai-Tomakomai service, which we had operated jointly, and integrated it into the operations of MOL Ferry Co., Ltd. As a consequence, we have been able to make major schedule changes, such as the late-night operation of so-called casual ferry services, where the only passengers are truck drivers who board the ferries with their vehicles. In addition, in March 2007 we ended high-speed ferry services on the Tokyo-Tomakomai route due to declining profitability stemming from increased bunker costs. We expect these two measures to contribute nearly ¥1.0 billion to our bottom line.

The ferry *Sunflower Shiretoko*

Over the three years of MOL STEP, a strong performance was turned in by MOL Naiko, Ltd., which handles domestic transport of such cargo as coal, heavy oil, steel, and salt. We believe that by drawing on synergies with MOL's international marine transport services, MOL Naiko will be able to expand its businesses to the other areas like domestic transport of LNG.

### On Track to Achieve MOL ADVANCE Targets

We are on track to achieve our profit goals under MOL ADVANCE, and we are confident that we will meet our objective of increasing profits from ¥2.0 billion in the fiscal year ending March 2008 to ¥3.6 billion in the fiscal year ending March 2010.

A major challenge will be increasing passenger numbers, which vary considerably by season. The key to attracting more passengers will be ongoing improvements in customer service and improved fare management. Over the past two years, we replaced three of the existing ferries with well-equipped and modern ones, and in the fiscal year ending March 2008 we will introduce two more new ferries. These ferries will also help us to attract more passengers.

In 2007, we will basically complete the rebuilding of our route network with the implementation of two mergers among ferry companies. As a result, we will consolidate ferry operations, marketing, and management. MOL Ferry Co., Ltd., will be responsible for eastern Japan, and Ferry Sunflower—the sales organization jointly operated by The Diamond Ferry Co., Ltd., and Kansai Kisen Kaisha—will be responsible for western Japan. With an emphasis on an optimal mix of roll-on/roll-off (RO/RO), regular ferry, and casual ferry services, we will continue striving to maintain consistent earnings and to achieve growth with enhanced quality in ferry and domestic transport operations.

## Associated Businesses

Takehiko Yamamoto
*Managing Executive Officer*

### Transformation to a Source of Stable Earnings Under MOL STEP

In real estate operations, MOL made Daibiru Corporation a consolidated subsidiary in the first year of MOL STEP. Acquiring a company with revenues of ¥26 billion and recurring profit of ¥9 billion in fiscal 2006 was a significant move for MOL, and Daibiru's business model, which is not susceptible to fluctuations in oil prices or foreign exchange rates, is making a major contribution to MOL's stable profits.

MOL is one of the largest tugboat operators in Japan, and our tugboat business is generating stable earnings. In Japan, a dramatic increase in the number of ships entering ports is no longer anticipated. However, we have focused on LNG ships, which are increasing, and we are expanding our fleet of high-speed, powerful tugboats of leading-edge ship's design equipped with fire-prevention apparatus.

### Poised to Achieve MOL ADVANCE Targets

In real estate, conditions in the office building sector have been favorable in recent years. Under MOL ADVANCE we will move forward with proactive rebuilding measures so that Daibiru will keep a position of vantage in the market by rebuilding key properties. During this period of rebuilding, profits will not record substantial growth, but rather it will be a period of preparation for the next phase of growth. Daibiru will take steps to become a comprehensive real estate company, including moving into fee-based businesses, such as property and facility management.

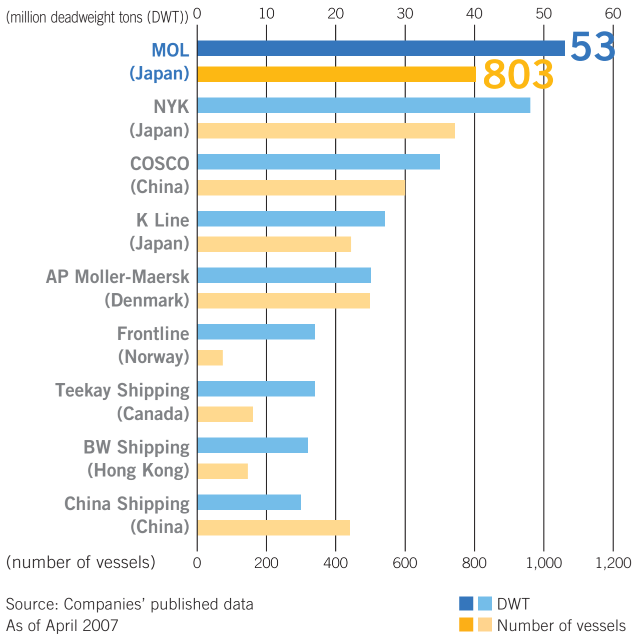
In cruise ship operations, we have turned in strong performances for the past several years. These results were attributable to cost reductions, rationalization measures, and favorable domestic economic conditions, as well as an increase in affluent customers with time for leisure activities, such as retired baby boomers. With a focus on enhanced customer service, the *Nippon Maru* has had good results and recorded strong passenger numbers. Under MOL ADVANCE, we will focus on further enhancing the position of our brand in the cruise ship market.

The cruise ship *Nippon Maru*

# MOL in the Industry

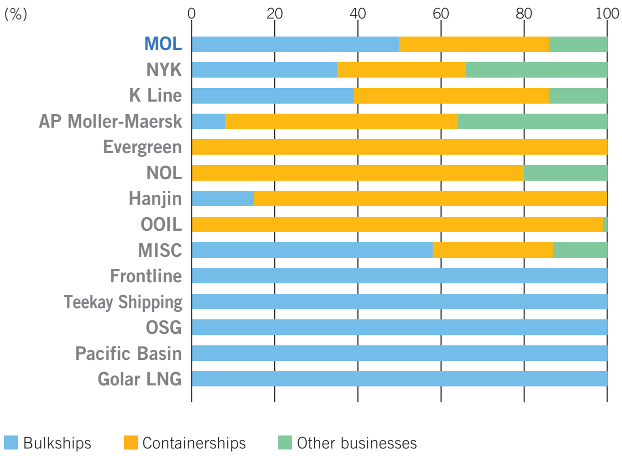
## MOL operates a large and balanced oceangoing fleet. In terms of its total fleet size and presence in individual market categories, MOL ranks among the world's largest shipping companies.

### World Major Carriers' Fleets (All Vessel Types)



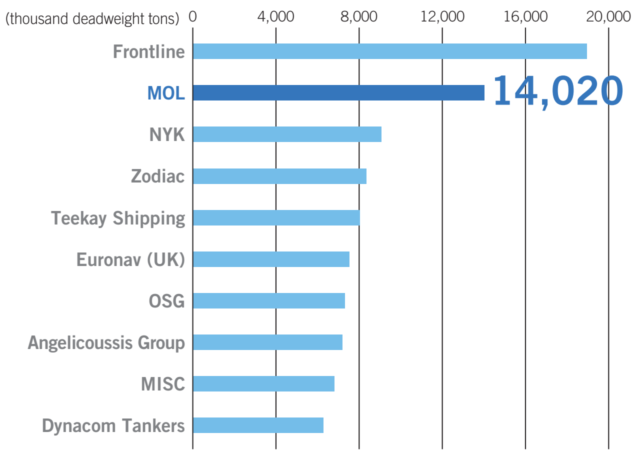

Source: Companies' published data
As of April 2007

### World Major Carriers' Revenue Portfolio by Segments



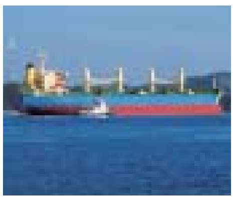

(Containerships include container terminals /agency businesses.)
Source: MOL calculation based on each company's financial statements (2006.1-12).

### Tankers

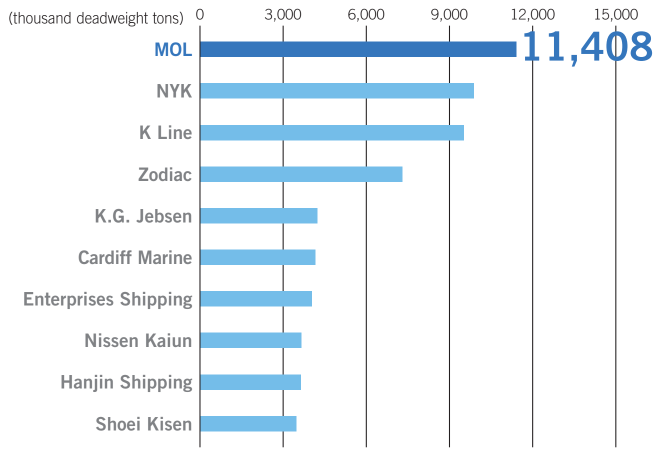



Source: Clarkson Tanker Register 2007
As of January 2007

### MOL Fleet Composition FY2006 (Consolidated)

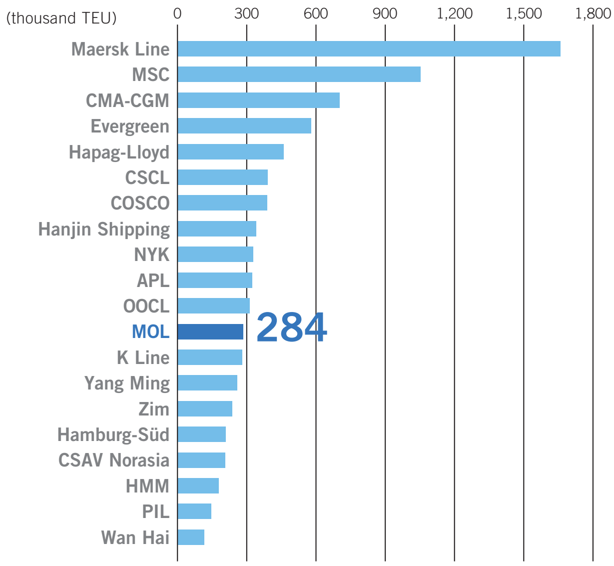
| | Dry bulkers | | | Tankers | |
|---|---|---|---|---|---|
| | Bulk carriers | Wood chip carriers | Heavy lifters | Crude oil tankers | Chemical/Product tankers |
| |  |  |  |  |  |
| Vessels | 289 (256) | 38 (36) | 9 (7) | 40 (40) | 115 (99) |
| Thousand deadweight tons | 26,239 (22,605) | 1,780 (1,671) | 138 (114) | 10,796 (10,557) | 3,988 (3,308) |

## Dry Bulkers




Source: Clarkson Bulkcarrier Register 2007
As of January 2007

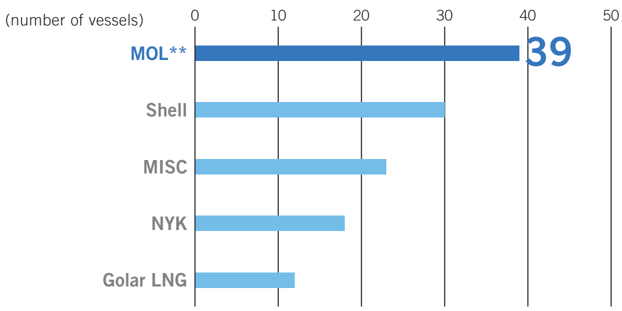
## Containerships by TEU Capacity




Source: MDS Transmodal "Containership Databank," April 2007
As of April 2007

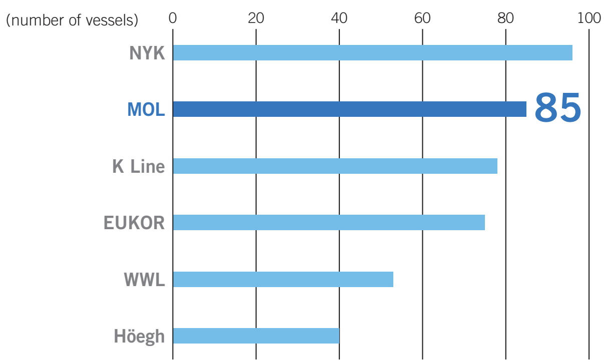
## LNG Carriers

Fleet under management or majority of ownership




Source: MOL
As of April 2007
** Participation in projects operating 80 vessels of the total 344 in the world including those to be delivered by early 2010

## Car Carriers




Source: MOL internal calculation
As of April 2007





| LPG carriers | LNG carriers | Car carriers | Containerships | Others (Ferries and Others) | Total |
|---|---|---|---|---|---|
| 7 (6) | 58 (54) | 94 (93) | 109 (94) | 44 (43) | 803 (728) |
| 287 (227) | 4,129 (3,737) | 1,425 (1,377) | 4,376 (3,944) | 170 (165) | 53,329 (47,705) |

Figures in parentheses show FY2005 results.
Including spot-chartered ships and those owned by joint ventures.
As of March 31, 2007

Note: Figures in the graphs of the five vessel types do not match data in MOL Fleet Composition due to discrepancies between the calculation methods of external organizations and MOL, and other reasons.

# MOL Global Services


Local Offices

Main Calling Ports

MACKENZIE
ANCHORAGE
HOMER
PRINCE RUPERT
KITIMAT
VANCOUVER
NEW WESTMINSTER
ROBERTS BANK
SEATTLE
TACOMA
VANCOUVER (WA)
PORTLAND
COOS BAY
EUREKA
BENICIA
CONCORD
SAN FRANCISCO
SACRAMENTO
STOCKTON
OAKLAND
PORT HUENEME
LOS ANGELES
LONG BEACH
ENSENADA
SAN DIEGO
CEDROS
HONOLULU
MANZANILLO
LAZARO CARDENAS
ACAPULCO
SALINA CRUZ
ACAJUTLA
CORINTO
CALDERA
PUERTO LIMON
COCO SOLO
BALBOA
APIA
PAGO PAGO
PAPEETE
NUKUALOFA
MINNEAPOLIS
TORONTO
THREE RIVERS
DETROIT
CHICAGO
CLEVELAND
WILMINGTON
CINCINNATI
NEWARK
KANSAS CITY
ST. LOUIS
MEMPHIS
DALLAS
NORFOLK
ATLANTA
CHARLOTTE
CONVENT
MOBILE
LAKE CHARLES
HOUSTON
NEW ORLEANS
JACKSONVILLE
MONTERREY
ALTAMIRA
MIAMI
MEXICOCITY
VERACRUZ
PUERTO QUETZAL
DAVISVILLE
BOSTON
SHEET HARBOR
HALIFAX
STAMFORD
NEW YORK
EDISON
PHILADELPHIA
BALTIMORE
NEWPORT NEWS
MOREHEAD CITY
CHARLESTON
SAVANNAH
BRUNSWICK
HAMILTON
PORT EVERGLADES
FREEPORT
NASSAU
SAN PEDRO DE MACORIS
PUERTO PLATA
SANTODOMINGO
RIO HAINA
SAN JUAN
PORT AU PRINCE
KINGSTON
FREDERIKSTED
ST. JOHN'S
ROSEAU
CASTRIES
BRIDGETOWN
PHILIPSBURG
BASSETERRE
POINTE-A-PITRE
FORT DE FRANCE
KINGSTOWN
ST. GEORGE'S
CURACAO
BONAIRE
ARUBA
SANTA MARTA
BARRANQUILLA
PORT OF SPAIN
POINT LISAS
PUERTO SUCRE
GUANTA
LA GUAIRA
PUERTO CABELLO
CARTAGENA
COVENAS
PANAMA
(PT. OF MANZANILLO)
BUENAVENTURA
GEORGE TOWN
ESMERALDAS
MANTA
GUAYAQUIL
MACAPA
BELEM
MANAUS
PONTA DA MADEIRA
CALLAO
SALVADOR
PRAIA MOLE
TUBARAO
VITORIA
MATARANI
ILO
ARICA
IQUIQUE
ANTOFAGASTA
CHANARAL
SAO PAULO
SANTOS
RIO DE JANEIRO
SEPETIBA
SAO SEBASTIAO
PARANAGUA
ASUNCION
SAO FRANCISCO DO SUL
VALPARAISO
ITAJAI
RIO GRANDE
SANTIAGO
SAN ANTONIO
LIRQUEN
TALCAHUANO
SAN VICENTE
CORONEL
ZARATE
M'BOPICUA
MONTEVIDEO
BUENOS AIRES
NECOCHEA
CORRAL
CALBUCO
PUERTO MONTT
CHACABUCO
PUNTA ARENAS
MELKOYA
PITEA
FLORO
THAMESPORT
SHEERNESS
SULLOM VOE
FELIXSTOWE
DRAMMEN
OSLO
UDDEVALLA
GOTHENBURG
HANKO
HELSINKI
GDYNIA
GDANSK
MALMO
MIDDLESBROUGH
GLASGOW
NEWCASTLE
FREDERICA
COPENHAGEN
LIVERPOOL
DUBLIN
ILFORD
LONDON
BRISTOL
SOUTHAMPTON
HAMBURG
BREMERHAVEN
EMDEN
BREMEN
AMSTERDAM
DUSSELDORF
VIENNA
STUTTGART
ILLYCHEVSK
CHERBOURG
LE HAVRE
ZEEBRUGGE
GHENT
BRUSSELS
PARIS
MONTOIR
ROTTERDAM
ANTWERP
TRIESTE
KOPER
MILAN
SAVONA
GENOA
LA SPEZIA
LIVORNO
DERICE
VIGO
SANTANDER
BILBAO
FOS
(MARSEILLE)
LYON
BARCELONA
VALENCIA
GIBRALTAR
CARTAGENA
GIOIA TAURO
PIRAEUS
LISBON
HUELVA
VALLETTA
CEUTA
ARZEW
ALGIERS
TUNIS
ANNABA
CASABLANCA
TRIPOLI
BENGHAZI
ALEXANDRIA
DAMIETTA
LAS PALMAS
SANTA CRUZ DE TENERIFE
NOUAKCHOTT
DAKAR
BANJUL
CONAKRY
FREETOWN
MONROVIA
SAN PEDRO
TEMA
LOME
COTONOU
LAGOS
ABIDJAN
TAKORADI
BONNY
DOUALA
LIBREVILLE
POINTE NOIRE
BOMA
MATADI
PALANCA
LUANDA
HARARE
WALVIS BAY
JOHANNESBURG
SALDANHA BAY
CAPE TOWN

# Corporate Governance

## MOL's Philosophy, Management Reforms and Achievements

The MOL Group established the MOL Group Corporate Principles in March 2001. One of the pledges in our Corporate Principles states, "We will strive to maximize corporate value by always being creative, continually pursuing higher operating efficiency and promoting an open and visible management style that is guided by the highest ethical and social standards."

In order to realize the ideals set forth in the principles, MOL reformed its corporate governance structure, instituting management reforms that brought external directors onto the board, separated management and executive functions, and set standards for accountability, risk management and compliance. These reforms were implemented as follows:

| | |
|---|---|
| **1997** | Outside auditors increased from one to two out of a total of four auditors |
| **1998** | George Hayashi (former APL chairman) invited to join the Board of Directors. (Became Director and Vice President in 1999, following revision of the Shipping Act) |
| **2000** | Management organization reform<br>1. Introduced a system of executive officers<br>2. Abolished the Managing Directors Committee and established an Executive Committee (reduced the membership from 21 to 10)<br>3. Reformed the Board of Directors (redefined its duties as the highest-ranking decision-making body and the supervision of business activities) and reduced membership from 28 to 12<br>4. Elected two external directors<br>5. Established the Corporate Visionary Meeting.<br>Established the IR Office.<br>Started holding the Annual General Shareholders' Meeting on a day relatively free of other shareholders' meetings |
| **2001** | Established the MOL Group Corporate Principles<br>Added one more external director, increasing the number of external directors to three<br>Established Compliance Policy and a Compliance Committee |
| **2002** | Second stage of management reforms<br>Reforms reinforced the roles of the Board of Directors concerning the determination of basic strategies and monitoring risk management while providing for faster decision-making at the business execution level.<br>1. The Board of Directors was reorganized to carry out three important functions: (1) deliberation on issues requiring approval by the directors; (2) receipt of reports on business operations; and (3) deliberation on corporate strategy and vision.<br>2. Review and consolidation of issues submitted to the Board of Directors<br>3. Expanded jurisdiction of the Executive Committee regarding execution of business activities |

| **Actions During the Past Year** | |
|---|---|
| **May 2006** | In response to the revision of the Japanese Corporate Law, MOL's basic policy on the establishment of internal control systems was decided by a resolution of the Board of Directors. |
| **May 2006** | In accordance with the same resolution, the Corporate Auditor Office was established as a necessary supplementary measure. It is independent from business execution and assists the corporate auditors with their duties. |
| **June 2006** | In response to the enforcement of the Financial Instruments and Exchange Law, the Internal Control Planning Office was established in the Corporate Planning Division. This office will establish internal control systems for the purpose of ensuring the accuracy of financial reporting, in accordance with that law. |
| **Number of Meetings of Governance Bodies in Fiscal 2006** | The number of meetings during the fiscal year of the Board of Directors, Executive Committee and their sub-committees are shown in the Corporate Governance Organization chart on the opposite page. |

The chart on the next page shows the structure of our corporate governance organization.

At MOL we believe that the essence of corporate governance lies not in its structure or organization, but on whether or not it functions effectively. In our case, the corporate governance structure described above functions as follows:

1. Major investment projects, such as the construction of new vessels, are submitted to the Board of Directors at the basic policy formulation stage. The 11 directors, including external directors, thoroughly evaluate and discuss the pros and cons of the projects and make decisions on their feasibility from many perspectives. Transferring the authority to implement projects within the scope of the basic policy to executive officers supervised by the president speeds decision making on individual projects. The separation of the management and execution functions was one important contribution to allowing the MOL Group to build up a fleet of the right type of vessels at the right time.
2. Another important responsibility of the Board of Directors is deliberation on corporate strategy and vision. At each meeting, the board focuses on a particular topic concerning management strategies, MOL's long-term vision or other subjects involving management.

   These discussions provide an opportunity for lively debates that include the external directors and corporate auditors, thus helping to ensure that the perspective of shareholders is reflected in how MOL is managed.
3. The Board of Directors has 11 members, including three external directors who are completely independent and have no conflict of interest with MOL. There are four corporate auditors, who are responsible for performing statutory auditing functions, including two individuals who are completely independent and have no conflict of interest with MOL. At a time when the auditing systems of corporations are taking on added importance, it goes without saying that the independence of auditors from management and policy execution is assured. Our corporate auditors work closely with the Internal Audit Office and independent public accountants to assure effective corporate governance. They also work on strengthening corporate governance and compliance throughout the group.

Recognizing that MOL's corporate governance system is working efficiently, the Pension Fund Association included MOL in a portfolio of 43 companies* comprising its Corporate Governance Fund, which was established in August 2004.

*68 companies as of November 2006.

## Accountability

MOL believes that timely, full and fair disclosure of corporate and financial information is an important aspect of corporate governance. In addition to being accountable to shareholders and investors by providing information, the company makes every effort possible to reflect their opinions in management.

The distinguishing feature of our investor relations activities is that the president takes the lead in their implementation. In fiscal 2006, the president participated in the company's presentations of quarterly results and attended meetings with domestic and foreign investors. This reflects his conviction that it is the chief executive officer's responsibility to explain future corporate strategies to investors. The company is also aware of the need for full and fair disclosure to all investors, whether in Japan or overseas. At the same time its quarterly financial results in Japanese are released over the Tokyo Stock Exchange's TD-net, the company posts them to its website with an accompanying English translation. The Japanese and English drafts of presentation materials are also posted on the website. This information is e-mailed on the same day to foreign investors registered with the company.

These types of activities have been highly evaluated, and in fiscal 2005, MOL received the Special IR Prime Business Award from the Japan Investor Relations Association (JIRA), which is presented to companies that have received the IR Prime Business Award three times. Also, in the Nikkei Annual Report Awards, which are judged by institutional investors, MOL's annual report has been highly evaluated for its aggressive disclosure, winning the top prize once and the excellence prize three times.

The responsibility to provide information is not limited to management and financial issues. Accordingly, in regard to the four major marine accidents that occurred in fiscal 2006, MOL disclosed the situation directly after each incident, providing a total of 18 press releases for the four accidents. These accidents were highly regrettable, and MOL believes that it has a responsibility to disclose the situation to everyone who is directly or indirectly affected. While we will continue to do our utmost to prevent accidents, we will also maintain a policy of disclosing information, even if it is negative.

## Director Compensation

The Board of Directors, including the external directors, determines compensation for the directors. Compensation paid to directors in fiscal 2006 is shown in the table below.

The company has granted stock options to all directors, executive officers, general managers of divisions and branch offices and managers in similar positions, as well as to presidents of consolidated subsidiaries, to motivate them to carry out operations for the benefit of shareholders.

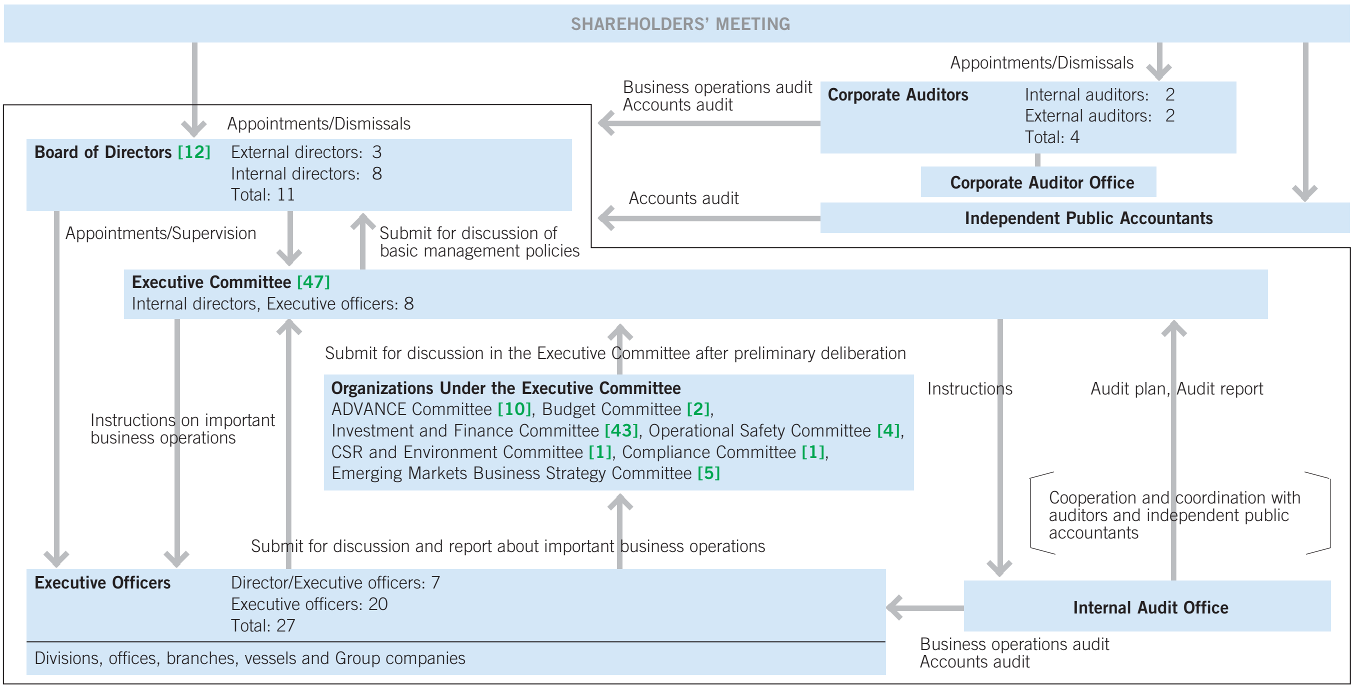
## Compliance

As explained elsewhere, the company is aware of the crucial role that compliance plays in living up to its broad corporate social responsibilities, and that compliance with the letter of the law is at the core of this role.

We have strengthened our compliance system by establishing a Compliance Committee, headed by the deputy president, and formulating the Compliance Policy to assure strict adherence to rules and regulations and to take action against any violation. General managers of each division, department and branch office, are appointed as Compliance Officers for their respective organizations. They are responsible for enforcing compliance regulations and for reporting any violations to the Compliance Committee Office. The Internal Audit Office, a body that operates independently of the company's divisions, departments and branch offices, provides a counseling service and also acts as a hot line in the event it is difficult for a report to be filed with a Compliance Officer. The Internal Audit Office undertakes investigations and audits as necessary and reports steps taken to the Compliance Committee.

The company works to assure a proper relationship with its independent public accountants. Compensation paid to independent public accountants in fiscal 2006 is shown in the table below.

## Corporate Governance Organization (as of June 21, 2007)




Numbers in brackets show the number of meetings of the Board of Directors, Executive Committee and their sub-committees during fiscal 2006.

### Compensation for Directors

| | (¥ millions) | (Thousands of U.S.$) |
|---|---|---|
| Compensation for internal directors | ¥677 | $5,735 |
| Compensation for external directors | 44 | 373 |
| Compensation for internal corporate auditors | 58 | 491 |
| Compensation for external corporate auditors | 13 | 110 |
| Total | ¥793 | $6,717 |

### Compensation for Independent Public Accountants

| | (¥ millions) | (Thousands of U.S.$) |
|---|---|---|
| Compensation for auditing services | ¥60 | $508 |
| Compensation for auditing-related services | 8 | 68 |
| Compensation for other services* | 20 | 169 |
| | | |
| Total | ¥88 | $745 |

*Related to establishment of internal control system for the purpose of financial reporting

## Risk Management

The highest level of risks faced by the company includes accidents accompanying the operation of vessels, and accordingly, MOL believes that safe operation is the foundation of all of its operating activities. In accordance with that belief, we have formulated policies to consistently secure safe operation. Nonetheless, in fiscal 2006, four serious accidents occurred, and we have taken this matter very seriously. Based on a thorough reconsideration of our safety practices, we formulated measures to strengthen our safe operation management structure. A description of these measures and the process of their formulation is provided on pages 22 to 23 of this report. We believe that it is essential that we accurately identify the risks that we face and work to effectively control them.

In its core business of overseas shipping, the MOL Group is exposed to a variety of risks due to the nature of the business. The principal risks and our original risk management framework and methodology for managing them are outlined below.

**Freight Rate and Cargo Volume Fluctuations**

In overseas shipping, the MOL Group's main business, there are constant fluctuations in international cargo volumes, the competitive environment, supply-demand dynamics for ships, and many other items. Negative trends in freight rates and cargo volumes have an adverse impact on the group's operating results. Accordingly, major investment projects, such as investments in vessels, are carefully discussed in the Investment and Finance Committee, which conducts preliminary deliberations for the Executive Committee. After risks are identified, analyzed, and evaluated, the matters are submitted to the Executive Committee. The MOL Group enters into medium- and long-term contracts and takes many other actions to reduce exposure to risks associated with changes in freight rates and cargo volumes.

**Exchange Rate Fluctuations**

U.S dollar-based overseas shipping revenue accounts for a large share of consolidated revenues, and many expenses are denominated in U.S. dollars and other foreign currencies. Since foreign currency revenues are greater than foreign currency expenses, an appreciation of the yen, especially relative to the U.S. dollar, has a detrimental effect on consolidated earnings. Accordingly, the Group is working to increase the share of U.S. dollar-denominated expenses while establishing currency hedges and taking other actions to minimize the negative effect of fluctuations in the value of the U.S. dollar. The group estimates that a change of one yen in the U.S. dollar-yen exchange rate raises or lowers consolidated ordinary income by a maximum of approximately ¥2.3 billion based on current operations. In accordance with the Market Risk Management Policy, currency hedges are used to minimize the risk of adverse effects on earnings and to achieve planned levels of earnings. The group does not conduct hedging transactions in excess of actual demand. Moreover, when currency hedges are implemented, approval and reporting are implemented in accordance with the same policy.

**Bunker Price Fluctuations**

Procurement of fuel to operate vessels is vital to MOL's operations. Since the market price of bunker is generally linked to the price of crude oil, any increase in the price of crude oil can have a detrimental effect on earnings. In total, the vessels operated by the group consume about 6 million to 7 million tons of bunker each year. Approximately 60% of the risk involving price fluctuations is assumed by customers, charterers, and other external parties. Therefore, an increase of US$1 per metric ton in the average annual price of bunker would lower consolidated ordinary income by a maximum of approximately ¥0.3 billion. Furthermore, the group uses fuel hedge transactions to even out and reduce the cost of procuring bunker. In accordance with the Market Risk Management Policy, fuel hedges are used to minimize the risk of adverse effects on earnings and to achieve planned levels of earnings. The group does not conduct hedging transactions in excess of actual demand. Moreover, when fuel hedges are implemented, approval and reporting are implemented in accordance with the same policy.

**Interest Rate Fluctuations**

MOL depends mainly on funds procured from external sources to meet working capital and capital expenditure requirements. Funds procured at variable interest rates may be affected by interest rate fluctuations. Consequently, MOL is limiting exposure to interest rate risk by procuring funds through fixed-rate loans and using interest-rate swaps. As of March 31, 2007, yen-denominated and U.S. dollar denominated interest-bearing liabilities totaled ¥569.4 billion, and approximately 70% of this amount had fixed interest rates for the principal amount. As a result, an increase of one percentage point in interest rates would impact annual consolidated ordinary income by between ¥1 billion and ¥2 billion.

**Vessel Operations**

With a fleet of more than 800 vessels in constant operation around the world, there is a risk of a marine accident. To prevent accidents, MOL, based on its Corporate Principle of "protecting the marine and global environment through safe navigation," has established the Operational Safety Committee, headed by the president. The committee defines basic policies and measures to thoroughly assure the safety of vessel operations. In December 2006, the group formulated measures to reinforce its safe operation management structure. The group has ensured thorough implementation of new safety standards and management systems, enhanced its crew education and training systems, and established new organizations to support safe operations. Furthermore, in the unlikely event of an accident, the group is ready to start up the Emergency Control Headquarters, led by the president, to prevent the spread of damage and to protect the environment. In preparation for such an event, we have compiled an emergency response manual and conduct periodic simulation training. Furthermore, even if a marine accident causes damage to MOL or a third party, the group has adequate insurance coverage to prevent a material impact on operating results.

## Global Strategy Based on Frank, Open Discussion
### —A Message from an Outside Director

Yukiharu Kodama
*Director*

I was appointed as an outside director at MOL six years ago, at the start of the MOL next management plan in 2001.

At that time, building on its long history, MOL entered a period of extremely rapid growth. And under the subsequent MOL STEP plan, the company's operations continued to expand around the world. In this environment, MOL accurately forecasted economic trends, positioned itself to meet global changes in the marine transport industry, and implemented a strategy that has proven to be correct.

As an outside director, I attend meetings of the Board of Directors and the Budget Committee, and I believe that MOL is implementing a comprehensive and rigorous governance system. At the same time, the company maintains a very flexible and open corporate culture. At meetings, discussions are direct and frank. The chairman always solicits the opinions of others, and lively discussions are the norm, with the active participation of the younger directors. Decisions are made after issues have been thoroughly discussed.

Through these open-minded discussions at the board of directors' meetings, MOL's management has developed a shared understanding of the paradigm shift from a stage of U.S.-driven growth in the global economy to that of multipolar economic growth. Over the past six years, I have seen how that understanding has spread to the executive level and resulted in a range of successful projects.

It is highly regrettable that there were a series of accidents in 2006. As MOL has grown over the past six years, the company has faced a range of risks, including the risk of accidents such as those that occurred in the past year. However, under the leadership of the president, MOL has responded appropriately with the implementation of a wide range of system initiatives and countermeasures. I believe that the opinions of the outside directors and corporate auditors, who have experience in other industries, were also useful in the rapid development of innovative new measures to reinforce safe operations.

Looking ahead, as the new MOL ADVANCE plan gets under way, MOL is in a much stronger position than it was in the 1990s, and the company has a more solid operational foundation. MOL now has an important role to play as a leader in the marine transport industry. As MOL strives to achieve quality with enhanced growth, a key factor will be how the company handles globalization. Other key developments will be the internationalization of management standards and diversification of the shareholder base.

For example, today, most seafarers are from overseas countries, and we have to ensure that we listen carefully to the opinions and ideas of these employees. We must also take a wide-ranging viewpoint in the provision of a return to shareholders. For example, MOL has established a dividend payout ratio guideline of 20%. As a director, I think that this is a correct decision that is based on long-term perspectives on shareholders' value. On the other hand, with consideration for international standards and the opinions of the company's diverse range of stakeholders, we must continually verify our decisions and provide explanations to shareholders and investors, including the direction that the company will take over the medium to long term.

# Board of Directors, Corporate Auditors and Executive Officers

(As of June 21, 2007)

## Board of Directors

Kunio Suzuki
*Representative Director, Chairman*

Akimitsu Ashida
*Representative Director*

Saburo Koide
*Representative Director*

Hidehiro Harada
*Representative Director*

Masakazu Yakushiji
*Representative Director*

Kenichi Yonetani
*Director*

## Corporate Auditors

Munehisa Kusunoki
*Corporate Auditor*

Kazumasa Mizoshita
*Corporate Auditor*

Kensuke Hotta
*Corporate Auditor*
(Chairman and Representative Director, Morgan Stanley Japan Securities Co., Ltd.)

Sumio Iijima
*Corporate Auditor*
(Attorney at Law, Iijima & Sawada)

## Executive Officers

Akimitsu Ashida
*President Executive Officer*

Saburo Koide
*Executive Vice President Executive Officer*
(Assistant to President, [mainly in business divisions (except Liner), Technical Division], Bulk Carrier Division, Dry Bulk Carrier Supervising Office

Hidehiro Harada
*Executive Vice President Executive Officer*
(Assistant to President, mainly in administrative divisions)

Masakazu Yakushiji
*Executive Vice President Executive Officer*
(Assistant to President [mainly in Liner Division], Logistics Business Division)

Toshihiro Kagami
*Senior Managing Executive Officer*
(Human Resources Division, MOL Tankship Management Ltd., MO LNG Transport Co., Ltd.)

Kenichi Yonetani
*Senior Managing Executive Officer*
(Internal Audit Office, Finance and Accounting Division, Investor Relations Office)

Yoichi Aoki
*Senior Managing Executive Officer*
(LNG Carrier Division, Research Office)

Masashi Seki
*Managing Executive Officer*
(Tanker Division)

Osamu Suzuki
*Managing Executive Officer*
(President/CEO of MOL (America) Inc.)

Kenji Hokazono
*Managing Executive Officer*
(Liner Marketing, President of Mitsui O. S. K. Lines (Japan), Ltd.)


Yoichi Aoki
*Director*


Koichi Muto
*Director*


Yukiharu Kodama
*Director*
(President, Japan Information Processing Development Corporation)


Kunio Kojima
*Director*
(Chairman, Japan Securities Finance Co., Ltd.)


Yoko Ishikura
*Director*
(Professor at Hitotsubashi University Graduate School)

Toshitaka Shishido
*Managing Executive Officer*
(Car Carrier Division)

Nobuo Nishijima
*Managing Executive Officer*
(Secretaries Office, Human Resources Division, General Affairs Division)

Masafumi Yasuoka
*Managing Executive Officer*
(Coal and Iron Ore Carrier Division)

Koichi Muto
*Managing Executive Officer*
(Corporate Planning Division, Public Relations Office, Information Systems Office)

Hiroshi Tanaka
*Managing Executive Officer*
(Dedicated Bulk Carrier Division)

Takehiko Yamamoto
*Managing Executive Officer*
(Group Business Division, Kansai Area)

Kazuhiro Sato
*Executive Officer*
(LNG Carrier Division)

Noboru Kitazawa
*Executive Officer*
(Liner Division)

Tetsuya Minato
*Executive Officer*
(Managing Director of MOL (Europe) B.V.)

Soichi Hiratsuka
*Executive Officer*
(Marine Safety Division, MOL Ship Management Co., Ltd.)

Tsuneo Watanabe
*Executive Officer*
(Tanker Division)

Shugo Aoto
*Executive Officer*
(General Manager of Finance and Accounting Division)

Kenji Yokota
*Executive Officer*
(Technical Division)

Kuniaki Motohashi
*Executive Officer*
(General Manager of LNG Carrier Division)

Takashi Kurauchi
*Executive Officer*
(Car Carrier Division)

Makoto Yamaguchi
*Executive Officer*
(General Manager of Bulk Carrier Division)

Kenichi Nagata
*Executive Officer*
(General Manager of Coal and Iron Ore Carrier Division)

# Corporate Social Responsibility (CSR)

## MOL's Approach to CSR

The foundations of corporate social responsibility (CSR) lie in ensuring that corporations give due consideration to social, environmental and human rights issues in their activities, thus achieving sustainable growth in harmony with society. Needless to say, companies are members of society and will be unable to continue in business should they lose the trust of society.

The MOL Group provides an indispensable service to society through its operation of a fleet of oceangoing ships. We have been able to grow steadily over the last 123 years because, from the very beginning, we have consistently followed business policies compatible with contemporary standards of CSR, thus earning the support of stakeholders, including clients, shareholders, business partners and communities. MOL has drawn up Group Corporate Principles, and the group now addresses such issues as corporate governance, compliance and environmental protection.

In June 2004, the MOL Group established the CSR and Environment Committee. The new committee emerged from a reorganization of the Environment Committee. In addition to its previous duties of formulating MOL Group environmental policies, the new committee takes on the added responsibility of studying and discussing CSR issues, with the purpose of creating a stronger framework for group-wide CSR activities.

Simultaneously, the CSR and Environment Office was established within the Corporate Planning Division. The CSR and Environment Office act as the CSR and Environment Committee's secretariat and promote CSR initiatives throughout the MOL Group.

The CSR and Environment Office positioned CSR activities as shown in the diagram below and started to concentrate on establishing and meeting targets for specific CSR activities from fiscal 2005. In fiscal 2006, the third year since its establishment, the office renewed the targets.

### Positioning of MOL Group Corporate Principles, CSR Concepts, and Activities

**Improve corporate value and contribute to shareholders**

Business activities ↑ ↓ Society's trust

| Approaches to CSR | |
|---|---|
| Corporate governance | Compliance |
| Environmental measures | Quality control |
| Safe operation and risk management | Information disclosure, accountability |
| Customer satisfaction | Human rights, human resources, safety and health, employee satisfaction |
| Social contribution | Promote good relationships with business partners |

↑

**MOL Group Corporate Principles**

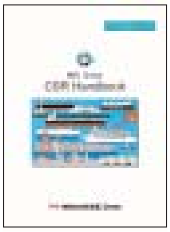
## Rules of Conduct

All executives and employees are required to base their activities on the following standards.

1. Observe laws and regulations while at all times exercising due caution as a good administrator
2. Respect human rights and refuse to permit discrimination and harassment
3. Protect confidential information and respect intellectual property rights
4. Clearly separate official and personal conduct, avoid conflicts of interest
5. Oppose antisocial activities
6. Fulfill social obligations
7. Ensure safe operations and protect the environment
8. Build relationships with clients and contractors that conform to laws, regulations and social standards
9. Provide guidance and supervision by individuals in management positions
10. Report improper behavior, provide advice and deal with individuals who violate rules

In March 2005, the MOL Group's participation in the United Nations Global Compact initiative was acknowledged and accepted by the United Nations. The Global Compact was initiated in 1999 by United Nations Secretary-General Kofi Annan and was ratified in July 2000. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of 10 core values in the areas of human rights, labor standards, the environment, and anticorruption.

By participating in the Global Compact, which is consistent with the Rules of Conduct, the MOL Group has declared its commitment to working toward the realization of the Global Compact's core values.

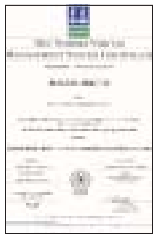


In September 2005, the MOL Group prepared a CSR Handbook to make employees more aware of the Rules of Conduct. The publication was distributed to group employees worldwide and to crew members of MOL Group vessels. Furthermore, a survey using questionnaires was conducted to determine the awareness and use of the Rules of Conduct at MOL Group companies outside Japan.

## Environmental Protection

### Environmental Management System and Certifications

**ISO 14001:** MOL expanded the scope of its Environmental Management System, MOL EMS 21, from onshore operations to all vessels in the fleet (excluding charters of one year or less) and in January 2003 received ISO 14001 international certification for environmental management. Furthermore, Mitsui O.S.K. Passenger Line, Ltd., MOL Ferry Co., Ltd., Kusakabe Marine Engineering Co., Ltd., MOL Logistics (Japan) Co., Ltd., and three other MOL Group members have received ISO 14001 certification based on MOL EMS 21 or their own environmental management systems.

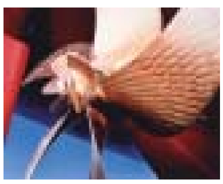


*Certificate of ISO 14001, an international standard for environmental management (Certified by DET NORSKE VERITAS (DNV))*

**Green management:** MOL Group companies in Japan are working hard on complying with the "green management" environmental certification system promoted by the Japanese Ministry of Land, Infrastructure and Transport. In August 2005, Kyushu Kyuko Ferry Co., Ltd.* became the first domestic shipping company in Japan to earn this certification. Thus far, 12 MOL Group companies have been certified.

*Merged with MOL Ferry Co., Ltd. in June 2007

### Environmental Technology



MOL Group is developing technologies that will contribute to environmental protection and energy conservation and will serve as global warming countermeasures. Representative technologies include energy-efficient ships with reduced wind resistance, ships designed for reduced risk of oil spills, and a propeller boss cap fin system (PBCF).

**PBCF:** PBCF efficiently recovers energy loss in the vortex generated behind a ship's propeller. This is an MOL proprietary technology that uses the same number of fins attached to the rear end of the propeller shaft. The PBCF system provides a 4% to 5% energy saving and reduces emissions of $CO_2$, NOx, and SOx. In April 2006, we received an order for the use of this technology in the 1,000th ship since the PBCF system was developed in 1987.

***Euphony Ace* pure car carrier:** The *Euphony Ace* entered service in November 2005. This pure car carrier features environmental technologies that surpass even those of the *Utopia Ace*, which won the Lloyd's List "Ship of the Year Award 2005." The newer ship has conventional technologies like the PBCF, an aerodynamic profile and double-hulled fuel tank, along with several new and exclusive MOL environmental technologies. Among them are an exhaust gas cleansing system, solar panels to produce electricity, and a raw garbage treatment unit. With these features, the *Euphony Ace* is attracting much attention as a next-generation eco-ship.

### Protection of the Marine Environment

MOL takes extensive measures to ensure safe navigation and prevent the occurrence of oil spills and accidents, which represent serious threats to the marine environment.

In addition, care is exercised to reduce the impact on the oceans of normal operation of our vessels.

*Double-hull structure*

MOL strictly adheres to all marine pollution treaties, including the International Convention for Prevention of Pollution from Ships, as well as applicable laws and regulations around the world. The company has stringent internal rules to prevent oil discharges and to ensure the proper disposal of lubricating oil and bilge water (which includes oil and other pollutants). Other measures in place to reduce environmental loads include use of environmentally responsible anti-fouling paint and proper management of ballast water.

As of the end of March 2007, 91% of MOL's tankers had double hulls.

### Prevention of Air Pollution and Global Warming

MOL's primary actions to prevent air pollution are focused on reducing exhaust gasses, a factor in global warming and acid rain, and replacing Freon and CFCs, substances that destroy the ozone layer that shields the earth from ultraviolet radiation, with substitute refrigerants.

**Solar power generation system at Ohi Container Terminal:** In March 2007, MOL and MOL Group company International Container Terminal Co., Ltd. (TICT) started operation of a solar power generation system at the Ohi Container Terminal in Tokyo Port. The system includes 1,200 solar panels that have been installed on the roofs of the gatehouse and container washing facility. With a generation capacity of 200 kilowatts, it is the largest private-sector solar power generation system in the Tokyo metropolitan area. The system's annual output is enough to supply about 60 typical households.

## Social Service Activities

MOL's fundamental policy is to base its social service activities on the programs that can be conducted on a continuous basis and that are associated with marine transport. In line with this policy, MOL transports supplies to aid victims of natural disasters, assists in marine studies and surveys, helps keep shorelines clean, supports environmental and marine educational activities, collects donations to help victims of natural disasters, and performs other activities.

**Transport of relief supplies:** In March 2007, MOL provided financial aid to the United Nations High Commissioner for Refugees (UNHCR) for the purchase of emergency supplies, such as tents. In addition, MOL provided free transport of five containers of relief supplies between Shenzhen, China, and Dubai, U.A.E. The UNCHR, which is the United Nations' refugee agency, was established to provide protection and support to refugees who have lost the protection of their own countries due to war or oppression. As an ocean shipping company that has a worldwide transport network, MOL will continue to act in accordance with humanitarian principles by supporting the UNHCR through the provision of free transportation and other means.

**Kids' Cruise:** Following a similar event in the previous year, in March 2007 MOL invited 153 pairs of parents and children—a total of 306 people—to enjoy a cruise on the Nippon Maru at no charge. The cruise was planned and conducted by MOL employees who volunteered their time. During the cruise, the ship became a floating classroom to teach children about the sea, ships and the marine transportation business, as well as about environmental issues from the standpoint of ships.

## Third-party Opinions

### MOL Selected for Continuing Inclusion in Dow Jones Sustainability Indexes (DJSI)

Since 2003, MOL has been included in the DJSI, a designation reserved for companies capable of sustaining growth over the long term while maintaining excellence in environmental, social, and investor relations programs. In September 2006, MOL was selected for continuing inclusion in the DJSI.

### MOL Selected for Continuing Inclusion in the FTSE4Good Global Index

FTSE is a global index company owned by The Financial Times and the London Stock Exchange. Since 2003, FTSE has included MOL in one of its major indices, the FTSE4Good Global Index, which is a socially responsible investment index. In April 2007, MOL was selected for continuing inclusion in the index.

### MOL Selected for Continuing Inclusion in the Morningstar Socially Responsible Investment Index (MS-MRI)

The MS-MRI, Japan's first socially responsible investment index, is based on the stock prices of 150 of Japan's listed companies that have been selected by Morningstar Japan K.K. for superior social responsibility. MOL has been included in the MS-MRI since 2003. In September 2006, MOL was selected for continuing inclusion in the index.

*MOL's approach to CSR and environmental issues is discussed in detail in our Environmental and Social Report.*
*URL: http://www.mol.co.jp/csr-e/index.shtml*

# Financial Section

## Contents

# Management's Discussion and Analysis

Kenichi Yonetani
*Senior Managing Executive Officer*

## The MOL Group's Financial Strategy—Current Status and Future Direction

As a result of relentless cost cutting efforts in the past decade, including the disposal of uneconomical ships in the fleet and measures to deal with unprofitable companies in the group, the company now has a stronger financial structure. Under MOL STEP, the three-year management plan that was commenced in fiscal 2004, MOL recorded sustained growth in ordinary income, which rose from ¥90.6 billion in fiscal 2003 to ¥182.5 billion in fiscal 2006, and an increase of 2.2 times in net income, which increased from ¥55.4 billion to ¥120.9 billion over the same period. Despite fluctuating market conditions and rising fuel prices, MOL was able to sustain growth in profits at a high level. Details about our performance are provided in the "To Our Shareholders" and "Overview of Operations" sections of this report. In this section, we evaluate our financial strategy under MOL STEP and introduce the financial strategy that we will implement under our new management plan, MOL ADVANCE.

### MOL STEP Review Financial Targets—Progress and Evaluation

We cleared the target for shareholders' equity, but we failed to achieve the equity ratio and gearing ratio targets. The three-year cumulative total of net income was in line with the plan. With a background of favorable market conditions and robust demand, we made a strategic decision to put a high priority on timely fleet expansion, which resulted in increases in total assets—from the projected ¥1,272 billion to ¥1,640 billion—and in interest-bearing debt. Consequently, we succeeded in increasing stable earnings and in reinforcing our earnings structure.

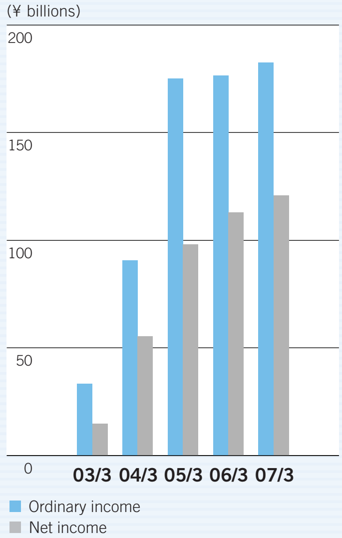
| | MOL STEP Review Target | FY2006 Results |
|---|---|---|
| Shareholders' equity | ¥490.0 billion | ¥550.8 billion |
| Equity ratio | 38% | 33.6% |
| Gearing ratio | 80% | 103% |

**Fund-Raising**

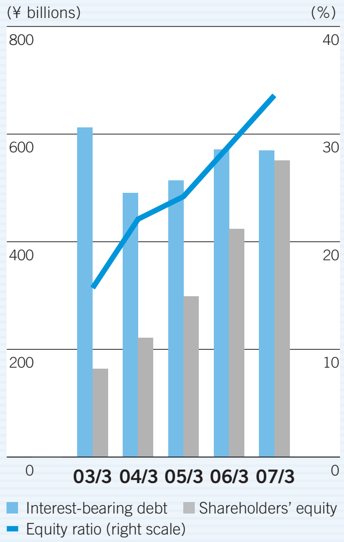
To ensure stable fund-raising and cost-competitiveness, we utilize a variety of fund-raising methods. For example, in March 2006, we issued ¥50.0 billion in euro yen zero coupon convertible bonds due 2011. The zero coupon format ensures that costs will remain low until the bonds are converted. When they are converted, we will effectively raise capital while controlling dilution. By accelerating the introduction of additional capital—on top of organic growth in equity—we will prepare for increased investment in the years ahead. We will secure greater financial flexibility, which will enable us to raise funds under more favorable terms.

The funds raised have been and will be used mainly for capital expenditures and the repayment of the loans with relatively higher interest rates. For instance, in March 2005, we implemented in-substance defeasance for bonds No. 6, 7, and 9, thereby moving a total of ¥29.4 billion off the balance sheet. This is one of the ways we are controlling the increase in interest-bearing debt within acceptable limits, despite maintaining a high level of capital investment. Other uses of cash flows include investment in group reorganization initiatives. In October 2004, through a tender offer we acquired a controlling interest in Daibiru Corporation, which owns and leases 17 office buildings in Tokyo and Osaka. In February 2006, we completed a tender offer for the shares of Utoc Corporation, which runs a harbor and transportation business. We eventually made these two companies consolidated subsidiaries. We are also using cash flow to implement external growth strategies. In January 2006, for example, we acquired the rights to P&ONL's Europe-South Africa routes from AP Moller-Maersk.

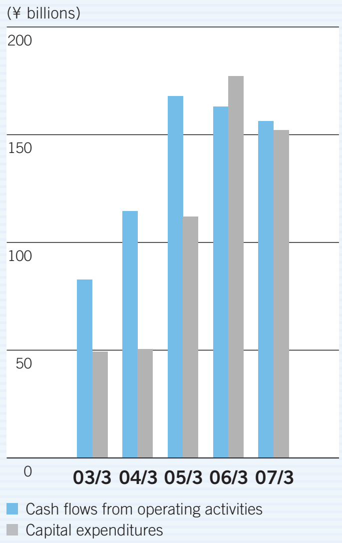
Ordinary Income, Net Income



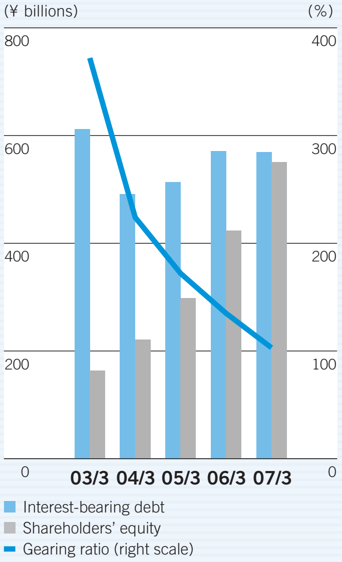

Interest-bearing Debt, Shareholders' Equity and Equity Ratio



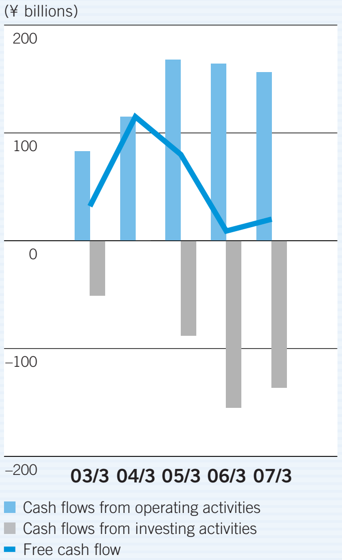

Cash Flows and Capital Expenditures



Interest-bearing Debt, Shareholders' Equity and Gearing Ratio




Cash Flows from Operating Activities, Cash Flows from Investing Activities, Free Cash Flow




Free Cash Flow = Cash flows from operating activities + Cash flows from investing activities

# Financial Quality in Growth

### Capital Policy

In accordance with its growth strategy, since 2001, MOL has sustained aggressive capital investment and worked to increase its enterprise value through growth in profits. On the other hand, we have strengthened our financial position with an increase in shareholders' equity, which we believe to be essential for a higher credit rating, and we improved our financial resiliency. In order to maintain a balance between interest-bearing debt and shareholders' equity, we monitor this relationship with the gearing ratio, which has continued to decline in the past decade. As a result of this process, however, ROE fell from more than 30% to about 25%, and is likely to decrease to a few percentage points below 20% at the end of fiscal 2009. We are well aware of this declining trend for ROE. We believe that we have taken steps to lay the foundation for the next stage of growth. With support from strong demand for ships, the top priority under MOL ADVANCE will be the achievement of sustained growth in both quantity and quality. Our capital policy in the period from fiscal 2007 to fiscal 2009 is to increase shareholders' equity at a pace exceeding that of interest-bearing debt, and thereby reducing the gearing ratio. As a result, ROE will decline. We will sustain a dividend payout ratio of 20%. While maintaining a careful balance between shareholders' equity and interest-bearing debt, we will give priority to investment for future growth.

### Various Types of Fund-raising for Vessel Procurement

With growth in profits since 2005, we have been able to fund a large portion of capital investment with cash flow. Currently, we have a very high degree of financial flexibility for vessel procurements, with such options as owning directly or through wholly owned SPCs, charters, financing, operating leases, and ship funds. From the range of options available to us, we will select the method and institution that offers the most competitive terms.

Generally speaking, for vessels that require advanced levels of ship management, such as LNG carriers, crude oil tankers, and large containerships, and for specialized vessels, such as wood chip carriers and car carriers, our basic policy is to own them directly or through wholly owned SPCs. On the other hand, we typically charter multi-purpose dry bulkers from domestic shipowners who are interested in owning them and have abundant ship management experience.

MOL-owned vessels are financed with cash flow or borrowings from such institutions as banks and life insurance companies. Vessels owned by MOL's wholly owned SPCs are financed with borrowing and/or equity from MOL. Also, as a hedge against residual value risk, we utilize operating leases in some cases.

For LNG carriers owned by equity-method affiliates, we generally raise funds on a project finance basis to reduce our contingent liability. MOL has actively played a key role in project finance activities. As a project leader, MOL successfully leads two project finance deals for the record-setting RasGas II project (April 2004, US$569 million), and for the RasGas III project, the largest in history, (January 2006, US$1,632 million). In the future, we will continue to make use of this experience and know-how and actively participate in other projects.

### Cash Management

With expansion in the scale of operations and favorable market conditions, our cash inflows are increasing, and in the future, the importance of efficient cash management will continue to heighten. Using global cash management, which we introduced in fiscal 2001, we quickly collect from major overseas shipping agents the fares and charter fees paid by customers. We have steadily expanded the coverage of this system to the Americas, Europe, Asia, and Oceania. We have also been using a cash management service for group companies in Japan—44 companies as of March 2007. The amount of cash handled through this system is increasing steadily, and we continue working to increase cash management efficiency for the group overall while reducing interest-bearing debt. At the same time, we will continue working to speed up the recovery of outstanding receivables.

### Credit Ratings

MOL recognizes that credit ratings represent the opinions of neutral institutions regarding the certainty of a company's ability to generate cash flows from its operations, which are the source of the funds used to service debt. Therefore, the rating upgrades that we have received in the past few years, which are based on the qualitative and quantitative analyses of outside experts, reaffirm that we have further bolstered our ability to generate cash flow.

As of March 2007, MOL's rating from four domestic and overseas rating agencies were as follows:

| | |
|---|---|
| R&I | A+ |
| JCR | A+ positive |
| Moody's | Baa1 positive |
| Standard & Poors | BBB |

From the viewpoint of the finance officer, the external environment is favorable, including foreign exchange rates and interest rates as well as steady market growth. It is especially in times like this, however, that attention must be paid to preparing for a crisis. The most important challenge in this environment is to improve our credit ratings so that we can secure funds on competitive terms. Accordingly, our objective is to earn ratings of at least A from overseas rating agencies and AA from domestic rating agencies, and we will continue striving to earn even higher ratings. As mentioned, shareholders' equity plays a key role in the rating process.

**Exchange Rate and Interest Rate Risk Management**

Exchange rate risk as a percentage of consolidated ordinary income is declining, and exchange rate volatility is also decreasing. On the other hand, the differential between domestic and overseas interest rates has led to increases in the cost of foreign exchange forward contracts. In consideration of this trend, we will take steps to prepare for a certain degree of yen appreciation while reaping the benefits of yen depreciation, and we will work to control costs. Looking at our exchange rate sensitivity, under recent conditions, a change of one yen in the yen-dollar exchange rate has raised or lowered ordinary income by about ¥2.3 billion a year. In the future, as we expand our operations we anticipate continued growth in cross trade, and exchange rate risk management will become even more important. Accordingly, to control risk, we must implement hedging transactions. Regarding interest rate risk, in yen, we have worked to increase the percentage of our obligations that carry fixed rates, and over the short term we will maintain the current fixed-rate percentage. In dollars, we will track interest rate trends, and work to raise the percentage of our obligations that carry fixed rates especially in containership operations, which have been more susceptible to the influence of market fluctuations.

**MOL ADVANCE**

MOL ADVANCE, the company's sixth mid-term management plan, covers the period from fiscal 2007 to 2009. Under MOL ADVANCE, we will implement aggressive capital investment and increase shareholders' equity, thereby further strengthening our financial position. We will work to achieve further growth, both in quantity and quality, thereby establishing the leading position in the global shipping industry and building the foundation for taking advantage of larger business opportunities.

## Financial Indicators under MOL ADVANCE

1.
Shareholders' equity ratio:
40% or more

Over the three years of MOL STEP, our financial position was considerably strengthened. We are planning substantial capital investment under MOL ADVANCE as well as the three subsequent years, fiscal 2010 to fiscal 2012. In this environment, in order to implement flexible fund-raising under favorable terms and to reinforce our ability to handle risk, a strong level of shareholders' equity is essential. Accordingly, we will continue working to increase shareholders' equity, and we will strive to raise the ratio to more than 40% by March 2010.

2.
Gearing ratio:
1 time or less

In accordance with the growth strategies included in MOL ADVANCE, to further raise enterprise value we are planning ongoing capital investment, centered on continued aggressive fleet expansion measures. The total amount of our interest-bearing debt is projected to increase. To avoid weakening our financial position, we will maintain a close focus on the gearing ratio, which we will use as an indicator of the balance between interest-bearing debt and shareholders' equity.

3.
ROA:
7% or more

We are always conscious of the importance of capital efficiency, and in consideration of our asset structure—which has the distinctive characteristic of a high percentage of chartered and leased vessels—we will use it as a yardstick for monitoring management. In fiscal 2006, our ROA was 7.8%. To maintain capital efficiency even after increasing the scale of our assets, we will not change our policy of maintaining ROA above 7%.

# Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2007** | 2006 | **2007** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 51,383** | ¥ 60,267 | **$ 435,265** |
| Marketable securities (Note 3) | **87** | 61 | **737** |
| Trade receivables | **197,262** | 170,480 | **1,671,004** |
| Allowance for doubtful accounts | **(1,782)** | (2,078) | **(15,095)** |
| Fuel and supplies | **28,438** | 25,918 | **240,898** |
| Deferred and prepaid expenses | **59,022** | 50,302 | **499,975** |
| Deferred tax assets (Notes 2 (14) and 12) | **6,191** | 7,249 | **52,444** |
| Other current assets | **64,873** | 28,156 | **549,537** |
| Total current assets | **405,474** | 340,355 | **3,434,765** |
| **Vessels, property, plant and equipment** (Note 5): | | | |
| Vessels | **1,037,938** | 990,867 | **8,792,359** |
| Buildings and structures | **201,597** | 197,178 | **1,707,726** |
| Equipment, mainly containers | **69,078** | 66,815 | **585,159** |
| Land | **180,459** | 180,525 | **1,528,666** |
| Vessels and other property under construction | **126,637** | 79,979 | **1,072,740** |
| | **1,615,709** | 1,515,364 | **13,686,650** |
| Accumulated depreciation | **(768,049)** | (745,462) | **(6,506,133)** |
| Net vessels, property, plant and equipment | **847,660** | 769,902 | **7,180,517** |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3 and 5) | **175,403** | 155,507 | **1,485,837** |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies | **92,589** | 84,596 | **784,320** |
| Long-term loans receivable | **31,492** | 28,470 | **266,768** |
| Goodwill (Note 2 (1)) | **9,836** | 16,970 | **83,321** |
| Other intangible fixed assets | **9,482** | 8,545 | **80,322** |
| Deferred tax assets (Notes 2 (14) and 12) | **2,707** | 3,024 | **22,931** |
| Other assets | **65,297** | 63,455 | **553,129** |
| Total investments and other assets | **386,806** | 360,567 | **3,276,628** |
| | **¥1,639,940** | ¥1,470,824 | **$13,891,910** |

See accompanying notes.

| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY/NET ASSETS | Millions of yen 2007 | Millions of yen 2006 | Thousands of U.S. dollars (Note 1) 2007 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans | ¥ 73,123 | ¥ 65,480 | $ 619,424 |
| Short-term bonds | 4,112 | 15,946 | 34,833 |
| Commercial paper | 12,000 | 17,000 | 101,652 |
| Total short-term debt (Note 5) | 89,235 | 98,426 | 755,909 |
| Long-term bank loans due within one year | 74,689 | 51,398 | 632,690 |
| Bonds due within one year | 6,960 | 21,989 | 58,958 |
| Total long-term debt due within one year (Note 5) | 81,649 | 73,387 | 691,648 |
| Trade payables | 151,193 | 126,190 | 1,280,754 |
| Advances received | 67,570 | 59,063 | 572,385 |
| Accrued income taxes | 38,390 | 31,600 | 325,201 |
| Deferred tax liabilities (Notes 2 (14) and 12). | 2,320 | 692 | 19,653 |
| Other current liabilities | 52,453 | 43,665 | 444,328 |
| Total current liabilities | 482,810 | 433,023 | 4,089,878 |
| Long-term bank loans due after one year | 273,044 | 291,930 | 2,312,952 |
| Bonds due after one year | 125,490 | 107,687 | 1,063,024 |
| **Total long-term debt due after one year** (Note 5) | 398,534 | 399,617 | 3,375,976 |
| **Employees' severance and retirement benefits** (Note 13) | 14,937 | 14,063 | 126,531 |
| **Directors' and corporate auditors' retirement benefits** | 2,373 | 2,370 | 20,102 |
| **Consolidation difference** (Note 2 (1)) | – | 2,756 | – |
| **Deferred tax liabilities** (Notes 2 (14) and 12) | 78,731 | 57,582 | 666,929 |
| **Other non-current liabilities** | 41,566 | 68,608 | 352,104 |
| **Minority interests** | – | 68,344 | – |
| **Commitments and contingent liabilities** (Note 6) | | | |
| **Shareholders' equity** (Note 7): | | | |
| Common stock; | | | |
| Authorized – 3,154,000,000 shares | | | |
| Issued – 1,205,410,445 shares | – | 64,915 | – |
| Capital surplus | – | 43,887 | – |
| Retained earnings | – | 275,689 | – |
| | – | 384,491 | – |
| Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5)) | – | 48,731 | – |
| Foreign currency translation adjustments | – | (4,713) | – |
| Treasury stock, at cost | – | (4,048) | – |
| Total shareholders' equity | – | 424,461 | – |
| **Net assets** (Note 7): | | | |
| **Owners' equity** | | | |
| Common stock; | | | |
| Authorized – 3,154,000,000 shares | | | |
| Issued – 1,205,410,445 shares | 64,915 | – | 549,894 |
| Capital surplus | 43,887 | – | 371,766 |
| Retained earnings | 375,443 | – | 3,180,373 |
| Treasury stock, at cost | (4,154) | – | (35,188) |
| Total owners' equity | 480,091 | – | 4,066,845 |
| **Accumulated gains (losses) from valuation and translation adjustments** | | | |
| Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5)) | 57,771 | – | 489,377 |
| Unrealized gains on hedging derivatives, net of tax | 15,898 | – | 134,672 |
| Foreign currency translation adjustments | (2,996) | – | (25,379) |
| Total accumulated gains (losses) from valuation and translation adjustments | 70,673 | – | 598,670 |
| **Share subscription rights** | 366 | – | 3,100 |
| **Minority interests** | 69,859 | – | 591,775 |
| Total net assets | 620,989 | – | 5,260,390 |
| | ¥1,639,940 | ¥1,470,824 | $13,891,910 |

# Consolidated Statements of Income

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Shipping and other revenues** (Note 11) | **¥1,568,435** | ¥1,366,725 | **$13,286,192** |
| **Shipping and other expenses** (Note 11) | **1,300,038** | 1,101,459 | **11,012,605** |
| **Gross operating income** | **268,397** | 265,266 | **2,273,587** |
| **Selling, general and administrative expenses** (Note 11) | **100,324** | 92,273 | **849,843** |
| **Operating income** (Note 11) | **168,073** | 172,993 | **1,423,744** |
| Other income (expenses): | | | |
| Interest and dividend income | **7,628** | 4,889 | **64,617** |
| Interest expense | **(18,276)** | (15,846) | **(154,816)** |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | **16,171** | 16,817 | **136,984** |
| Impairment loss (Note 8) | **–** | (1,870) | **–** |
| Others, net (Note 9) | **24,258** | 11,307 | **205,489** |
| | **29,781** | 15,297 | **252,274** |
| **Income before income taxes and minority interests** | **197,854** | 188,290 | **1,676,018** |
| **Income taxes** (Notes 2 (14) and 12): | | | |
| Current | **(63,042)** | (61,200) | **(534,028)** |
| Deferred | **(7,468)** | (7,570) | **(63,261)** |
| Minority interests | **(6,404)** | (5,788) | **(54,248)** |
| **Net income** | **¥ 120,940** | ¥ 113,732 | **$ 1,024,481** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Amounts per share of common stock** (Note 2 (15)): | | | |
| Net income | **¥101.20** | ¥94.98 | **$0.857** |
| Diluted net income | **97.41** | 94.88 | **0.825** |
| Cash dividends applicable to the year | **20.00** | 18.00 | **0.169** |

See accompanying notes.

# Consolidated Statement of Shareholders' Equity

Mitsui O.S.K. Lines, Ltd. Year ended March 31, 2006

| | Shares of common stock (Thousands) | Millions of yen: Common stock | Capital surplus | Retained earnings | Revaluation reserve for land, net of tax | Unrealized holding gains on available-for-sale securities, net of tax | Foreign currency translation adjustments | Treasury stock, at cost |
|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2005 | 1,205,410 | ¥64,915 | ¥43,887 | ¥182,143 | ¥ 2,267 | ¥25,898 | ¥(17,137) | ¥(3,715) |
| Due to change in consolidated subsidiaries | – | – | – | 1,278 | – | – | – | – |
| Due to change in affiliated companies accounted for by the equity method | – | – | – | (155) | – | – | – | – |
| Net income | – | – | – | 113,732 | – | – | – | – |
| Revaluation reserve for land, net of tax | – | – | – | – | (2,267) | – | – | – |
| Unrealized holding gains on available-for-sale securities, net of tax | – | – | – | – | – | 22,833 | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | – | 12,424 | – |
| Treasury stock, at cost | – | – | – | – | – | – | – | (333) |
| Loss on disposal of treasury stock | – | – | – | (186) | – | – | – | – |
| Dividends paid | – | – | – | (20,925) | – | – | – | – |
| Bonuses to directors and corporate auditors | – | – | – | (198) | – | – | – | – |
| Balance at March 31, 2006 | 1,205,410 | ¥64,915 | ¥43,887 | ¥275,689 | – | ¥48,731 | ¥ (4,713) | ¥(4,048) |

# Consolidated Statement of Changes in Net Assets

Mitsui O.S.K. Lines, Ltd. Year ended March 31, 2007

Millions of yen

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized holding gains on available-for-sale securities, net of tax | Unrealized gains on hedging derivatives, net of tax | Foreign currency translation adjustments | Share subscription rights | Minority interests |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity at March 31, 2006 as previously reported | ¥64,915 | ¥43,887 | ¥275,689 | ¥(4,048) | ¥48,731 | – | ¥(4,713) | – | – |
| Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006 | – | – | – | – | – | – | – | – | 68,344 |
| Net assets at April 1, 2006 | ¥64,915 | ¥43,887 | ¥275,689 | ¥(4,048) | ¥48,731 | – | ¥(4,713) | – | ¥68,344 |
| Due to change in consolidated subsidiaries | – | – | (352) | – | – | – | – | – | – |
| Due to change in affiliated companies accounted for by the equity method | – | – | 783 | – | – | – | – | – | – |
| Due to change in accounting period of consolidated subsidiaries | – | – | (65) | – | – | – | – | – | – |
| Due to merger of affiliated companies accounted for by the equity method | – | – | 240 | – | – | – | – | – | – |
| Net income | – | – | 120,940 | – | – | – | – | – | – |
| Purchases of treasury stock | – | – | – | (853) | – | – | – | – | – |
| Disposal of treasury stock | – | – | (37) | 747 | – | – | – | – | – |
| Dividends paid | – | – | (21,520) | – | – | – | – | – | – |
| Bonuses to directors and corporate auditors | – | – | (235) | – | – | – | – | – | – |
| Net changes during the year | – | – | – | – | 9,040 | 15,898 | 1,717 | 366 | 1,515 |
| Balance at March 31, 2007 | ¥64,915 | ¥43,887 | ¥375,443 | ¥(4,154) | ¥57,771 | ¥15,898 | ¥(2,996) | ¥366 | ¥69,859 |

Thousands of U.S. dollars (Note 1)

| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized holding gains on available-for-sale securities, net of tax | Unrealized gains on hedging derivatives, net of tax | Foreign currency translation adjustments | Share subscription rights | Minority interests |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity at March 31, 2006 as previously reported | $549,894 | $371,766 | $2,335,358 | $(34,291) | $412,800 | – | $(39,924) | – | – |
| Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006 | – | – | – | – | – | – | – | – | 578,941 |
| Net assets at April 1, 2006 | $549,894 | $371,766 | $2,335,358 | $(34,291) | $412,800 | – | $(39,924) | – | $578,941 |
| Due to change in consolidated subsidiaries | – | – | (2,982) | – | – | – | – | – | – |
| Due to change in affiliated companies accounted for by the equity method | – | – | 6,633 | – | – | – | – | – | – |
| Due to change in accounting period of consolidated subsidiaries | – | – | (550) | – | – | – | – | – | – |
| Due to merger of affiliated companies accounted for by the equity method | – | – | 2,033 | – | – | – | – | – | – |
| Net income | – | – | 1,024,481 | – | – | – | – | – | – |
| Purchases of treasury stock | – | – | – | (7,225) | – | – | – | – | – |
| Disposal of treasury stock | – | – | (313) | 6,328 | – | – | – | – | – |
| Dividends paid | – | – | (182,296) | – | – | – | – | – | – |
| Bonuses to directors and corporate auditors | – | – | (1,991) | – | – | – | – | – | – |
| Net changes during the year | – | – | – | – | 76,577 | 134,672 | 14,545 | 3,100 | 12,834 |
| Balance at March 31, 2007 | $549,894 | $371,766 | $3,180,373 | $(35,188) | $489,377 | $134,672 | $(25,379) | $3,100 | $591,775 |

See accompanying notes.

# Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 197,854 | ¥ 188,290 | $ 1,676,018 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities | | | |
| Depreciation and amortization | 68,581 | 65,700 | 580,949 |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies, net | (16,171) | (16,817) | (136,984) |
| Impairment loss | – | 1,870 | – |
| Loss on write-down of investment securities | 6 | 84 | 51 |
| Loss on write-down of securities issued by subsidiaries and affiliated companies | 204 | 245 | 1,728 |
| Various provisions (reversals) | (147) | 228 | (1,245) |
| Interest and dividend income | (7,628) | (4,889) | (64,617) |
| Interest expense | 18,276 | 15,846 | 154,816 |
| Gain on sale of investment securities | (851) | (2,842) | (7,209) |
| Gain on sale of securities issued by subsidiaries and affiliated companies | (5,157) | (146) | (43,685) |
| Gain on sale and disposal of vessels, property, plant and equipment | (13,393) | (12,403) | (113,452) |
| Exchange loss, net | 2,013 | 4,470 | 17,052 |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | (23,434) | (33,189) | (198,509) |
| Fuel and supplies | (2,497) | (10,611) | (21,152) |
| Trade payables | 22,175 | 13,499 | 187,844 |
| Others, net | (21,917) | 26,005 | (185,658) |
| Sub total | 217,914 | 235,340 | 1,845,947 |
| Cash received for interest and dividend | 14,098 | 10,138 | 119,424 |
| Cash paid for interest | (19,099) | (15,128) | (161,787) |
| Cash paid for corporate income tax, resident tax and enterprise tax | (56,495) | (66,436) | (478,569) |
| Net cash provided by operating activities | 156,418 | 163,914 | 1,325,015 |
| **Cash flows from investing activities:** | | | |
| Purchase of marketable securities | (10,288) | – | (87,150) |
| Purchase of investment securities | (9,358) | (26,652) | (79,271) |
| Proceeds from sale of marketable securities | 10,305 | 4 | 87,294 |
| Proceeds from sale of investment securities | 8,889 | 9,911 | 75,299 |
| Payments for purchase of subsidiaries' securities due to change in consolidated subsidiaries | – | (927) | – |
| Payments for purchase of vessels and other tangible and intangible fixed assets | (152,180) | (177,226) | (1,289,115) |
| Proceeds from sale of vessels and other tangible and intangible fixed assets | 25,160 | 33,228 | 213,130 |
| Disbursements for loans receivable | (6,778) | (5,474) | (57,416) |
| Collections of loans receivable | 3,964 | 4,198 | 33,579 |
| Net increase in short-term loans receivable | (9,569) | (455) | (81,059) |
| Others, net | 3,806 | 8,317 | 32,240 |
| Net cash used in investing activities | (136,049) | (155,076) | (1,152,469) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term bonds | (13,186) | 9,675 | (111,698) |
| Net increase (decrease) in short-term bank loans | 5,502 | (4,024) | 46,607 |
| Net decrease in commercial paper | (5,000) | (17,000) | (42,355) |
| Proceeds from long-term bank loans | 64,041 | 74,709 | 542,490 |
| Repayments of long-term bank loans | (60,126) | (92,008) | (509,327) |
| Proceeds from issuance of bonds | 31,039 | 64,545 | 262,931 |
| Redemption of bonds | (26,887) | (5,918) | (227,759) |
| Cash dividends paid by the Company | (21,498) | (20,884) | (182,109) |
| Purchase of treasury stock | (852) | (461) | (7,217) |
| Sale of treasury stock | 735 | 395 | 6,226 |
| Cash dividends paid to minority interests | (2,693) | (3,817) | (22,812) |
| Others, net | (218) | (3,390) | (1,847) |
| Net cash provided by (used in) financing activities | (29,143) | 1,822 | (246,870) |
| **Effect of exchange rate changes on cash and cash equivalents** | (1,058) | 2,793 | (8,963) |
| **Net increase (decrease) in cash and cash equivalents** | (9,832) | 13,453 | (83,287) |
| **Cash and cash equivalents at beginning of year** | 60,267 | 45,757 | 510,521 |
| **Net cash increase from new consolidation/deconsolidation of subsidiaries** | 948 | 1,057 | 8,031 |
| **Cash and cash equivalents at end of year** | ¥ 51,383 | ¥ 60,267 | $ 435,265 |

See accompanying notes.

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (together "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of shareholders' equity for the year ended March 31, 2006) from the consolidated financial statements of Mitsui O.S.K. Lines, Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (19) 3, is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (17), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (1) PRINCIPLES OF CONSOLIDATION

All companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

The consolidated financial statements include the accounts of the Company and 264 subsidiaries for the year ended March 31, 2007 (275 subsidiaries for the year ended March 31, 2006). All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method. Companies accounted for using the equity method include 1 unconsolidated subsidiary and 53 affiliated companies for the year ended March 31, 2007, and 2 unconsolidated subsidiaries and 48 affiliated companies for the year ended March 31, 2006. Investments in other subsidiaries (129 for the year ended March 31, 2007 and 122 for the year ended March 31, 2006) and affiliated companies (88 and 91 for the respective years) were stated at cost since the Company's equity in net income and retained earnings in such companies were not material.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference of acquisition cost over net assets acquired is shown as consolidation difference for the year ended March 31, 2006 and goodwill for the year ended March 31, 2007, and amortized over 5 to 14 years. Negative goodwill for the year ended March 31, 2007 is offset by and shown as goodwill.

Amortization of consolidation difference/goodwill is included in "Other income" of the consolidated statements of income.

### (2) TRANSLATION OF FOREIGN CURRENCY

Revenues earned and expenses incurred in currencies other than Japanese yen of the Company and its subsidiaries keeping their books in Japanese yen are translated into Japanese yen either at a monthly exchange rate or at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than Japanese yen are translated into yen at the exchange rate prevailing at the balance sheet date.

Subsidiaries keeping their books in a currency other than Japanese yen translate the revenues and expenses and assets and liabilities in foreign currencies into the currency used for financial reporting in accordance with accounting principles generally accepted in their respective countries.

All the items in financial statements of subsidiaries, which are stated in currencies other than Japanese yen, were translated into Japanese yen at the year-end exchange rate, except for owners' equity which is translated at historical rates. Translation differences arising from the application of more than one exchange rate are presented as foreign currency translation adjustments in the net assets section of the consolidated balance sheets.

### (3) CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (4) FREIGHT REVENUES AND RELATED EXPENSES

**1. Containerships**

Freight revenues and the related voyage expenses are recognized by the multiple transportation progress method.

**2. Vessels other than containerships**

Freight revenues and the related voyage expenses are recognized mainly by the completed-voyage method. Payments received for uncompleted voyages are included in "Advances received" and the related voyage expenses are included in "Deferred and prepaid expenses" in the consolidated balance sheets.

### (5) SECURITIES

Securities are classified into (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as separate component of net assets/shareholders' equity. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Held-to-maturity debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net assets value with a corresponding charge in the income statement in the event net assets value declines significantly. In these cases, such fair market value or the net assets value will be the carrying amount of the securities at the beginning of the next year.

### (6) FUEL AND SUPPLIES

Fuel and supplies are stated principally at cost determined by the moving-average method.

### (7) DEPRECIATION OF VESSELS, PROPERTY, PLANT AND EQUIPMENT

Depreciation of vessels and buildings is computed mainly by the straight-line method. Depreciation of other property, plant and equipment is computed mainly by the declining-balance method.

### (8) AMORTIZATION OF BOND ISSUE EXPENSE AND STOCK ISSUE EXPENSE

Bond issue expense and stock issue expense are charged to income as incurred.

### (9) INTEREST CAPITALIZATION

In cases where a vessel's construction period is long and the amount of interest accruing during this period is significant, such interest expenses are capitalized as a part of the acquisition cost which amounted to ¥2,150 million ($18,213 thousand) for the year ended March 31, 2007.

### (10) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of the Company's collection losses.

### (11) EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Company has tax-qualified pension plans for employees engaged in shore and sea services. Employees engaged in sea service who retire prior to a certain age are also entitled to a lump-sum payment. Some subsidiaries have tax-qualified pension plans which cover all or a part of the retirement benefits and some other subsidiaries have established reserves for a lump-sum payment for retirement benefits.

Under the accounting standards for employees' severance and retirement benefits adopted on April 1, 2000, liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries (the "Group") provided allowance for employees' severance and retirement benefits at March 31, 2007 and 2006 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period.

### (12) DIRECTORS' AND CORPORATE AUDITORS' RETIREMENT BENEFITS

The Group recognizes liabilities for retirement benefits for directors and corporate auditors at an amount required in accordance with the internal regulations had all directors and corporate auditors terminated as of the balance sheet date.

Effective from the shareholders' meeting of the Company, held on June 23, 2005, the Company abolished the retirement benefits plan for directors and corporate auditors. Accordingly, the Company recognizes liabilities for retirement benefit for directors and corporate auditors till the completion of the shareholders' meeting on June 23, 2005, which will be paid upon their retirement.

### (13) ACCOUNTING FOR CERTAIN LEASE TRANSACTIONS

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under Japanese GAAP.

### (14) INCOME TAXES

The Group recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

### (15) AMOUNTS PER SHARE OF COMMON STOCK

Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during the year.

Fully diluted net income per share of common stock assumes exercise of the outstanding stock options and conversion of the convertible bonds at the beginning of the year or at the date of issuance.

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

### (16) DERIVATIVES AND HEDGE ACCOUNTING

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedging instruments and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedging instruments and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The following summarizes hedging derivative financial instruments used by the Group and items hedged:

| Hedging instruments: | Hedged items: |
|---|---|
| Loans payable in foreign currencies | Foreign currency future transactions |
| Forward foreign exchange contracts | Foreign currency future transactions |
| Currency option contracts | Foreign currency future transactions |
| Currency swap contracts | Foreign currency loans payable |
| Interest rate swap contracts | Interest on loans and bonds payable |
| Crude oil swap contracts | Fuel oil |
| Commodities futures | Fuel oil |
| Freight futures | Freight |

The derivative transactions are executed and managed by the Company in accordance with the established policies in order to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange rate fluctuations.

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the cumulative changes in cash flows from or the changes in fair value of hedging instruments.

### (17) STATEMENT OF CHANGES IN NET ASSETS

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for statement of changes in net assets ("Accounting Standard for Statement of Changes in Net Assets" issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets ("the Financial Accounting Standard Implementation Guidance No. 9" issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adopted to the new presentation rules of 2007.

### (18) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2007 presentation. These changes had no impact on previously reported results of operations or cash flows or shareholders' equity.

### (19) CHANGES IN ACCOUNTING METHOD

#### 1. Freight revenues and related expenses for containerships

Effective from the year ended March 31, 2006, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method. Under the multiple transportation progress method, freight revenues and the related voyage expenses are recognized in accordance with the progress of transportation for each cargo. The reasons for the change are the recent dramatic progress of day-fixed weekly services using worldwide network coverage by means of "Alliance" formed with other shipping companies, and progress of consolidated transportation services using various means of transportation including trucks and trains. In light of such dramatic change in conditions of container business, a new calculation method has been determined to be more appropriate than the current calculation method and was finally adopted as from this financial period. As a result of this change, shipping and other revenues increased by ¥25,274 million, operating income and income before income taxes and minority interests increased by ¥962 million, in comparison with the results under the previous method of accounting. The effect of the change in segment information is disclosed in Note 11.

**2. Impairment of fixed assets**

Effective April 1, 2005, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of the adoption of these standards, income before income taxes and minority interests decreased by ¥1,870 million. Accumulated impairment loss is deducted from net book value of each asset in accordance with consolidated financial statements reporting standard. The effect of the change in segment information is disclosed in Note 11.

**3. Presentation of net assets in the balance sheet**

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for presentation of net assets in the balance sheet ("Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet ("the Financial Accounting Standard Implementation Guidance No. 8" issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the Additional New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the Additional New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the Additional New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains (losses) on hedging derivatives, net of tax. Under the previous presentation rules, unrealized gains (losses) on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present share subscription rights and minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections, respectively.

The adoption of the Additional New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the Additional New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥534,866 million ($4,530,843 thousand) would have been presented.

**4. Share-based payments**

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments ("Accounting Standard for Share-based Payment" issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment ("the Financial Accounting Standard Implementation Guidance No. 11" issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income and income before income taxes and minority interests decreased by ¥366 million ($3,100 thousand). The effect of the adoption in segment information is disclosed in Note 11.

**5. Bonuses to directors and corporate auditors**

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors ("Accounting Standard for Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income and income before income taxes and minority interests decreased by ¥306 million ($2,592 thousand). The effect of the adoption in segment information is disclosed in Note 11.

## 3. Securities

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2007 and 2006:

(a) Held-to-maturity debt securities:

Securities with available fair values exceeding book values

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Book value | **¥2,011** | ¥2,016 | **$17,035** |
| Fair value | **2,035** | 2,045 | **17,238** |
| Difference | **24** | 29 | **203** |

Securities with available fair values not exceeding book values

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Book value | **¥–** | ¥25 | **$–** |
| Fair value | **–** | 25 | **–** |
| Difference | **–** | – | **–** |

(b) Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2007

| | Millions of yen | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | **¥40,238** | **¥152,561** | **¥112,323** |
| Bonds | **5** | **5** | **0** |
| Others | **494** | **498** | **4** |
| Total | **¥40,737** | **¥153,064** | **¥112,327** |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | **$340,856** | **$1,292,342** | **$951,486** |
| Bonds | **42** | **42** | **0** |
| Others | **4,185** | **4,219** | **34** |
| Total | **$345,083** | **$1,296,603** | **$951,520** |

Securities with book values exceeding acquisition costs at March 31, 2006

| | Millions of yen | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | ¥34,999 | ¥134,223 | ¥99,224 |
| Bonds | – | – | – |
| Others | 494 | 495 | 1 |
| Total | ¥35,493 | ¥134,718 | ¥99,225 |

Securities with book values not exceeding acquisition costs at March 31, 2007

| | Millions of yen | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | **¥5,344** | **¥4,762** | **¥(582)** |
| Bonds | **10** | **10** | **(0)** |
| Others | **4,548** | **4,502** | **(46)** |
| Total | **¥9,902** | **¥9,274** | **¥(628)** |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | **$45,269** | **$40,339** | **$(4,930)** |
| Bonds | **85** | **85** | **(0)** |
| Others | **38,526** | **38,136** | **(390)** |
| Total | **$83,880** | **$78,560** | **$(5,320)** |

Securities with book values not exceeding acquisition costs at March 31, 2006

| | Millions of yen | | |
|---|---|---|---|
| Type | Acquisition cost | Book value | Difference |
| Equity securities | ¥1,838 | ¥1,662 | ¥(176) |
| Bonds | 15 | 15 | (0) |
| Others | 4,439 | 4,415 | (24) |
| Total | ¥6,292 | ¥6,092 | ¥(200) |

B. The following tables summarize book values of securities with no available fair value at March 31, 2007 and 2006:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Type | Book value | | Book value |
| Unlisted equity securities | **¥10,984** | ¥12,478 | **$93,045** |
| Others | **157** | 239 | **1,330** |
| Total | **¥11,141** | ¥12,717 | **$94,375** |

C. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

For the year ended March 31, 2007:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Governmental bonds | **¥ –** | **¥ –** | **¥15** | **–** | **¥ 15** |
| Corporate bonds | **–** | **2,000** | **–** | **–** | **2,000** |
| Others | **32** | **–** | **–** | **–** | **32** |
| Total | **¥32** | **¥2,000** | **¥15** | **–** | **¥2,047** |

| | Thousands of U.S. dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Governmental bonds | **$ –** | **$ –** | **$127** | **–** | **$ 127** |
| Corporate bonds | **–** | **16,942** | **–** | **–** | **16,942** |
| Others | **271** | **–** | **–** | **–** | **271** |
| Total | **$271** | **$16,942** | **$127** | **–** | **$17,340** |

For the year ended March 31, 2006:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Governmental bonds | ¥ – | ¥ – | ¥15 | – | ¥ 15 |
| Corporate bonds | – | 2,000 | – | – | 2,000 |
| Others | 20 | 41 | – | – | 61 |
| Total | ¥20 | ¥2,041 | ¥15 | – | ¥2,076 |

D. There were no held-to-maturity debt securities sold in the years ended March 31, 2007 and 2006.

E. Total sales of available-for-sale securities sold in the years ended March 31, 2007 and 2006 and the related gains and losses were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Proceeds from sales | **¥1,202** | ¥8,219 | **$10,182** |
| Gross realized gains | **868** | 3,558 | **7,353** |
| Gross realized losses | **17** | 778 | **144** |

## 4. Derivative Transactions

The Group enters into derivative transactions to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange fluctuations, in accordance with the guidance determined by the management of the Company.

The following tables summarize the outstanding contract amounts and unrealized gains or losses of financial derivatives of the Group at March 31, 2007 and 2006, for which hedge accounting has not been applied.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **(1) Currency related:** | | | |
| Forward currency exchange contracts | | | |
| Sell (U.S. dollar): | | | |
| Contracts outstanding | **¥7,968** | ¥– | **$67,497** |
| Unrealized losses | **(149)** | – | **(1,262)** |

The following table summarizes the outstanding contract amounts and unrealized gains or losses of currency swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Currency swaps | | | |
| Receive Yen, pay U.S. dollar: | | | |
| Contracts outstanding | ¥35,500 | ¥25,400 | $300,720 |
| Unrealized losses | (2,186) | (1,880) | (18,518) |
| Receive Yen, pay Euro: | | | |
| Contracts outstanding | ¥ 500 | ¥ 500 | $ 4,235 |
| Unrealized losses | (90) | (20) | (762) |
| Receive Euro, pay U.S. dollar: | | | |
| Contracts outstanding | ¥ 6,652 | ¥ – | $ 56,349 |
| Unrealized losses | (10) | – | (85) |
| Receive Euro, pay Yen: | | | |
| Contracts outstanding | ¥ 2,348 | ¥ – | $ 19,890 |
| Unrealized gains | 22 | – | 186 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| **(2) Interest related** | | | |
| Interest rate swaps: | | | |
| Receive floating, pay fixed | | | |
| Contracts outstanding | ¥38,717 | ¥22,023 | $327,971 |
| Unrealized losses | (195) | (591) | (1,652) |
| Receive fixed, pay floating | | | |
| Contracts outstanding | ¥ 1,403 | ¥ 3,550 | $ 11,885 |
| Unrealized gains | 25 | 79 | 212 |

The following table summarizes the outstanding contract amounts and unrealized gains or losses of interest rate swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Interest rate swaps: | | | |
| Receive floating, pay fixed | | | |
| Contracts outstanding | ¥19,932 | ¥19,386 | $168,844 |
| Unrealized losses | (287) | (116) | (2,431) |
| Receive fixed, pay floating | | | |
| Contracts outstanding | ¥16,591 | ¥19,081 | $140,542 |
| Unrealized gains (losses) | (69) | 47 | (584) |
| Receive floating, pay floating | | | |
| Contracts outstanding | ¥13,029 | ¥12,946 | $110,368 |
| Unrealized gains | 20 | 15 | 169 |

Notes: 1. In calculating market values in Japanese yen at the end of the fiscal year, forward exchange rates prevailing at the end of the year for the same values of the respective contracts are used.
2. Market values of interest swaps at the end of the fiscal year are calculated using prices of the contracts at the end of the year quoted by the financial institutions or trading houses with which the relevant transactions were closed.

## 5. Short-term Debt and Long-term Debt

**(1) SHORT-TERM DEBT**

Short-term debt amounting to ¥89,235 million ($755,909 thousand) and ¥98,426 million at March 31, 2007 and 2006, respectively, were principally unsecured. The interest rates on short-term debt were mainly set on a floating rate basis.

**(2) LONG-TERM DEBT**

Long-term debt at March 31, 2007 and 2006 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Bonds:** | | | |
| 1.740% yen bonds due 2007 | **¥ –** | ¥ 15,000 | **$ –** |
| 1.190% yen bonds due 2009 | **10,000** | 10,000 | **84,710** |
| Floating rate yen notes due 2008 | **1,000** | 1,000 | **8,471** |
| Floating/fixed rate Euro medium term notes due 2007-2013 | **28,450** | 28,677 | **241,000** |
| 0.000% yen bonds due 2011 | **50,000** | 50,000 | **423,549** |
| 1.480% yen bonds due 2011 | **1,000** | – | **8,471** |
| 1.460% yen bonds due 2011 | **2,000** | – | **16,942** |
| 1.760% yen bonds due 2014 | **10,000** | 10,000 | **84,710** |
| 1.590% yen bonds due 2015 | **15,000** | 15,000 | **127,065** |
| 2.070% yen bonds due 2016 | **15,000** | – | **127,065** |
| **Secured loans from:** | | | |
| Japan Development Bank due through 2019 at interest rates of 0.50% to 8.50% | **85,393** | 76,848 | **723,363** |
| Other financial institutions due through 2019 at interest rates of 0.45% to 6.40% | **73,755** | 88,448 | **624,778** |
| **Unsecured loans from:** | | | |
| Other financial institutions due through 2022 at interest rates of 0.43% to 7.78% | **188,585** | 178,031 | **1,597,500** |
| | **480,183** | 473,004 | **4,067,624** |
| Amount due within one year | **81,649** | 73,387 | **691,648** |
| | **¥398,534** | ¥399,617 | **$3,375,976** |

At March 31, 2007, the aggregate annual maturity of long-term debt was as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| 2008 | **¥ 81,649** | **$ 691,648** |
| 2009 | **64,097** | **542,965** |
| 2010 | **64,764** | **548,615** |
| 2011 | **81,412** | **689,640** |
| 2012 | **24,825** | **210,292** |
| 2013 and thereafter | **163,436** | **1,384,464** |
| | **¥480,183** | **$4,067,624** |

**(3) ASSETS PLEDGED AND SECURED DEBT**

At March 31, 2007, the following assets were pledged as collateral for short-term debt and long-term debt.

| Assets pledged | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Vessels | **¥230,843** | **$1,955,468** |
| Buildings and structures | **6,580** | **55,739** |
| Land | **5,676** | **48,081** |
| Investment securities | **23,236** | **196,832** |
| Others | **189** | **1,601** |
| | **¥266,524** | **$2,257,721** |

| Secured debt | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Short-term debt | **¥ 585** | **$ 4,956** |
| Long-term debt due within one year | **33,826** | **286,540** |
| Long-term debt due after one year | **125,322** | **1,061,600** |
| | **¥159,733** | **$1,353,096** |

## 6. Commitments and Contingent Liabilities

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable mainly as guarantors or co-guarantors of indebtedness of related and other companies in the aggregate amount of ¥116,513 million ($986,980 thousand).

The BGT project is operated by subsidiaries, which have their own corporate bodies, legally independent of the Company. The assets of the BGT eight LNG carrier transportation project are held in several subsidiaries of the Company, which have their own creditors.

## 7. Net Assets

As described in Note 2 (19) 3, net assets comprises four sections, which are the owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in-capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors.

Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in-capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in-capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 21, 2007, the shareholders approved cash dividends amounting to ¥13,156 million ($111,444 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

### (A) SHARES ISSUED AND OUTSTANDING

Changes in number of shares issued and outstanding during the years ended March 31, 2007 and 2006 were as follows:

| | Shares of common stock (Thousands) | Shares of treasury stock (Thousands) |
|---|---|---|
| Balance at March 31, 2005 | 1,205,410 | 11,046 |
| Net increase during the year | – | 891 |
| Net decrease during the year | – | (1,678) |
| Balance at March 31, 2006 | **1,205,410** | **10,259** |
| Net increase during the year | **–** | **1,204** |
| Net decrease during the year | **–** | **(1,348)** |
| Balance at March 31, 2007 | **1,205,410** | **10,115** |

### (B) SHARE SUBSCRIPTION RIGHTS

Share subscription rights at March 31, 2007 and 2006 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Stock options | **¥366** | – | **$3,100** |
| Total | **¥366** | – | **$3,100** |

**(C) DIVIDENDS**

(1) Dividends paid for the year ended March 31, 2007 were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Approved at the shareholders' meeting held on June 22, 2006 | **¥10,759** | **$ 91,139** |
| Approved at the board of directors held on November 9, 2006 | **10,761** | **91,156** |
| Total | **¥21,520** | **$182,295** |

(2) Dividends included in the retained earnings at March 31, 2007 and to be paid in subsequent periods were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Approved at the shareholders' meeting held on June 21, 2007 | **¥13,156** | **$111,444** |
| Total | **¥13,156** | **$111,444** |

# 8. Impairment Loss

Impairment losses on fixed assets for the year ended March 31, 2006 consisted of the following:

| | Millions of yen |
|---|---|
| **Land:** | |
| Hirayama-cho, Midori-ku, Chiba-shi | ¥ 968 |
| Nasu-machi, Nasu-gun, Tochigi | 8 |
| Itamuro, Kuroiso-shi, Tochigi | 14 |
| Togakushi-mura, Kamiminochi-gun, Nagano | 24 |
| Ago-cho, Shima-shi, Mie | 149 |
| Shima-cho, Shima-shi, Mie | 30 |
| Nakaizu-cho, Tagata-gun, Shizuoka | 1 |
| **Vessels:** | |
| Cruise ship (Nippon Maru) | 676 |
| Total | ¥1,870 |

Notes: 1. The Company recognized impairment losses because (a) the above-mentioned lands, which were a training center and sites to build a rest center, are not expected to be used and their fair value has declined, and (b) fair value of the above-mentioned vessel had declined when its transfer within the Group was decided.
2. The Company and its consolidated subsidiaries grouped their long-lived assets based on consolidated managerial segments, the lowest level for which there is identifiable cash flows that are independent of the cash flows from other groups of assets.
3. The recoverable amount of the assets is net selling price based on real estate appraisal value, publicly-assessed value for tax purpose and vessel appraisal value evaluated by Nippon Kaiji Kentei Kyokai.

There was no impairment loss on fixed assets for the year ended March 31, 2007.

# 9. Other Income (Expenses): Others, Net – Breakdown

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Others, net:** | | | |
| Gain on sale of marketable securities | **¥ 0** | ¥ 0 | **$ 0** |
| Exchange gain (loss), net | **1,656** | (4,140) | **14,028** |
| Amortization of consolidation difference/goodwill | **1,296** | 1,658 | **10,978** |
| Gain on sale of vessels, investment securities and others | **19,918** | 17,856 | **168,725** |
| Loss on sale and disposal of vessels, investment securities and others | **(501)** | (2,472) | **(4,244)** |
| Loss arising from dissolution of subsidiaries and affiliated companies | **(197)** | (424) | **(1,669)** |
| Loss on write-down of investment securities and others | **(210)** | (329) | **(1,779)** |
| Provision for doubtful accounts | **(172)** | (1,247) | **(1,457)** |
| Special retirement | **(325)** | (534) | **(2,753)** |
| Loss arising from marine incident | **(2,213)** | – | **(18,746)** |
| Sundries, net | **5,006** | 939 | **42,406** |
| Total | **¥24,258** | ¥11,307 | **$205,489** |

## 10. Leases

**AS LESSEE:**

**(A) INFORMATION ON FINANCE LEASES ACCOUNTED FOR AS OPERATING LEASES:**

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2007 of finance leases that do not transfer ownership to the lessee is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Equipment, mainly containers | Other | Total |
| Acquisition cost | ¥51,639 | ¥626 | ¥52,265 |
| Accumulated depreciation | 30,682 | 397 | 31,079 |
| Net book value | ¥20,957 | ¥229 | ¥21,186 |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Equipment, mainly containers | Other | Total |
| Acquisition cost | $437,433 | $5,303 | $442,736 |
| Accumulated depreciation | 259,907 | 3,363 | 263,270 |
| Net book value | $177,526 | $1,940 | $179,466 |

(2) Future lease payments at March 31, 2007

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Amount due within one year | ¥ 5,262 | $ 44,574 |
| Amount due after one year | 24,845 | 210,462 |
| Total | ¥30,107 | $255,036 |

(3) Lease payments, Depreciation equivalent and Interest equivalent

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Lease payments | ¥6,462 | ¥5,517 | $54,740 |
| Depreciation equivalent | 8,054 | 6,824 | 68,225 |
| Interest equivalent | 652 | 550 | 5,523 |

(4) Calculation of depreciation equivalent
Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(5) Calculation of interest equivalent
The excess of total lease payments over acquisition cost equivalents is regarded as amounts representing interest payable equivalents and is allocated to each period using the interest method.

(6) Impairment loss
There was no impairment loss on finance lease accounted for as operating leases.

**(B) FUTURE LEASE PAYMENTS UNDER OPERATING LEASES AT MARCH 31, 2007:**

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Amount due within one year | ¥ 42,408 | $ 359,238 |
| Amount due after one year | 221,216 | 1,873,917 |
| Total | ¥263,624 | $2,233,155 |

**AS LESSOR:**

**(A) INFORMATION ON FINANCE LEASES ACCOUNTED FOR AS OPERATING LEASES:**

(1) A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2007 of finance leases that do not transfer ownership to the lessee is as follows:

| | Millions of yen | |
|---|---|---|
| | Equipment, mainly containers | Total |
| Acquisition cost | ¥107 | ¥107 |
| Accumulated depreciation | 89 | 89 |
| Net book value | ¥ 18 | ¥ 18 |

| | Thousands of U.S. dollars (Note 1) | |
|---|---|---|
| | Equipment, mainly containers | Total |
| Acquisition cost | $906 | $906 |
| Accumulated depreciation | 754 | 754 |
| Net book value | $152 | $152 |

(2) Future lease income at March 31, 2007

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Amount due within one year | ¥22 | $186 |
| Amount due after one year | 21 | 178 |
| Total | ¥43 | $364 |

(3) Lease income, Depreciation and Interest equivalent

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2007 | 2006 | 2007 |
| Lease income | ¥34 | ¥81 | $288 |
| Depreciation | 19 | 39 | 161 |
| Interest equivalent | 2 | 6 | 17 |

(4) Calculation of interest equivalent

The excess of total lease income over acquisition costs equivalent is regarded as amounts representing interest receivable equivalents and is allocated to each period using the interest method.

**(B) FUTURE LEASE INCOME UNDER OPERATING LEASES AT MARCH 31, 2007:**

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Amount due within one year | ¥ 3,300 | $ 27,954 |
| Amount due after one year | 22,490 | 190,513 |
| Total | ¥25,790 | $218,467 |

## 11. Segment Information

### (A) BUSINESS SEGMENT INFORMATION:

| For the year ended March 31, 2007: | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bulk-ships | Container-ships | Logistics | Ferry & Domestic transport | Associated business | Others | Elimination | Consolidated |
| **1. Revenues:** | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | ¥787,039 | ¥568,590 | ¥55,570 | ¥49,849 | ¥ 99,670 | ¥ 7,717 | ¥ – | ¥1,568,435 |
| (2) Inter-segment revenues | 2,194 | 2,430 | 1,514 | 144 | 20,294 | 11,353 | (37,929) | – |
| Total revenues | 789,233 | 571,020 | 57,084 | 49,993 | 119,964 | 19,070 | (37,929) | 1,568,435 |
| **2. Operating expenses** | 635,252 | 573,974 | 55,657 | 49,532 | 108,304 | 13,683 | (36,040) | 1,400,362 |
| Operating income (loss) | ¥153,981 | ¥ (2,954) | ¥ 1,427 | ¥ 461 | ¥ 11,660 | ¥ 5,387 | ¥ (1,889) | ¥ 168,073 |
| **3. Assets, Depreciation and Capital expenditures:** | | | | | | | | |
| (1) Assets | ¥817,317 | ¥271,485 | ¥56,715 | ¥50,050 | ¥300,113 | ¥360,500 | ¥(216,240) | ¥1,639,940 |
| (2) Depreciation | 41,707 | 11,821 | 1,469 | 3,578 | 6,416 | 3,320 | 270 | 68,581 |
| (3) Capital expenditures | 109,857 | 30,328 | 909 | 4,387 | 8,285 | 111 | – | 153,877 |

| For the year ended March 31, 2007: | Thousands of U.S. dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bulk-ships | Container-ships | Logistics | Ferry & Domestic transport | Associated business | Others | Elimination | Consolidated |
| **1. Revenues:** | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | $6,666,997 | $4,816,518 | $470,733 | $422,270 | $ 844,303 | $ 65,371 | $ – | $13,286,192 |
| (2) Inter-segment revenues | 18,585 | 20,585 | 12,825 | 1,220 | 171,910 | 96,171 | (321,296) | – |
| Total revenues | 6,685,582 | 4,837,103 | 483,558 | 423,490 | 1,016,213 | 161,542 | (321,296) | 13,286,192 |
| **2. Operating expenses** | 5,381,211 | 4,862,126 | 471,470 | 419,585 | 917,441 | 115,909 | (305,294) | 11,862,448 |
| Operating income (loss) | $1,304,371 | $ (25,023) | $ 12,088 | $ 3,905 | $ 98,772 | $ 45,633 | $ (16,002) | $ 1,423,744 |
| **3. Assets, Depreciation and Capital expenditures:** | | | | | | | | |
| (1) Assets | $6,923,482 | $2,299,746 | $480,432 | $423,973 | $2,542,253 | $3,053,790 | $(1,831,766) | $13,891,910 |
| (2) Depreciation | 353,299 | 100,136 | 12,444 | 30,309 | 54,350 | 28,124 | 2,287 | 580,949 |
| (3) Capital expenditures | 930,597 | 256,908 | 7,700 | 37,162 | 70,182 | 941 | – | 1,303,490 |

(Change in accounting method)

1. As mentioned in Note 2 (19) 4. Share-based payments, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments (“Accounting Standard for Share-based Payment” issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment (“the Financial Accounting Standard Implementation Guidance No. 11” issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income (loss) decreased by ¥216 million ($1,830 thousand) for Bulkships, ¥125 million ($1,059 thousand) for Containerships, ¥9 million ($76 thousand) for Logistics, ¥5 million ($42 thousand) for Ferry & Domestic transport, ¥10 million ($85 thousand) for Associated business and ¥2 million ($17 thousand) for Others.
2. As mentioned in Note 2 (19) 5. Bonuses to directors and corporate auditors, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors (“Accounting Standard for Directors’ Bonus” issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income (loss) decreased by ¥139 million ($1,177 thousand) for Bulkships, ¥100 million ($847 thousand) for Containerships, ¥5 million ($42 thousand) for Logistics, ¥3 million ($25 thousand) for Ferry & Domestic transport, ¥59 million ($500 thousand) for Associated business and ¥1 million ($8 thousand) for Others.

| For the year ended March 31, 2006: | Millions of yen<br>Bulk-ships | Container-ships | Logistics | Ferry & Domestic transport | Associated business | Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **1. Revenues:** | | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . | ¥676,323 | ¥488,233 | ¥63,686 | ¥46,771 | ¥ 87,453 | ¥ 4,259 | ¥ – | ¥1,366,725 |
| (2) Inter-segment revenues . . . | 365 | 1,812 | 1,636 | 51 | 21,960 | 8,228 | (34,052) | – |
| Total revenues . . . . . . . . . | 676,688 | 490,045 | 65,322 | 46,822 | 109,413 | 12,487 | (34,052) | 1,366,725 |
| **2. Operating expenses** . . . . . | 551,099 | 455,488 | 64,122 | 46,514 | 98,152 | 7,957 | (29,600) | 1,193,732 |
| Operating income . . . . . . . | ¥125,589 | ¥ 34,557 | ¥ 1,200 | ¥ 308 | ¥ 11,261 | ¥ 4,530 | ¥ (4,452) | ¥ 172,993 |
| **3. Assets, Depreciation, Impairment loss and Capital expenditures:** | | | | | | | | |
| (1) Assets . . . . . . . . . . . . . . . | ¥695,797 | ¥225,214 | ¥55,342 | ¥50,129 | ¥307,881 | ¥334,893 | ¥(198,432) | ¥1,470,824 |
| (2) Depreciation . . . . . . . . . . . | 41,040 | 10,505 | 1,440 | 3,385 | 6,516 | 2,916 | (102) | 65,700 |
| (3) Impairment loss . . . . . . . . | – | – | – | – | 677 | – | 1,193 | 1,870 |
| (4) Capital expenditures . . . . . | 119,485 | 37,913 | 1,236 | 8,204 | 7,252 | 3,136 | – | 177,226 |

(Change in accounting method)
As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method. As a result of this change, revenues increased by ¥25,274 million and operating income increased by ¥962 million for Containerships in comparison with the results under the previous method of accounting.

## (B) GEOGRAPHICAL SEGMENT INFORMATION:

Each segment covers the following countries or regions;

| | |
|---|---|
| North America: | U.S.A. and Canada |
| Europe: | U.K., The Netherlands and other European countries |
| Asia: | The Middle and Near East, South-West Asia, South-East Asia, East Asia |
| Others: | Central and South America, Africa, Australia and other countries |

Revenues of a segment are revenues, wherever they may be earned, of companies registered in countries in the segment except for revenues earned by companies registered in such countries as Panama and Liberia (FOC companies) solely for the purpose of owning ships under charter to the Company and/or its subsidiaries in Japan. The FOC companies are deemed to be companies registered in Japan in this segment information for convenience.

Expenses of a segment are expenses, wherever they may be incurred, to earn revenues at companies registered in countries in the segment.

Assets of a segment are assets possessed by companies registered in countries in the segment, except for assets including ships of FOC companies which are treated as Japanese companies.

| For the year ended March 31, 2007: | Millions of yen<br>Japan | North America | Europe | Asia | Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **1. Revenues:** | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . . . . . . . . . | **¥1,490,370** | **¥45,011** | **¥ 16,877** | **¥16,074** | **¥ 103** | **¥ –** | **¥1,568,435** |
| (2) Inter-segment revenues . . . . . . . . . . . . . | **5,716** | **16,922** | **8,057** | **8,664** | **2,469** | **(41,828)** | **–** |
| Total revenues . . . . . . . . . . . . . . . . . . . | **1,496,086** | **61,933** | **24,934** | **24,738** | **2,572** | **(41,828)** | **1,568,435** |
| **2. Operating expenses** . . . . . . . . . . . . . . | **1,342,716** | **50,590** | **20,026** | **23,091** | **2,469** | **(38,530)** | **1,400,362** |
| Operating income . . . . . . . . . . . . . . . . . | **¥ 153,370** | **¥11,343** | **¥ 4,908** | **¥ 1,647** | **¥ 103** | **¥ (3,298)** | **¥ 168,073** |
| **3. Assets** . . . . . . . . . . . . . . . . . . . . . . . . | **¥1,576,913** | **¥37,369** | **¥120,225** | **¥19,831** | **¥4,833** | **¥(119,231)** | **¥1,639,940** |

| For the year ended March 31, 2007: | Thousands of U.S. dollars (Note 1)<br>Japan | North America | Europe | Asia | Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|
| **1. Revenues:** | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . . . . . . . . . | **$12,624,905** | **$381,288** | **$ 142,965** | **$136,162** | **$ 872** | **$ –** | **$13,286,192** |
| (2) Inter-segment revenues . . . . . . . . . . . . . | **48,420** | **143,346** | **68,251** | **73,393** | **20,914** | **(354,324)** | **–** |
| Total revenues . . . . . . . . . . . . . . . . . . . | **12,673,325** | **524,634** | **211,216** | **209,555** | **21,786** | **(354,324)** | **13,286,192** |
| **2. Operating expenses** . . . . . . . . . . . . . . | **11,374,130** | **428,548** | **169,640** | **195,603** | **20,914** | **(326,387)** | **11,862,448** |
| Operating income . . . . . . . . . . . . . . . . . | **$ 1,299,195** | **$ 96,086** | **$ 41,576** | **$ 13,952** | **$ 872** | **$ (27,937)** | **$ 1,423,744** |
| **3. Assets** . . . . . . . . . . . . . . . . . . . . . . . . | **$13,358,009** | **$316,552** | **$1,018,424** | **$167,988** | **$40,941** | **$(1,010,004)** | **$13,891,910** |

(Change in accounting method)
1. As mentioned in Note 2 (19) 4. Share-based payments, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for share-based payments ("Accounting Standard for Share-based Payment" issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for share-based payment ("the Financial Accounting Standard Implementation Guidance No. 11" issued by the Accounting Standards Board of Japan on May 31, 2006). As a result of the adoption of these standards, operating income decreased by ¥366 million ($3,100 thousand) for Japan.
2. As mentioned in Note 2 (19) 5. Bonuses to directors and corporate auditors, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for bonuses to directors and corporate auditors ("Accounting Standard for Directors' Bonus" issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption of this standard, operating income decreased by ¥306 million ($2,592 thousand) for Japan.

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| For the year ended March 31, 2006: | Japan | North America | Europe | Asia | Others | Elimination | Consolidated |
| **1. Revenues:** | | | | | | | |
| (1) Revenues from customers, unconsolidated subsidiaries and affiliated companies | ¥1,296,013 | ¥44,668 | ¥ 10,181 | ¥15,763 | ¥ 100 | ¥ – | ¥1,366,725 |
| (2) Inter-segment revenues | 4,061 | 14,820 | 8,367 | 6,373 | 1,902 | (35,523) | – |
| Total revenues | 1,300,074 | 59,488 | 18,548 | 22,136 | 2,002 | (35,523) | 1,366,725 |
| **2. Operating expenses** | 1,137,653 | 47,938 | 15,293 | 20,667 | 2,058 | (29,877) | 1,193,732 |
| Operating income (loss) | ¥ 162,421 | ¥11,550 | ¥ 3,255 | ¥ 1,469 | ¥ (56) | ¥ (5,646) | ¥ 172,993 |
| **3. Assets** | ¥1,391,176 | ¥43,783 | ¥122,637 | ¥17,707 | ¥2,458 | ¥(106,937) | ¥1,470,824 |

(Change in accounting method)
As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method. As a result of this change, revenues increased by ¥25,274 million and operating income (loss) increased by ¥962 million for Japan in comparison with the results under the previous method of accounting.

## (C) INTERNATIONAL BUSINESS INFORMATION:

Segmentation is made from the perspective of geographical closeness and identity.

Geographical areas belonging to the segments are as follows:

| | |
|---|---|
| North America: | U.S.A. and Canada |
| Europe: | U.K., the Netherlands and other European countries |
| Asia: | The Middle and Near East, South-West Asia, South-East Asia, East Asia |
| Others: | Central and South America, Africa, Australia and other countries |

Revenues from international business mainly consist of ocean-going vessel and voyage revenues.

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| For the year ended March 31, 2007: | North America | Europe | Asia | Others | Total |
| 1. International revenues | **¥353,183** | **¥287,006** | **¥345,429** | **¥402,861** | **¥1,388,479** |
| 2. Consolidated revenues | **–** | **–** | **–** | **–** | **¥1,568,435** |
| 3. Ratio of international revenues to consolidated revenues | **22.5%** | **18.3%** | **22.0%** | **25.7%** | **88.5%** |

| | Thousands of U.S. dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| For the year ended March 31, 2007: | North America | Europe | Asia | Others | Total |
| 1. International revenues | **$2,991,809** | **$2,431,224** | **$2,926,125** | **$3,412,629** | **$11,761,787** |
| 2. Consolidated revenues | **–** | **–** | **–** | **–** | **$13,286,192** |
| 3. Ratio of international revenues to consolidated revenues | **22.5%** | **18.3%** | **22.0%** | **25.7%** | **88.5%** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| For the year ended March 31, 2006: | North America | Europe | Asia | Others | Total |
| 1. International revenues | ¥310,082 | ¥193,977 | ¥318,031 | ¥396,118 | ¥1,218,208 |
| 2. Consolidated revenues | – | – | – | – | ¥1,366,725 |
| 3. Ratio of international revenues to consolidated revenues | 22.7% | 14.2% | 23.3% | 28.9% | 89.1% |

(Change in accounting method)
As mentioned in Note 2 (19) 1. Freight revenues and related expenses for containerships, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method.

As a result of this change, revenues increased by ¥9,934 million for North America, ¥6,050 million for Europe, ¥3,565 million for Asia and ¥5,724 million for Others, in comparison with the results under the previous method of accounting.

## 12. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 37.25% for the years ended March 31, 2007 and 2006.

(A) Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Deferred tax assets:** | | | |
| Excess bad debt expenses | **¥ 1,606** | ¥ 1,753 | **$ 13,604** |
| Reserve for bonuses expenses | **1,989** | 1,921 | **16,849** |
| Retirement benefits expenses | **5,380** | 6,941 | **45,574** |
| Retirement allowances for directors | **1,034** | 1,082 | **8,759** |
| Write-down of securities and other investments | **2,268** | 2,666 | **19,212** |
| Accrued business tax and business place tax | **881** | 720 | **7,463** |
| Operating loss carried forward | **4,339** | 5,361 | **36,756** |
| Unrealized gain on sale of fixed assets | **1,297** | 794 | **10,987** |
| Impairment loss | **1,004** | 3,493 | **8,505** |
| Others | **2,000** | 1,658 | **16,942** |
| Total deferred tax assets | **21,798** | 26,389 | **184,651** |
| Valuation allowance | **(7,083)** | (6,526) | **(60,000)** |
| Net deferred tax assets | **14,715** | 19,863 | **124,651** |
| **Deferred tax liabilities:** | | | |
| Reserve deductible for tax purposes when appropriated for deferred gain on real properties | **(2,355)** | (2,558) | **(19,949)** |
| Reserve deductible for tax purposes when appropriated for special depreciation | **(271)** | (633) | **(2,296)** |
| Unrealized holding gains on available-for-sale securities | **(42,143)** | (38,403) | **(356,993)** |
| Gain on securities contributed to employee retirement benefit trust | **(4,339)** | (4,338) | **(36,756)** |
| Revaluation reserve | **(12,172)** | (11,248) | **(103,109)** |
| Retained earnings of consolidated subsidiaries | **(12,166)** | (9,324) | **(103,058)** |
| Unrealized gains on hedging derivatives | **(12,464)** | – | **(105,582)** |
| Others | **(959)** | (1,359) | **(8,124)** |
| Total deferred tax liabilities | **(86,869)** | (67,863) | **(735,867)** |
| Net deferred tax liabilities | **¥(72,154)** | ¥(48,000) | **$(611,216)** |

(B) Significant differences between the statutory tax rate and the effective tax rate for the financial statement purpose for the years ended March 31, 2007 and 2006 were as follows:

The differences between the statutory tax rate and the effective tax rate for the financial statement purpose for the years ended March 31, 2007 and 2006 are not disclosed as they are immaterial.

## 13. Employees' Severance and Retirement Benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2007 and 2006 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Projected benefit obligation | **¥ 64,749** | ¥ 67,275 | **$ 548,488** |
| Unrecognized actuarial differences | **20,979** | 14,512 | **177,713** |
| Prepaid pension expenses | **14,397** | 11,688 | **121,957** |
| Less fair value of pension assets | **(85,188)** | (79,412) | **(721,627)** |
| Employees' severance and retirement benefits | **¥ 14,937** | ¥ 14,063 | **$ 126,531** |

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 were severance and retirement benefit expenses, which comprise the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Service costs—benefits earned during the year | **¥ 3,096** | ¥2,127 | **$ 26,226** |
| Interest cost on projected benefit obligation | **949** | 947 | **8,039** |
| Expected return on plan assets | **(1,405)** | (33) | **(11,902)** |
| Amortization of actuarial differences | **(1,084)** | 611 | **(9,182)** |
| | **¥ 1,556** | ¥3,652 | **$ 13,181** |

The discount rate for the years ended March 31, 2007 and 2006 used by the Company is 2.0%. Also, the rate of expected return on plan assets for the years ended March 31, 2007 and 2006 are mainly 2.0% and 0%, respectively.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statements of income using the straight-line method primarily over 10 years commencing with the following period.

## 14. Stock Options

### (A) EXPENSED AMOUNT

Expensed amount on stock options for the years ended March 31, 2007 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Selling, general and administrative expenses | **¥366** | – | **$3,100** |
| Total | **¥366** | – | **$3,100** |

### (B) TERMS AND CONDITIONS

The following table summarizes terms and conditions of stock options for the years when they were granted:

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Number of grantees | Directors: 13<br>Executive officers: 19<br>Employees: 52 | Directors: 11<br>Executive officers: 16<br>Employees: 37<br>Presidents of the Company's domestic consolidated subsidiaries: 34 | Directors: 11<br>Executive officers: 16<br>Employees: 32<br>Presidents of the Company's domestic consolidated subsidiaries: 34 | Directors: 11<br>Executive officers: 17<br>Employees: 38<br>Presidents of the Company's domestic consolidated subsidiaries: 34 | Directors: 11<br>Executive officers: 17<br>Employees: 34<br>Presidents of the Company's domestic consolidated subsidiaries: 37 |
| Number of stock options | Common stock 1,560,000 | Common stock 1,590,000 | Common stock 1,570,000 | Common stock 1,650,000 | Common stock 1,670,000 |
| Grant date | September 11, 2002 | August 8, 2003 | August 5, 2004 | August 5, 2005 | August 11, 2006 |
| Vesting conditions | No provisions | No provisions | No provisions | No provisions | No provisions |
| Service period | No provisions | No provisions | No provisions | No provisions | No provisions |
| Exercise period | From June 26, 2004 to June 25, 2012 | From June 20, 2004 to June 25, 2013 | From June 20, 2005 to June 24, 2014 | From June 20, 2006 to June 23, 2015 | From June 20, 2007 to June 22, 2016 |

### (C) CHANGES IN NUMBER AND UNIT PRICES

The following tables summarize changes in number and unit prices of stock options for the years when they were granted:

(1) Changes in number of stock options

| Non-vested stock options | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Balance at March 31, 2006 . . | – | – | – | – | – |
| Options granted during the year . . . . . . . . . . . | – | – | – | – | 1,670,000 |
| Options expired during the year . . . . . . . . . . | – | – | – | – | – |
| Options vested during the year . . . . . . . . . . | – | – | – | – | 1,670,000 |
| Balance at March 31, 2007 . . | – | – | – | – | – |

| Vested stock options | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Balance at March 31, 2006 . . | 200,000 | 488,000 | 1,570,000 | 1,650,000 | – |
| Options vested during the year . . . . . . . . . . | – | – | – | – | 1,670,000 |
| Options exercised during the year . . . . . . . . . . | 150,000 | 356,000 | 794,000 | – | – |
| Options expired during the year . . . . . . . . . . | – | – | – | – | – |
| Balance at March 31, 2007 . . | 50,000 | 132,000 | 776,000 | 1,650,000 | 1,670,000 |

(2) Unit prices of stock options

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Exercise price . . . . . . . . . . . | ¥ 264 | ¥ 377 | ¥ 644 | ¥762 | ¥841 |
| Average market price of share at exercise . . . . . . . . . . . . . | ¥1,064 | ¥1,112 | ¥1,097 | – | – |
| Fair value per stock option at the grant date . . . . . . . . . | – | – | – | – | ¥219 |

### (D) KEY FIGURES FOR FAIR VALUE PER STOCK OPTION

The Company utilized the Black Scholes Model for calculating fair value per stock option. Key figures of the calculation were as follows:

| | 2006 |
|---|---|
| Stock price volatility . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 33.7% |
| Expected remaining term of the option . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5 years and 10 months |
| Expected dividends . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | ¥18 per share |
| Risk-free interest rate . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 1.5% |

# Independent Auditors' Report

KPMG

**Independent Auditors' Report**

To the Shareholders and Board of Directors of
Mitsui O.S.K. Lines, Ltd.:

We have audited the accompanying consolidated balance sheets of Mitsui O.S.K. Lines, Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui O.S.K. Lines, Ltd. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the followings:

(1) As discussed in Note 2 (19) 3 to the consolidated financial statements, effective from the year ended March 31, 2007, the Company adopted the new accounting standard for presentation of net assets in the balance sheet.

(2) As discussed in Note 2 (19) 1 to the consolidated financial statements, effective from the year ended March 31, 2006, the Company changed the accounting method to recognize freight revenues and the related voyage expenses for containerships from the completed-voyage method to the multiple transportation progress method.

(3) As discussed in Note 2 (19) 2 to the consolidated financial statements, effective April 1, 2005, the Company adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 21, 2007

# The MOL Group

Mitsui O.S.K. Lines, Ltd. As of March 31, 2007

■ Consolidated Subsidiaries
● Subsidiaries Accounted for by the Equity Method
▲ Affiliated Companies Accounted for by the Equity Method

| Segment | | Company | Registered Office | MOL's Voting Rights (%)* | Paid-in Capital (Thousands) |
|---|---|---|---|---|---|
| Bulkships | ■ | BGT Ltd. | Liberia | 100.00 | US$5 |
| | ■ | BIL Investments Ltd. | U.K. | 100.00 | £21 |
| | ■ | BLNG Inc. | U.S.A. | 75.00 | US$1 |
| | ■ | Chugoku Shipping Agencies Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | El Sol Shipping Ltd. S.A. | Panama | 100.00 | US$10 |
| | ■ | MO LNG Transport Co., Ltd. | Japan | 100.00 | ¥40,000 |
| | ■ | MCGC International Ltd. | Bahamas | 80.10 | US$1 |
| | ■ | Mitsui O.S.K. Bulk Shipping (Asia Oceania) Pte Ltd. | Singapore | 100.00 | S$2,350 |
| | ■ | Mitsui O.S.K. Bulk Shipping (Europe) Ltd. | U.K. | 100.00 | US$402 |
| | ■ | Mitsui O.S.K. Bulk Shipping (USA) Inc. | U.S.A. | 100.00 | US$200 |
| | ■ | Mitsui O.S.K. Kinkai, Ltd. | Japan | 99.04 | ¥660,000 |
| | ■ | MOL-NIC Transport Ltd. | Liberia | 75.00 | US$13,061 |
| | ■ | MOL Tankship Management Ltd. | Japan | 99.91 | ¥1,224,000 |
| | ■ | Shipowner/Chartering companies (128 companies) in Panama, Cayman Islands, Liberia, Singapore, Hong Kong, Cyprus and Malta | | | |
| | ■ | Tokyo Marine Asia Pte Ltd. | Singapore | 100.00 | S$500 |
| | ■ | Tokyo Marine Co., Ltd. | Japan | 87.13 | ¥2,000,000 |
| | ■ | Unix Line Pte Ltd. | Singapore | 100.00 | S$500 |
| | ■ | Others (3 companies) | | | |
| | ▲ | Act Maritime Co., Ltd. | Japan | 49.00 | ¥90,000 |
| | ▲ | Aramo Shipping (Singapore) Pte Ltd. | Singapore | 50.00 | US$20,743 |
| | ▲ | Asahi Tanker Co., Ltd. | Japan | 24.75 | ¥600,045 |
| | ▲ | Badak LNG Transport, Inc. | Japan | 25.00 | ¥80,000 |
| | ▲ | Bright Shipping Company Inc. | Panama | 50.00 | US$10 |
| | ▲ | Daiichi Chuo Kisen Kaisha | Japan | 26.37 | ¥13,258,410 |
| | ▲ | Gearbulk Holding Ltd. | Bermuda | 40.00 | US$75,000 |
| | ▲ | M.S. Tanker Shipping Ltd. | Hong Kong | 50.00 | HK$2,000 |
| | ▲ | Nissan Motor Car Carrier Co., Ltd. | Japan | 40.00 | ¥640,000 |
| | ▲ | Shipowner/Chartering companies (24 companies) in Liberia, Panama, Bahamas, Malta, Norway and Cayman Islands | | | |
| Containerships | ■ | Chiba Utoc Corporation | Japan | 100.00 | ¥90,000 |
| | ■ | International Container Terminal Co., Ltd. | Japan | 100.00 | ¥700,000 |
| | ■ | Mitsui O.S.K. Lines (Australia) Pty. Ltd. | Australia | 100.00 | A$1,000 |
| | ■ | Mitsui O.S.K. Lines (Austria) GmbH | Austria | 100.00 | €36 |
| | ■ | Mitsui O.S.K. Lines (Japan), Ltd. | Japan | 100.00 | ¥100,000 |
| | ■ | Mitsui O.S.K. Lines (SEA) Pte Ltd. | Singapore | 100.00 | S$200 |
| | ■ | Mitsui O.S.K. Lines (Singapore) Pte Ltd. | Singapore | 100.00 | S$5,000 |
| | ■ | MOL (America) Inc. | U.S.A. | 100.00 | US$6 |
| | ■ | MOL (Asia) Ltd. | Hong Kong | 100.00 | HK$40,000 |
| | ■ | MOL (Brasil) Ltda. | Brazil | 100.00 | R$1,677 |
| | ■ | MOL (Chile) Ltda. | Chile | 100.00 | US$100 |
| | ■ | MOL (China) Co., Ltd. | China | 100.00 | US$1,960 |
| | ■ | MOL (Europe) B.V. | Netherlands | 100.00 | €454 |
| | ■ | MOL (Europe) GmbH | Germany | 100.00 | €256 |
| | ■ | MOL (Europe) Ltd. | U.K. | 100.00 | £1,500 |
| | ■ | MOL (Panama) Inc. | Panama | 100.00 | US$100 |
| | ■ | MOL De Mexico, S.A. de C.V. | Mexico | 100.00 | US$92 |
| | ■ | MOL Information Technology America Inc. | U.S.A. | 100.00 | US$3,000 |
| | ■ | MOL South Africa (Proprietary) Limited | South Africa | 100.00 | R3,000 |
| | ■ | Shipowner companies (10 companies) in Panama, Liberia and Hong Kong | | | |
| | ■ | Shosen Koun Co., Ltd. | Japan | 79.98 | ¥300,000 |
| | ■ | Trapac, Inc. | U.S.A. | 100.00 | US$3,000 |
| | ■ | Utoc Corporation | Japan | 51.57 | ¥1,455,300 |
| | ■ | Utoc Engineering Pte. Ltd. | Singapore | 100.00 | S$500 |
| | ■ | Utoc Stevedoring Corporation | Japan | 100.00 | ¥50,000 |
| | ■ | Utoc Trucking Services Corporation | Japan | 100.00 | ¥50,000 |
| | ● | MOL (West Africa) Ltd. | U.K. | 51.00 | £140 |
| | ▲ | Mitsui O.S.K. Lines (Thailand) Co., Ltd. | Thailand | 47.00 | BT20,000 |
| | ▲ | Shanghai Kakyakusen Kaisha, Ltd. | Japan | 31.98 | ¥100,000 |
| Logistics | ■ | Bangpoo Intermodal Systems Co., Ltd. | Thailand | 67.98 | BT130,000 |
| | ■ | Euloc B.V. | Netherlands | 100.00 | €3,630 |
| | ■ | Hermex Distribution B.V. | Netherlands | 100.00 | €227 |
| | ■ | Hong Kong Logistics Co., Ltd. | Hong Kong | 100.00 | HK$58,600 |
| | ■ | International Container Transport Co., Ltd. | Japan | 51.00 | ¥100,000 |
| | ■ | Japan Express Co., Ltd. (Kobe) | Japan | 86.27 | ¥99,960 |
| | ■ | Japan Express Co., Ltd. (Yokohama) | Japan | 100.00 | ¥236,000 |
| | ■ | Japan Express Packing & Transport Co., Ltd. | Japan | 100.00 | ¥60,000 |
| | ■ | MOL Consolidation Service Limited | Hong Kong | 100.00 | HK$1,000 |
| | ■ | MOL Distribution (Deutschland) GmbH | Germany | 100.00 | €26 |
| | ■ | MOL Logistics (Europe) B.V. | Netherlands | 100.00 | €414 |
| | ■ | MOL Logistics (H.K.) Ltd. | Hong Kong | 100.00 | HK$3,676 |
| | ■ | MOL Logistics (Japan) Co., Ltd. | Japan | 59.74 | ¥756,250 |
| | ■ | MOL Logistics (Netherlands) B.V. | Netherlands | 100.00 | €3,049 |
| | ■ | MOL Logistics (Singapore) Pte. Ltd. | Singapore | 100.00 | S$700 |
| | ■ | MOL Logistics (UK) Ltd. | U.K. | 100.00 | £400 |
| | ■ | MOL Logistics (USA) Inc. | U.S.A. | 100.00 | US$7,314 |
| | ■ | MOL Logistics Administration B.V. | Netherlands | 100.00 | €16 |
| | ■ | MOL Osaka Nanko Physical Distribution Center Co., Ltd. | Japan | 100.00 | ¥10,000 |
| | ▲ | J.F. Hillebrand Group AG | Germany | 30.00 | €5,000 |
| | ▲ | Shanghai Longfei International Logistics Co., Ltd. | China | 22.05 | US$1,240 |

| | | | Registered Office | MOL's Voting Rights (%)* | Paid-in Capital (Thousands) |
|---|---|---|---|---|---|
| Ferry and Domestic Transport | ■ | Blue Highway Express K.K. | Japan | 100.00 | ¥54,600 |
| | ■ | Blue Highway Express Kyushu Co., Ltd. | Japan | 70.00 | ¥50,000 |
| | ■ | Blue Highway Line Nishinihon Corporation | Japan | 100.00 | ¥100,000 |
| | ■ | Blue Highway Service K.K. | Japan | 100.00 | ¥30,000 |
| | ■ | Diamond Line K.K. | Japan | 100.00 | ¥20,000 |
| | ■ | Kyushu Kyuko Ferry Co., Ltd. | Japan | 95.00 | ¥840,000 |
| | ■ | Miyako Shoji Co., Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | MOL Naikou, Ltd. | Japan | 99.00 | ¥650,000 |
| | ■ | Sea-Road Express Corp. | Japan | 100.00 | ¥320,000 |
| | ■ | Searox Kitaichi Co., Ltd. | Japan | 100.00 | ¥20,000 |
| | ■ | Shipowner company (1 company) in Panama | | | |
| | ■ | MOL Ferry Co., Ltd. | Japan | 100.00 | ¥600,000 |
| | ■ | The Diamond Ferry Co., Ltd. | Japan | 93.80 | ¥900,000 |
| | ▲ | Kansai Kisen Kaisha | Japan | 37.37 | ¥1,368,989 |
| | ▲ | Meimon Taiyo Ferry Co., Ltd. | Japan | 37.62 | ¥880,000 |
| | ▲ | Shinyo Kaiun Corporation | Japan | 36.00 | ¥100,000 |
| | ▲ | Others (9 companies) | | | |
| Associated Businesses | ■ | Daibiru Corporation | Japan | 51.07 | ¥12,227,847 |
| | ■ | Esca Corporation | Japan | 100.00 | ¥25,000 |
| | ■ | Green Kaiji Kaisha, Ltd. | Japan | 66.67 | ¥95,400 |
| | ■ | Green Shipping, Ltd. | Japan | 100.00 | ¥172,000 |
| | ■ | Hokuso Kohatsu K.K. | Japan | 100.00 | ¥50,000 |
| | ■ | Hu-Tec Service Co., Ltd. | Japan | 100.00 | ¥20,000 |
| | ■ | Ikuta & Marine Co., Ltd. | Japan | 77.36 | ¥26,500 |
| | ■ | Japan Hydrographic Charts & Publications Co., Ltd. | Japan | 54.62 | ¥32,000 |
| | ■ | Kansai Building Maintenance Co., Ltd. | Japan | 100.00 | ¥14,400 |
| | ■ | Kitanihon Tug-boat Co., Ltd. | Japan | 62.00 | ¥50,000 |
| | ■ | Kobe Towing Co., Ltd. | Japan | 100.00 | ¥50,000 |
| | ■ | Kusakabe Marine Engineering Co., Ltd. | Japan | 80.63 | ¥200,000 |
| | ■ | Mitsui O.S.K. Career Support, Ltd. | Japan | 100.00 | ¥100,000 |
| | ■ | Mitsui O.S.K. Kosan Co., Ltd. | Japan | 100.00 | ¥395,000 |
| | ■ | Mitsui O.S.K. Passenger Line, Ltd. | Japan | 100.00 | ¥100,000 |
| | ■ | Mitsui O.S.K. Techno-Trade, Ltd. | Japan | 100.00 | ¥490,000 |
| | ■ | MO Engineering Co., Ltd. | Japan | 100.00 | ¥20,000 |
| | ■ | M.O. Marine Construction Co., Ltd. | Japan | 100.00 | ¥95,000 |
| | ■ | M.O. Marine Consulting, Ltd. | Japan | 100.00 | ¥100,000 |
| | ■ | M.O. Tourist Co., Ltd. | Japan | 100.00 | ¥250,000 |
| | ■ | Nihon Tug-Boat Co., Ltd. | Japan | 69.53 | ¥134,203 |
| | ■ | Osaka All Service Corporation | Japan | 100.00 | ¥17,000 |
| | ■ | Santo Tatemono Service Co., Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | Sanwa Marine Ltd. | Japan | 100.00 | ¥475,000 |
| | ■ | Chartering company (1 company) in Panama | | | |
| | ■ | Ube Port Service Co., Ltd. | Japan | 95.29 | ¥14,950 |
| | ▲ | Nippon Charter Cruise, Ltd. | Japan | 50.00 | ¥290,000 |
| | ▲ | South China Towing Co., Ltd. | Hong Kong | 25.00 | HK$12,400 |
| Others | ■ | Euromol B.V. | Netherlands | 100.00 | US$8,861 |
| | ■ | International Marine Transport Co., Ltd. | Japan | 89.72 | ¥100,000 |
| | ■ | International Transportation Inc. | U.S.A. | 100.00 | US$24,563 |
| | ■ | Linkman Holdings Inc. | Liberia | 100.00 | US$3 |
| | ■ | M.O. Cableship Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | M.O. Reinsurance S.A. | Luxembourg | 100.00 | US$5,376 |
| | ■ | M.O. Ship Management Co., Ltd.** | Japan | 100.00 | ¥50,000 |
| | ■ | M.O. Ship Tech Inc. | Japan | 100.00 | ¥50,000 |
| | ■ | Mitsui Kinkai Kisen Co., Ltd. | Japan | 80.12 | ¥350,000 |
| | ■ | Mitsui O.S.K. Finance PLC | U.K. | 100.00 | US$6,568 |
| | ■ | Mitsui O.S.K. Holdings (Benelux) B.V. | Netherlands | 100.00 | €17,245 |
| | ■ | Mitsui O.S.K. Manning Service S.A. | Panama | 100.00 | US$135 |
| | ■ | MOL Accounting Co., Ltd. | Japan | 100.00 | ¥30,000 |
| | ■ | MOL Adjustment, Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | MOL FG, Inc. | U.S.A. | 100.00 | US$20 |
| | ■ | MOL Information Systems, Ltd. | Japan | 100.00 | ¥100,000 |
| | ■ | MOL SI, Inc. | U.S.A. | 100.00 | US$100 |
| | ■ | Orange P.R. Ltd. | Japan | 100.00 | ¥10,000 |
| | ■ | Others (1 company) | | | |
| | ■ | Shipowner/Chartering companies (5 companies) in Panama | | | |
| | ▲ | Minaminippon Shipbuilding Co., Ltd. | Japan | 24.00 | ¥200,000 |
| | ▲ | Osaka Shipping Co., Ltd. | Japan | 30.12 | ¥498,000 |

* MOL includes MOL and its subsidiaries
** The Corporate name was changed to MOL Ship Management Co., Ltd. effective April 1, 2007.

# Worldwide Offices

## HEAD OFFICE

1-1, Toranomon 2-chome, Minato-ku,
Tokyo 105-8688, Japan
P.O. Box 5, Shiba, Tokyo
Tel: 81-3-3587-6224 Fax: 81-3-3587-7734
Branch Offices
Sapporo, Tomakomai, Yokohama, Nagoya, Osaka, Kobe, Hiroshima, Kyushu

## JAPAN

**Mitsui O.S.K. Lines (Japan) Ltd.**
Head Office (Tokyo): Tel: 81-3-3587-7684
Fax: 81-3-3587-7730
Yokohama: Tel: 81-45-212-7710 Fax: 81-45-212-7734
Nagoya: Tel: 81-52-564-7000 Fax: 81-52-564-7047
Osaka: Tel: 81-6-6446-6501 Fax: 81-6-6446-6513
Kobe: Tel: 81-78-304-1100 Fax: 81-78-304-1104
Kyushu: Tel: 81-92-262-0701 Fax: 81-92-262-0720

## NORTH AMERICA

**MOL (America) Inc.**
Head Office (Concord): Tel: 1-925-688-2600
Fax: 1-925-688-2670
Main Branch Offices
Atlanta: Tel: 1-404-763-0111 Fax: 1-404-763-5667
Chicago: Tel: 1-630-592-7300 Fax: 1-630-592-7402
Long Beach: Tel: 1-562-983-6200 Fax: 1-562-983-6295
New Jersey: Tel: 1-732-512-5200 Fax: 1-732-512-5272
San Francisco: Tel: 1-415-836-3500 Fax: 1-415-836-3533
Seattle: Tel: 1-206-444-6900 Fax: 1-206-444-6903
**Mitsui O.S.K. Bulk Shipping (USA) Inc.**
Head Office (New Jersey): Tel: 1-201-395-5800 Fax: 1-201-395-5820
Houston: Tel: 1-832-615-6470 Fax: 1-832-615-6480
Long Beach: Tel: 1-562-983-6276 Fax: 1-562-983-6290
**MOL Logistics (USA) Inc.**
Head Office (New York): Tel: 1-516-626-6040 Fax: 1-516-626-6092
Los Angeles: Tel: 1-310-212-1140 Fax: 1-310-328-8626

## CENTRAL AND SOUTH AMERICA

**MOL (Brasil) Ltda.**
Head Office (Sao Paulo): Tel: 55-11-3145-3955 Fax: 55-11-3145-3945
**MOL (Chile) Ltda.**
Head Office (Santiago): Tel: 56-2-630-1950 Fax: 56-2-695-1289
**Corporativo MOL de Mexico S.A. de C.V.**
Head Office (Mexico City): Tel: 52-55-5010-5200 Fax: 52-55-5010-5220
**MOL (Panama) Inc.**
Head Office (Panama): Tel: 507-269-8234 Fax: 507-269-8315
**Mitsui O.S.K. Bulk Shipping (USA) Inc.**
Sao Paulo: Tel: 55-11-3145-3980 Fax: 55-11-3145-3946

## EUROPE

**MOL (Europe) B.V.**
Head Office (Rotterdam): Tel: 31-10-201-3200 Fax: 31-10-201-3109
**MOL (Europe) GmbH**
Head Office (Hamburg): Tel: 49-40-356110 Fax: 49-40-352506
**Mitsui O.S.K. Lines (Austria) GmbH**
Head Office (Vienna): Tel: 43-1-877-6971 Fax: 43-1-876-4725
**MOL (Europe) Ltd.**
Head Office (Southampton): Tel: 44-2380-714700 Fax: 44-2380-714519
**MOL (Europe) S.A.S.**
Head Office (Le Havre): Tel: 33-2-32-74-24-00 Fax: 33-2-32-74-24-39
**MOL (Europe) N.V.**
Head Office (Antwerp): Tel: 32-3-202-4860 Fax: 32-3-202-4870
**MOL Italia s.r.l.**
Head Office (Genoa): Tel: 39-010-2901711 Fax: 39-010-5960450
Milan: Tel: 39-02-8068151 Fax: 39-02-8900986
**Mitsui O.S.K. Lines Ltd.**
Moscow: Tel: 7-495-258-1424 Fax: 7-495-258-1426
Vladivostok: Tel: 7-4232-215721 Fax: 7-4232-215720
**Mitsui O.S.K. Bulk Shipping (Europe) Ltd.**
Head Office (London): Tel: 44-20-7265-7500 Fax: 44-20-7265-7699
Brussels: Tel: 32-2-305-4240 Fax: 32-2-305-4241
Hamburg: Tel: 49-40-360-9740 Fax: 49-40-3764-4500
**MOL Logistics (Deutschland) GmbH**
Head Office (Frankfurt): Tel: 49-6105-406102 Fax: 49-6105-406968
**MOL Logistics (Netherlands) B.V.**
Head Office (Rotterdam): Tel: 31-10-299-6220 Fax: 31-10-299-6226
**MOL Logistics (U.K.) Ltd.**
Head Office (London): Tel: 44-1895-459700 Fax: 44-1895-449600

## AFRICA

**MOL South Africa Pty Ltd.**
Head Office (Cape Town): Tel: 27-21-402-8900 Fax: 27-21-421-1806
**Mitsui O.S.K. Lines (Nigeria) Ltd.**
Lagos: Tel: 234-1-587-1900 Fax: 234-1-587-4771
**MOL (Ghana) Ltd.**
Tema: Tel: 233-22-212084 Fax: 233-22-210807

## MIDDLE EAST

**Mitsui O.S.K. Lines Ltd. Middle East Headquarters**
Dubai: Tel: 971-4-3938793 Fax: 971-4-3938794
**MOL (UAE) L.L.C.**
Head Office (Dubai): Tel: 971-4-3393132 Fax: 971-4-3935401
**Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte. Ltd.**
Doha: Tel: 974-4-836548 Fax: 974-4-836563
Muscat: Tel: 968-2448-7450 Fax: 968-2448-7394
**MOL (Europe) Ltd.**
Beirut: Tel: 961-1-567251 Fax: 961-1-567250

## OCEANIA

**Mitsui O.S.K. Lines (Australia) Pty. Ltd.**
Head Office (Sydney): Tel: 61-2-9320-1600 Fax: 61-2-9320-1601
**Mitsui O.S.K. Lines (New Zealand) Ltd.**
Auckland: Tel: 64-9-3005821 Fax: 64-9-3091439
**Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte., Ltd.**
Melbourne: Tel: 61-3-8614-1061 Fax: 61-3-8614-1060

## ASIA

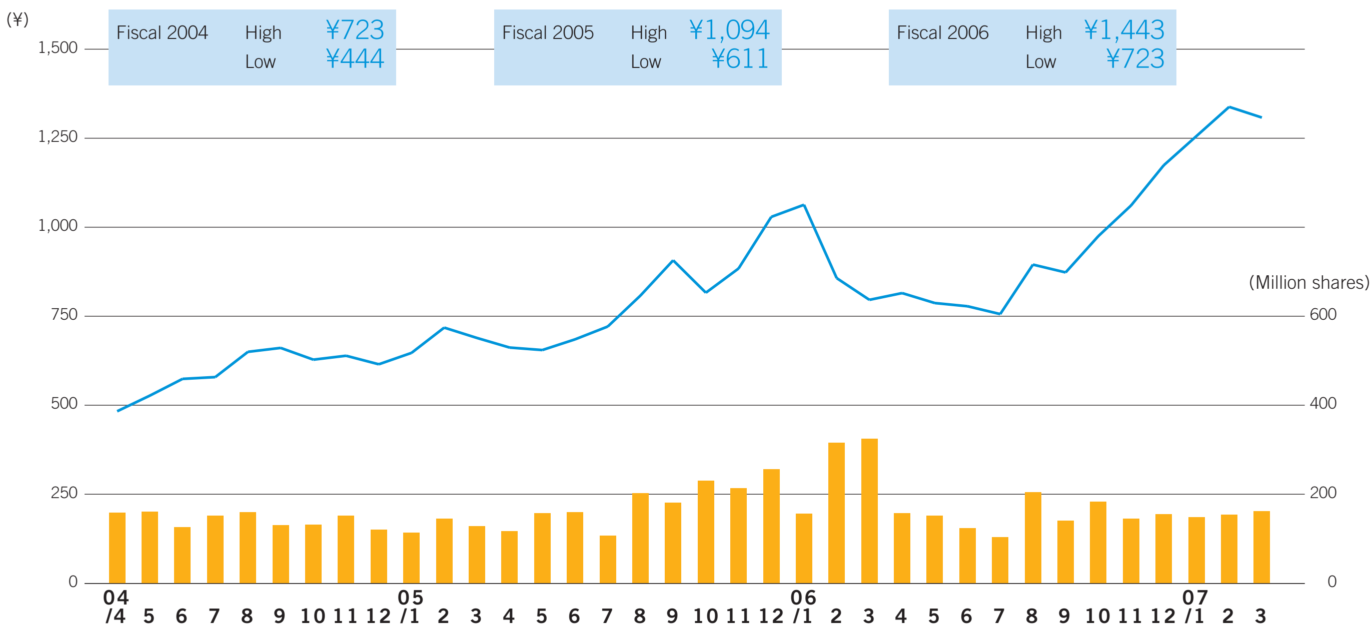
**MOL (Asia) Ltd.**
Head Office (Hong Kong): Tel: 852-2823-6800 Fax: 852-2529-9989
Seoul: Tel: 82-2-538-1034 Fax: 82-2-566-6591
**Mitsui O.S.K. Lines (India) Private Limited**
Head Office (Mumbai): Tel: 91-22-6694-6300 Fax: 91-22-6694-6301
**Mitsui O.S.K. Lines Lanka (Private) Ltd.**
Head Office (Colombo): Tel: 94-11-2304949 Fax: 94-11-2304730
**MOL (Singapore) Pte., Ltd.**
Head Office (Singapore): Tel: 65-6225-2811 Fax: 65-6225-6096
**Mitsui O.S.K. Lines (Malaysia) Sdn., Bhd.**
Head Office (Kuala Lumpur): Tel: 60-3-7957-9666 Fax: 60-3-7958-6763
**P.T. Mitsui O.S.K. Lines Indonesia**
Head Office (Jakarta): Tel: 62-21-521-1740 Fax: 62-21-521-1741
**Mitsui O.S.K. Lines (Thailand) Co., Ltd.**
Head Office (Bangkok): Tel: 66-2-234-6252 Fax: 66-2-237-1552
**Mitsui O.S.K. Lines Philippines, Inc.**
Head Office (Manila): Tel: 632-888-6531 Fax: 632-884-1766
**Mitsui O.S.K. Lines (Vietnam) Co., Ltd.**
Head Office (Ho-Chi-Minh): Tel: 84-8-8219219 Fax: 84-8-8219317
**Mitsui O.S.K. Lines (Cambodia) Co., Ltd.**
Head Office (Phnom Penh): Tel: 855-23-223-036 Fax: 855-23-223-040
**Mitsui O.S.K. Lines Pakistan (Pvt.) Ltd.**
Head Office (Karachi): Tel: 9221-5205397 Fax: 9221-5202559
**MOL (China) Co., Ltd.**
Head Office (Shanghai): Tel: 86-21-5306-0088 Fax: 86-21-6384-5936
Beijing: Tel: 86-10-8529-9121 Fax: 86-10-8529-9126
Tianjin: Tel: 86-22-8319-1951 Fax: 86-22-8319-1952
Shenzhen: Tel: 86-755-2598-2200 Fax: 86-755-2598-2210
**MOL (Taiwan) Co., Ltd.**
Head Office (Taipei): Tel: 886-2-2537-8000 Fax: 886-2-2523-2417
**Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte. Ltd.**
Head Office (Singapore): Tel: 65-323-1303 Fax: 65-323-1305
Bangkok: Tel: 66-2-634-0807 Fax: 66-2-634-0806
Kuala Lumpur: Tel: 60-3-7954-8349 Fax: 60-3-7958-5246
Seoul: Tel: 82-2-5672718 Fax: 82-2-5672719

# Shareholder Information

| | |
|---|---|
| Capital: | ¥64,915,351,028 |
| Head office: | 1-1, Toranomon 2-chome, Minato-ku, Tokyo 105-8688, Japan |
| Number of MOL employees: | 871 |
| Number of MOL Group employees:<br>(The parent company and consolidated subsidiaries) | 8,621 |
| Total number of shares authorized: | 3,154,000,000 |
| Number of shares issued: | 1,205,410,445 |
| Number of shareholders: | 100,155 |
| Shares listed in: | Tokyo, Osaka, Nagoya, Fukuoka, Sapporo |
| Share transfer agent: | Mitsubishi UFJ Trust and Banking Corporation<br>4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan |
| Communications materials: | Annual Report (English/Japanese)<br>Investor Guidebook (English/Japanese)<br>Market Information (English/Japanese)<br>News Releases (English/Japanese)<br>Home Page (English/Japanese)<br>Quarterly Newsletter *Open Sea* (English/Home Page)<br>Monthly Newsletter *Unabara* (Japanese)<br>Environmental and Social Report (English/Japanese) |

As of March 31, 2007

Stock price range (Tokyo Stock Exchange) and volume of stock trade



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This annual report was printed entirely on recycled paper with soy-based ink.

Printed in Japan