

ANNUAL REPORT 1998

COMPETING...  
*and* Winning



**PROFILE** A comprehensive shipping and total logistics organization, Mitsui O.S.K. Lines (MOL) has a global network offering tailor-made services linking sea, air and land transportation. Operations are centered on a fleet of more than 350 vessels, including many highly sophisticated, specialized carriers to serve specific customer requirements. Very large crude oil carriers (VLCC), LNG carriers, methanol tankers and car carriers are among MOL's particular strengths. A member of The New World Alliance (TNWA), MOL is making steady progress in enhancing the quality and profitability of its extensive liner operations. Subsidiaries active in logistics, air cargo and other fields enable MOL to meet a broad range of transportation needs almost anywhere in the world.

MOL is currently taking many steps to establish a solid base for sustained and profitable growth. The June 1998 restoration of dividend payments was a major milestone in this regard. MOL is determined to continue building on this momentum. Specific strategies for each sector are outlined throughout this report to illustrate how MOL plans to continue "COMPETING... and Winning."

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**ON THE COVER** Serving Asia-Europe routes, MOL's 4,743-TEU containership *Maas* was completed in January 1995. This vessel is designed for improved safety, loading efficiency and operation. A powerful 2,700-hp bow thruster enhances maneuverability. Like other MOL containerships in the European trade, this vessel takes its name from a major European river. A branch of the Rhine, the Maas is the largest river in the Netherlands. The cover photo shows the *Maas* calling at the port of Le Havre, France.

# Consolidated Financial Highlights

For the years ended March 31

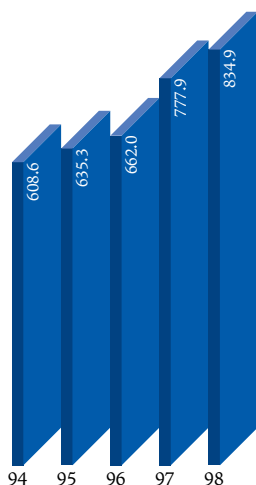
	Millions of yen			Millions of U.S. dollars
	1998	1997	1996	1998
<b>For the year:</b>				
Shipping and other revenues .....	¥ 834,879	¥ 777,896	¥ 662,046	\$6,320
Shipping .....	720,377	662,884	564,591	5,453
Others .....	114,502	115,012	97,455	867
Operating income .....	47,489	38,605	28,273	359
Net income .....	8,423	6,072	4,686	64
<b>At year end:</b>				
Vessels, property and equipment, at cost .....	¥ 818,579	¥ 718,194	¥ 613,672	\$6,197
Long-term debt due after one year .....	772,428	735,101	632,778	5,847
Shareholders' equity .....	137,692	129,175	123,514	1,042
Total assets .....	1,286,576	1,190,871	1,058,326	9,739
<b>Amounts per share of common stock</b>				
<b>(yen and U.S. dollars):</b>				
Net income .....	¥ 7.61	¥ 5.49	¥ 4.27	\$0.058
Diluted net income .....	7.59	5.48	—	0.057
Cash dividends .....	4.00	—	—	0.030

Note: U.S. dollar figures reflect an exchange rate of ¥132.10=\$1, the prevailing rate as of March 31, 1998.

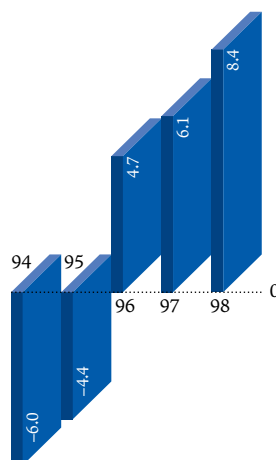
## Total operating fleet:

	1998		1997	1996
	Consolidated	(Non-consolidated)	(Non-consolidated)	(Non-consolidated)
Vessels .....	436	(352)	(350)	(354)
Owned .....	241	(39)	(39)	(40)
Chartered .....	195	(313)	(311)	(314)
Deadweight tons (millions) .....	22.29	(20.08)	(19.92)	(19.82)

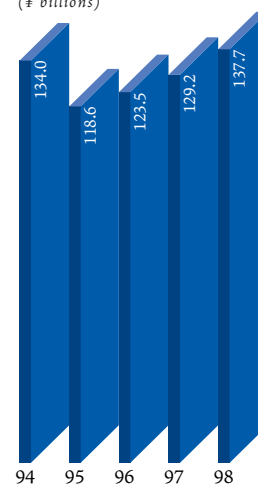
REVENUES  
(¥ billions)



NET INCOME  
(¥ billions)



SHAREHOLDERS' EQUITY  
(¥ billions)



## To Our Shareholders

### Turning the Corner

After a number of difficult years, Mitsui O.S.K. Lines (MOL) has turned the corner. Despite stagnant economies in Japan and in Asia, we were able to post a substantial increase in revenues. Most significantly, we resumed dividend payments to shareholders for the first time in five years. Furthermore, the dividend was funded by the resurgent profitability of our operations rather than one-time, non-operating items.

For the fiscal year ended March 31, 1998, consolidated shipping and other revenues were up 7.3% to ¥834,879 million (US\$6,320 million). Operating income was ¥47,489 million (US\$359 million), a 23.0% increase, while income before income taxes rose by 271.4% to ¥15,103 million (US\$114 million) and net income was up sharply by 38.7% to ¥8,423 million (US\$64 million). Higher revenues from car carriers and energy-related vessels, along with the depreciation of the yen against the U.S. dollar, made significant contributions to this performance. The yen started the fiscal year at ¥124.10 to the U.S. dollar and ended at ¥132.10. About 70% of shipping revenues are dollar denominated versus only about 65% of expenses.

#### STRUCTURING A FLEET TO GENERATE HIGHER REVENUES

The year's results reflect much more than exchange rate movements, however. For the past several years, we have been making strategic investments in vessels and other operating assets. Many of these vessels are in the field of bulk liquid cargo, including very large crude oil carriers (VLCC), liquefied natural gas (LNG) carriers and methanol carriers. Others are ships for such cargo as motor vehicles, wood chips and steaming coal. Almost all are operated under long-term charter contracts. At the same time, we are realigning our tramp fleet to reduce exposure to freight rate volatility. These investments are consistent with our goal of positioning MOL as a company with strengths in the most attractive market sectors of shipping.

Some of the more noteworthy additions to the fleet during the year included the *Orion Trader*, 259,997 MT, our seventeenth VLCC; the *Energy Poseidon*, a 70,257 dwt coal carrier; the *Polaris Ace* and *Aquarius Ace*, two pure car and truck carriers (PCTC); and the *Hokuetsu Delight*, a 49,996 dwt wood chip carrier. What investors should realize most of all is that each of these ships represents a reliable stream of cash flows and revenues for many years to come.

#### RETURNING LINERS TO PROFITABILITY

Liner operations on the Asia-North America trades have been the single largest element holding back MOL's profits for many years. Fortunately, the outlook is encouraging and we plan to return to the break-even point by the fiscal year ending in March 2001. There are four main reasons for our confidence. First, The New World Alliance (TNWA) gained its sea legs in January 1998. Under the auspices of TNWA, members are able to use vessel space, containers and berthing facilities at considerable savings. We can also improve our services with increased sailing frequencies, more direct port calls and shorter transit times. Benefits have already



Masaharu Ikuta *President*

begun to appear. Now we are looking to expand this cooperation to collaborative ordering of containers and ships, and joint development of electronic data interchange (EDI) resources. Second, freight rates were increased in May 1998 for Asia-North America eastbound routes and for Asia-Europe westbound routes both in January and April 1998. The third reason is our strategic cost-cutting project based on the MORE21 Action Plan.

Finally, the addition of George Hayashi, formerly head of APL, to take charge of our liner business is one more big step toward structuring this operation for long-term profitability. We are pleased that Mr. Hayashi joined MOL as an associate director on June 26, 1998. A veteran of many years in the shipping industry, Mr. Hayashi recently retired from APL, where his professional knowledge, leadership qualities and drive made great contributions. MOL is now seeking legislative revision of an 1899 law that bars non-Japanese from management levels in the nation's shipping industry. When that change is made, we look forward to welcoming Mr. Hayashi to our Board of Directors.

#### MORE21 ACTION PLAN

In June 1997, we began the first year of the three-year MORE21 (Mitsui O.S.K. Lines' Redesigning for 21) project. This is the second phase of the MOCAR, 90s (MOL's Creative and Aggressive Redesigning, 90s) campaign, which started in September 1994. Under the MORE21 project, we will work toward fulfilling a

number of goals: continue to improve profitability in all aspects of our business; establish and consolidate a well-balanced profit structure; strengthen our international cost competitiveness; and bolster our ability to resist market fluctuations.

#### MORE PROGRESS FORESEEN

Looking ahead, we see another year of higher consolidated revenues. For the year ending in March 1999, we are forecasting ¥850 billion (US\$6,800 million) in revenues, income before income taxes of ¥20 billion (US\$160 million) and ¥10 billion (US\$80 million) in net income. These figures are based on an exchange rate of ¥125=U.S.\$1. There are several reasons for this positive outlook: additions to the tanker and gas carrier fleets; more specialized carriers; growth in benefits of TNWA for the liner business, along with higher freight rates; and ongoing actions to cut costs wherever possible.

#### MOL'S LONG-TERM VISION

Our vision for the direction of MOL is to concentrate more resources on strategic market sectors. Last year's results are the first sign that this strategy is bearing fruit. One key trend is the rising reliance on the tanker and gas carrier sector—LNG, crude oil and methanol. We believe that this type of cargo offers the best possibilities for stable growth while shielding our profits from fluctuations in freight rates in other sectors. In seeking further expansion into this segment, we do not rule out both tactical and strategic mergers and acquisitions. For example, in February 1998, MOL raised to 75% its equity interest in the BGT Project, an LNG shipping venture that was formerly accounted for by the equity method. The acquisitions of Tokyo Marine and Tokyo Chemical Tanker are other examples. Our vision also includes a greater presence in handling motor vehicles, steaming coal and other types of cargo where supply-demand dynamics are strong.

It has taken time for companies to recover from the effects of the difficult shipping market conditions of the early 1990s. Nevertheless, we have made great strides toward achieving our objectives even in the midst of soft economies in Japan and elsewhere in Asia. More time will be needed to confirm that we have turned the corner and charted a new course as a profitable company capable of delivering steady growth. As we emerge from difficult times, we believe that our shareholders will continue to be amply rewarded for their patience and loyalty.

On behalf of the Board of Directors, I take this opportunity to extend sincere thanks for the support of our shareholders, customers and associates, and to ask for your understanding and ongoing support in the challenging period ahead.

June 26, 1998



Masaharu Ikuta  
President

# THE BUSINESSES OF MOL

## [ SHIPPING ]

### LINERS

What benefits does MOL derive from its leading role in The New World Alliance (TNWA)?



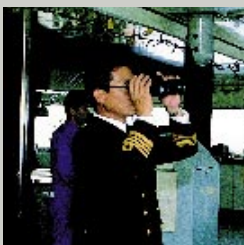
### TRAMP AND SPECIALIZED CARRIERS

What were the major reasons for the good results in car carriers during the most recent fiscal year?



### TANKERS AND GAS CARRIERS

Now that the Qatar Project operations have begun, what is the outlook for MOL's LNG fleet and future earnings?



### FERRIES AND CRUISE SHIPS

What measures are being taken by MOL to return this sector to profitability?



## [ NON-SHIPING (OTHERS) ]

What is the underlying strategy of MOL's growing investments in logistics bases in Asia?





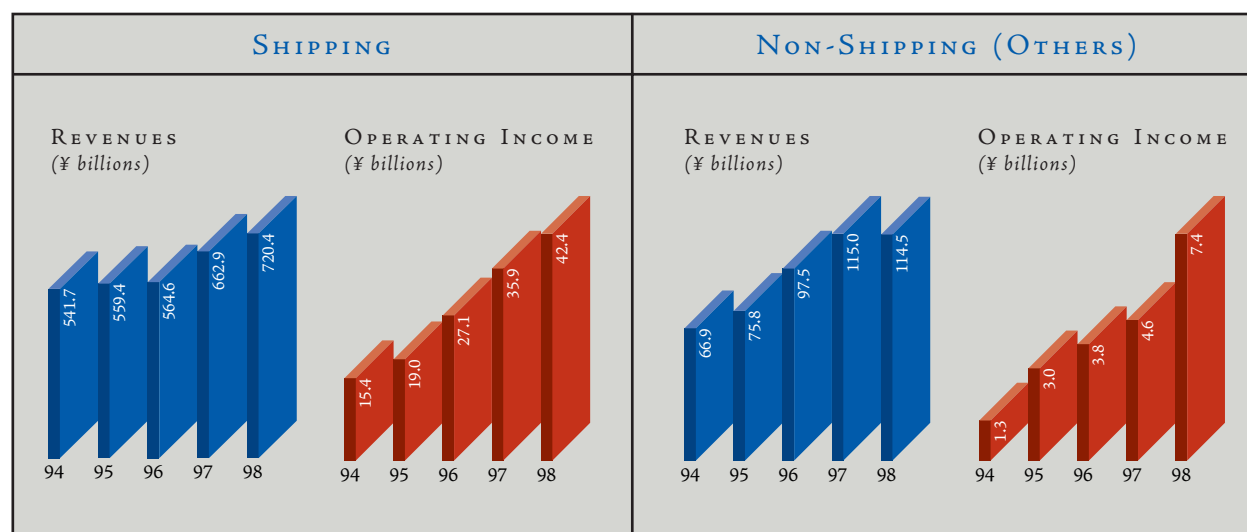
## MOL at a Glance

### OVERVIEW OF RESULTS

#### SHIPPING

» see pages 8.~21.

Revenues in the shipping segment increased 8.7% to ¥720.4 billion. As approximately 70% of these revenues are denominated in U.S. dollars, the yen's depreciation was a major factor in the growth in shipping revenues. However, results were strong even without the effect of the appreciation of the U.S. dollar. One reason was the launch of several new vessels operating under long-term charter contracts. Vessels for crude oil, LNG, methanol, iron ore and steaming coal represent a large share of these additions to MOL's fleet. Additionally, growth in automobile exports from Japan, as well as in non-Japanese trades, supported higher revenues from car carriers. Results were also aided by a strategic cost-cutting project. While segment operating income benefited from the above factors, results were again hurt by losses related to liners, mostly those serving Asia-North American routes. Losses on these operations increased sharply in the second half of the year.



### OVERVIEW OF RESULTS

#### NON-SHIPPING (OTHERS)

» see pages 22.~25.

Japan's economic slump severely impacted business results in Japan. A lower volume of trade and commerce at Mitsui O.S.K. Kogyo Kaisha caused revenues to decline sharply to ¥18 billion. On the other hand, three business sectors made large contributions to revenue growth in the non-shipping segment: air cargo forwarding at M.O. Air System, mainly due to the yen's depreciation; real estate rentals at the parent company because of rental income from tenants at its head office building; and financing activities at Linkman Holdings Inc., which benefited from growth in demand for financing from shipowners as Japanese banks refrained from extending new loans. Consequently, total revenues in this segment decreased only slightly even though economies in Japan and Asia were weak throughout the year.



## PROFILES

### LINERS » see page 9.

MOL operates a fleet of some 70 containerships. The average age is approximately 8.5 years, lower than at most competitors. MOL's membership in The New World Alliance significantly reduces costs while enhancing services for customers. MOL is shifting head office functions overseas to the maximum extent that is feasible and adopting a streamlined decision-making system. These actions will make MOL fully competitive with other liner operators in terms of cost and services during the 1998 fiscal year, which ends March 31, 1999.



### TRAMP AND SPECIALIZED CARRIERS » see page 12.

MOL's specialized carriers transport mostly iron ore, coking coal and wood chips, generally on long-term charter contracts that ensure stable revenues. Car carriers, which are another part of this sector, generate higher revenues as the yen weakens, although there are no long-term contracts. General-purpose bulkers handle mainly grain, cement, logs and non-ferrous metal ores. MOL operates about 50 tramps, where results are affected by short-term shifts in supply-demand dynamics.



### TANKERS AND GAS CARRIERS » see page 16.

MOL has one of the world's largest tanker fleets. Most VLCCs operate on long-term charter contracts from Japanese and Major oil companies. Approximately 32% of global LNG transportation is handled by vessels in which MOL has a share. With the BGT companies now MOL subsidiaries, the company's stature in LNG has been further reinforced. MOL also ranks first among the world's operators of methanol tankers.



### FERRIES AND CRUISE SHIPS » see page 20.

**Ferries** Through four consolidated subsidiaries and three affiliated companies, MOL is Japan's largest ferry operator, serving almost all major domestic sea lanes. The ferry business has been in the red for the past several years. To return operations to profitability, these companies are taking strategic actions such as the reorganization of fleets and operations, rigorous cost reductions, and the replacement of older ships with new ones that have more cargo capacity.

**Cruise Ships** MOL subsidiary Mitsui O.S.K. Passenger Line operates three cruise ships on domestic and international routes.



## PROFILE

The non-shipping segment covers a diverse range of businesses including warehousing and logistics services, air cargo forwarding, dredging and harbor construction, travel agencies, real estate, trade and commerce, financing, and information systems. These activities are generally carried out by subsidiaries and equity-method affiliates. Kusakabe Maritime Engineering, for example, has a long history of accomplishments in harbor dredging and construction. Logistics companies all over the world create a powerful network for offering a comprehensive range of support to customers.



## SHIPPING



*The 2,852-TEU containership Alligator Bravery, which entered service in March 1995, operates on Asia-North America routes. Most of MOL's containerships for the transpacific trades incorporate the alligator theme. Used to promote door-to-door service, the friendly alligator expresses how MOL's container transportation is equally at home on land and water. This photo shows the Alligator Bravery calling in Los Angeles, California.*



# LINERS

## HIGHLIGHTS OF THE YEAR

- In November 1997, MOL, the recently merged NOL/APL and Korea's Hyundai Merchant Marine announced the formation of a comprehensive global service network called The New World Alliance (TNWA). The new alliance has a combined fleet of about 100 containerships. In addition to its huge and modern fleet, TNWA has a more streamlined decision-making mechanism to ensure quick responses to changes in the trade environment.
- Shipping lines proposed increases in freight rates on Asia-North America eastbound routes in May 1998 and Asia-Europe westbound routes both in January and April 1998.
- MOL continued its policy of gradually shifting liner head office functions overseas to adapt to undercurrents that are altering the structure of international trade. One example is the North America/Latin America Trade Office, relocated from Tokyo to Concord, California and given an expanded staff. The Concord office now oversees all liner trade management functions for trades to and from North America. Including this office, MOL has a network of five regional management centers around the world.
- The members of TNWA announced in March 1998 that Taiwan's Yang Ming Lines would purchase container space on the TNWA group's weekly service between major Asian ports, the Middle East and four Mediterranean ports. This will help further rationalize the group's Mediterranean services.
- In the summer of 1997, MOL completed the replacement of six smaller vessels with six chartered 1,700-TEU containerships on its Asia/East Coast-South American routes. MOL plans to upgrade service on these routes further by building six new 1,950-TEU containerships to charter in by mid 1999.

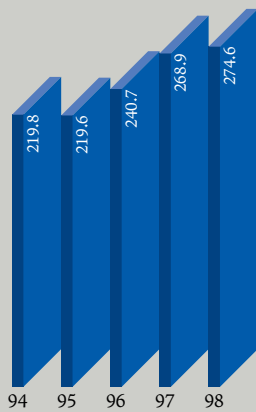
## OTHER SERVICE ENHANCEMENTS

- In April 1998, MOL inaugurated its long-awaited transatlantic service between North America and northern Europe with two sailings a week.
- A new joint liner service with additional partners went into effect at the end of March 1998 for the Strait/Australia routes.
- September 1997 saw the introduction of the upgraded "New CB7" high-speed containership service between Japan and Thailand.
- In December 1997, MOL initiated a joint containership service with P&O Nedlloyd between Singapore and East Africa. Frequency was raised from bi-weekly to weekly.
- North-south intra-Asia services were augmented in March 1998 with the addition of a second weekly service between Japan, Hong Kong and the Strait of Malacca.

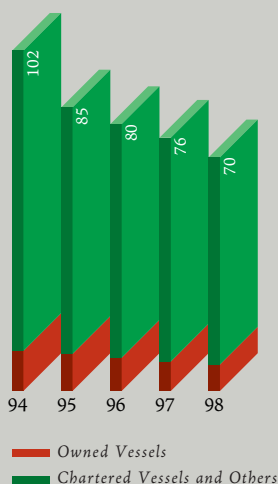


## LINERS

NON-CONSOLIDATED  
LINER REVENUES  
(¥ billions)



NON-CONSOLIDATED  
LINER OPERATING FLEET  
(vessels)



Q. What benefits does MOL derive from its leading role in The New World Alliance (TNWA)?

First of all, I want to stress that TNWA is structured to benefit customers as well as alliance members. We are now in a position to offer services on a scale and a level of quality that would be impossible to offer singlehandedly. We are also fortunate in having Korea's Hyundai Merchant Marine and the merged NOL/APL as partners. Both companies offer excellent opportunities to maximize economies of scale. Furthermore, since TNWA is made up of just three companies, all of which have similar corporate cultures and philosophies, decision-making is much faster. And that means we can better meet customers' requirements.

Q. How did the Asian currency crisis affect MOL's liner operations?

As the value of Asian currencies fell, exports from these nations rose sharply while import volumes dropped substantially. This created a shortage of available containers in Asia, especially Southeast Asia. Containerships were forced to carry large numbers of empty containers on return voyages to Asian ports. Competition to fill these containers pushed down freight rates on Asian-bound cargo. Our results were also hit by a falloff in intra-Asian cargo, especially exports from Japan like complete knock down shipments for auto makers.

Q. What specific steps is MOL taking to restore the Liner Division to profitability?

The principal cause of the poor results is an ongoing supply-demand imbalance. Sufficient capacity must be maintained for the peak seasons, but cargo volumes are lower at other times. The need to transport empty boxes on return voyages to Asia is another reason for liner losses. Of course, these are problems common to the industry worldwide, although they are most severe in the Pacific trades.

We are tackling these problems in a number of ways. Most important is holding down costs. Building on past accomplishments, we have identified still more areas where we can cut expenses. We want to raise the share of more profitable cargo, too, such as refrigerated containers. Fostering a better freight rate structure is also essential in order to more closely reflect expenses. A May 1998 freight rate hike for the Asia-North America eastbound route has been accepted, a good sign for our liner business. To take the lead in this drive we recently appointed George Hayashi, former head of APL, to take the helm of our liner operations. These strategies, along with Mr. Hayashi's strong leadership, should at least bring liner operations back to the break-even point in about three years.

## continued [LINERS]

## OUTLOOK

With the formation of TNWA in the fall of 1997, MOL's liner operations are now positioned to enter a new era of productivity and enhanced services for customers. The initial alliance, TGA, created a framework to begin heading in the right direction, but subsequent movements among members created instability. With a new alliance now firmly in place, MOL and its two partners are poised to reap economies of scale on a global basis. This will yield substantial cost reductions. Furthermore, TNWA has only three members, fewer than the previous TGA and current competing alliances. As a result, decisions can be reached with more ease and speed. Most important, TNWA sets the stage for a renewed drive at MOL toward stabilizing liner trades and returning operations to at least the break-even point by the fiscal year ending in March 2001.

In the fiscal year ending in March 1999, losses in liner operations are projected to decrease. One reason is the first full year of benefits from TNWA. Terminal contracts and the deployment of ships are two examples of these benefits. In addition, shipping lines have proposed increases in freight rates on transpacific eastbound and Asia-Europe west-bound routes. The new freight rates were successful for the first time in three years and went into effect on May 1, 1998 for the transpacific routes. For the Asia-Europe routes, they became effective on January 1, 1998; for Japan and all other Asian countries on April 1 and July 1, 1998. Finally, steps to cut costs in past years will at last be yielding meaningful results. Highlighting this drive is the shift of liner head office functions to the United States, United Kingdom, Hong Kong, Australia and Brazil in 1998.

These favorable trends will be amplified by the increasing contribution of reasonable freight rates and expectations of higher demand. MOL will also focus on improving the composition of cargo. One example is taking on more refrigerated items and other cargo that pays higher freight rates in return for extra attention. Another goal is picking up more cargo originated from direct calling ports. With extensive total logistics services backed by a warehousing and forwarding network, MOL is also able to distinguish its liner services by offering comprehensive, value-added services to customers. Based on these actions, MOL believes that liner operations can become profitable even without substantial increases in freight rates.



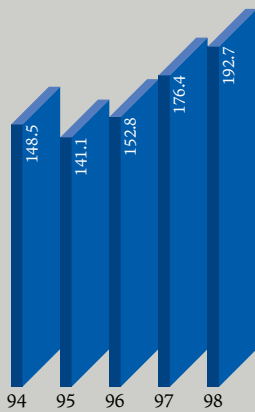
Advances in shipbuilding and improved facilities at major ports have catalyzed a trend toward larger vessels. Kobe International Container Terminal (KICT), Japan, with its 15-meter-deep berths for large containerships is a prime example. KICT has five overpanamax gantry cranes to handle large volumes of containers with ease.



In container transportation, nothing can be left to chance. Cargo is secured against shifting and products are protected against condensation with waterproof sheets. Placement on ships is another area in which MOL is able to offer detailed services.

# TRAMP AND SPECIALIZED CARRIERS

NON-CONSOLIDATED  
TRAMP AND SPECIALIZED  
CARRIER REVENUES  
(¥ billions)



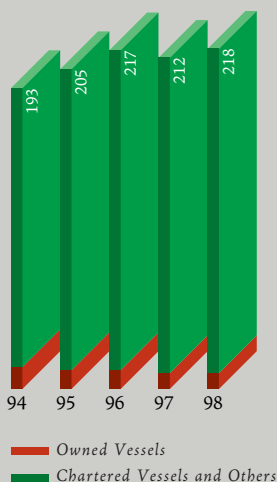
**Q. What were the major reasons for the good results in car carriers during the most recent fiscal year?**

On routes to Europe, Africa, the Arabian Gulf, Australia and some other destinations, freight rates are determined by a conference. But there are no contracts ensuring a certain level of volume. From Japan to the United States, and on some other trades, car carrier freight rates are based on competitive bids to carry a certain number of vehicles over a 12-month period. The yen's strength caused exports from Japan to drop between 1993 and 1995. Many older car carriers were scrapped in 1995 due to over-tonnage. Then the yen started dropping. Japan's vehicle exports rose to about 4 million in the year to March 1998. That's roughly 1 million more than in the previous fiscal year. And now there aren't enough car carriers to serve customers. We don't plan to speculate, though. MOL will be adding five pure car carriers to our fleet during the fiscal year ending in March 1999 to replace older vessels. And we will continue to stress our competitive edge in terms of fundamental services, particularly with regard to safety.

**Q. What has caused the poor performance in the tramp sector, and what countermeasures are being taken?**

Since about 90% of our tramp customers are based in Japan, the weak domestic economy and Asian currency crisis hit us hard. The problem was exacerbated by an oversupply of ships worldwide. Furthermore, we have few older vessels that can be scrapped. For the near term we see no meaningful change in the freight rate situation. Our objective now is to restructure the composition of our tramp fleet, which numbers about 50 vessels, to cut costs and stabilize revenues and profits. This will take time, but steady progress is being made as charter contracts with shipowners reach their completion.

NON-CONSOLIDATED  
TRAMP AND SPECIALIZED  
CARRIER OPERATING FLEET  
(vessels)



As a global organization, MOL places priority on meeting its responsibilities with regard to safety and the environment. To optimize safety, MOL makes substantial investments in equipment and the development of new technology. Acquisition of ISO9002 and ISM code certification attests to the company's commitment to safety and environmental issues.



# TRAMP AND SPECIALIZED CARRIERS

## HIGHLIGHTS OF THE YEAR

### ■ NEW VESSELS COMPLETED AND DELIVERED

1. **Car Carriers** The *Polaris Ace* departed on its maiden voyage after delivery to MOL last October. This is a pure car and truck carrier (PCTC) of 46,346 gross tons and has a capacity of 4,095 vehicles. Its advanced facilities can accommodate high-roof recreational vehicles and construction machinery. MOL sees the ship as a key element of its long-term car carrier fleet replacement and upgrading plan. In 1998, an additional four new vessels will be added to this fleet.

In March 1998, MOL took delivery of the *Aquarius Ace*, a PCTC that can load up to 3,000 ordinary cars, as well as high-roof RVs and construction machinery. It will service mainly destinations in the Arabian Gulf, Africa and Australia.

In March 1998, a joint venture of MOL and Nissan Motor Car Carrier took delivery of the *Euro Spirit*. The two partners will operate this pure car carrier alternately on an annual basis.

2. **Wood Chip Carriers** In August 1997, MOL took delivery of one of the world's biggest over Panamax type wood chip carriers, the 53,793 dwt *Dynaster*, whose capacity is 4.26 million cubic feet, 20% larger than the conventional type.

In December 1997, the 49,996 dwt *Hokuetsu Delight* was completed. The largest Panamax type, this vessel has a capacity of 3.61 million cubic feet.

In March 1998, the *Daio Creacion*, the sister vessel of the *Hokuetsu Delight*, was completed. Capacity is 3.61 million cubic feet.

3. **Iron Ore Carriers** The fiscal year was a banner one for additions to MOL's iron ore carrier fleet, with delivery taken of five Cape-size bulkers.

4. **Coal Carriers** In November 1997, MOL began operating the *Energy Poseidon*, a 70,257 dwt coal carrier. The ship operates between Australia and Japan, carrying steaming coal for a Tohoku Electric Power facility. Domestic utility demand for this coal grade, now about 40 million tons annually, is forecast to rise to more than 70 million tons by 2005. In the wake of recent amendments to the relevant legislation in Japan, most additional demand will come from independent power producers and corporations generating their own electricity.

5. **Multi-Purpose Heavy Lifters** In January 1998, MOL took delivery of the *Sailer Jupiter*, a 15,687 dwt multi-purpose heavy lifter. This is MOL's fourth ship of this type, and the first new delivery in 12 years. Equipped with state-of-the-art cargo handling facilities and a unitary hold that accommodates single items as long as 91 meters, the vessel will be put under time charter to Mammoet Shipping of the Netherlands.





*The 48,210 GT pure car and truck carrier (PCTC) Topaz Ace holds in excess of 4,000 vehicles. More than 70% of its cargo space can accommodate tall vehicles such as RVs. Pictured entering the port of Fremantle, Australia, this vessel transports vehicles all over the world.*



*continued* [TRAMP AND SPECIALIZED CARRIERS]

# OUTLOOK

In car carriers, revenues and profits are likely to remain high now that the overtonnage problem of the early 1990s has been resolved. Furthermore, exports from Japan and Korea are expected to be strong. MOL also benefits from rising demand for vehicle shipments excluding Japan, a market that generates about 10% of the company's car carrier revenues. MOL's results will be further bolstered by the growth of its car carrier fleet in 1998 and 1999. The main variables affecting this outlook are the value of the yen and the export strategies of Japanese auto makers.

Long-term charter contracts at fixed rates are the only way to generate stable revenues and profits. With a long record of safe and reliable operations, MOL will be working to capture more long-term charter contracts. Replacement demand from large customers in Japan, such as steel mills, will be rising over the next few years. One more objective is increasing business with overseas customers to offset limited growth prospects in Japan. The tramp sector, however, will likely remain unprofitable for the time being due to low freight rates. This situation could turn around if Asian economies, including Japan's, stabilize and recover. MOL is taking aggressive actions, including termination of charter contracts with independent shipowners before their completion, to restructure its tramp and charter portfolios.



The Soma Maru, with a deadweight of 89,409 LT, is a dedicated coal carrier. This vessel operates on a long-term contract with Soma Kyodo Power Co., Ltd., mainly serving routes between Australian ports and Soma, Japan.

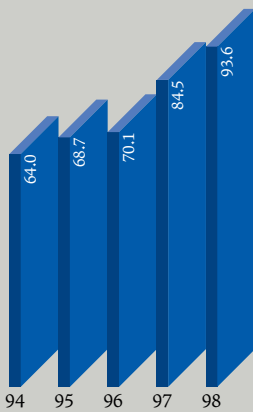


MOL operates the world's preeminent fleet of wood chip carriers. The Grandis has a hold capacity of 3.52 million cubic feet. Its three deck cranes can load and discharge wood chips at a rate of 975 tons per hour.

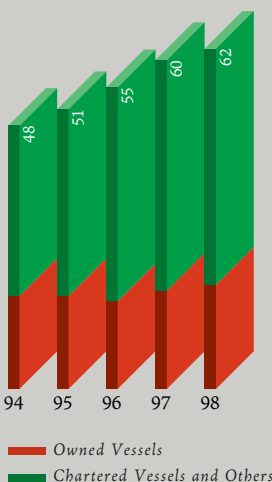


# TANKERS AND GAS CARRIERS

NON-CONSOLIDATED  
TANKER AND GAS CARRIER  
REVENUES  
(¥ billions)



NON-CONSOLIDATED  
TANKER AND GAS CARRIER  
OPERATING FLEET  
(vessels)



**Q. Now that the Qatar Project operations have begun, what is the outlook for MOL's LNG fleet and future earnings?**

The Qatar Project is off to a very good start. Earnings from this operation will be increasing gradually over the 25-year life of the contract. Five Qatar LNG carriers have been completed. Eventually, this fleet will reach 10 ships, and we will be operating 4 of them. There are many other LNG projects in the world, too. MOL plans to take advantage of LNG business possibilities in Australia, Indonesia, and Oman. Only a few first-class shipping companies are capable of operating LNG carriers. This works to the advantage of MOL, the world's leading operator of LNG carriers. These carriers generate stable profits based on freight rates that are computed by adding a fee to costs incurred. MOL intends to keep expanding this business by targeting new importing nations like China and India.

**Q. Please describe recent events in the VLCC market and MOL's plans for the future.**

Although VLCC freight rates dropped briefly in 1997 due to economic instability in Korea, the market was generally favorable. Freight rates rebounded sharply from a World Scale figure of 55 to 75-80 (as of June 1998) for Arabian Gulf-Asia routes. The outlook for freight rates is good. International conventions generally limit VLCCs to a useful life of 25 years. About 200 VLCCs, built in the late 1970s, will be scrapped in the 2000-2005 time frame, while new VLCCs now on order will number only about 70. Many companies are having difficulty financing VLCCs, and they are reluctant to take on the enormous risks associated with operating a VLCC. Even the world's major oil companies are holding back on building VLCCs. MOL, on the other hand, is expanding its VLCC fleet. But this is being done prudently. We are building only with the backing of long-term charter contracts with Japanese oil companies and foreign customers. Even though the outlook for freight rates is excellent, we will not speculate by building ships for the spot market.

**Q. How does MOL's acquisition of additional methanol carriers fit into the overall strategy for the market?**

There are 25 methanol carriers in operation worldwide, of which MOL has 12. Our fleet will increase to 15 in early 2000, including 96,000 dwt vessels, the world's largest. All operate on long-term contracts, typically 15 years. Like LNG, methanol demands extremely sophisticated handling methods. As the number-one name in this exacting field, MOL has a valuable edge in capturing more contracts as global methanol production rises.

# TANKERS AND GAS CARRIERS

## HIGHLIGHTS OF THE YEAR

- In February 1998, MOL and Japan's Nissho Iwai acquired all the stock of three shipping companies: Burmah M.O.L. Transport, Burmah LNG Shipping, and Burmah Investment. MOL now owns 75% of their equity and Nissho Iwai the remainder. The purchase was related to the BGT Project, whereby 8.2 million tons of LNG are to be shipped annually from Indonesia to Japan by eight 125,000m<sup>3</sup> carriers. The contracts have been extended through 2010 for six LNG carriers.
- MOL has signed a contract for a new LNG carrier, its first ever to feature the new GTT Mark III membrane-type tank. It is part of the Indonesia LNG Project, which serves medium-class gas companies in Japan. The volume of LNG transported by this project will double to 400,000 tons in 2000.
- March 1998 saw the MOL bases in Tokyo and London carry out an Oil Spill Response Drill. MOL President Masaharu Ikuta and other senior officers oversaw measures to respond to a simulated spill of 1,700 kiloliters in the Dover Strait. The drill confirmed the effectiveness of the company's contingency plans.
- In chemical tankers, the company took delivery of the 40,845 dwt *Bow Triton* in July 1997. This gives MOL a fleet of five 40,000 dwt class chemical tankers. The other tankers are the *Bow Triumph* and the *Bow Trident*, which were delivered in 1992, and the *Bow Trigger* and the *Bow Tribute*, which were delivered afterward. The MOL Group now controls one of the world's largest chemical tanker fleets. This fleet includes 27 tankers in the 20,000 dwt range operated by Tokyo Marine, an MOL subsidiary. Two other subsidiaries, Asahi Tanker and Tokyo Chemical Tanker, operate tankers in the under-9,000 dwt class throughout Asia.



The 40,845 dwt chemical tanker *Bow Triton* was completed in July 1997. The MOL Group now controls one of the world's largest chemical tanker fleets.



The LNG carrier *Northwest Swallow*, with a cargo capacity of 127,545 cubic meters, has been operating between Australia and Japan since 1989. This photo shows the vessel in Withnell Bay, Western Australia.





*The fourth LNG carrier to serve the Qatar-Japan LNG Project, Al Wajbah was completed in June 1997. An immense undertaking, this project requires ten vessels, each with a capacity of 135,000 cubic meters. In all, 6 million tons of LNG will be transported annually over a 25-year period to supply eight Japanese electric and gas utilities.*



## continued [TANKERS AND GAS CARRIERS]

### NEW VESSELS COMPLETED AND DELIVERED

- **LNG Carriers** The fourth LNG carrier for the Qatar Project, *Al Wajbah*, was completed in June 1997.
- **VLCCs** In February 1998, Hitachi Zosen delivered the *Orion Trader*, 259,997 MT, to MOL, the company's seventeenth VLCC and fourth double-hulled tanker. MOL has decided to replace several single-hulled VLCCs with new double-hulled construction.  
MOL announced in March 1998 its placement of orders to Mitsui Engineering & Shipbuilding for two VLCCs of the 285,000 dwt class. Construction of two VLCCs is already under way at Ishikawajima-Harima.
- **Methanol and Chemical Tankers** The *Shoko Maru*, a 30,000 dwt methanol tanker, was completed and delivered in February 1998. The vessel has been chartered to Nissho Iwai. Another methanol tanker of the same class, the *Nariva*, joined MOL's fleet upon its completion in July 1998. This brings to 12 the number of MOL vessels serving the methanol market.

### OUTLOOK

For the time being, no change is foreseen in the favorable economics of VLCCs, LNG carriers and methanol carriers. Demand for tankers and gas carriers will be solid while capacity remains limited. Furthermore, a large share of MOL's revenues from these ships are based on long-term contracts. MOL is benefiting from a number of long-term trends in tanker markets. In VLCCs, the need for safety is paramount. MOL's long record of safe and reliable crude oil transport makes the company a reliable selection for customers around the world. Additionally, MOL is making major investments in double-hulled VLCCs.

Methanol will be another major source of stable profits. Worldwide demand for this compound, widely used in adhesives and as a gasoline additive, is climbing steadily. To avoid the contamination of methanol, strict care is needed both in loading and discharging, which limits the number of companies able to compete in the methanol transportation market. MOL plans to take full advantage of its industry-leading position to increase its stature in this highly attractive market sector.

Steady expansion is foreseen in the LNG carrier sector. As at the Qatar Project and the BGT Project, MOL continues to expand its LNG business, which generates stable profits.



The *Shoko Maru* is a 30,000 dwt methanol carrier with a cargo capacity of 37,662 cubic meters. This vessel is assigned to routes linking Indonesia to ports in Japan and elsewhere in the Far East. The MOL Group operates the world's largest fleet of methanol carriers.



The 311,689 MT double-hulled VLCC *Atlantic Prosperity* transports crude oil mainly between the Arabian Gulf region, the Gulf of Mexico and Europe. With a length of 329.71 meters and a beam of 58.00 meters, the vessel has a capacity of 350,936 cubic meters.

## FERRIES AND CRUISE SHIPS

**Q. What measures are being taken by MOL to return this sector to profitability?**

Unfortunately, this sector has been unprofitable for the past few years due to the domestic recession and the 1995 Kobe earthquake. But we are determined to turn this situation around in the coming years. One theme is restructuring management and the operation of major routes to strengthen cost competitiveness. This is being accompanied by a broad-based cost-cutting program. And to generate more revenues even if the number of passengers stays flat, we are placing more emphasis on carrying agricultural, industrial and consumer products on ferries. Additionally, having stopped operations at one subsidiary and one affiliate, ferry companies in the MOL Group have fallen from seven to five.

From a purely commercial point of view, there are reasons to stay in this business despite its cycles that track the economy closely. Our deployment of several advanced ferries during the past year demonstrates our commitment to the ferry business. Along with the benefits of cost cutting and restructuring efforts, we expect that our actions will return ferry operations at consolidated subsidiaries to profitability in the fiscal year ending in March 2000.

**Q. How will the April 1998 completion of the Akashi Strait Bridge affect domestic ferry operations?**

Four ferry routes of our subsidiaries were directly affected and we withdrew from three of these routes. One subsidiary stopped some services and reduced the frequency on other routes. This was based on projections of a considerable drop in passenger and cargo volume according to an official government transport study.

**Q. The cruise ship sector's performance has been unsatisfactory. What is the MOL Group's strategy for this business?**

Here too the stagnant domestic economy has reduced revenues. We are promoting a variety of leisure cruises. We have generated consistently good results from seasonal cruises in Japan timed with special events like festivals. We see leisure cruises becoming the main source of earnings in time. As this sector expands, we will be altering crew composition and taking other steps to cut expenses. We plan to offer around-the-world cruises both in 1999 and 2000.



# FERRIES AND CRUISE SHIPS

## HIGHLIGHTS OF THE YEAR

- Mitsui O.S.K. Passenger Line has become the first Japanese cruise ship company certified under the International Safety Management Code by Japan's Ministry of Transport. The February 1998 award marked the company's compliance with the International Convention on Safety of Life at Sea.
- The *Nippon Maru* departed on a 90-day around-the-world cruise on April 20, 1998. Carrying 300 passengers, the ship will call at 24 ports in 16 countries. Tickets were sold out soon after going on sale.
- July 1, 1997 saw the *Sunflower Kuroshio*, 9,700 GT, enter service on Blue Highway Line's Tokyo-Kochi route. The new vessel cuts travel time and offers more private rooms for passengers and more space for trucks. The ferry *Sunflower Tsukuba*, 12,325 GT, entered service in January 1998.

## OUTLOOK

The ferry business has been facing an extremely difficult situation due to the 1995 Kobe earthquake, the decrease in passengers and cargo caused by a stagnant domestic economy, and the April 1998 completion of the Akashi Route linking Honshu and Shikoku. Furthermore, deregulation in the ferry and domestic cargo transport industries points to more intense competition among ferry and cargo vessel operators in the coming years. Despite these adverse trends, the MOL Group plans to return its ferry business to profitability in the fiscal year ending in March 2000. This will be accomplished by retaining a firm commitment to rationalization and cost reductions. Rigorous cost-cutting efforts are expected to make cruise operations profitable, too.



Completed in January 1998, the 12,325 GT *Sunflower Tsukuba* has space for 216 large trucks. The ship incorporates many design elements from Finland and other parts of northern Europe.



The luxurious 21,093 GT *Nippon Maru* departed on an around-the-world cruise in April 1998. Passengers have the opportunity to visit many exciting places, including India, Mediterranean ports, Caribbean islands, South America, the U.S. West Coast and Alaska. Similar cruises are scheduled for 1999 and 2000.



# NON-SHIPPIING



*MOL acquired Wassing B.V., a European forwarding firm, in 1990 in order to establish a logistics bridgehead near Rotterdam before the formation of the unified European market. Wassing now plays a central role as a total logistics services integrator in MOL's logistics strategy in Europe. Activities encompass warehousing and distribution, trucking and forwarding of both sea and air cargoes.*



# NON-SHIPPING (OTHERS)

## HIGHLIGHTS OF THE YEAR

- MOL has been awarded a contract to handle all logistics for a new photographic film plant in China, about 80 km west of Shanghai. The plant will produce instant cameras and electronic equipment. MOL will arrange for ship loading, customs clearance and inland transport of its imported parts and materials, and of its completed products for export.
- MOL was the first Japanese shipping firm to set up a logistics company in the booming Shanghai market. Shanghai Longfei International Logistics Co., Ltd., which began operations in August 1997, is a joint venture with three Chinese firms. The new firm's services include forwarding, warehousing, inland transportation and combined bill of lading issuance.
- In April 1997, MOL established its tenth subsidiary in the Asian area, Mitsui O.S.K. Lines (Philippines), Inc. This has already enabled the company to extend better services to customers as the volume of cargo in Southeast Asia grows.
- A new affiliate, Cougar Logistics Philippines, Inc., began operations in February 1998. MOL has a 40% share, with Philippine interests representing most other shareholders. The affiliate is handling export/import, customs clearance, forwarding, warehousing and inland transport. A significant share of business comes from serving the distribution requirements of the more than 150 Japanese company plants operating in and around Manila. Cougar Logistics Philippines will complement and interface with the 36 MOL distribution firms in 13 countries around the world.
- Subsidiary Cougar Logistics (Singapore) Pte Ltd. received ISO9002 certification for total physical distribution in July 1997. This certification plays a key role in the company's aggressive marketing efforts, serving as proof of its world-class quality assurance standards.



MOL became the first Japanese shipping company to form a logistics subsidiary in Shanghai. The new firm, Shanghai Longfei International Logistics, meets this region's growing demand for sophisticated import and export services.

# NON-SHIPPING

## Q. What is the underlying strategy of MOL's growing investments in logistics bases in Asia?

For well over a decade, MOL has been adding forwarding and other logistics bases all over the world. Now, we are prepared to leverage this infrastructure to move on to the next stage of growth. In Southeast Asia, this strategy takes the form of the Greater Cougar Concept. In 1998, we will merge two subsidiaries in Singapore, Cougar Express and Cougar Logistics (Singapore) Pte Ltd. This will create a single entity with expertise in forwarding, warehousing and distribution. The new company will be able to grow throughout Southeast Asia, formulating and implementing business plans on its own. Alliances among subsidiaries is another way to utilize existing resources. Hong Kong Logistics and Shanghai Longfei International Logistics have formed an alliance to serve a Japanese manufacturer of photographic film. Through a base in Hong Kong, the two companies will handle shipments of materials and finished products to and from China. This service also encompasses tasks that would normally be performed by the manufacturer's employees, thereby adding more value for this customer. All in all, our customers will be seeing more dramatic advances in our logistics capabilities over the next few years.



*Wassing holds a Type E customs licence for its bonded warehouses, enabling the company to handle bonded goods with the highest degree of convenience and speed for its customers.*

## Q. How do these activities reflect the demands of today's customers?

What customers want most of all is reliable door-to-door service. By adding warehousing, forwarding, customs clearance and other functions, we can present companies with a complete lineup of transportation and logistics support. But there are lots of competitors here. That's why we are focusing on ways to set ourselves apart. The best way is by crafting services to target concrete customer needs. Doing so demands reliable shipping as well as the ability to supply customers with useful information in a timely manner. This stance distinguishes us from logistics companies that offer uniform services to a mass market.

## Q. How did the Asian currency crisis affect operations in logistics?

The damage was not serious. Most losses occurred in Thailand, where the currency's fall forced us to write down investments. We are providing support for subsidiaries in the form of additional capital and other financial assistance as necessary. There is a positive side to these events. As the crisis unfolded, it prompted us to accelerate the pace of consolidating subsidiaries in the region that conduct similar functions. The crisis affected cargo movements mainly by causing exports to rise and imports to fall. But overall, cargo volume is about the same.



continued [NON-SHIPPING (OTHERS)]

## OUTLOOK

By steadily enlarging logistics operations, MOL is assembling a powerful infrastructure for extending a comprehensive line of logistics services. All are firmly rooted in MOL's core business of marine transportation. Further defining these services is a commitment to supplying customers with a range of valuable information and knowledge-based assistance. The ultimate aim is to give MOL's logistics professionals the tools needed to mold proposals to address specific requirements at client companies. Realignments and consolidations of MOL's network are accompanying these efforts. The two Cougar subsidiaries in Singapore will soon be merged. Other Asian bases will be combined, too. Similar actions will be taking place elsewhere in the world, laying the groundwork for more growth in the quantities of cargo handled as well as earnings.

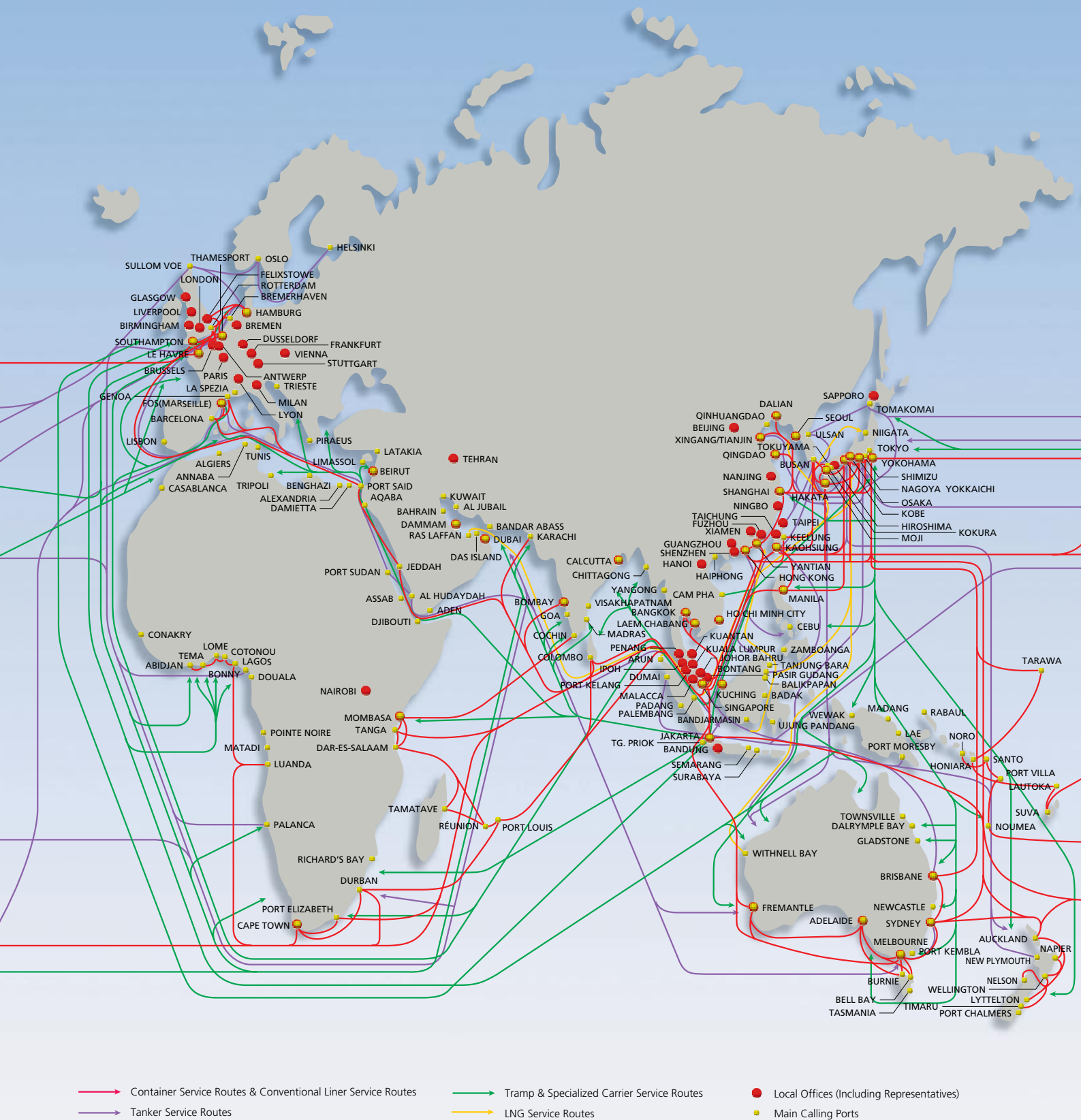


Cougar Logistics (Singapore) was founded in June 1988. The company has a long record of accomplishments in the consolidation, storage and physical distribution to global markets of cargo imported from Asia and other regions. Cougar Logistics (Singapore) is a holder of ISO9002 certification.

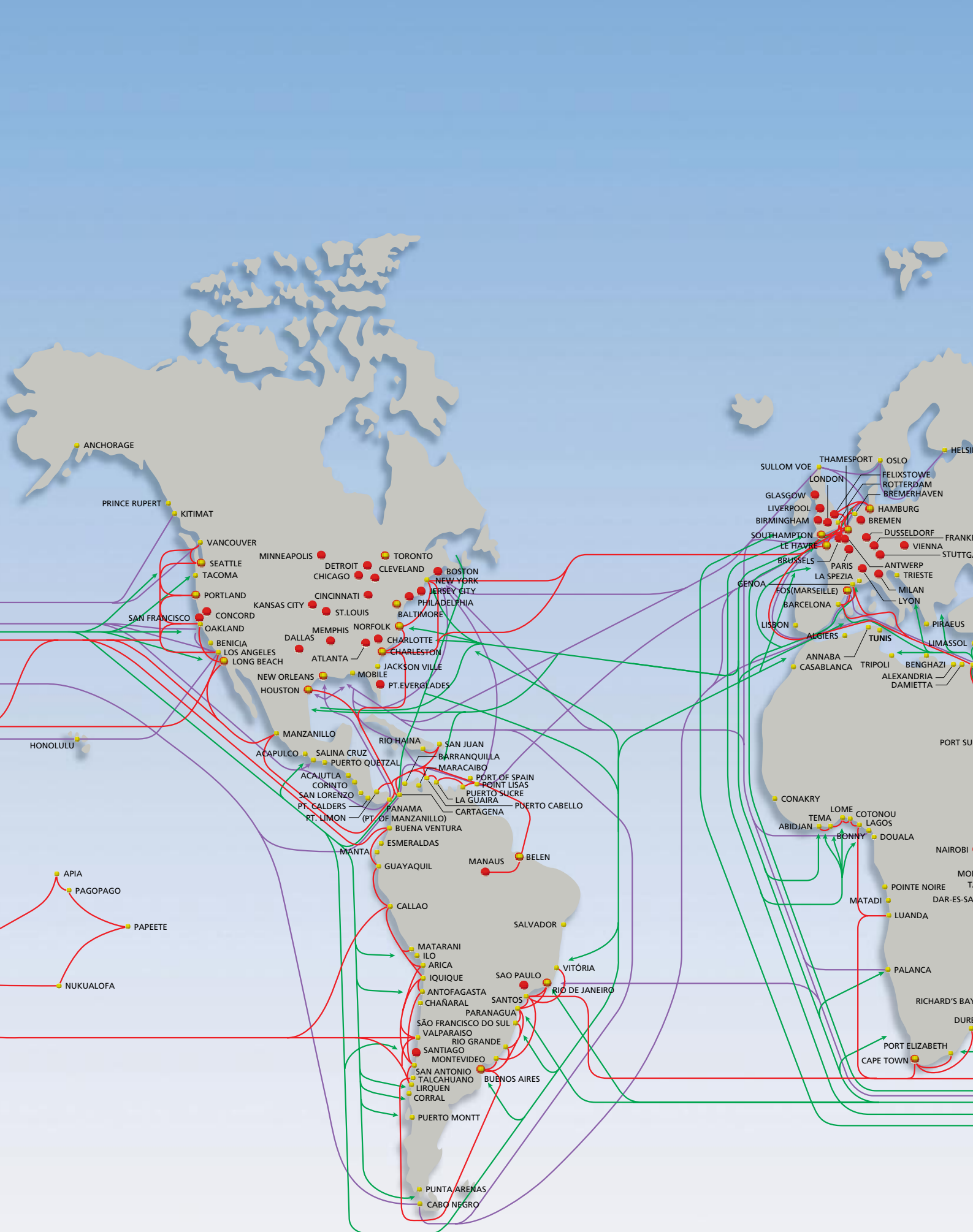


A large share of cargo handled in Singapore is exported soon after its import. To simplify this process, Cougar Logistics (Singapore) has acquired the Major Exporter Scheme qualification from Singapore tax authorities. A sophisticated data handling capability adds more value to Cougar's cargo services.

# MOL Global Services







# Board of Directors and Auditors

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Masaharu Ikuta

## EXECUTIVE VICE PRESIDENTS

Makoto Ishii

Assistant to the President

Kunio Suzuki

Assistant to the President

## SENIOR MANAGING DIRECTORS

Kazuo Sato

Personnel Division, Liner Division,  
Ports and Terminals Office,  
Car Carrier Division, Kansai Area

Heihachiro Echizenya

Internal Auditor,  
General Affairs Division,  
Information Systems Office, Finance  
and Accounting Division

Seiji Nakamura

Planning Division,  
Research Co-operation Office,  
Logistics Office, Associated Business  
Division

## MANAGING DIRECTORS

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Secretaries Office, Personnel Division

Kenji Machino

Marine Division, Ship Management  
Division

Susumu Kikuma

Bulk Carrier Division,  
Wood Chip and Industrial Plant  
Carriers Division

Tokinao Hojo

Tanker Division, Liquefied Gas  
Carrier Division,  
Steaming Coal Carrier Division

Akimitsu Ashida

Planning Division, Publicity Office,  
Ship Management Division

Hiroyuki Sato

Liner Division

Kazuki Mori

Liner Marketing Division,  
Logistics Office

Tsuneo Kawahara

Car Carrier Division

## DIRECTORS

Hiroyuki Nakagawa

Finance and Accounting Division

Yoshihiro Ishizawa

Ports and Terminals Office, Assistant  
to Mr. H. Sato and Mr. K. Mori,  
Managing Directors for Liner  
Division and Liner Marketing  
Division

Hideki Sano

General Manager of Associated  
Business Division

Shinichi Takemoto

General Manager of Personnel  
Division

Masahiko Inoue

General Manager of Steaming Coal  
Carrier Division,  
Assistant to Mr. S. Kikuma,  
Managing Director for Bulk Carrier  
Division

Makoto Taniguchi

Ship Management Division,  
Technical Division

## ASSOCIATE DIRECTOR (\*)

George Hayashi

Assistant to the President for Liner  
Operations,  
Chairman/President/CEO  
Mitsui O.S.K. Lines (America) Inc.

(\*) Will be officially nominated as a  
director as soon as this is admissible  
by Japanese Law (the Ship Law),  
which currently does not allow foreign  
nationals to serve as a director of a  
company which owns Japan registered  
ship(s).

## CORPORATE AUDITORS

Susumu Yoshida

Takeshi Yamamoto

Nobuyoshi Tateishi

Kyoichi Sato

(As of June 26, 1998)

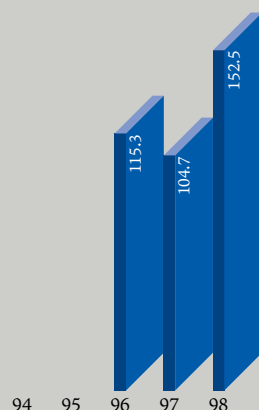


# FINANCIALS

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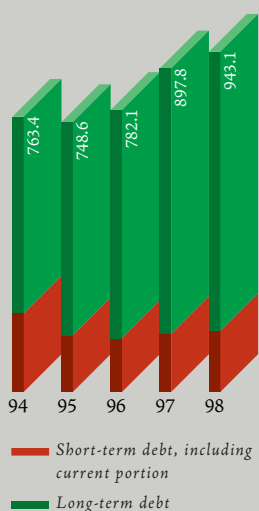
# FINANCIAL OBJECTIVES

CAPITAL EXPENDITURES  
(¥ billions)



Note: Consolidated capital expenditures are not available before fiscal 1996.

TOTAL DEBT  
(¥ billions)



**Q. Capital expenditures have exceeded depreciation considerably over the past few years. What is the outlook for MOL's capital budget?**

We expect capital expenditures, mainly representing the launch of new vessels, to fall to about ¥50-60 billion annually over the next three fiscal years. In each of the past two fiscal years, capital expenditures were more than ¥100 billion (US\$757 million). This was due in large part to our strategy of expanding the energy-related fleet. We added methanol carriers and, most significantly, invested in LNG carriers through the Qatar Project. These are extremely intricate and costly vessels to build. We have also been investing in car carriers and other specialized vessels. These investments are already contributing to the turnaround in our profits. By the year 2000, we will begin to see a major difference on the bottom line. For example, with no substantial decline seen in the VLCC market, the 10 new crude oil tankers that will be joining our fleet over the next few years are likely to be a source of higher earnings for MOL.

**Q. What is being done to bring down MOL's reliance on debt?**

The substantial investments in our fleet, along with a difficult operating environment, forced us to add a large amount of new debt to the balance sheet. The April 1997 purchase of our Tokyo head office building added more debt, but positively affected earnings. Now capital spending is about to fall just as our earnings are coming back. We plan to use this opportunity to reduce debt. Debt reductions will be financed mainly through the sale of securities and other assets that are not consistent with our long-term strategies. Based on the cost method, there are about ¥89.3 billion of investment securities in our portfolio. Unrealized gains on these securities are about ¥70 billion. This is a significant source of potential cash to retire debt. There are also other assets, including non-essential real estate, that are under consideration for sale. At this time, we plan to sell about ¥35 billion (US\$265 million) of those securities, equities, and real estate holdings over the two-year period ending in March 1999. We have no plans for an equity financing at this time.

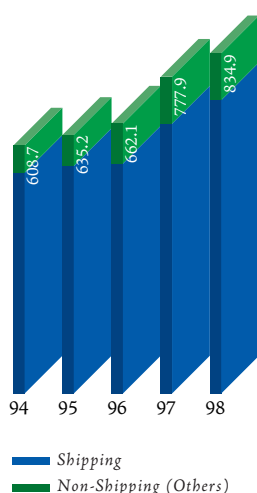


# Management's Discussion and Analysis

## INTRODUCTION

This section should be read in conjunction with the remarks in the To Our Shareholders, The Businesses of MOL, and Consolidated Financial Statements and Notes sections. All figures in U.S. dollars are translated from yen at the rate of ¥132.10/US\$1.00, the TTM rate prevailing on March 31, 1998 in Tokyo. The term "the company" refers to the parent company, while the term "the companies" refers to the company and its 207 consolidated subsidiaries and affiliates around the world. These include 186 consolidated subsidiaries, 2 equity method subsidiaries and 19 equity method affiliates. Eighteen consolidated companies were added this year and seven (four consolidated subsidiaries and three equity-method companies) were excluded. The increase in consolidated subsidiaries is mostly the result of MOL's acquisition during the year of majority interests in the 14 companies in the BGT Project, which involves the transport of LNG from Indonesia to Japan. Four of the new consolidated subsidiaries are newly established ship holding companies. There are 230 subsidiaries and affiliates not incorporated in the Consolidated Financial Statements. The "MOL Group" refers to all entities under the MOL aegis.

TOTAL REVENUES  
(¥ billions)



## OVERVIEW

The MOL Group is a comprehensive sea, land and air transportation services organization based in Japan and operating worldwide. The MOL Group operates the world's largest fleet of LNG, methanol and wood chip carriers, ranks among the top four in car carriers, and ranks in the top ten in crude oil carriers. In fiscal 1997, the year ended March 31, 1998, consolidated business results were reorganized into five segments for reporting purposes. For clarity and consistency with previous annual reports, however, the broad Shipping and Non-Shipping (Others) segmentation is retained in this discussion.

## SEGMENT INFORMATION

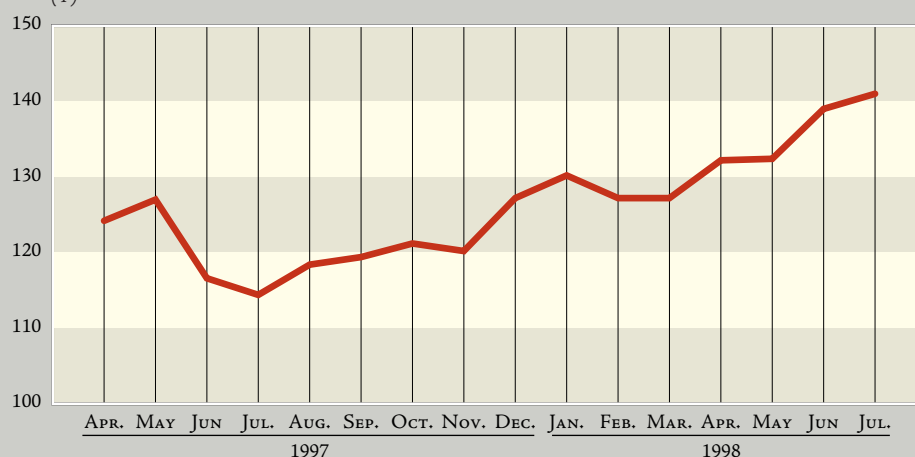
In fiscal 1997, the companies reported shipping and other revenues of ¥834,879 million (US\$6,320 million), an increase of 7.3%, or ¥56,983 million. The weaker yen raised revenues, but a major part of this increase was offset by a decline in transpacific liner freight rates. The consolidation of subsidiaries that had been accounted for using the equity method raised revenues by ¥32 billion (US\$242 million). The expanded scale of operations due to capital investments in new vessels also contributed to the increase in revenues. Reflecting the growth in revenues, shipping and other expenses rose by ¥48,990 million (US\$371 million) to ¥713,006 million (US\$5,397 million). General and administrative expenses, however, decreased 1.2% to ¥74,384 million (US\$563 million) despite the higher revenues. This decline is attributable to a variety of initiatives

# FINANCIAL OBJECTIVES

**Q.** The U.S. dollar, in which most of MOL's revenues are denominated, appreciated against the yen throughout the past fiscal year. What is MOL's strategy in respect of the financial impact of exchange rates?

The company conducts hedging activities as needed to shield assets and revenues from fluctuations in interest rates and currencies. Derivatives are never used for speculative purposes. We are operators of a shipping company, not financial engineers. This is a conservative stance that some other Japanese non-financial firms might do well to imitate. Throughout fiscal 1997 we maintained the same position. As for ship financing activities, the amount of fixed interest rate debt in yen has always exceeded 80% of total yen debt. For U.S. dollar debt, fixed-rate instruments have accounted for more than 50% of procurement. We have made every effort to minimize our exposure to currency fluctuations by replacing operating expenses in yen with U.S. dollar expenses, moving administrative work from Japan to other areas, and developing business that generates earnings in yen. This policy also applies to fund procurement. Most of the ships that produce U.S.-dollar denominated earnings have been financed with U.S. dollar borrowings. During the past year or so, we allowed yen-denominated financing to grow because of our perception that the U.S. dollar would continue to strengthen. This remains our view for the time being. We are, however, prepared to hedge prudently against the effects of volatility should the currency markets show signs of reversing.

THE YEN-DOLLAR EXCHANGE RATE  
[MONTHLY AVERAGE]  
(¥)





## continued [ MANAGEMENT'S DISCUSSION AND ANALYSIS ]

aimed at minimizing expenses and to the April 1997 purchase of the Tokyo head office building, thereby substantially reducing occupancy expenses. As a result, operating income rose 23.0%, or ¥8,884 million (US\$67 million), to ¥47,489 million (US\$359 million).

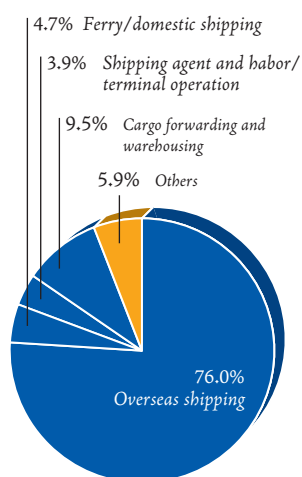
## RESULTS BY SEGMENT

**SHIPPING**—Fiscal 1997 shipping revenues totaled ¥720,377 million (US\$5,453 million), up 8.7% from the prior fiscal year. This was 86.3% of total revenues compared with 85.2% one year earlier. Shipping revenues include ¥635,008 million of revenues from overseas shipping operations, and ¥38,929 million from ferries and domestic shipping. Shipping segment operating income was up by 18.2% to ¥42,401 million (US\$321 million). Included in this are ¥42,136 million in income from overseas shipping operations, and a loss of ¥1,181 million from ferries and domestic shipping. The improvement in segment operating income reflects the weaker yen, as well as newly consolidated subsidiaries and additions to the fleet, including the first full-year contributions of ships completed during the prior fiscal year.

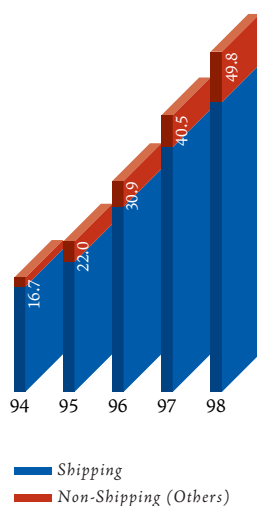
Among subsidiaries, the primary contributors to shipping revenues are the BGT Project subsidiaries, Blue Highway Line and a subsidiary of this company, Tokyo Marine, Tokyo Chemical Tanker, M.O. Seaways, Mitsui O.S.K. Passenger Line, and The Diamond Ferry.

**NON-SHIPPING (OTHERS)**—Revenues in this segment declined 0.4% to ¥114,502 million (US\$867 million), 13.7% of total revenues compared with 14.8% one year earlier. Revenues at M.O. Air System and its five overseas subsidiaries were higher. Logistics-related revenues also grew. Operating income for the segment was up 61.5% to ¥7,394 million (US\$56 million). There was a substantial improvement in earnings from air cargo and logistics operations. Subsidiaries making material contributions to revenues in this segment include M.O. Air System and its five overseas subsidiaries, Mitsui O.S.K. Kogyo Kaisha, Kusakabe Maritime Engineering and M.O. Logistics and International Container Terminal, and Trans Pacific Container Service (see page 51).

COMPOSITION OF REVENUES (%)



TOTAL OPERATING INCOME (¥ billions)

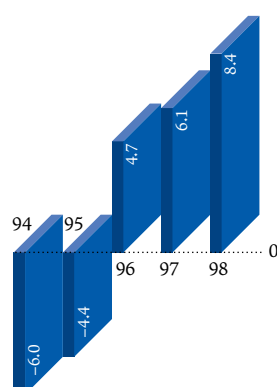
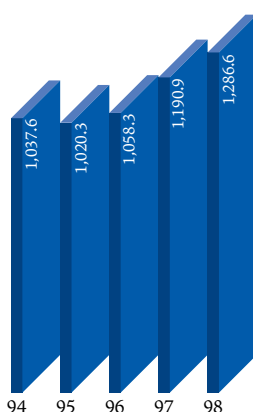


Note: Operating income is shown prior to intersegment eliminations.

## OTHER INCOME (EXPENSES) AND NET INCOME

Interest expense rose 12.4% to ¥42,519 million (US\$322 million). This is attributable to an increase in interest-bearing liabilities to fund capital expenditures, mainly new vessels. Others, net includes ¥18,977 million in gains on sales of vessels, investment securities and others and marketable securities, and a ¥7,853 million loss on write-offs of securities and other investments (see page 48).

## continued [MANAGEMENT'S DISCUSSION AND ANALYSIS]

NET INCOME  
(¥ billions)TOTAL ASSETS  
(¥ billions)

As a result, income before income taxes increased 271.4% to ¥15,103 million (US\$114 million). The provision for income taxes rose due to the increase in earnings and a decrease in the provision for accelerated depreciation of qualified new vessels registered in Japan. Equity in earnings decreased because BGT Project companies previously accounted for as equity-method affiliates became consolidated subsidiaries during the fiscal year.

Consolidated net income rose 38.7% to ¥8,423 million (US\$64 million) and net income per share was ¥7.61 (US\$0.06). Cash dividends applicable to the year were ¥4.00 (US\$0.03), the entire amount payable at the end of June 1998 to shareholders of record on March 31, 1998. The return on equity (simple average of current and previous year-ends) advanced from 4.8% to 6.3%.

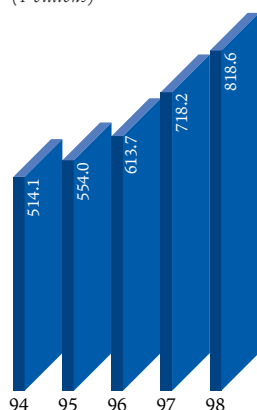
## OPERATING AND FINANCIAL POSITION SUMMARY

Years ended March 31	Millions of yen			
	1998	1997	1996	1995
For the year:				
Revenues .....	¥ 834,879	¥ 777,896	¥ 662,046	¥ 635,284
Operating income .....	47,489	38,605	28,273	18,789
Net income (loss) .....	8,423	6,072	4,686	(4,424)
Depreciation and amortization ....	70,294	61,766	51,609	30,245
Net income (loss) per share of common stock (yen) .....	7.61	5.49	4.27	(4.03)
Net income and depreciation per share of common stock (yen) ....	71.11	61.28	51.25	23.54
At year end:				
Total assets .....	¥1,286,576	¥1,190,871	¥1,058,326	¥1,020,273
Long-term debt due after one year ..	772,428	735,101	632,778	591,485
Total shareholders' equity .....	137,692	129,175	123,514	118,555

## FINANCIAL POSITION

As of March 31, 1998, consolidated total assets were ¥1,286,576 million (US\$9,739 million), ¥95,705 million more than one year earlier. This increase is the result of investments in vessels, property and equipment, along with growth in current assets. Investment securities decreased, in part to fund capital expenditures. Current assets rose by ¥25,941 million to ¥276,089 million (US\$2,090 million). Cash and cash equivalents were up by ¥8,053 million to ¥49,269 million (US\$373 million), mainly to ensure sufficient liquidity as banks in Japan restrict lending. Trade receivables were up by ¥6,595 million to ¥94,612 million (US\$716 million) as shipping revenues increased and as the yen's weakness raised the value of U.S. dollar-denominated receivables. Growth in other current assets is the result of lending securities and is largely offset by an increase in such securities included in other current liabilities.

VESSELS, PROPERTY  
AND EQUIPMENT  
(¥ billions)



Vessels, property and equipment, at cost, increased by ¥100,385 million to ¥818,579 million (US\$6,197 million). The figure for vessels, by far the largest component, was up by ¥121,511 million to ¥1,097,380 million (US\$8,307 million), as new vessels joined the fleet. During the fiscal year, the number of vessels operated by the companies increased to 436. Land rose sharply to ¥70,917 million (US\$537 million), principally on MOL's purchase of its head office in Tokyo.

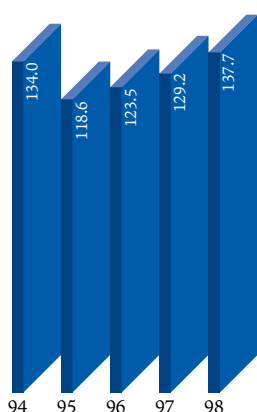
Investments and other assets declined by ¥32,546 million to ¥183,909 million (US\$1,392 million). This was principally because of sales of investment securities in Japan and Hong Kong, devaluations due to low stock prices in Japan, and the transfer of certain investment assets to current assets. Sales of investment securities during the year also reflect the company's policy of reducing investments that are not consistent with operations and long-term strategic objectives.

Current liabilities were up by ¥48,863 million to ¥350,132 million (US\$2,651 million). This was mostly attributable to a rise in values of U.S. dollar-denominated short-term debt resulting from the yen's weakness. The yen's depreciation also affected trade payables. The increase in other current liabilities is mainly due to collateral deposits received from the borrowers of securities on lending. This resulted in a decline in the current ratio to 79%.

Long-term debt due after one year, the largest component of long-term liabilities, rose by ¥37,327 million to ¥772,428 million (US\$5,847 million). This was also chiefly attributable to the yen's weakness. Increases in debt to fund payments for new vessels and the purchase of the head office building were offset to an extent by the repayment of debt applicable to existing vessels. The increase in other non-current liabilities mostly reflects leasehold deposits received from tenants at the recently purchased Tokyo head office building.

Shareholders' equity increased by ¥8,517 million to ¥137,692 million (US\$1,042 million) because of growth in retained earnings. The equity ratio was 10.7%, about the same as one year earlier.

SHAREHOLDERS' EQUITY  
(¥ billions)



#### FUND PROCUREMENT ACTIVITIES

Please refer to Note 5 of the Notes to Consolidated Financial Statements for details regarding long-term debt.

Long-term fund procurement activities include borrowings and capital market issues. Including the current portion, long-term debt as of March 31, 1998 was ¥852,511 million (US\$6,454 million). This includes ¥124,630 million in bonds and other capital market instruments issued by the company, Euromol B.V. and Mitsui O.S.K. Finance PLC.



continued [MANAGEMENT'S DISCUSSION AND ANALYSIS]

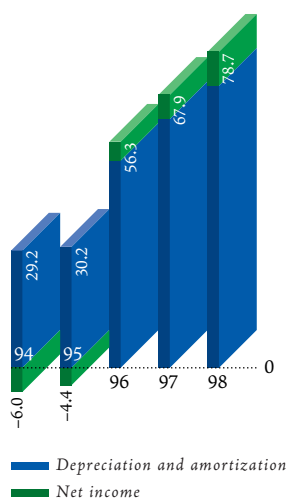
### CAPITAL EXPENDITURES

In fiscal 1997, capital expenditures of the companies totaled ¥152,451 million (US\$1,154 million). Major additions to the fleet during the year included 6 tramps, 9 specialized carriers, 3 tankers and methanol carriers, 1 LNG carrier, and 2 ferries. On a nonconsolidated basis, capital expenditures were ¥52,504 million (US\$397 million), an increase of ¥23,285 million. In the fiscal year ending on March 31, 1999, capital expenditures of the companies are expected to total approximately ¥55,000 million. The companies plan to take delivery of 10 new vessels during this period. These expenditures will be funded mainly by operating cash flows, sales of investment securities and debt.

### CASH FLOWS

Cash and cash equivalents rose by ¥8,053 million to ¥49,269 million (US\$373 million). Net cash provided by operating activities increased by ¥26,842 million to ¥81,575 million (US\$618 million). This was the result of higher net income and an increase in depreciation due to additions to the fleet. Net cash used in investing activities decreased by ¥2,001 million to ¥84,666 million (US\$641 million). While capital expenditures in fiscal 1997 increased substantially, mainly for the purchase of vessels and the head office building, proceeds from sale of securities and other investments as well as from sale of vessels, property and equipment were much higher than in the prior fiscal year. This is the result of the company's decision to generate cash through the sale of securities and other assets that do not have a direct relationship to the shipping business or that do not have returns justifying their retention. The company also sold securities of a company in Hong Kong because of the possible future devaluation of the HK dollar. Cash and cash equivalents were sufficient to make up the difference between operating cash flows and capital expenditures. The company, however, chose to procure funds by increasing bank loans in order to maintain an ample cash balance to ensure liquidity in the event of an unforeseen cash requirement amid Japan's credit crunch. As these funding requirements were relatively small, net cash provided by financing activities declined from ¥45,315 million to ¥10,907 million (US\$83 million).

CASH FLOWS  
(¥ billions)



# Six-Year Summary

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

	Millions of yen					
	1998	1997	1996	1995	1994	1993
<b>For the year:</b>						
Shipping and other revenues .....	¥ 834,879	¥ 777,896	¥ 662,046	¥ 635,284	¥ 608,641	¥673,074
Vessel depreciation .....	62,370	53,597	44,384	39,988	37,131	37,906
Other expenses .....	650,636	610,419	515,069	502,201	487,994	544,235
General and administrative expenses .....	74,384	75,275	74,320	74,306	68,774	67,384
Operating income .....	47,489	38,605	28,273	18,789	14,742	23,549
Income (loss) before income taxes .....	15,103	4,066	2,588	(7,111)	(7,061)	11,414
Income taxes .....	(8,383)	(3,128)	(2,167)	(1,718)	(801)	(6,821)
Minority interests .....	(1,258)	170	385	109	189	(115)
Equity in earnings of unconsolidated subsidiaries and affiliated companies .....	3,474	5,024	4,024	4,504	2,081	2,925
Amortization of consolidation adjusting account .....	(513)	(60)	(144)	(208)	(388)	(361)
Net income (loss) .....	8,423	6,072	4,686	(4,424)	(5,980)	7,042
<b>At year end:</b>						
Current assets .....	276,089	250,148	211,361	233,102	247,964	228,337
Current liabilities .....	350,132	301,269	279,444	286,304	335,354	250,489
Vessels, property and equipment, at cost .....	818,579	718,194	613,672	553,976	514,082	465,097
Total assets .....	1,286,576	1,190,871	1,058,326	1,020,273	1,037,585	971,475
Long-term debt .....	772,428	735,101	632,778	591,485	545,168	556,498
Shareholders' equity .....	137,692	129,175	123,514	118,555	133,997	142,029
Retained earnings .....	28,578	20,269	14,610	10,164	25,660	34,857
<b>Amounts per share of common stock (yen):</b>						
Net income .....	7.61	5.49	4.27	(4.03)	(5.50)	6.50
Shareholders' equity .....	124.28	116.69	112.45	108.09	123.28	131.22
Cash dividends .....	4.00	—	—	—	—	4.00

# Consolidated Balance Sheets

Mitsui O.S.K. Lines March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 49,269	¥ 41,216	\$ 372,967
Marketable securities (Notes 2, 4 and 5) .....	45,464	45,756	344,164
Trade receivables .....	94,612	88,017	716,214
Allowance for doubtful accounts .....	(1,341)	(359)	(10,151)
Fuel and supplies .....	9,459	9,129	71,605
Deferred and prepaid expenses .....	30,128	26,408	228,070
Other current assets .....	48,498	39,981	367,131
Total current assets .....	276,089	250,148	2,090,000
<b>Vessels, property and equipment, at cost (Note 5):</b>			
Vessels .....	1,097,380	975,869	8,307,191
Buildings and structures .....	63,467	54,825	480,447
Equipment, mainly containers .....	52,941	51,660	400,765
Land .....	70,917	38,103	536,843
Vessels and other property under construction .....	43,834	42,722	331,824
	1,328,539	1,163,179	10,057,070
Accumulated depreciation .....	(509,960)	(444,985)	(3,860,408)
	818,579	718,194	6,196,662
<b>Investments and other assets:</b>			
Investment securities .....	82,303	113,219	623,036
Investments in and advances to unconsolidated subsidiaries and affiliated companies .....	72,703	71,548	550,363
Other assets .....	28,903	31,688	218,796
	183,909	216,455	1,392,195
Consolidation adjusting account .....	5,704	60	43,180
Translation adjustments .....	2,295	6,074	17,373
	¥1,286,576	¥1,190,871	\$ 9,739,410

See accompanying notes.



LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
<b>Current liabilities:</b>			
Short-term debt (Note 5) .....	¥ 90,569	¥ 50,525	\$ 685,609
Long-term debt due within one year (Note 5) .....	80,083	112,161	606,230
Trade payables .....	84,406	71,278	638,955
Advances received .....	43,856	38,648	331,991
Accrued income taxes .....	7,466	2,886	56,518
Other current liabilities .....	43,752	25,771	331,204
Total current liabilities .....	350,132	301,269	2,650,507
 Long-term debt due after one year (Note 5) .....	 772,428	 735,101	 5,847,298
Employees' retirement benefits .....	9,575	9,941	72,483
Other non-current liabilities .....	11,234	7,864	85,041
Minority interests .....	5,515	7,521	41,749
 <b>Commitment and contingent liabilities (Note 6)</b>			
<b>Shareholders' equity (Note 7):</b>			
Common stock, par value ¥50 per share			
Authorized—3,178,000,000 shares			
Issued:			
1998—1,107,917,146 shares			
1997—1,107,006,056 shares .....	58,841	58,737	445,428
Additional paid-in capital .....	43,751	43,648	331,196
Legal reserve .....	6,524	6,524	49,387
Retained earnings .....	28,578	20,269	216,336
	137,694	129,178	1,042,347
Treasury stock, at cost .....	(2)	(3)	(15)
Total shareholders' equity .....	137,692	129,175	1,042,332
	¥1,286,576	¥1,190,871	\$9,739,410

# Consolidated Statements of Income

Mitsui O.S.K. Lines Years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
<b>Shipping and other revenues</b> (Note 10) .....	<b>¥834,879</b>	<b>¥777,896</b>	<b>\$6,320,053</b>
Shipping and other expenses (Note 10):			
Vessel depreciation .....	62,370	53,597	472,142
Other expenses .....	650,636	610,419	4,925,330
	<b>713,006</b>	<b>664,016</b>	<b>5,397,472</b>
	<b>121,873</b>	<b>113,880</b>	<b>922,581</b>
General and administrative expenses (Note 10) .....	<b>74,384</b>	<b>75,275</b>	<b>563,088</b>
<b>Operating income</b> (Note 10) .....	<b>47,489</b>	<b>38,605</b>	<b>359,493</b>
Other income (expenses):			
Interest and dividend income .....	5,483	4,255	41,506
Interest expense .....	(42,519)	(37,843)	(321,870)
Others, net (Note 8) .....	4,650	(951)	35,201
	<b>(32,386)</b>	<b>(34,539)</b>	<b>(245,163)</b>
Income before income taxes .....	<b>15,103</b>	<b>4,066</b>	<b>114,330</b>
Income taxes .....	<b>(8,383)</b>	<b>(3,128)</b>	<b>(63,460)</b>
	<b>6,720</b>	<b>938</b>	<b>50,870</b>
Minority interests .....	<b>(1,258)</b>	<b>170</b>	<b>(9,523)</b>
Equity in earnings of unconsolidated subsidiaries and affiliated companies .....	<b>3,474</b>	<b>5,024</b>	<b>26,298</b>
Amortization of consolidation adjusting account .....	<b>(513)</b>	<b>(60)</b>	<b>(3,883)</b>
<b>Net income</b> .....	<b>¥ 8,423</b>	<b>¥ 6,072</b>	<b>\$ 63,762</b>
<b>Amounts per share of common stock:</b>			
	Yen		U.S. dollars (Note 1)
Net income .....	<b>¥7.61</b>	<b>¥5.49</b>	<b>\$0.058</b>
Diluted net income .....	<b>7.59</b>	<b>5.48</b>	<b>0.057</b>
Cash dividends applicable to the year .....	<b>4.00</b>	<b>—</b>	<b>0.030</b>

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

Mitsui O.S.K. Lines Years ended March 31, 1998 and 1997

	Shares of Common Stock (Thousands)	Millions of yen			
		Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1996 .....	1,106,997	¥58,736	¥43,647	¥6,524	¥14,610
Due to change in consolidated subsidiaries .....					(391)
Net income .....					6,072
Bonuses to directors and statutory auditors .....					(22)
Shares issued upon conversion of convertible bonds ...	9	1	1		
<b>Balance at March 31, 1997 .....</b>	<b>1,107,006</b>	<b>58,737</b>	<b>43,648</b>	<b>6,524</b>	<b>20,269</b>
Due to change in consolidated subsidiaries .....					(99)
Due to change in affiliated companies accounted for by the equity method .....					9
Net income .....					8,423
Bonuses to directors and statutory auditors .....					(24)
Shares issued upon conversion of convertible bonds ..	911	104	103		
<b>Balance at March 31, 1998 .....</b>	<b>1,107,917</b>	<b>¥58,841</b>	<b>¥43,751</b>	<b>¥6,524</b>	<b>¥28,578</b>

	Thousands of U.S. dollars (Note 1)			
	Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1997 .....	\$444,640	\$330,416	\$49,387	\$153,437
Due to change in consolidated subsidiaries .....				(749)
Due to change in affiliated companies accounted for by the equity method .....				68
Net income .....				63,762
Bonuses to directors and statutory auditors .....				(182)
Shares issued upon conversion of convertible bonds ..	788	780		
<b>Balance at March 31, 1998 .....</b>	<b>\$445,428</b>	<b>\$331,196</b>	<b>\$49,387</b>	<b>\$216,336</b>

See accompanying notes.



# Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines Years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
<b>Cash flows from operating activities:</b>			
Net income .....	¥ 8,423	¥ 6,072	\$ 63,762
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	70,294	61,766	532,127
Loss on write-offs of securities and other investments .....	7,853	377	59,447
Loss on liquidation of affiliates .....	1,030	—	7,797
Gain on sale of vessels, property and equipment .....	(6,465)	(1,800)	(48,940)
Gain on sale of securities .....	(12,146)	(142)	(91,945)
Equity in earnings of unconsolidated subsidiaries and affiliated companies, net .....	(3,474)	(5,024)	(26,298)
Provision (reversal) of allowance for doubtful accounts .....	2,023	(456)	15,314
Changes in operating assets and liabilities:			
Trade receivables .....	(3,703)	(9,271)	(28,032)
Fuel and supplies .....	284	(919)	(2,150)
Trade payables .....	7,938	(226)	60,091
Accrued income taxes .....	4,517	1,464	34,194
Other, net .....	5,001	2,892	37,858
Net cash provided by operating activities .....	81,575	54,733	617,525
<b>Cash flows from investing activities:</b>			
Proceeds from sale of vessels, property and equipment .....	30,067	14,954	227,608
Payments for vessels, property and equipment .....	(152,451)	(104,702)	(1,154,058)
Proceeds from sale of securities and other investments .....	40,930	28,972	309,841
Purchase of securities and other investments .....	(20,398)	(40,173)	(154,413)
Collections of loans receivable .....	19,640	15,573	148,675
Disbursements for loans .....	(14,517)	(1,866)	(109,894)
Net cash proceeds from new consolidation of unconsolidated subsidiaries .....	5,177	1,641	39,190
Other .....	6,886	(1,066)	52,127
Net cash used in investing activities .....	(84,666)	(86,667)	(640,924)
<b>Cash flows from financing activities:</b>			
Net decrease in short-term debt .....	(4,235)	(35,708)	(32,058)
Proceeds from long-term debt and issuance of bonds .....	90,976	143,712	688,690
Deposits for securities on lending .....	15,000	—	113,550
Repayments of long-term debt .....	(71,488)	(61,810)	(541,166)
Repayments of bonds .....	(19,346)	(879)	(146,450)
Net cash provided by financing activities .....	10,907	45,315	82,566
<b>Effect of exchange rate changes on cash and cash equivalents ...</b>	<b>237</b>	<b>976</b>	<b>1,794</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>8,053</b>	<b>14,357</b>	<b>60,961</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>41,216</b>	<b>26,859</b>	<b>312,006</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 49,269</b>	<b>¥ 41,216</b>	<b>\$ 372,967</b>

## Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest .....	¥ 45,490	¥ 37,718	\$ 344,360
Income taxes .....	3,711	1,914	28,092

Non-cash investing and financing activities:

Conversion of convertible bonds into common stock .....	207	2	1,568
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See accompanying notes.

# Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines Years ended March 31, 1998 and 1997

## 1. Basis of presenting financial statements

Mitsui O.S.K. Lines, Ltd. (the Company), its Japanese subsidiaries and some non-Japanese subsidiaries, maintain their records and prepare their financial statements in Japanese yen in accordance with accounting principles generally accepted in Japan. The other non-Japanese subsidiaries' financial statements are prepared in conformity with accounting principles generally accepted in their respective countries.

The consolidated financial statements have been translated into English from the consolidated financial statements that are prepared in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance of Japan.

In preparing the consolidated financial statements, certain modifications and reclassifications have been made to facilitate understanding by readers outside Japan. Statements of shareholders' equity and cash flows were drawn up additionally.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1998, which was ¥132.10 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.

Certain reclassifications have been made in the 1997 financial statements to conform to the presentation for 1998.

## 2. Summary of significant accounting policies

### (1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 186 subsidiaries for the year ended March 31, 1998 (172 subsidiaries for the year ended March 31, 1997). All significant inter-company transactions and accounts have been eliminated.

Investments in 2 unconsolidated subsidiaries for the years ended March 31, 1998 and 1997, and 19 and 22 affiliated companies for the years ended March 31, 1998 and 1997, respectively, were accounted for by the equity method. "An affiliated company" hereof means a company in which the Company holds a share of 20% or more but not more than 50%. Investments in other subsidiaries (115 in the year ended March 31, 1998 and 122 in the preceding year) and affiliated companies (115 and 107 in the respective years) were stated at cost since equity in net income and earnings in such companies were not material.

### (2) Translation of foreign currency

Revenue and expenses 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 transaction. Current monetary assets and liabilities denominated in currencies other than Japanese yen are translated into yen at the exchange rate at the balance sheet date.

Non-current assets and liabilities are translated at the historical exchange rate, except for the long-term debt covered with forward exchange contracts which is translated at the forward contract rate. Gain or loss arising from the difference between the forward contract rate and the historical rate recognized in relation to long-term debt is booked in the balance sheets and amortized over the remaining period of the debt.

The other subsidiaries keeping their books in a currency other than Japanese yen translate their revenue and expenses and assets and liabilities in foreign currencies into the book-keeping currency in accordance with accounting principles generally accepted in their respective countries.

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

### (3) Cash and cash equivalents

Deposits in banks with a maturity of three months or less are considered to be cash equivalents.

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**(4) Shipping revenues and related expenses**

Shipping revenues and the related voyage expenses are mainly recognized by the completed-voyage method. Revenues from uncompleted voyages are included in "Advances received" and the related voyage expenses are included in "Deferred and prepaid expenses" in the balance sheet.

**(5) Marketable securities and investment securities**

Marketable securities and investment securities are stated at cost determined by the moving average method. In cases where the market value or net asset value of an investment falls below 50% of the book value and is reasonably considered to remain so in the foreseeable future, the investment is written down to market or net asset value.

**(6) Fuel and supplies**

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

**(7) Depreciation of vessels, property and equipment**

Depreciation of vessels and buildings is computed mainly by the straight-line method. Depreciation of other property and equipment is computed by the declining-balance method. Estimated useful lives are as follows:

Vessels . . . . .	13-20 years
Containers . . . . .	7 years

**(8) Interest capitalization**

In cases where a vessel's construction period is substantially long and the amount of interest accruing during such a period is significantly large, such interest expenses are capitalized as a part of acquisition cost.

**(9) Employees' retirement benefits**

The Company has tax-qualified pension plans for employees engaged in shore and sea service. Employees in sea service who retire prior to a certain age are also entitled to a lump-sum payment. The Company sets up an unfunded reserve for these lump-sum payments according to Japanese corporation tax regulations.

Some subsidiaries have tax-qualified pension plans which cover all or a part of the retirement benefits and some of the other subsidiaries have established reserves for lump-sum payments for retirement benefits.

**(10) Accounting for certain lease transactions**

Finance leases which do not transfer ownership to lessees are accounted for as operating leases under accounting principles generally accepted in Japan.

**(11) Income taxes**

Income taxes are recorded based on taxable income. Deferred income tax arising from temporary differences for accounting and tax purposes are not provided.

Income taxes consist of corporation taxes, inhabitant taxes and enterprise taxes. Under accounting principles generally accepted in Japan, enterprise tax is included in general and administrative expenses, because of its being deductible from taxable income when paid. However, enterprise tax is reclassified as income tax expense in the accompanying statements of income for the convenience of readers outside Japan.

The aggregation of the three tax rates in Japan should bring the rate of 52%. However, the effect of temporary differences for accounting and tax purposes have made the resultant tax rate different from 52%.



### (12) 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.

Diluted net income per share is computed based on the weighted average number of shares of common stock and contingent issuances of common stock from convertible bonds.

Cash dividends per share shown in the 1998 column represent the amount payable to shareholders as of March 31, 1998.

### (13) Consolidation adjusting account

The consolidation adjusting account is amortized over a period of 5 to 14 years.

### 3. Market value information of securities (the Company only)

At March 31, 1998 and 1997, book value, market value and unrealized gains of quoted securities held by the Company were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>Current assets:</b>			
Book value .....	¥ 26,170	¥ 22,787	\$198,108
Market value .....	49,986	41,221	378,395
Unrealized gains .....	23,816	18,434	180,287
<b>Investments and other assets:</b>			
Book value .....	63,192	73,034	478,365
Market value .....	110,479	154,027	836,329
Unrealized gains .....	47,287	80,993	357,964
Total unrealized gains .....	¥ 71,103	¥ 99,427	\$538,251

### 4. Derivative transactions (the Company only)

The Company enters into derivative transactions and forward currency exchange contracts mainly to hedge exposure to interest rate increases and currency exchange rate fluctuations in accordance with the guidance determined by the management of the Company.

The outstanding contract amounts, market values and unrealized gains or losses of financial derivatives of the Company at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>(1) Currency related</b>			
Forward currency exchange contracts:			
Sell (U.S. dollar):			
Contracts outstanding .....	¥ 5,147	¥N/A	\$38,963
Unrealized gain (loss) .....	¥ (1)	¥N/A	\$ (7)
Buy (U.S. dollar, Canadian dollar, Singapore dollar, Australian dollar):			
Contracts outstanding .....	¥ 9,348	¥ 109	\$70,772
Unrealized gain (loss) .....	¥ 992	¥ 0	\$ 7,509

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Currency swaps:			
Receive Yen, pay U.S. dollar:			
Contracts outstanding . . . . .	¥ 1,005	¥ 4,073	\$ 7,608
Unrealized gain (loss) . . . . .	(201)	N/A	(1,552)
Receive U.S. dollar, pay Yen:			
Contracts outstanding . . . . .	¥ 5,000	¥ 5,000	\$ 37,850
Unrealized gain (loss) . . . . .	(1,482)	N/A	(11,219)
<b>(2) Interest related</b>			
Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding . . . . .	¥91,102	¥132,940	\$689,644
Unrealized gain (loss) . . . . .	(4,665)	N/A	(35,314)
Receive fixed, pay floating			
Contracts outstanding . . . . .	¥62,582	¥ 64,582	\$473,747
Unrealized gain (loss) . . . . .	2,176	N/A	16,472
Receive floating, pay floating			
Contracts outstanding . . . . .	¥ 1,000	¥ 1,000	\$ 7,570
Unrealized gain (loss) . . . . .	4	N/A	30
Interest rate caps:			
Buy			
Contracts outstanding . . . . .	¥25,352	¥ 28,115	\$191,915
Unrealized gain (loss) . . . . .	4	N/A	30
<b>(3) Commodity related</b>			
Commodity futures:			
Bunker oil			
Buy:			
Contracts outstanding . . . . .	¥ 507	¥ N/A	\$ 3,838
Unrealized gain (loss) . . . . .	51	N/A	386
Commodity swaps:			
Bunker oil			
Receive floating, pay fixed:			
Contracts outstanding . . . . .	¥ 118	¥ N/A	\$ 893
Unrealized gain (loss) . . . . .	(4)	N/A	(30)

# 5. Short-term debt and long-term debt

## (1) Short-term debt

Short-term debt at March 31, 1998 (¥90,569 million: US\$685,609 thousand) and 1997 (¥50,525 million) were principally unsecured.  
The interest rates on short-term debt were set on a floating rate basis.

## (2) Long-term debt

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
<b>Bonds:</b>			
6.000% yen bonds due 1999 .....	¥ 15,000	¥ 15,000	\$ 113,550
3.900% yen bonds due 2000 .....	30,000	30,000	227,101
2.350% yen bonds due 2002 .....	10,000	10,000	75,700
2.750% yen bonds due 2004 .....	10,000	10,000	75,700
3.025% yen bonds due 2006 .....	10,000	10,000	75,700
3.075% yen bonds due 2007 .....	10,000	10,000	75,700
3.250% yen bonds due 2009 .....	10,000	10,000	75,700
3.500% domestic convertible bonds due 1998 .....	0	1,161	0
Floating rate yen notes due 1997 .....	0	15,000	0
Floating/fixed rate yen notes due 2004 .....	1,000	1,000	7,570
Nikkei-linked bonds due 1999 .....	8,603	7,570	65,125
U.S. Treasury-linked bonds due 2000 .....	4,543	3,997	34,391
Floating/fixed rate Euro medium term notes due 1996-2004 ..	25,268	23,346	191,279
<b>Secured loans from:</b>			
Japan Development Bank due through 2013 at interest rates of 2.00% to 8.50% .....	93,518	90,719	707,933
Other financial institutions due through 2023 at interest rates of 0.00% to 8.10% .....	141,845	96,185	1,073,770
<b>Unsecured loans from:</b>			
Financial institutions due through 2033 at interest rates of 0.45% to 8.72% .....	482,734	513,284	3,654,309
	852,511	847,262	6,453,528
<b>Amount due within one year .....</b>	<b>80,083</b>	<b>112,161</b>	<b>606,230</b>
	<b>¥772,428</b>	<b>¥735,101</b>	<b>\$5,847,298</b>

At March 31, 1998, the aggregate annual maturities of long-term debt were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1999 .....	¥ 80,083	\$ 606,230
2000 .....	142,618	1,079,621
2001 .....	131,985	999,129
2002 .....	90,135	682,324
2003 .....	88,859	672,665
2004 and thereafter .....	318,831	2,413,559
	<b>¥852,511</b>	<b>\$6,453,528</b>

Secured loans are secured by mortgages on properties such as vessels.



# 6. Commitment and contingent liabilities

At March 31, 1998, the Company and consolidated subsidiaries were contingently liable mainly as guarantors or co-guarantors of indebtedness of related and other companies in the aggregate amount of ¥111,424 million (\$843,482 thousand).

The Japanese government had adopted a special policy in order to aid the Japanese shipping industry by giving subsidies to shipping companies to cover a part of the interest on loans for construction of specified vessels. The subsidies were to be refunded if the Company's net income had exceeded 13% of the common stock account in any fiscal year within 15 years of the date of each subsidized loan agreement. As 15 years had passed on March 24, 1997 since the date of the last subsidized agreements, the Company has been released from the contingent liabilities for the possible repayment under the aforementioned circumstances.

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

# 7. Shareholders' equity

The commercial Law of Japan (the "Law") requires a company to incorporate into capital stock the entire amount paid by its shareholders in exchange for newly issued shares, provided that in the case of issues at prices higher than the face value, an amount not exceeding the greater of half of the paid-in amount or the face value may be incorporated into the capital reserve (additional paid-in capital) but not into capital stock.

The Law also stipulates that a company shall set aside each year an amount as the legal reserve until the aggregated amount reaches 25% of the capital stock account. The amount to be set aside each year may not be smaller than 10% of the sum of cash dividends paid and bonuses to members of the board of directors and statutory auditors. The legal reserve is not available for dividends but may be used to reduce a deficit by resolution of shareholders' meeting or may be capitalized by resolution of Board of Directors.

# 8. Other income (expense): others, net – Breakdown

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Gain on sale of marketable securities .....	¥ 2,866	¥ 74	\$ 21,696
Exchange gain (loss) .....	(1,698)	2,261	(12,854)
Gain on sale of vessels, investment securities and others .....	16,111	6,419	121,961
Loss on sale and disposal of vessels, investment securities and others .....	(366)	(4,550)	(2,771)
Amortization of past service costs of pension plan .....	(2,401)	(1,728)	(18,176)
Loss arising from dissolution of a subsidiary and an affiliated company .....	(1,030)	–	(7,797)
Loss on write-offs of securities and other investments .....	(7,853)	(377)	(59,447)
Provision for doubtful accounts due to dissolution of a subsidiary .....	(1,070)	–	(8,100)
Special retirement .....	(581)	(640)	(4,398)
Sundries .....	672	(2,410)	5,087
	¥ 4,650	¥ (951)	\$ 35,201

9. Leases

As lessee:

(A) Information on finance leases accounted for as operating leases:

(1) Future lease payment inclusive of interest at March 31, 1998

	Millions of yen	Thousands of U.S. dollars
Amount due within one year .....	¥ 6,672	\$ 50,507
Amount due after one year .....	22,226	168,252
Total .....	¥28,898	\$218,759

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
(2) Lease payments for the years ended March 31 .....	¥9,967	¥11,429	\$75,450

(B) Future lease payments under operating leases at March 31, 1998

	Millions of yen	Thousands of U.S. dollars
Amount due within one year .....	¥ 9,235	\$ 69,909
Amount due after one year .....	40,692	308,040
Total .....	¥49,927	\$377,949

As lessor:

(A) Information on finance leases accounted for as operating leases:

(1) Future lease income inclusive of interest at March 31, 1998

	Millions of yen	Thousands of U.S. dollars
Amount due within one year .....	¥ 33	\$ 250
Amount due after one year .....	157	1,188
Total .....	¥190	\$1,438

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
(2) Lease income for the years ended March 31 .....	¥35	¥298	\$265

(B) Future lease income under operating leases at March 31, 1998

	Millions of yen	Thousands of U.S. dollars
Amount due within one year .....	¥165	\$1,249
Amount due after one year .....	32	242
Total .....	¥197	\$1,491

# 10. Segment information

## (A) Business segment information

Beginning with the year ended March 31, 1998, consolidated results are divided into five segments.

Millions of yen							
For the year ended March 31, 1998:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥ 635,008	¥38,929	¥32,720	¥79,189	¥ 49,033	¥ -	¥ 834,879
(2) Inter-segment revenues . . . . .	6,762	2,776	51,864	1,275	14,582	(77,259)	-
Total revenues . . . . .	641,770	41,705	84,584	80,464	63,615	(77,259)	834,879
<b>2. Operating expenses</b> . . . . .	599,634	42,886	82,919	79,368	57,536	(74,953)	787,390
Operating income . . . . .	¥ 42,136	¥ (1,181)	¥ 1,665	¥ 1,096	¥ 6,079	¥ (2,306)	¥ 47,489

## 3. Assets, depreciation and capital expenditures:

(1) Assets . . . . .	¥1,065,550	¥60,762	¥33,977	¥23,021	¥222,071	¥(118,805)	¥1,286,576
(2) Depreciation . . . . .	60,697	3,939	1,545	787	875	-	67,843
(3) Capital expenditures . . . . .	139,820	8,746	2,387	588	910	-	152,451

Thousands of U.S. dollars							
For the year ended March 31, 1998:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$4,807,025	\$294,693	\$247,691	\$599,463	\$ 371,181	\$ -	\$6,320,053
(2) Inter-segment revenues . . . . .	51,188	21,014	392,612	9,652	110,386	(584,852)	-
Total revenues . . . . .	4,858,213	315,708	640,303	609,114	481,567	(584,852)	6,320,053
<b>2. Operating expenses</b> . . . . .	4,539,243	324,648	627,699	600,817	435,549	(567,396)	5,960,560
Operating income . . . . .	\$ 318,970	\$ (8,940)	\$ 12,604	\$ 8,297	\$ 46,018	\$ (17,456)	\$ 359,493

## 3. Assets, depreciation and capital expenditures:

(1) Assets . . . . .	\$8,066,238	\$459,970	\$257,207	\$174,269	\$1,681,083	\$(899,357)	\$9,739,410
(2) Depreciation . . . . .	459,478	29,818	11,696	5,958	6,623	-	513,573
(3) Capital expenditures . . . . .	1,058,441	66,207	18,070	4,451	6,889	-	1,154,058

### Supplementary business segment information

Through the year ended March 31, 1997 the consolidated results had been divided into two segments; i.e. "shipping" and "others."

However, for the purpose of giving a better view of the businesses, segment information on five segments is being provided from 1998 as shown on page 50. In order to facilitate comparisons between the two years' figures on the same basis, information based on the conventional two segments for 1998 and 1997 is also provided as follows:

For the year ended March 31, 1998:	Millions of yen			
	Shipping	Others	Elimination	Consolidated
<b>1. Revenues</b>				
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies .....	¥ 720,377	¥114,502	¥ -	¥ 834,879
(2) Inter-segment revenues .....	1,734	12,014	(13,748)	-
Total revenues .....	722,111	126,516	(13,748)	834,879
<b>2. Operating expenses</b> .....	679,710	119,122	(11,442)	787,390
Operating income .....	¥ 42,401	¥ 7,394	¥ (2,306)	¥ 47,489
<b>3. Assets, depreciation and capital expenditures:</b>				
(1) Assets .....	¥1,158,094	¥226,984	¥(98,502)	¥1,286,576
(2) Depreciation .....	66,515	1,328	-	67,843
(3) Capital expenditures .....	151,497	954	-	152,451

For the year ended March 31, 1997:	Millions of yen			
	Shipping	Others	Elimination	Consolidated
<b>1. Revenues</b>				
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies .....	¥ 662,884	¥115,012	¥ -	¥ 777,896
(2) Inter-segment revenues .....	784	9,519	(10,303)	-
Total revenues .....	663,668	124,531	(10,303)	777,896
<b>2. Operating expenses</b> .....	627,804	119,952	(8,465)	739,291
Operating income .....	¥ 35,864	¥ 4,579	¥ (1,838)	¥ 38,605
<b>3. Assets, depreciation and capital expenditures:</b>				
(1) Assets .....	¥1,016,034	¥174,837	¥ -	¥1,190,871
(2) Depreciation .....	56,300	1,975	-	58,275
(3) Capital expenditures .....	103,309	1,393	-	104,702

For the year ended March 31, 1998:	Thousands of U.S. dollars			
	Shipping	Others	Elimination	Consolidated
<b>1. Revenues</b>				
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies .....	\$5,453,270	\$ 866,783	\$ -	\$6,320,053
(2) Inter-segment revenues .....	13,127	90,946	(104,073)	-
Total revenues .....	5,466,397	957,729	(104,073)	6,320,053
<b>2. Operating expenses</b> .....	5,145,420	901,756	(86,616)	5,960,560
Operating income .....	\$ 320,977	\$ 55,973	\$ (17,457)	\$ 359,493
<b>3. Assets, depreciation and capital expenditures:</b>				
(1) Assets .....	\$8,766,798	\$1,718,274	\$(745,662)	\$9,739,410
(2) Depreciation .....	503,520	10,053	-	513,573
(3) Capital expenditures .....	1,146,836	7,222	-	1,154,058



## (B) Geographical segment information

While 2 geographical segments were used through the year ended March 31, 1997, information was provided for 5 geographical segments beginning with the fiscal year ended March 31, 1998 by dividing the previous "Overseas" segment into 4 segments, in accordance with the amendment to the relevant disclosure rules.

Each segment covers 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 and East Asia

Revenues of a segment are revenues, wherever they may be earned, of companies registered in countries in each respective geographical 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 belonging to Japan in this segment information for convenience's sake.

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

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

Millions of yen							
For the year ended March 31, 1998:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥ 760,794	¥52,929	¥12,838	¥ 8,318	¥-	¥ -	¥ 834,879
(2) Inter-segment revenues . . . . .	3,339	25,734	4,651	13,924	-	(47,648)	-
Total revenues . . . . .	764,133	78,663	17,489	22,242	-	(47,648)	834,879
<b>2. Operating expenses</b> . . . . .	719,693	74,046	16,811	21,638	-	(44,798)	787,390
Operating income . . . . .	¥ 44,440	¥ 4,617	¥ 678	¥ 604	¥-	¥ (2,850)	¥ 47,489
<b>3. Assets</b> . . . . .	¥1,231,618	¥14,225	¥99,576	¥ 6,441	¥-	¥(65,284)	¥1,286,576

Millions of yen				
For the year ended March 31, 1997:	Domestic	Overseas	Elimination	Consolidated
<b>1. Revenues</b>				
(1) Revenues from outside customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥ 734,892	¥43,004	¥ -	¥ 777,896
(2) Inter-segment revenues . . . . .	2,752	36,946	(39,698)	-
Total revenues . . . . .	737,644	79,950	(39,698)	777,896
<b>2. Operating expenses</b> . . . . .	699,490	76,844	(37,043)	739,291
Operating income . . . . .	¥ 38,154	¥ 3,106	¥ (2,655)	¥ 38,605
<b>3. Assets</b> . . . . .	¥1,124,239	¥66,632	¥ -	¥1,190,871

Thousands of U.S. dollars							
For the year ended March 31, 1998:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$5,759,228	\$400,674	\$ 97,184	\$ 62,967	\$-	\$ -	\$6,320,053
(2) Inter-segment revenues . . . . .	25,276	194,807	35,208	105,405	-	(360,696)	-
Total revenues . . . . .	5,784,504	595,481	132,392	168,372	-	(360,696)	6,320,053
<b>2. Operating expenses</b> . . . . .	5,448,092	560,530	127,260	163,800	-	(339,122)	5,960,560
Operating income . . . . .	\$ 336,412	\$ 34,951	\$ 5,132	\$ 4,572	\$-	\$ (21,574)	\$ 359,493
<b>3. Assets</b> . . . . .	\$9,323,376	\$107,683	\$753,793	\$ 48,759	\$-	\$ (494,201)	\$9,739,410

## Report of Independent Public Accountants

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ASAHI & CO

ARTHUR ANDERSEN

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A Member Firm of  
Andersen Worldwide SC

To the Shareholders and the 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 subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Mitsui O.S.K. Lines, Ltd. and subsidiaries as of March 31, 1998 and 1997, 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 applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

*Asahi & Co.*

Tokyo, Japan  
June 26, 1998

# The MOL Group

■ Consolidated Subsidiaries

● Subsidiaries Accounted for by the Equity Method

▲ Affiliated Companies Accounted for by the Equity Method

(As of March 31, 1998)

		Companies' Name	Registered Office	MOL's Ownership (%)*	Paid-in Capital (Thousand)
OVERSEAS SHIPPING	SHIP OPERATION/ CHARTERING	■ BGT related 12 companies			
		■ International Marine Transport Co., Ltd.	Japan	58.55	¥500,000
		■ M.O. Seaways, Ltd.	Japan	98.83	¥660,000
		■ MCGC International Ltd.	Bahamas	80.10	US\$1
		■ Mitsui Kinkai Kisen Co., Ltd.	Japan	61.85	¥350,000
		■ Shipowner companies (93 companies) in Panama, Liberia, Hong Kong, Singapore, Bahamas, Grand Cayman			
		■ Tokyo Chemical Tanker Co., Ltd.	Japan	95.50	¥200,000
		■ Tokyo Marine Co., Ltd.	Japan	73.83	¥300,000
		▲ Act Maritime Co., Ltd.	Japan	49.00	¥90,000
		▲ Asahi Tanker Co., Ltd.	Japan	24.75	¥400,272
		▲ Daiichi Chuo Kisen Kaisha	Japan	20.97	¥13,258,410
		▲ Gearbulk Holding Ltd.	Bermuda	40.00	US\$260,000
		▲ International Energy Transport Co., Ltd.	Japan	45.18	¥1,224,000
		▲ Liquimarine Gandria Chartering Co., Ltd.	Grand Cayman	50.00	US\$10,000
		▲ Methane Carriers Ltd.	Bahamas	50.00	US\$500
		▲ Osaka Shipping Co., Ltd.	Japan	30.12	¥498,000
		▲ Silent Breeze Maritime Ltd.	Liberia	49.75	US\$4,544
	SHIP MANAGEMENT AND MANNING	■ M.O. Cablesip Ltd.	Japan	100.00	¥10,000
		■ M.O. Ship Management Co., Ltd.	Japan	100.00	¥50,000
		■ Mitsui O.S.K. Manning Service S.A.	Panama	100.00	US\$135
	CRUISING	■ Mitsui O.S.K. Passenger Line, Ltd.	Japan	51.00	¥2,000,000
FERRY/DOMESTIC SHIPPING	FERRY/DOMESTIC SHIPPING	■ Blue Highway Line Corporation	Japan	50.22	¥1,410,000
		■ Ehime-Hanshin Ferry Co., Ltd.	Japan	100.00	¥300,000
		■ Muroto Kisen K.K.	Japan	99.84	¥300,000
		■ The Diamond Ferry Co., Ltd.	Japan	65.35	¥900,000
		▲ Kyodo Kisen Kaisha, Ltd.	Japan	39.00	¥500,000
		▲ Kyushu Kyuko Ferry Co., Ltd.	Japan	47.00	¥840,000
		▲ Meimon Taiyo Ferry Co., Ltd.	Japan	32.13	¥880,000
	TUGBOAT OPERATION	■ Nihon Tug-Boat Co., Ltd.	Japan	50.45	¥120,000
		■ Kyushu Tugboat Co., Ltd.	Japan	92.22	¥90,000
SHIPPING AGENT AND HARBOR/ TERMINAL OPERATION	SHIPPING AGENT	■ Chugoku Shipping Agencies Ltd.	Japan	80.00	¥10,000
		■ Mitsui O.S.K. Bulk Shipping (U.S.A.), Inc.	U.S.A.	100.00	US\$200
		■ Mitsui O.S.K. Lines (America) Inc.	U.S.A.	100.00	US\$6
		■ Mitsui O.S.K. Lines (Austria) GmbH	Austria	100.00	AS500
		■ Mitsui O.S.K. Lines (Deutschland) GmbH	Germany	95.00	DM500
		■ Mitsui O.S.K. Lines (Europe) Ltd.	U.K.	100.00	£1,500
		■ Mitsui O.S.K. Lines (H.K.) Ltd.	Hong Kong	100.00	HK\$40,000
		■ Mitsui O.S.K. Lines (SEA) Pte Ltd.	Singapore	100.00	S\$200
		■ Mitsui O.S.K. Lines Agencies (Kobe), Ltd.	Japan	100.00	¥10,000
		■ Mitsui O.S.K. Lines Agencies (Yokohama), Ltd.	Japan	100.00	¥10,000
		▲ Mitsui O.S.K. Lines (Singapore) Pte Ltd.	Singapore	50.00	S\$5,000
		▲ Mitsui O.S.K. Lines (Thailand) Co., Ltd.	Thailand	47.00	BT20,000
	HARBOR OPERATION AND CUSTOMS CLEARANCE	■ International Container Terminal Co., Ltd.	Japan	99.28	¥700,000
		■ Japan Express Co., Ltd. (Kobe)	Japan	86.27	¥102,000
		■ Japan Express Co., Ltd. (Yokohama)	Japan	93.94	¥235,000
		■ Japan Express Konpou K.K.	Japan	100.00	¥10,000
		■ Kitanihon Soko Koun Co., Ltd.	Japan	95.41	¥179,544
		■ The Shosen Koun Co., Ltd.	Japan	78.32	¥300,000
		■ Tomakomai Hokusou Koun Kaisha, Ltd.	Japan	90.00	¥60,000
		■ Trans Pacific Container Service Corp.	U.S.A.	100.00	US\$3,000
		■ Tyne Logistics Co., Ltd.	U.K.	100.00	£40
		▲ International Container Transport Co., Ltd.	Japan	48.00	¥100,000
		▲ Seitetsu Unyu Co., Ltd.	Japan	20.00	¥2,000,000
		▲ Utoc Corporation	Japan	22.31	¥1,455,300

		Companies' Name	Registered Office	MOL's Ownership (%)*	Paid-in Capital (Thousand)
CARGO FORWARDING AND WAREHOUSING	CARGO FORWARDING	■ AMT Freight, Inc.	U.S.A.	100.00	US\$5,990
		■ Blue Highway Express K.K.	Japan	100.00	¥218,400
		■ Diamond Line K.K.	Japan	100.00	¥20,000
		■ Kitanihon Kosan K.K.	Japan	100.00	¥320,000
		■ M.O. Air System, Inc.	Japan	52.00	¥756,250
		■ M.O. Air International (H.K.) Ltd.	Hong Kong	100.00	HK\$3,200
		■ M.O. Air International (Singapore) Pte Ltd.	Singapore	51.00	S\$700
		■ M.O. Air International (UK) Ltd.	U.K.	100.00	£400
		■ M.O. Air International, Inc.	U.S.A.	100.00	US\$2,750
		■ Mitsui O.S.K. Express International B.V.	Netherlands	100.00	DGL700
		■ MOL Intermodal Inc.	U.S.A.	100.00	US\$0.04
		▲ J.F. Hillebrand GmbH	Germany	50.00	DM1,000
	WAREHOUSING AND LOGISTICS SERVICE	■ AMT Freight GmbH Spedition	Germany	100.00	DM50
		■ Cougar Logistics (Singapore) Pte Ltd.	Singapore	52.50	S\$3,600
		■ Euloc B.V.	Netherlands	100.00	DGL8,000
		■ Hermex Distribution B.V.	Netherlands	100.00	DGL500
		■ Hong Kong Logistics Co., Ltd.	Hong Kong	100.00	HK\$58,600
		■ J. Wassing Administratie-En Expeditiekantoor B.V.	Netherlands	100.00	DGL35
		■ M.O. Logistics Netherlands B.V.	Netherlands	100.00	DGL909
		■ Wassing B.V.	Netherlands	100.00	DGL5,000
		■ Wassing UK Ltd.	U.K.	100.00	£10
OTHERS	OFFICE RENTAL AND REAL ESTATE	■ Santo Tatemono Service	Japan	100.00	¥10,000
		■ Shokusan Kogyo, Ltd.	Japan	100.00	¥10,000
		■ Shosen Mitsui Kosan Co., Ltd.	Japan	89.47	¥380,000
		▲ Daibiru Corporation	Japan	27.06	¥12,227,847
	FINANCE AND INSURANCE	■ Burmah Investments Ltd.	U.K.	100.00	£21
		■ Burmah M.O.L. Transport Ltd.	Virgin Island	100.00	US\$10
		■ Euromol B.V.	Netherlands	100.00	DGL18,600
		■ International Transportation Inc.	U.S.A.	100.00	US\$0.1
		■ Linkman Holdings Inc.	Liberia	100.00	US\$3
		■ Mitsui O.S.K. Finance PLC	U.K.	100.00	US\$6,568
		■ Mitsui O.S.K. Holdings (Benelux) B.V.	Netherlands	100.00	DGL38,000
		■ Mitsui O.S.K. LNG Transport (Bermuda) Ltd.	Bermuda	100.00	US\$12
		■ MOL FG, Inc.	U.S.A.	100.00	US\$20
		■ MOL SI, Inc.	U.S.A.	100.00	US\$100
		■ MOL-NIC Transport Ltd.	Liberia	75.00	US\$96,435
		■ White Night Investment Ltd.	Liberia	100.00	US\$5,000
		● M.O. Reinsurance S.A.	Luxembourg	100.00	US\$5,376
	OTHERS	■ Blue Highway Service	Japan	100.00	¥30,000
		■ Combined Data Resource, Inc.	U.S.A.	98.33	US\$3,000
		■ Japan Express Unyu K.K.	Japan	100.00	¥50,000
		■ Kitaichi Truck K.K.	Japan	100.00	¥20,000
		■ Kusakabe Maritime Engineering Co., Ltd.	Japan	80.00	¥200,000
		■ M.O. Ship Tech Inc.	Japan	100.00	¥50,000
		■ Mitline Hong Kong Ltd.	Hong Kong	100.00	HK\$20
		■ Mitsui Line Kouyu K.K.	Japan	100.00	¥20,000
		■ Mitsui O.S.K. Kogyo Kaisha, Ltd.	Japan	80.10	¥540,000
		■ MOL Information Systems, Ltd.	Japan	100.00	¥100,000
		■ Nippon Engineering & Machineries Co., Ltd.	Japan	100.00	¥60,000
		● Shosen Mitsui Kaiji Co., Ltd.	Japan	100.00	¥95,000

\* MOL includes MOL and its subsidiaries.



## Shareholder Information

As of March 31, 1998

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Capital:	¥58,840,686,078
Head Office:	1-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8688, Japan
Number of MOL employees:	1,644
Number of MOL Group employees:	15,000
Total number of shares authorized:	3,178,000,000
Number of shares issued:	1,107,917,146
Number of shareholders:	97,510
Shares listed in:	Tokyo, Osaka, Nagoya, Kyoto, Hiroshima, Fukuoka, Niigata, Sapporo, Frankfurt, Brussels, Antwerp
Share transfer agents:	The Toyo Trust & Banking Co., Ltd. 4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-1653, Japan
Communications materials:	Annual report (English) News releases (English) Quarterly newsletter <i>Open Sea</i> (English) Monthly newsletter <i>Unabara</i> (Japanese)
For further information, please contact:	Publicity Office Mitsui O.S.K. Lines 1-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8688, Japan  Telephone: 81-3-3587-7015 Facsimile: 81-3-3587-7705 Telex: J22266 AAB MOLINE E-mail: pblmo@tyo.mol.co.jp

# Corporate Data

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## OSAKA LIAISON OFFICE

6-32, Nakanoshima 3-chome, Kita-ku, Osaka 530-6591, Japan

## DOMESTIC BRANCH OFFICES

Sapporo, Yokohama, Nagoya, Osaka, Kobe, Hiroshima, Moji, Kyushu

## OVERSEAS NETWORK

### NORTH AMERICA

#### MITSUI O.S.K. LINES (AMERICA) INC.

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Long Beach: Tel. 1-562-983-6200 Fax. 1-562-983-6295  
New Jersey: Tel. 1-201-200-5200 Fax. 1-201-200-5396  
San Francisco: Tel. 1-415-836-3500 Fax. 1-415-836-3533  
Seattle: Tel. 1-206-464-3930 Fax. 1-206-654-7991  
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#### MITSUI O.S.K. BULK SHIPPING (U.S.A.) INC.

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### CENTRAL AND SOUTH AMERICA

#### MITSUI O.S.K. LINES AMERICA DO SUL LTDA.

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Santiago: Tel. 56-2-630-1950 Fax. 56-2-695-1289

#### MITSUI O.S.K. LINES AGENCIA MARITIMA LTDA.

Head Office (Sao Paulo): Tel. 55-11-253-8111 Fax. 55-11-289-7028

#### MITSUI O.S.K. BULK SHIPPING (U.S.A.) INC.

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### EUROPE

#### MITSUI O.S.K. LINES (EUROPE) LTD.

Head Office (London): Tel. 44-171-265-7500 Fax. 44-171-265-7560  
Milan: Tel. 39-02-8068-151 Fax. 39-02-8900-986

#### MITSUI O.S.K. LINES (DEUTSCHLAND) GMBH

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#### MITSUI O.S.K. LINES (AUSTRIA) GMBH

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#### MITSUI O.S.K. LINES (NEDERLAND) B.V.

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#### MITSUI O.S.K. LINES (FRANCE) SA

Head Office (Le Havre): Tel. 33-2-32-74-24-00 Fax. 33-2-32-74-24-39

#### MITSUI O.S.K. LINES (BELGIUM) NV

Head Office (Antwerp): Tel. 32-3-202-4860 Fax. 32-3-202-4870

#### MITSUI O.S.K. BULK SHIPPING (EUROPE) LTD.

Head Office (London): Tel. 44-171-265-7676 Fax. 44-171-265-7698  
Brussels: Tel. 32-2-245-3764 Fax. 32-2-216-2088

### AFRICA

#### MOL REPRESENTATIVE OFFICES

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#### MITSUI O.S.K. LINES (EUROPE) LTD.

Cape Town: Tel. 27-11-410-7700 Fax. 27-21-421-1806

### MIDDLE EAST

#### MOL REPRESENTATIVE OFFICES

Dubai: Tel. 971-4-521809 Fax. 971-4-525401  
Tehran: Tel. 98-21-8822141 Fax. 98-21-8820860

#### MITSUI O.S.K. LINES (EUROPE) LTD.

Beirut: Tel. 961-1-562383 Fax. 961-1-448685

### OCEANIA

#### MITSUI O.S.K. LINES (AUSTRALIA) PTY. LTD.

Head Office (Sydney): Tel. 61-2-9320-1600 Fax. 61-2-9320-1601

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Dalian: Tel. 86-411-281-9730 Fax. 86-411-281-9729  
Fuzhou: Tel. 86-591-7837087 Fax. 86-591-7856467  
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Kaohsiung: Tel. 886-7-811-4204 Fax. 886-7-811-4164  
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Manila: Tel. 632-526-9771 Fax. 632-527-5679  
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Ningbo: Tel. 86-574-732-8849 Fax. 86-574-732-4126  
Qingdao: Tel. 86-532-289-2355 Fax. 86-532-289-2300  
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Tianjin: Tel. 86-22-2339-8162 Fax. 86-22-2332-0800  
Xiamen: Tel. 86-592-511-7818 Fax. 86-592-511-7581

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Head Office (Singapore): Tel. 65-224-6355 Fax. 65-223-9557

#### MITSUI O.S.K. LINES (SINGAPORE) PTE., LTD.

Head Office (Singapore): Tel. 65-225-2811 Fax. 65-224-0473

#### MITSUI O.S.K. LINES (MALAYSIA) SDN., BHD.

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#### P.T. MITSUI O.S.K. LINES INDONESIA

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#### 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 (H.K.) LTD.

Head Office (Hong Kong): Tel. 852-2823-6800 Fax. 852-2865-0906

#### MITSUI O.S.K. LINES (PHILIPPINES), INC.

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#### MITSUI O.S.K. LINES (CHINA) CO., LTD.

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#### MITSUI O.S.K. LINES (TAIWAN) SHIPPING AGENCY LTD.

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#### MITSUI O.S.K. BULK SHIPPING (ASIA, OCEANIA) PTE. LTD.

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Kuala Lumpur: Tel. 60-3-732-8735 Fax. 60-3-733-8830

