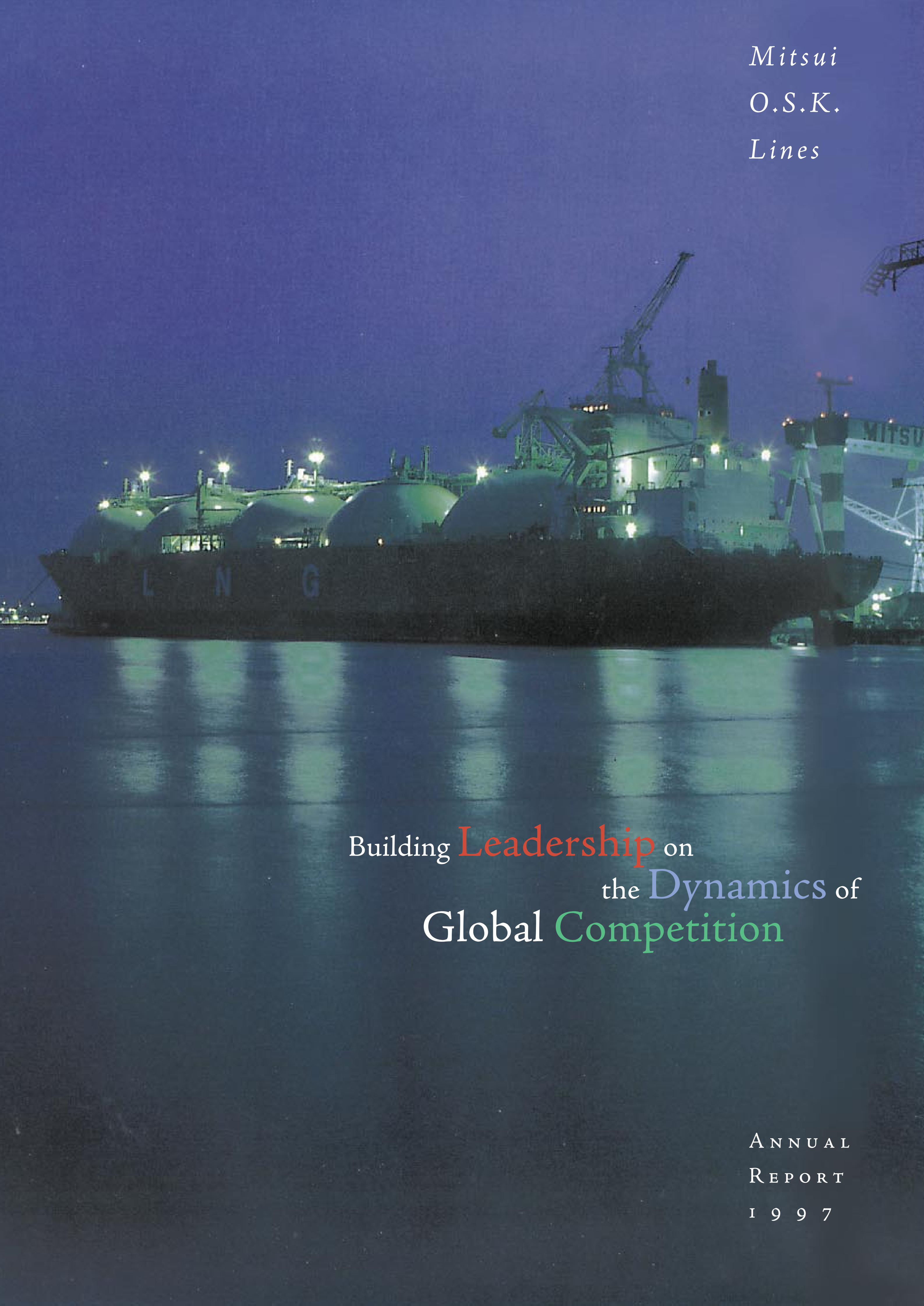
Mitsui O.S.K. Lines



Building Leadership on the Dynamics of Global Competition

Annual Report 1997

Profile

Mitsui O.S.K. Lines, Ltd. (MOL), with its consolidated subsidiaries, is one of the largest all-around transport and logistics companies in the world, offering marine, land and air services. The MOL Group operates approximately 350 vessels on major sea lanes around the world. Recent investments have expanded this fleet significantly, adding sophisticated vessels that are safe, swift and efficient. This expansion is moving forward in concert with actions to lower costs and maximize productivity in all areas of operations. The MOL Group today is ideally positioned to benefit not only from ongoing growth in global trade, but also from rising demand among customers worldwide for total logistics support.

CONTENTS

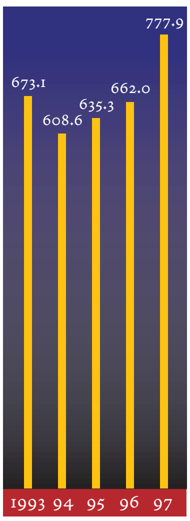
Consolidated Financial Highlights

For the years ended March 31

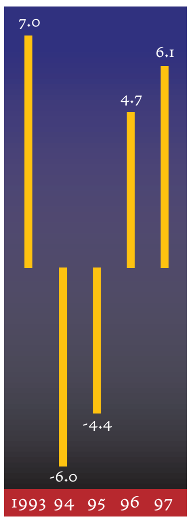
	Millions of yen			Millions of U.S. dollars
	1997	1996	1995	**1997**
For the year:				
Shipping and other revenues	**¥ 777,896**	¥ 662,046	¥ 635,284	**$6,268**
Shipping	**662,884**	564,591	559,449	**5,342**
Others	**115,012**	97,455	75,835	**927**
Operating income	**38,605**	28,273	18,789	**311**
Net income (loss)	**6,072**	4,686	(4,424)	**49**
Net income (loss) per share (yen and dollars)	**5.49**	4.27	(4.03)	**0.04**
At year end:				
Vessels, property and equipment, at cost	**¥ 718,194**	¥ 613,672	¥ 553,976	**$5,787**
Long-term debt due after one year	**735,101**	632,778	591,485	**5,923**
Shareholders' equity	**129,175**	123,514	118,555	**1,041**
Total assets	**1,190,871**	1,058,326	1,020,273	**9,596**
Total operating fleet (Non-consolidated)**:**				
Vessels	**350**	354	343	
Owned	**39**	40	42	
Chartered	**311**	314	301	
Deadweight tons (millions)	**19.92**	19.82	18.64	

Note: U.S. dollar figures reflect an exchange rate of ¥124.10=$1, the prevailing rate as of March 31, 1997.

REVENUES
(¥ billions)



NET INCOME
(¥ billions)



SHAREHOLDERS' EQUITY
(¥ billions)

To Our Shareholders

Building Leadership on the Dynamics of Global Competition

QUESTION
MOL posted significant gains in consolidated revenues and earnings in fiscal 1996. What factors underpinned this performance?

Shipping and other revenues rose 17.5%, or ¥115.9 billion, to ¥777.9 billion. Net income was up 29.6% to ¥6.1 billion. The fall in the yen's value during the year contributed ¥60 billion of the revenue growth. The yen started the fiscal year at ¥106.35 to the U.S. dollar and ended at ¥124.10. About 70% of revenues from our marine transportation business are denominated in dollars—but dollars account for only about 60% of expenses. It is in this difference that we benefit from a weaker yen. Of the remaining ¥55.9 billion in revenue growth, ¥24.4 billion derived from the inclusion of newly consolidated subsidiaries. The other ¥31.5 billion came from a variety of factors.

The year's results reflect more than exchange rate movements, however.

The benefits of our MOL's Creative and Aggressive Redesigning (MOCAR) project, launched in September 1994, have been central to performance. Under this program, we enacted a sweeping reorganization of operations to maximize efficiency and customer services. This entailed shifting many functions overseas and establishing new operating bases. Moreover, we have expanded and upgraded our fleet. The Group now has a sounder financial position—and we posted our first parent-company profit in four years. Affiliates are also doing well. Equity-method earnings climbed 24.9% for the year. Clearly, we have ample reason to be proud of our contributions to the year's growth.

Chairman Susumu Temporin, *seated, and President* Masaharu Ikuta

QUESTION

What are the prospects for carrying this momentum through to the end of the current fiscal year?

First off, I want to stress the great difficulty of predicting consolidated results due to the many variables involved. Nevertheless, we expect to see another rise in revenues and earnings. This is assuming, of course, that exchange rates remain fairly stable, and that the transpacific liner market does not deteriorate further. The Global Alliance (TGA) will continue to exert a positive influence on results. In January 1997, Nedlloyd of the Netherlands and P&O of the U.K. combined their container operations. Shortly thereafter, Singapore's national carrier, Neptune Orient Lines, announced its intention to acquire American President Lines of the U.S. These actions will undoubtedly alter the composition of TGA. Nonetheless, all TGA members are bound to honor their commitments at least through fiscal 1997.

QUESTION

Over the past few years, heated competition has pushed down freight rates in liner trades. Do Japanese shipping companies, made particularly vulnerable by high costs, still have a future on deep sea routes?

It is true that the costs of Japanese shipping companies were high, especially in relation to competitors from other Asian nations. MOL has been taking rigorous actions worldwide to bring down cargo and operating expenses wherever possible.

The MOCAR drive and its successor, the Mitsui O.S.K. Lines' Redesigning for 21 (MORE21) initiative, have already yielded benefits in many respects. Steps to streamline the work force have also been effective. Since 1990, MOL has reduced the number of employees by 432, or 26% of its Japanese work force. Another indication of progress is the ¥1.9 billion decline in administrative expenses in fiscal 1996 compared to fiscal 1995.

Thanks to the computer systems introduced for the liner business in North America and Europe a few years ago, our costs in those regions have fallen to the same level as our competitors'. We have realized substantial cost cutting in Asia by using local management systems. Yet we are in the process of launching a similar unified computer system in Asia in an attempt to attain greater cost efficiency. The new system is expected to be fully operational by mid-98.

MOL, in Japan, has borne high costs in utilizing harbor facilities and in container handling and land transportation. These expenses are high partly because of harbor practices and regulations maintained for a long time. Not only Japanese shipping companies but also other shipping companies have to jointly endeavor to solve this problem. Another point is that MOL might have allowed the group companies offering services to MOL to charge comparatively high prices for their services in order to let them cover their costs, which are sometimes above the market level. There have been historical reasons for their high costs. Under the MORE21 initiative, MOL and its group companies have been overcoming difficulties to our rationalization efforts—irrespective of the historical factors underlying such obstacles.

Thanks to cost-cutting and other actions, MOL was able to generate a modest profit on liners during the year, with the exception of our transpacific trades. Our achievement, amid fierce competition, in other trades than the transpacific encourages us to continue our efforts. We are determined to return the transpacific trades to profitability. Our immediate goal is to cut losses in half. This calls for raising revenues while slashing expenses. This is why we decided to delegate more head office functions to the U.S. from April 1997 and to MOL (Asia) in Hong Kong, which was established in July 1997. We are already moving toward the goal.

In many non-liner businesses, being based in Japan actually has numerous advantages. Our good reputation among Japanese customers has allowed us to establish solid ties with customers. We also would like to stress that our financing costs are lower than our competitors'. Those merits have made us succeed in the business of car carriers, tankers, gas carriers, and woodchip carriers. We are confident that MOL will be able to continue to take advantage of being based in Japan regarding those businesses while pursuing business opportunies outside Japan.

QUESTION

MOL launched the MOCAR project in September 1994. How do you view the program's accomplishments so far?

The central aim of MOCAR was to make MOL a world-class shipping operator that could maintain stable earnings during market fluctuations, even if the yen remains strong. Results to date have been dramatic. We lowered the break-even point by about ¥10 billion in fiscal 1995 compared to fiscal 1994. In fiscal 1996, we achieved a further reduction of ¥8 billion. These savings mainly represent a cut in ship operating expenses, which we achieved through several innovative initiatives to improve operations. Our focus has been on ways to raise

The state-of-the-art 4,700-TEU class overpanamax containership La Loire *serves the Asia-Europe route.* La Loire *completes the round trip in only 56 days, the shortest time of any containership in the world. As with MOL's other containerships serving Europe, the ship is named after a major European river.*

operating income, become more cost competitive, drive down non-operating expenses, and make our work practices more efficient.

By March 1996, we had achieved almost all our initial objectives. To sustain this momentum, we embarked on a new project in July 1996, called MORE21. This effort seeks to build an even stronger operating base for the entire MOL Group. It sets out two key goals. First is to raise consolidated earnings by bolstering the operations of all Group companies. Second is to restore a stable level of dividend payments that we can maintain over the long term. In the plan's first fiscal year, which ends in March 1998, we are targeting ¥7 billion in cost reductions over and above the significant cuts already made.

QUESTION

Service based on The Global Alliance (TGA) began in March 1995. Has this tie-up contributed to an improvement in MOL's liner business?

TGA is working out exactly as we hoped. Sharing resources has allowed us to offer better services to customers, while the resulting economies of scale have brought down expenses. As I said, a recent merger and an anticipated acquisition involving two TGA members is likely to alter the alliance's composition. Nonetheless, I am certain that both MOL and our customers will continue to benefit from the alliance. TGA's greatest advantage is that it allows us to upgrade services with relatively small investments and less risk exposure. Frequency of sailings is up. Transit times are shorter. We now offer direct service to more ports. Members can also exchange vessel space, coordinate sailings and share equipment, realizing major cost savings. TGA better positions us to negotiate container terminal terms and other items. All these advantages mean that we can carry more cargo while raising efficiency in our operations.

QUESTION

How does the MOL Group plan to boost its competitiveness in Asia?

We have already worked hard to promote our business in Asia. In our liner service, the volume of cargo from Asia outside Japan to North America, Europe and other destinations is three times the volume from Japan. We have an excellent service infrastructure for intra-Asian cargo to or from Japan, too. However, we are not satisfied with our performance in intra-Asian cargo movements between non-Japanese places. Such cargo accounts for about half of all intra-Asian shipments. We also see potential in the bulk carrier and specialized carrier businesses. Both are fields where we have expertise. We want to expand our presence in these markets. To achieve this goal, we have been building a network of subsidiaries for liners and tramps throughout Asia. In April 1997, we formed our eleventh such base, Mitsui O.S.K. Lines (Philippines), Inc. As I mentioned earlier, we established MOL (Asia) in Hong Kong in July to coordinate the activities of all Asian subsidiaries for liners outside Japan. We have given the company considerable autonomy. Our objective is to manage Asian operations locally rather than from a central base in Japan. On top of this, we have established 12 total logistics facilities in Asia. This kind of infrastructure will empower us to supply a full range of logistics support to Asian customers.

The LNG carrier Al Zubarah *can transport 135,000 m³ of LNG in one shipment, enough to meet the energy needs of 130,000 households for about one year. With a boiling point of minus 162°C at normal atmospheric pressure, LNG is extremely volatile. MOL is highly skilled at transporting this fuel, employing sophisticated cargo control systems to keep the LNG safe and stable.*

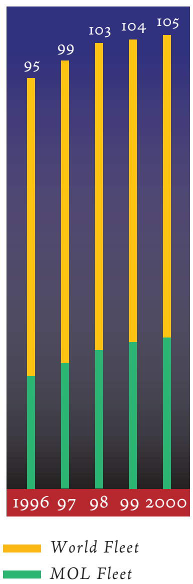
QUESTION
Energy-related shipping is a particular strength at MOL. How is the company taking advantage of its solid position in this vast market?

LNG is an outstanding illustration. Our skill in transporting this clean-burning fuel earned us the leadership of the shipping consortium serving the Qatar-Japan LNG Project. Even before this project, MOL was the world's number-one LNG carrier. Currently, MOL holds shares in 28 out of the world's 92 LNG vessels. In fiscal 1995, MOL transported 24 million tons of this fuel—35% of total LNG transportation for the year. We continue to pursue other opportunities in the LNG field.

Regarding oil tankers, we are investing heavily in upgrading our VLCC fleet. Amid rising concerns about safety and environmental protection, our up-to-date fleet gives MOL a critical competitive edge. The number of VLCCs reaching the end of their life cycles will peak in about three years. The timing of this development will give us an excellent opportunity to further enhance our profile in the tanker market.

Chemical tankers are another key element of tanker strategy. MOL alone accounts for almost half of global methanol transportation volume. Two recent acquisitions made us even stronger. In April 1996, we acquired a 51% share of Tokyo Marine, one of the world's largest operators of ocean-going chemical tankers. In November 1996, Tokyo Chemical Tanker joined the MOL Group. This company is mainly involved in chemical tanker services within Asia. All in all, we have created a strong foundation for the Group's chemical tanker business to enjoy continued growth and profitability.

Change in Number of LNG Vessels



QUESTION
Customers and the public are increasingly concerned about the safety of the world's shipping, especially in regard to vessels carrying hazardous cargoes. How does MOL ensure that its operations meet stringent safety standards?

For over a century, MOL has adhered to a fundamental policy: to ensure the safety of people and ships at sea, and to protect cargo and the environment. We have developed an extensive internal system to maintain the highest safety standards at all times. In 1994, we revamped the MOL Safety Management System to guarantee conformity with increasingly complex, strict regulations. MOL obtained the Document of Compliance for safety system (DOC) and Safety Management Certificate (SMC) in December 1994. Both are based on the ISM Code as prescribed by the International Maritime Organization, a part of the United Nations. At the same time, our quality management system earned ISO9002 certification.

In January 1995, MOL began conducting an annual comprehensive safety inspection covering the Group's entire fleet. Since 1994, we have regularly been holding a series of large-scale oil spill-response drills at company bases in Japan and abroad. In June 1996, we established a Shipping Management Office to centralize oversight of all ship management. This better enables us to provide assistance and supervision to ship management companies, heightening our ability to maintain uncompromising safety standards.

Susumu Temporin

Masaharu Ikuta

QUESTION
In closing, what message would you like to give your overseas investors?

Shipping companies all over the world have confronted very challenging markets for quite some time. Regrettably, these difficulties have prevented MOL from paying a dividend for the past four years.

There are many positive aspects of MOL to consider, however. I urge shareholders to focus on the major strides we are making. The MOCAR program enhanced sales and service capabilities while reducing annual costs by ¥18 billion. Over the past four years, yearly capital expenditures have averaged ¥80 billion. Funds have been well spent: shipbuilding costs have remained relatively low. Together, these actions have vastly enhanced MOL's competitiveness. Most importantly, we are finally seeing earnings grow—a trend I expect will continue. I am determined to restore dividend payments as quickly as possible and to maintain them at a stable level.

In this era of tumultuous change, "global" must be the catch-word for our business. MOL is already a global organization in terms of people, physical assets and funding. By emphasizing consolidated results, we are working to provide financial disclosure that conforms to global standards. Competition in our markets has been intense, and will increase. We are well positioned to succeed. This is evident in the effectiveness of our core strategies and in our accomplishments to date. We value your support, and look forward to greater achievements in the years to come.

June 27, 1997

Susumu Temporin
Chairman of the Board

Masaharu Ikuta
President

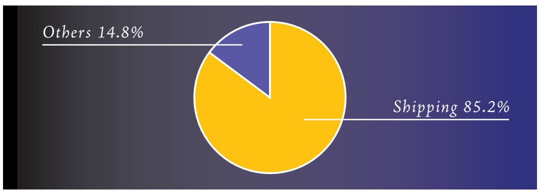
Business Review Shipping (Consolidated)

As consolidated shipping and others (shipping) are combined into a single segment, the shipping review is divided between the parent company (non-consolidated) and the group companies. Non-consolidated figures are provided to allow disclosure of results for liners, tramp and specialized carriers, tankers and gas carriers, and others (shipping).

Summary

Shipping operations of the MOL Group are made up of marine transportation and operations peripheral to this business. In the marine transportation sector, there were 136 consolidated subsidiaries and 20 equity-method affiliates in fiscal 1996. After the parent company, the largest contributors to marine transportation revenues were Tokyo Marine, Tokyo Chemical Tanker, M.O. Seaways, Mitsui O.S.K. Passenger Line, Blue Highway Line Corporation and The Diamond Ferry Co., Ltd. There are 91 subsidiaries located outside Japan established for the purpose of owning vessels and supplying them under time charter to the parent company and some group companies. Thus, most of the resulting revenues and earnings are eliminated in consolidation. Other than marine transportation, major business activities are harbor transportation and terminals, mainly at International Container Terminal Ltd. and Trans Pacific Container Service Corp.

Revenues by Segment
(%)



Total Revenues (Shipping)
(¥ billions)

Results

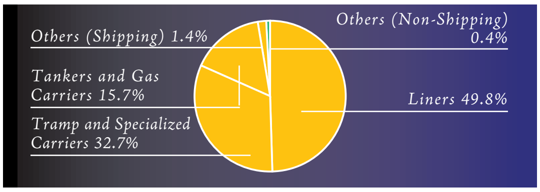
The MOL Group extends a full range of transportation services. The primary activity is deep sea shipping. Others are harbor traffic, land transportation and forwarding services. The Group also owns and operates ferries and passenger ships. In fiscal 1996, shipping revenues rose by 17.4% to ¥662,884 million, but remained largely unchanged as a share of total revenues at 85.2%. Operating income in the shipping segment increased 32.2% to ¥35,864 million, but decreased from 95.9% to 92.9% of total consolidated operating income.

Business Review *Shipping* (Parent Company/Non-Consolidated)

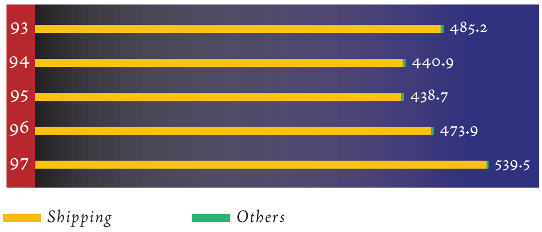
Summary

Non-consolidated shipping revenues in fiscal 1996 were ¥537,085 million, 81.0% of consolidated shipping segment revenues. At the end of March 1997, the parent company owned 39 vessels having an aggregate of 3,096 thousand dwt. Overall, the parent company fleet totaled 350 vessels and 19,920 thousand dwt. Of these ships, 148 vessels representing an aggregate of 10,448 thousand dwt are owned by subsidiaries and chartered to the parent company. The parent company divides shipping revenues into four categories: liners, tramp and specialized carriers, tankers and gas carriers, and others (shipping).

REVENUES BY DIVISION
(%)



TOTAL REVENUES
(¥ billions)



LINERS

Basic Strategy

With difficult conditions prevailing in most global liner markets, MOL's key objective is to return liner services to profitability as quickly as possible.

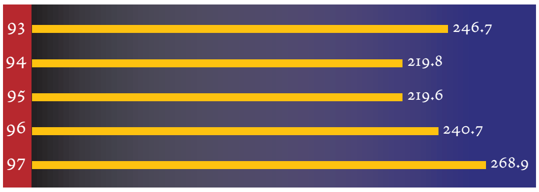
Double-Stack Train (DST) transportation was first used in the late 1970s in the U.S. Doubling the number of containers a train can carry significantly cuts transportation costs per container. MOL's close ties with many freight railway companies enables its customers to take full advantage of this highly efficient system.

The 1994 formation of The Global Alliance (TGA) was a major step in this direction. TGA is a partnership covering Asia-North America and Asia-Europe routes. Initially there were five members: MOL, American President Lines, Nedlloyd Lines, Orient Overseas Container Line and Malaysia International Shipping Company. Since March 1995, TGA has resulted in lower operating costs as well as improved services for customers. A recent merger involving an alliance member will likely lead to changes in its composition after 1998. MOL remains committed to continuing TGA and making further refinements to enhance benefits for all parties involved (see page 6). At the same time, MOL will continue to take steps aimed at restoring freight rates to a prudent level, especially on service between Asia and North America.

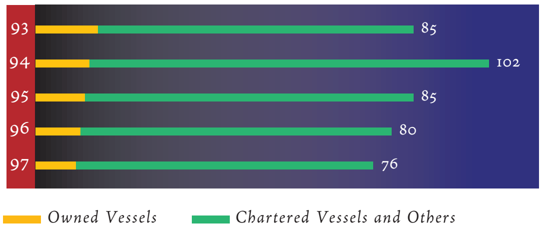
MOL has started operations at two containership berths at Kobe International Container Terminal (KICT), which was newly opened in April 1996. Able to accommodate the next generation of large containerships, these berths attracted attention in shipping circles worldwide. KICT's wharf is 700 meters long and has a depth of 15 meters, the

deepest of any advanced container facility in Japan. The termimal's five overpanamax gantry cranes make quick work of loading and unloading large numbers of containers.

Liner Revenues
(¥ billions)



Liner Operating Fleet
(vessels)



Results

Liner revenues increased 11.7% to ¥268,873 million, or 49.8% of total revenues. During the year, MOL began offering full-scale TGA services on routes linking Asia with North America and Asia with Europe. Unfortunately, losses from transpacific liner trades increased during the fiscal year.

Profitability continues to be severely impacted by the sharp drop in freight rates on transpacific routes that began in the second half of 1995. In fiscal 1996, competition again held down freight rates in the transpacific trades, the largest source of liner revenues for MOL. In addition to a decline in transpacific liner rates, liner volume leaving non-Japanese Asian ports for North America declined in 1996 for the first time in several years. Combined transpacific liner losses of MOL and Japan's other two major shipping companies for the first half of fiscal 1996 rose dramatically, exceeding the total loss for fiscal 1995.

Excluding transpacific routes, MOL's liner trade generated a profit in fiscal 1996. On European routes, the success of cost cutting efforts prevented a deterioration in earnings. Improved services and other steps to enhance competitiveness led to higher earnings on routes serving Australia, Latin America and Africa. Earnings were up considerably on intra-Asian routes, mainly because of growth in the volume of cargo.

The 2,839-TEU containership Alligator Bravery *passes under the Golden Gate Bridge in San Francisco.*

Highlights of the Year

- Taking advantage of TGA, MOL added six sailings per week between Asia and the west coast of North America. MOL also inaugurated three weekly sailings providing direct links between Europe and Asia. One of these is CEX service, a direct route between Europe and China.

- In August 1996, TGA members signed a terminal utilization contract with the Port of Singapore Authority. This new contract provides not only for berths, but also gives members priority in the use of yards and other facilities. Overall, the agreement

MOL has opened representative offices and wholly owned local corporations in China.

enables TGA members to obtain a level of flexibility that is normally possible only with the exclusive use of a terminal.

■ In December 1996, MOL became the first Japanese shipping company to receive permission to open a branch in Tianjin. MOL currently operates a weekly 300-TEU container service between Xingang (Tianjin), Kobe, Nagoya and Yokohama. At the same time, MOL's Shanghai subsidiary was renamed Mitsui O.S.K. Lines (China) to reflect its expanded responsibilities as the company's China headquarters.

■ Ongoing efforts to structure a more effective and competitive marketing organization led to the receipt of ISO 9002 certification for quality control standards at MOL liner bases in Singapore, the United Kingdom, France and Japan.

■ In the summer of 1997, MOL completed the deployment of six chartered 1,700-TEU containerships on its Asia/East Coast South America routes. These vessels replace six 1,000- 1,200-TEU Challenger series vessels. In 1999, MOL plans to serve these routes with 1,950-TEU containerships.

Outlook

The dynamics of the world liner market underwent dramatic changes during 1996. The liner business has entered an era of global scale competition that demands quality services as well as low costs. TGA has yielded concrete benefits, but all indications point to the need for more cost cutting and industry restructuring ahead.

MOL expects to hold liner capacity steady during fiscal 1997. This follows a fiscal 1996 reduction in the liner fleet, including chartered ships, from 80 to 76. Despite this reduction, capacity rose as the number of slots for loading containers climbed 4.2% to 181,793 TEUs. In the extremely difficult transpacific trades, MOL is shifting more head office functions to North America and pursuing programs to cut costs and speed up decision-making. Although the outlook for liners remains uncertain, MOL aims to maintain profitability in all trades, except on services to and from North America.

In 1997 and 1998, more than 100 containerships over 3,000 TEU are scheduled for delivery. MOL will continue to focus on rationalizing services and cutting costs. In this environment, restoration of freight rates in the liner trade remains one of the greatest challenges facing MOL.

The car carrier Brilliant Ace *heads into port at Malta. MOL pioneered the use of specialized pure car carriers (PCCs) in the 1960s. Today's advanced pure car and truck carriers (PCTCs) are designed to handle recreational vehicles and trucks as well as automobiles. No cranes or other special loading equipment are necessary. A built-in ramp is extended from the stern or side of the ship to the wharf. Vehicles are then simply driven on and off the vessel.*

The coal carrier Soma Maru *joined the MOL fleet in 1995. This vessel is equipped with a technologically advanced engine and many devices to prevent oil spillage. The vessel has been deployed to import steaming coal from Australia and North America to Soma Thermal Power Plant, which is north of Tokyo.* Soma Maru *carries 90,000 tons of steaming coal in a single shipment and is capable of making ten round-trips each year.*

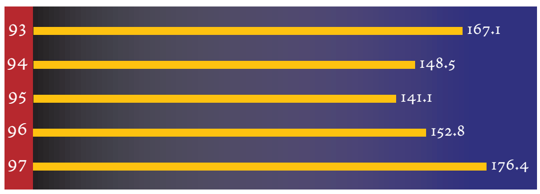
Tramp and Specialized Carriers

Basic Strategy

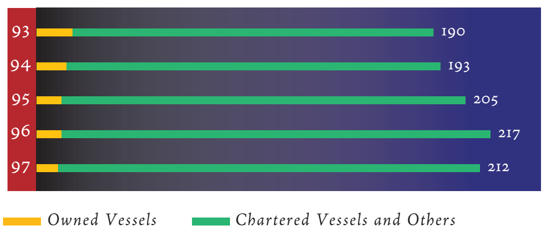
MOL operates a diverse range of tramp and specialized carriers. The company's fleet is made up of bulkers and carriers. The bulker fleet, in turn, consists of iron ore carriers (Cape-size, 100,000 to 200,000 dwt), coal carriers (about 70,000 dwt), wood chip carriers (40,000 to 47,000 dwt), and general-purpose bulkers in Panamax (about 70,000 dwt) and handy (20,000 to 50,000 dwt) sizes. MOL plans to continue pursuing a policy of investing in specialized carriers, mainly for Japanese customers, rather than in general-purpose bulkers. At the same time, MOL will continue to adjust its fleet composition by making the investments needed to remain in step with changes in the marketplace. In particular, the company will take into consideration growth in intra-Asian trades and other trades between areas outside Japan. Economic conditions and currency movements are two other key factors. These investments will create a base to generate even higher earnings in the future.

Atagosan Maru, *a Cape-size bulker, boasts outstanding efficiency in terms of labor, fuel economy and maintenance.*

Tramp and Specialized Carrier Revenues
(¥ billions)



Tramp and Specialized Carrier Operating Fleet
(vessels)



Results

Tramp and specialized carrier revenues rose 15.4% to ¥176,366 million, or 32.7% of total revenues, and were accompanied by higher earnings. The yen's weakness led to increased car exports from Japan. Along with steps by MOL to raise efficiency, this produced the significant rise in earnings.

In the general-purpose bulker (Panamax and handy) sector, revenues were down sharply in the first half of the year. This was chiefly attributable to lower iron ore and coking coal import volume, along with a fall in grain imports by China. Additionally, the delivery of many newbuildings significantly raised global tramp capacity. A decline in cargo volume thus caused many dry bulk rates to drop to their lowest levels in a decade. Other specialized carriers as a whole recorded results that were about the same as in the previous year.

Highlights of the Year

■ The iron ore carrier charter market declined sharply due to inventory adjustments by the world's steel makers early in the fiscal year. MOL reduced its fleet while taking full advantage of the weak yen to raise revenues. As a result, iron ore carriers generated higher earnings despite the harsh environment.

■ While coking coal imports declined, demand for steaming coal rose with the commencement of operations at new coal-burning power stations in Japan. MOL transported a total of more than 10 million tons, resulting in higher revenues and earnings.

■ Three new wood chip carriers joined MOL's fleet in fiscal 1996, each under long-term charter contracts. About 90% of the world's wood chip shipments are offloaded in Japan. Total imports of wood chips to Japan are declining because of a downturn in the Japanese papermaking industry. This situation led to an oversupply of wood chip carriers, and thus a small deterioration in earnings for vessels without long-term contracts.

■ Earnings from industrial plant-related transportation were unchanged from the previous year. Results were highlighted by growth in shipments of plant construction materials to Asian nations, where large investments in manufacturing facilities continue.

In Malaysia, Vehicle Transit Centre (VTC) terminal at Port Kelang has space for 2,400 vehicles at its West Port, which started operations in September 1996.

■ Auto exports from Japan rose as the yen fell, creating solid demand for MOL's car carriers. Exports from Korea also grew. Revenues were up significantly as a result. MOL accounts for about one-fifth of the global car carrier market. In the second half of the year, demand from Japanese auto makers consistently exceeded MOL's capacity. Success in other markets also contributed to the year's strong performance. In fiscal 1996, shipments other than exports from Japan and Korea rose to 25% of total liftings.

The wood chip carrier Grandis *has a hold capacity of 3.52 million cubic feet. MOL operates the world's largest and most advanced fleet of specialized wood chip carriers.*

Outlook

Oversupply in handy sizes is likely to persist, with 168 handy-size bulkers being delivered in 1997. This indicates that 1997 will be another difficult year for handy bulkers. This will be offset somewhat by a rise in cargo movements, so dry rates may not be as low as in 1996.

Rising steel output in Asia points to strong demand for MOL's 35 Capesize iron ore carriers. The same is true of growth in coal-burning power stations. Wood chips are another area where prospects are favorable. In this field MOL is number one in the world with a fleet of 21 specialized wood chip carriers. MOL's general-purpose bulker fleet includes 12 Panamax class vessels and 51 handy vessels. With 57 car carriers, MOL operates one of the largest fleets in the world. Many of these carriers can handle tall and heavy vehicles, a rapidly expanding market sector. Rising car sales in eastern Asia and Latin America are also likely to support more growth in demand for seaborne shipments of automobiles.

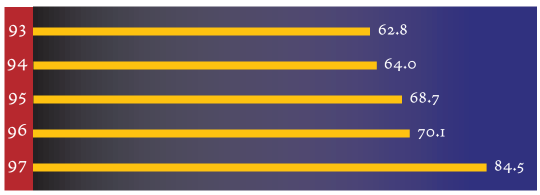
In fiscal 1997, the fleet will continue to expand. MOL plans to add five handy bulkers, two Panamax bulkers, three wood chip carriers, two steaming coal carriers, and three car carriers. The addition of these newbuildings is expected to support growth in revenues in fiscal 1997. At the same time, MOL will focus on ensuring that these higher revenues translate into higher earnings as well.

Tankers and Gas Carriers

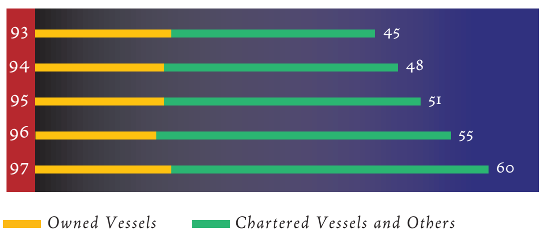
Basic Strategy

Japan depends on fuels imported by sea for approximately 80% of its total energy needs. Serving this immense market is a core element of MOL's long-term strategy. MOL operates one of the world's largest fleets of tankers and ranks number-one in ownership of LNG carriers. This enables MOL to play a critical role in ensuring the reliability of Japan's energy supplies. With a solid reputation for safety, MOL is the sole Japanese ship operator that receives contracts from the Major oil companies. This same record of reliability and expertise makes MOL a leader in LNG transportation. About 35% of global seaborne LNG transportation is handled by vessels in which MOL owns a share. Chemicals are another strategic element of tanker operations. Following the 1996 acquisition of Tokyo Marine Co., Ltd., the world's fifth largest chemical tanker company, MOL consolidated its position as one of the world's largest operators of these vessels.

Tanker and Gas Carrier Revenues
(¥ billions)



Tanker and Gas Carrier Operating Fleet
(vessels)



Qatar's Minister of Energy and Industry Al Attiyah and MOL President Masaharu Ikuta christened the Al Zubarah *LNG carrier, which is named after a historic city in Qatar.*

Results

Tanker and gas carrier revenues increased 20.6% to ¥84,509 million, representing 15.7% of total revenues. Earnings rose as well, fueled by progress in operating ships more efficiently and cutting operating expenses. During the year, the fleet was upgraded as several older tankers were replaced with more advanced newbuildings. At the end of March 1997, MOL operated a tanker fleet of 45 vessels consisting of crude oil, product, chemical and methanol tankers. Four methanol tankers were completed during the year. As most VLCCs operate under long-term contracts with oil companies, revenues are generally stable. LNG and LPG carriers also recorded satisfactory results.

Highlights of the Year

■ On January 10, 1997, MOL took delivery of *Al Zubarah*, the first LNG carrier built for the Qatar LNG Project. Co-owned by four Japanese shipping companies, this vessel immediately departed on its maiden voyage to Qatar. MOL leads the consortium of Japanese shipping companies that will build and operate a total of 10 LNG carriers. The project, which is the largest such undertaking ever, provides for the annual transportation of 6 million tons of LNG to Japan over 25 years.

■ In April 1996, MOL acquired a majority equity interest in Tokyo Marine Co., Ltd., the world's fifth largest chemical tanker company. Tokyo Marine has a fleet of 26 vessels serving routes linking North America and Europe with Asia. In November 1996, Tokyo Chemical Tanker Co., Ltd., which is active mainly within Asia, joined the MOL Group.

■ Building upon its existing reputation in methanol transportation, MOL took delivery of the methanol carrier *Chinook Maiden* in December 1996. The vessel is chartered under a 15-year contract to Methanex Inc. of Canada. MOL also added the *Midnight Sun* in March 1997, raising its

The 45,217 dwt methanol tanker Chinook Maiden *was completed in December 1996. This vessel serves the worldwide methanol trade.*

The 311,625 dwt very large crude carrier (VLCC) Atlantic Liberty *has a capacity of 350,936* m^3*. This enormous ship has an overall length of 329.71 meters and a beam of 58.00 meters. MOL's high level of efficiency, well-trained crews and solid reputation for safety make the company one of the world's most respected VLCC operators.*

In addition to upgrading its tanker fleet, MOL has established a tanker training center where crew can learn the art of operating today's sophisticated vessels.

The double-hulled very large crude carrier (VLCC) Ohmine San *(258,080 dwt) was completed in July 1996. The vessel operates on the Middle East-Japan crude oil trade.*

number of methanol carriers to ten, the largest fleet in the world. With one more vessel now under construction, MOL will operate 11 of the world's 20 methanol tankers by the end of fiscal 1997.

Outlook

At the end of fiscal 1996, MOL had a fleet of 45 tankers and 15 gas carriers. With solid demand for petroleum shipments likely to continue, the tanker market is expected to continue sailing on relatively calm seas. Old VLCCs built in the 1970s are expected to be scrapped gradually for safety reasons. Orders for newbuildings will not be sufficient to cause a surplus. Due to greater risks involving oil spillage, shipping companies must be prudent when making investments in tankers. This is resulting in an improvement in supply-demand dynamics in the global VLCC market.

During fiscal 1997, the company plans to take delivery of the fourth and fifth co-owned LNG carriers in accordance with the terms of the Qatar Project. The company also plans to add a methanol carrier chartered to Nissho Iwai and a chemical tanker to operate under a charter contract with Odfjell Tankers. These long-term charter contracts mean that MOL's crude oil, chemical, products and gas carrier fleets are largely shielded from market fluctuations. Consequently, growth in the fleet is likely to translate directly into higher revenues and earnings.

Others (Shipping)

Revenues in this category represent leasing income from vessels leased by the parent company to Mitsui O.S.K. Passenger Line and remuneration for manning and ship management services. In fiscal 1996, leasing income and other activities declined 5.9% to ¥7,337 million.

The 21,903-GT Nippon Maru, *which holds up to 600 passengers, will embark on a three-month round-the-world voyage in the spring of 1998. The route will take this vessel to Asian ports, through the Mediterranean Sea, Caribbean Sea, Panama Canal, north to Alaska, and then back to Japan. The trip was sold out just one month after tickets went on sale. A similar voyage is planned for the spring of 1999.*

Business Review Shipping (MOL Group Companies)

Results and Highlights of the Year

■ Tokyo Marine became a member of the MOL Group in April 1996 when MOL acquired a 51.33% equity interest. Operating 26 chemical carriers on routes between Asia and ports in North America and Europe, the company has a large share of the global parcel tanker market. Almost all of Tokyo Marine's tankers are in the 20,000-dwt class. In fiscal 1996, Tokyo Marine contributed ¥19.0 billion to consolidated shipping revenues.

■ Tokyo Chemical Tanker joined the MOL Group in November 1996. This company is the sole Japanese shipping company involved in intra-Asian parcel tanker services. It has a fleet of seven vessels ranging from 5,000 to 8,000 tons. Service also extends to Australia, New Zealand and the Indian Ocean. Tokyo Chemical Tanker has long-standing relationships with Japanese trading companies and major petrochemical companies in Japan and overseas. Tokyo Chemical Tanker's fiscal 1996 contribution to consolidated revenues was ¥3.1 billion.

■ M.O. Seaways mainly operates tramps between Japan and its adjacent waters. The fiscal 1996 contribution to consolidated revenues was ¥10.0 billion.

■ Mitsui O.S.K. Passenger Line operates three ships owned by the MOL Group, *Fuji Maru*, *Nippon Maru* and *Shin Sakura Maru*. In fiscal 1996, the company's consistent efforts to cut costs while bolstering marketing capabilities resulted in the first profit in seven years. In fiscal 1996, the three ships were in service a total of 916 days, up from 884 in the previous fiscal year. This company contributed ¥8.7 billion to consolidated revenues.

■ International Container Terminal is engaged in container terminal operations in the Tokyo area and the forwarding business. Fiscal 1996 revenues were ¥7.4 billion.

■ Trans Pacific Container Service operates container terminals in Seattle, Los Angeles and Oakland. With most revenues in U.S. dollars, the yen's weakness during the past fiscal year raised yen-denominated revenues to ¥5.2 billion.

Blue Highway Line's new Sunflower Kuroshio *entered service in 1997. This sophisticated ferry immediately attracted renewed interest in sea travel between Tokyo and Kochi, which is on the southern coast of Shikoku.*

■ Nine domestic ferry companies belong to the MOL Group, making the group Japan's largest ferry operator. Of these companies, four are consolidated subsidiaries and three are equity-method affiliates. Consolidated revenues of the four subsidiaries were ¥36.2 billion. Aggregate revenues of the nine companies in fiscal 1996 amounted to ¥72.0 billion.

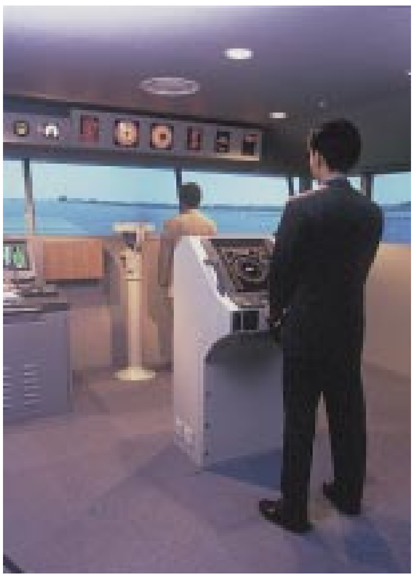
■ Blue Highway Line operates ferries on long-distance routes as well as coastal liner service linking ports along the Pacific coast of Japan. The Diamond Ferry serves ports in the Osaka area, Shikoku and Kyushu. Meimon Taiyo-Ferry runs ferries between Osaka and Kita-Kyushu.

Business Review Others [Non-Shipping] (Consolidated)

Summary

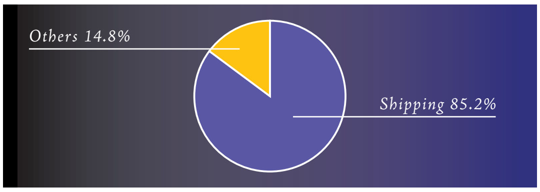
Outside the shipping business, the MOL Group is active in a broad range of fields. Among them are air freight forwarding, travel agency services, real estate, warehousing and logistics services, trade and commerce, financial services, dredging and harbor construction, and information system engineering.

In fiscal 1996, there were 36 consolidated subsidiaries in the other business segment, and four equity-method affiliates. Air freight forwarding and travel agency services are conducted by M.O. Air System and its five overseas subsidiaries. Trade and commerce revenues are generated mainly by Mitsui O.S.K. Kogyo. In the construction field, Kusakabe Maritime Engineering Co., Ltd. has a long list of accomplishments in dredging and harbor construction. In Europe, M.O. Logistics Netherlands B.V. offers warehousing and logistics services.

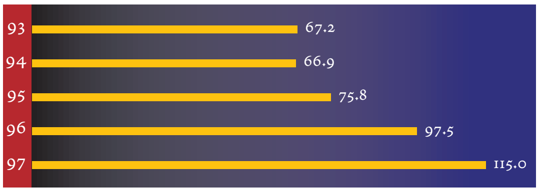


The virtual reality bridge simulator at M.O. Marine Consulting duplicates the visual and physical sensations of piloting a ship. Capabilities include realistic sound effects for wind, engine noises and much more.

Revenue Composition
(%)



Total Revenues
(¥ billions)



Results

Backed by strong performances at several subsidiaries, along with an aggressive marketing program and the yen's weakness, fiscal 1996 consolidated revenues in the other business segment rose 18.0% to ¥115,012 million, or 14.8% of total revenues. Operating income was up 20.9% to ¥4,579 million. The parent company accounted for only 2.1% of consolidated revenues in this segment, entirely from real estate leasing operations.

Highlights of the Year

■ In fiscal 1996, revenues of M.O. Air System and its five overseas subsidiaries rose to ¥52.5 billion. This performance was attributable to higher air cargo shipments from Japan, M.O. Air System's core business. Travel agency services rose too, due to growth in business clients. Furthermore, overseas results were bolstered by the weak yen.

■ Mitsui O.S.K. Kogyo reported fiscal 1996 revenues of ¥27.0 billion, mainly from the sale of fuel, ship supplies, materials, and machinery and other equipment used in ships, and real estate.

■ Kusakabe Maritime Engineering, which changed its name from Kusakabe Steamship in 1996, is involved in civil engineering and dredging work. Fiscal 1996 revenues were ¥9.2 billion.

■ Hong Kong Logistics operates a network of distribution bases. The company is currently expanding its distribution network in south Asian nations as well as in northern China.

Hermex B.V., located in Tilburg, the Netherlands, is one of several sophisticated distribution centers operated by the MOL Group around the world. This facility has served as the European distribution center for Fuji Photo Film products since 1991.

■ On April 1, 1997, MOL purchased its Tokyo head office building, which has a floor area of 35,051 square meters, from Mitsui Fudosan for ¥37 billion. MOL had been leasing this space since 1972. This purchase is expected to yield an annual cost saving of approximately ¥1 billion. Plans call for leasing some space to other firms, thus generating additional revenues for the company.

As one way to utilize its real estate holdings, the MOL Group leases land for various projects. One example is Hotel Nord Otaru, which opened in May 1996 in a popular sightseeing area of Hokkaido. The MOL Group is leasing the land and building to a large Japanese travel agent under a long-term agreement.

Mitsui O.S.K. Lines Global Services


ANCHORAGE
PRINCE RUPERT
KITIMAT
VANCOUVER
SEATTLE
TACOMA
PORTLAND
CONCORD
SAN FRANCISCO
OAKLAND
LOS ANGELES
LONG BEACH
MINNEAPOLIS
DETROIT
TORONTO
CHICAGO
CLEVELAND
BOSTON
NEW YORK
JERSEY CITY
PHILADELPHIA
CINCINNATI
KANSAS CITY
ST. LOUIS
BALTIMORE
MEMPHIS
NORFOLK
CHARLOTTE
DALLAS
ATLANTA
CHARLESTON
NEW ORLEANS
MOBILE
HOUSTON
PT. EVERGLADES
HONOLULU
MANZANILLO
ACAPULCO
SALINA CRUZ
PUERTO QUETZAL
ACAJUTLA
RIO HAINA
SAN JUAN
BARRANQUILLA
MARACAIBO
PORT OF SPAIN
PUERTO SUCRE
CORINTO
SAN LORENZO
PT. CALDERS
PANAMA
(PT. OF MANZANILLO)
LA GUAIRA
PUERTO CABELLO
BUENA VENTURA
CARTAGENA
MANTA
ESMERALDAS
BELEN
MANAUS
TARAWA
APIA
PAGOPAGO
SANTO
PORT VILLA
LAUTOKA
PAPEETE
SUVA
NOUMEA
NUKUALOFA
CALLAO
SALVADOR
ILO
ARICA
RIO DE JANEIRO
VITORIA
IQUIQUE
SÃO PAULO
ANTOFAGASTA
SANTOS
CHANARAL
PARANAGUA
SÃO FRANCISCO DO SUL
VALPARAISO
RIO GRANDE
SANTIAGO
MONTEVIDEO
SAN ANTONIO
BUENOS AIRES
LIRQUEN
CORRAL
PUERTO MONTT
AUCKLAND
NAPIER
WELLINGTON
LYTTELTON
PORT CHALMERS
PUNTA ARENAS
CABO NEGRO

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Chairman of the Board

Masaharu Ikuta
President

Takatoshi Wakasugi
Executive Vice President

Makoto Ishii
Senior Managing Director

Toru Miyazaki
Senior Managing Director

Kunio Suzuki
Senior Managing Director

Koichi Minamino
Senior Managing Director

Chairman of the Board

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Masaharu Ikuta

Executive Vice President

Takatoshi Wakasugi
Assistant to the President

Senior Managing Directors

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Technical Division, Bulk Carrier Division, Wood Chip Carrier Division, Project Cargo Carrier Division, MO Bulk Group, Car Carrier Division, Tanker Division, Liquefied Gas Carrier Division, Steaming Coal Carrier Division

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Bulk Carrier Division, Wood Chip Carrier Division, Project Cargo Carrier Division, MO Bulk Group

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

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Akimitsu Ashida
General Manager of Planning Division

Hiroyuki Sato
General Manager of Liner Division

Kazuki Mori
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Tsuneo Kawahara
Car Carrier Division

Hiroyuki Nakagawa
General Manager of Finance and Accounting Division

Corporate Auditors

Toshitaka Hamamoto
Susumu Yoshida
Nobuyoshi Tateishi
Kyoichi Sato

Six-Year Summary

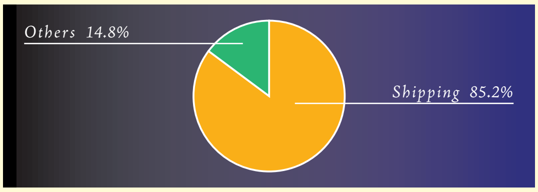
Mitsui O.S.K. Lines   Years ended March 31

	Millions of yen					
	1997	1996	1995	1994	1993	1992
For the year:						
Shipping and other revenues	**¥ 777,896**	¥ 662,046	¥ 635,284	¥ 608,641	¥673,074	¥637,355
Vessel depreciation	**53,597**	44,384	39,988	37,131	37,906	29,393
Other expenses	**610,419**	515,069	502,201	487,994	544,235	524,084
General and administrative expenses	**75,275**	74,320	74,306	68,774	67,384	55,482
Operating income	**38,605**	28,273	18,789	14,742	23,549	28,396
Non-operating income (expense)	**(32,094)**	(27,393)	(20,296)	(20,446)	(13,877)	(22,758)
Income before special items and income taxes	**6,511**	880	(1,507)	(5,704)	9,672	5,638
Special credits (charges), net	**(2,445)**	1,708	(5,604)	(1,357)	1,742	923
Income (loss) before income taxes	**4,066**	2,588	(7,111)	(7,061)	11,414	6,561
Income taxes	**(3,128)**	(2,167)	(1,718)	(801)	(6,821)	(7,492)
Minority interests	**170**	385	109	189	(115)	(282)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**5,024**	4,024	4,504	2,081	2,925	3,945
Amortization of excess of cost over net assets acquired	**(60)**	(144)	(208)	(388)	(361)	(394)
Net income (loss)	**6,072**	4,686	(4,424)	(5,980)	7,042	2,338
At year end:						
Current assets	**250,148**	211,361	233,102	247,964	228,337	288,277
Current liabilities	**301,269**	279,444	286,304	335,354	250,489	302,611
Vessels, property and equipment, at cost	**718,194**	613,672	553,976	514,082	465,097	368,146
Total assets	**1,190,871**	1,058,326	1,020,273	1,037,585	971,475	926,970
Long-term debt	**735,101**	632,778	591,485	545,168	556,498	465,514
Shareholders' equity	**129,175**	123,514	118,555	133,997	142,029	137,983
Retained earnings	**20,269**	14,610	10,164	25,660	34,857	31,234
Amounts per share of common stock (¥):						
Net income	**5.49**	4.27	(4.03)	(5.50)	6.50	2.23
Shareholders' equity	**116.69**	112.45	108.09	123.28	131.22	131.30
Dividends	**–**	–	–	–	4.00	4.00

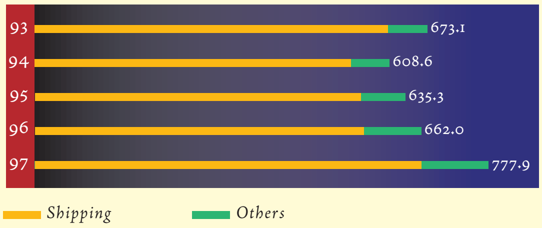
Introduction

This section should be read in conjunction with the remarks in the To Our Shareholders, Business Review and Consolidated Financial Statements and Notes sections. All figures in U.S. dollars are translated from yen at the rate of ¥124.10/US$1.00, the rate as of March 31, 1997. The term "the company" refers to the parent company, while "the companies" refers to the company, 172 consolidated subsidiaries and 24 unconsolidated subsidiaries and affiliates accounted for by the equity-method, but not to the 229 subsidiaries and affiliates not incorporated in the Consolidated Financial Statements.

Revenue by Segment
(%)



Total Revenues
(¥ billions)



Overview

The MOL Group is a comprehensive sea, land and air transportation services organization in all areas of the world. In shipping, the MOL Group operates the world's largest fleet of carriers for LNG and ranks in the top ten in containerships, tankers and car carriers. In fiscal 1996, the year ended March 31, 1997, business results were divided into the shipping and others segments.

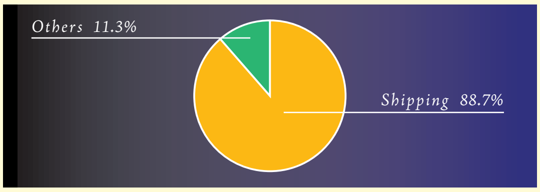
Segment Information

In fiscal 1996, the companies reported shipping and other revenues, the equivalent of total operating revenues, of ¥777,896 million (US$6,268 million), an increase of 17.5%. Operating income rose 36.5% to ¥38,605 million (US$311 million), representing 5.0% of shipping and other revenues compared with 4.3% one year earlier. Of the ¥115.9 billion increase in revenues, approximately ¥60.0 billion is attributable to the weakening of the yen, ¥24.4 billion to the increase in the number of consolidated subsidiaries, and ¥31.5 billion to other factors. Growth in expenses was limited by the benefits of an ongoing cost containment program covering all areas of operations. Results by segment are as follows:

Shipping—Fiscal 1996 revenues increased 17.4% to ¥662,884 million (US$5,342 million), accounting for 85.2% of shipping and other revenues, about the same as in the previous fiscal year. Operating income rose 32.2% to ¥35,864 million (US$289 million), or 88.7% of consolidated operating income before elimination of intersegment transactions, up 1.0% from 87.7% one year earlier. Several factors contributed to the improvement in income: the decline in the average yen-U.S. dollar exchange rate from ¥95.52 to ¥111.90; additional revenues generated by the continuing addition of new ships operating under long-term charter contracts; and the increase in consolidated subsidiaries. Shipping revenues at the company totaled ¥537,085 million (US$4,328 million) before eliminating intercompany accounts and transactions. Among subsidiaries, the primary contributors to shipping revenues are Blue Highway Line, Blue Highway Express, Tokyo Marine, M.O. Seaways, Mitsui O.S.K. Passenger Line, The

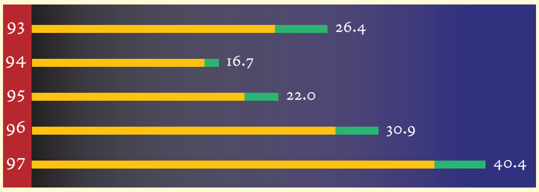
Diamond Ferry, International Container Terminal, and Trans Pacific Container Service (see page 25).

Operating Income by Segment
(%)



Note: Operating income is shown prior to intersegment eliminations.

Total Operating Income
(¥ billions)



Note: Operating income is shown prior to intersegment eliminations.

Others (Non-Shipping)—Fiscal 1996 revenues rose 18.0% to ¥115,012 million (US$927 million), unchanged at 14.8% as a share of shipping and other revenues. Segment operating income was up 20.9% to ¥4,579 million (US$37 million). In addition to the decline in the yen's value, this performance mainly reflects growth in revenues due to aggressive marketing efforts. The company accounts for only 2.1% of revenues in the others segment, entirely from real estate rental operations. Subsidiaries making substantial 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 Netherlands (see page 26).

Please refer to Note 10 of the Notes to consolidated financial statements for segment information (see page 47).

Other Income (Expense) and Net Income

Interest and dividend income decreased 8.9% to ¥4,255 million (US$34 million), mainly because of a decrease in interest receivable. Interest expense was up 11.8% to ¥37,843 million (US$305 million) as interest-bearing liabilities rose for investments in vessels. Others, net decreased 15.7% to ¥1,494 million (US$12 million). As a result, non-operating expense was ¥32,094 million (US$259 million) compared with a net expense of ¥27,393 million in the previous fiscal year.

Income before income taxes increased 57.1% to ¥4,066 million (US$33 million). This is mostly due to the increase in operating income, offset somewhat by the increase in net non-operating expense and a net special charge due to the decline in special credits resulting from gains on sales of vessels.

Equity in earnings of affiliated companies was up by ¥1,000 million to ¥5,024 million (US$40 million). This improvement is mainly attributable to strong performances at Gearbulk Holding, Burmah M.O.L. Transport, Daibiru and Liquimarine Gandria Chartering.

Consolidated net income rose 29.6% to ¥6,072 million (US$49 million), and net income per share was ¥5.49 (US$0.04). The return on equity (average of current and previous year ends) rose from 3.9% to 4.8%.

Overseas Operations

Deep sea shipping revenues account for most of the overseas revenues of the companies. Due to the weakening of the yen and the addition of a newly consolidated deep sea shipping subsidiary, fiscal 1996 revenues increased 19.4% to ¥618,138 million (US$4,981 million). This raised overseas revenues as a share of total revenues from 78.2% to 79.5%.

Operating and Financial Position Summary

Years ended March 31	Millions of yen 1997	1996	1995	1994
For the year:				
Revenues	**¥ 777,896**	¥ 662,046	¥ 635,284	¥ 608,641
Operating income	**38,605**	28,273	18,789	14,742
Net income (loss)	**6,072**	4,686	(4,424)	(5,980)
Depreciation and amortization	**61,766**	51,609	30,245	29,212
Net income (loss) per share of common stock (yen)	**5.49**	4.27	(4.03)	(5.50)
Net income and depreciation per share of common stock (yen)	**61.28**	51.25	23.54	21.37
At year end:				
Total assets	**¥1,190,871**	¥1,058,326	¥1,020,273	¥1,037,585
Long-term debt due after one year	**735,101**	632,778	591,485	545,168
Total shareholders' equity	**129,175**	123,514	118,555	133,997

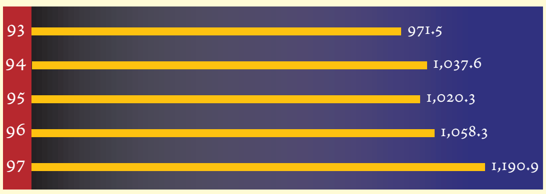
Financial Position

As of March 31, 1997, current assets amounted to ¥250,148 million (US$2,016 million), ¥38,787 million more than one year earlier. Cash and cash equivalents were up by 53.5%, or ¥14,357 million (US$116 million), mainly because of the inclusion of funds used to purchase the company's head office building on April 1, 1997. Trade accounts receivable rose 14.9%, or ¥11,432 million (US$92 million) as the yen's depreciation raised the value of U.S. dollar-denominated receivables. Marketable securities increased by 30.1%, or ¥10,595 million (US$85 million), as financial subsidiaries temporarily invested excess funds in short-term securities.

Vessels, property and equipment, at cost increased by 17.0%, or ¥104,522 million, to ¥718,194 million (US$5,787 million). Vessels rose 19.1%, or ¥156,203 million (US$1,259 million). This growth is primarily due to the inclusion of vessels held by newly consolidated shipowner companies, and to the inclusion of three new LNG vessels owned by the company. Buildings and structures increased by 3.5%, or ¥1,850 million (US$15 million). Equipment, mainly containers, was down by 3.4%, or ¥1,792 million (US$14 million). Land increased by 4.4%, or ¥1,605 million (US$13 million). Vessels and other property under construction rose by 12.6%, or ¥4,794 million (US$39 million), mainly due to the shipbuilding activities of the company, shipowner companies and Blue Highway Line.

Total assets at year-end amounted to ¥1,190,871 million (US$9,596 million), an increase of 12.5%, or ¥132,545 million. As the companies plan to limit future capital expenditures, growth in assets is expected to slow in fiscal 1997 and subsequent years.

Total Assets
(¥ billions)

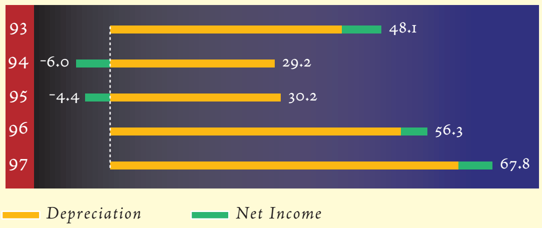


Current liabilities were up 7.8%, or ¥21,825 million, to ¥301,269 million (US$2,428 million). This resulted in a current ratio of 83%, compared with 76% one year earlier. Bank loans decreased by 39.4% and trade accounts payable were up 4.0%, or ¥2,744 million.

Long-term debt due after one year advanced 16.2%, or ¥102,323 million, to ¥735,101 million (US$5,923 million). This is chiefly a reflection of fund procurement activities to support the growth in vessels.

Shareholders' equity increased 4.6%, or ¥5,661 million, to ¥129,175 million (US$1,041 million), mainly because of higher retained earnings at the company. The equity ratio declined from 11.7% to 10.8%.

Cash Flows
(Net Income and Depreciation ¥ billions)



Fund Procurement Activities

Please refer to Note 5 of the Notes to consolidated financial statements for details on long-term debt.

Long-term fund procurement activities include loans and capital market issues. Including the current portion, long-term debt as of March 31, 1997 amounted to ¥847,262 million (US$6,827 million). This includes ¥147,074 million of bonds and other capital market instruments issued by the company, Euromol B.V. and Mitsui O.S.K. Finance in Japan and Europe. During fiscal 1996, these three companies jointly established a US$700 million Euro Medium-Term Note (EMTN) facility. This is the result of an additional US$200 million to the existing US$500 million facility already in place at Euromol B.V. and Mitsui O.S.K. Finance. As of March 31, 1997, there were US$188 million of such notes outstanding.

Capital Expenditures

In fiscal 1996, capital expenditures of the companies totaled ¥104,702 million (US$844 million). Capital expenditures at the company were ¥29,345 million (US$236 million), mainly for the construction of vessels. At subsidiaries, the construction of vessels was also the major component of capital expenditures.

Cash Flows

Cash and cash equivalents rose by ¥14,357 million to ¥41,216 million (US$332 million). This is mainly because of funds used by the company on April 1, 1997 to purchase its head office building from Mitsui Fudosan Co., Ltd., at a cost of approximately ¥37 billion (US$298 million). Net cash provided by operating activities increased by ¥14,707 million to ¥54,733 million (US$441 million). Net cash used in investing activities rose by ¥18,821 million to ¥86,667 million (US$698 million). Net cash provided by financing activities rose to ¥45,315 million (US$365 million) as the companies procured funds to support the increase in payments for vessels.

Consolidated Balance Sheets

Mitsui O.S.K. Lines March 31, 1997 and 1996

ASSETS	Millions of yen 1997	Millions of yen 1996	Thousands of U.S. dollars (Note 1) 1997
Current assets:			
Cash and cash equivalents	**¥ 41,216**	¥ 26,859	**$ 332,119**
Marketable securities (Notes 2, 4 and 5)	**45,756**	35,161	**368,703**
Trade accounts receivable	**88,017**	76,585	**709,243**
Allowance for doubtful accounts	**(359)**	(522)	**(2,893)**
Fuel and supplies	**9,129**	7,897	**73,562**
Deferred and prepaid expenses	**26,408**	25,940	**212,796**
Other current assets	**39,981**	39,441	**322,168**
Total current assets	**250,148**	211,361	**2,015,698**
Vessels, property and equipment, at cost (Note 5)**:**			
Vessels	**975,869**	819,666	**7,863,569**
Buildings and structures (Note 3)	**54,825**	52,975	**441,781**
Equipment, mainly containers	**51,660**	53,452	**416,277**
Land	**38,103**	36,498	**307,035**
Vessels and other property under construction	**42,722**	37,928	**344,255**
	1,163,179	1,000,519	**9,372,917**
Accumulated depreciation	**(444,985)**	(386,847)	**(3,585,697)**
	718,194	613,672	**5,787,220**
Investments and other assets:			
Investment securities (Note 5)	**113,219**	106,872	**912,321**
Investments in and advances to unconsolidated subsidiaries and affiliated companies	**71,548**	78,308	**576,535**
Other assets	**31,688**	36,076	**255,342**
	216,455	221,256	**1,744,198**
Translation adjustments	**6,074**	12,037	**48,944**
	¥1,190,871	¥1,058,326	**$ 9,596,060**

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1997	Millions of yen 1996	Thousands of U.S. dollars (Note 1) 1997
Current liabilities:			
Bank loans (Note 5)	**¥ 50,525**	¥ 83,379	**$ 407,131**
Long-term debt due within one year (Note 5)	**112,161**	65,945	**903,796**
Trade accounts payable	**71,278**	68,534	**574,360**
Advances received	**38,648**	36,459	**311,426**
Accrued income taxes	**2,886**	950	**23,255**
Other current liabilities	**25,771**	24,177	**207,663**
Total current liabilities	**301,269**	279,444	**2,427,631**
Long-term debt due after one year (Note 5)	**735,101**	632,778	**5,923,457**
Employees' retirement benefits	**9,941**	9,912	**80,105**
Other non-current liabilities	**7,864**	5,882	**63,368**
Minority interests	**7,521**	6,796	**60,605**
Contingent liabilities (Note 6)			
Shareholders' equity (Note 7):			
Common stock, par value ¥50 per share			
Authorized—3,178,000,000 shares			
Issued:			
1997—1,107,006,056 shares			
1996—1,106,997,254 shares	**58,737**	58,736	**473,304**
Additional paid-in capital	**43,648**	43,647	**351,716**
Legal reserve	**6,524**	6,524	**52,571**
Retained earnings	**20,269**	14,610	**163,328**
	129,178	123,517	**1,040,919**
Treasury stock, at cost	**(3)**	(3)	**(25)**
Total shareholders' equity	**129,175**	123,514	**1,040,894**
	¥1,190,871	¥1,058,326	**$9,596,060**

Consolidated Statements of Income

Mitsui O.S.K. Lines Years ended March 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1997	1996	**1997**
Shipping and other revenues (Note 10)	**¥777,896**	¥662,046	**$6,268,300**
Shipping and other expenses (Note 10):			
Vessel depreciation	**53,597**	44,384	**431,886**
Other expenses	**610,419**	515,069	**4,918,767**
	664,016	559,453	**5,350,653**
	113,880	102,593	**917,647**
General and administrative expenses (Note 10)	**75,275**	74,320	**606,567**
Operating income (Note 10)	**38,605**	28,273	**311,080**
Non-operating income (expense):			
Interest and dividend income	**4,255**	4,673	**34,287**
Interest expense	**(37,843)**	(33,839)	**(304,940)**
Others, net	**1,494**	1,773	**12,039**
	(32,094)	(27,393)	**(258,614)**
Income before special items and income taxes	**6,511**	880	**52,466**
Special credits (charges), net (Note 8)	**(2,445)**	1,708	**(19,702)**
Income before income taxes	**4,066**	2,588	**32,764**
Income taxes	**(3,128)**	(2,167)	**(25,205)**
	938	421	**7,559**
Minority interests	**170**	385	**1,370**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**5,024**	4,024	**40,483**
Amortization of excess of cost over net assets acquired	**(60)**	(144)	**(484)**
Net income	**¥ 6,072**	¥ 4,686	**$ 48,928**

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
Net income	**¥5.49**	¥4.27	**$0.044**
Net income—diluted	**5.48**	–	**0.044**
Cash dividends applicable to the year	**–**	–	**–**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Mitsui O.S.K. Lines   Years ended March 31, 1997 and 1996

	Shares of Common Stock (Thousands)	Millions of yen			
		Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1995	1,096,931	¥58,228	¥43,640	¥6,524	¥10,164
Due to change in consolidated subsidiaries					126
Due to change in affiliated companies accounted for by the equity method					44
Net income					4,686
Bonuses to directors and statutory auditors					(84)
Shares issued upon conversion of convertible bonds	66	8	7		
Shares issued upon merger of an affiliated company	10,000	500			
Translation adjustments					(326)
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**		
Balance at March 31, 1997	**1,107,006**	**¥58,737**	**¥43,648**	**¥6,524**	**¥20,269**

	Thousands of U.S. dollars (Note 1)			
	Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1996	**$473,296**	**$351,708**	**$52,571**	**$117,728**
Due to change in consolidated subsidiaries				**(3,151)**
Net income				**48,928**
Bonuses to directors and statutory auditors				**(177)**
Shares issued upon conversion of convertible bonds	**8**	**8**		
Balance at March 31, 1997	**$473,304**	**$351,716**	**$52,571**	**$163,328**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines   Years ended March 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1997	1996	**1997**
Cash flows from operating activities:			
Net income	**¥ 6,072**	¥ 4,686	**$ 48,928**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**61,766**	51,609	**497,712**
Loss on write-offs of securities and other investments	**377**	205	**3,038**
Gain on sale of vessels, property and equipment	**(1,800)**	(7,862)	**(14,504)**
Loss (gain) on sale of securities	**(142)**	2,088	**(1,144)**
Equity in earnings of unconsolidated subsidiaries and affiliated companies, net	**(5,024)**	(4,024)	**(40,483)**
Provision (reversal) of allowance for doubtful accounts	**(456)**	113	**(3,674)**
Changes in operating assets and liabilities:			
Trade accounts receivable	**(9,271)**	(12,860)	**(74,706)**
Fuel and supplies	**(919)**	(329)	**(7,405)**
Trade accounts payable	**(226)**	5,274	**(1,821)**
Accrued income taxes	**1,464**	(432)	**11,797**
Net decrease in assets and liabilities due to new consolidation of unconsolidated subsidiaries	**–**	4,132	**–**
Other, net	**2,892**	(2,574)	**23,301**
Net cash provided by operating activities	**54,733**	40,026	**441,039**
Cash flows from investing activities:			
Proceeds from sale of vessels, property and equipment	**14,954**	32,668	**120,500**
Payments for vessels, property and equipment	**(104,702)**	(106,146)	**(843,691)**
Proceeds from sale of securities and other investments	**28,972**	19,191	**233,457**
Purchase of securities and other investments	**(40,173)**	(9,737)	**(323,715)**
Collections of loans receivable	**15,573**	3,906	**125,488**
Disbursement of loans receivable	**(1,866)**	(11,921)	**(15,036)**
Net cash proceeds from new consolidation of unconsolidated subsidiaries	**1,641**	23	**13,223**
Net cash proceeds from merger of an affiliated company	**–**	7	**–**
Other	**(1,066)**	4,163	**(8,590)**
Net cash used in investing activities	**(86,667)**	(67,846)	**(698,364)**
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	**(35,708)**	4,103	**(287,736)**
Proceeds from long-term debt and issuance of bonds	**143,712**	91,392	**1,158,034**
Repayments of long-term debt	**(61,810)**	(66,511)	**(498,066)**
Repayments of bonds	**(879)**	(19,051)	**(7,083)**
Net cash provided by financing activities	**45,315**	9,933	**365,149**
Effect of exchange rate changes on cash and cash equivalents	**976**	1,038	**7,865**
Net increase (decrease) in cash and cash equivalents	**14,357**	(16,849)	**115,689**
Cash and cash equivalents at beginning of year	**26,859**	43,708	**216,430**
Cash and cash equivalents at end of year	**¥ 41,216**	¥ 26,859	**$ 332,119**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**¥ 37,718**	¥ 30,794	**$ 303,932**
Income taxes	**1,914**	2,059	**15,423**
Non-cash investing and financing activities:			
Conversion of convertible bonds into common stock	**2**	15	**16**
Merger of an affiliated company			
Assets acquired	**–**	2,803	**–**
Liabilities assumed	**–**	(2,303)	**–**
Issuance of common stock	**–**	(500)	**–**
Less cash acquired	**–**	(7)	**–**
Net cash received	**–**	7	**–**

See accompanying notes.

1. Basis of presenting financial statements

The Company, a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen in accordance with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been translated from the consolidated financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance of Japan.

In preparing the accompanying consolidated financial statements, certain modifications, including presentation of the consolidated statements of shareholders' equity and cash flows, have been made to facilitate understanding by readers outside Japan.

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, 1997, which was ¥124.10 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.

2. Summary of significant accounting policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of Mitsui O.S.K. Lines, Ltd. and 172 subsidiaries for the year ended March 31, 1997 (151 subsidiaries for the year ended March 31, 1996). All significant inter-company transactions and accounts have been eliminated.

Investments in 2 unconsolidated subsidiaries for the year ended March 31, 1997 and also 2 for 1996, and in each 22 affiliated companies for the year ended March 31, 1997 and 1996 are 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 (122 in the year ended March 31, 1997 and 118 in the preceding year) and affiliated companies (107 and 118 in the respective years) are stated at acquisition cost since equity in net income and earnings in such companies are not considered to be significant in view of their sizes.

(2) Translation of financial statements of foreign consolidated subsidiaries

(a) 1997

All accounts such as assets, liabilities, revenue and expense, and net income denominated in currencies other than Japanese yen are translated to Japanese yen at the year-end exchange rate, except for common stock, additional paid-in capital, legal reserve and retained earnings, which are translated at the historical rates.

Discrepancies due to application of the above different exchange rates are recorded as "Translation adjustments," in the consolidated balance sheets.

(b) 1996

All accounts such as assets, liabilities, revenue and expense, net income, and retained earnings denominated in currencies other than Japanese yen are translated to Japanese yen at the year-end exchange rate, except for common stock, additional paid-in capital and legal reserve, which are translated at the historical rates.

Discrepancies due to application of the above different exchange rates are recorded as "Translation adjustments," in the consolidated balance sheets.

(3) Cash and cash equivalents

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

(4) Vessel revenues and related expenses

Vessel revenues and the related voyage expenses are 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."

(5) Marketable securities and investment securities

Marketable securities and investment securities are stated at acquisition cost determined by the moving average method. In case the market value or net asset value of an investment is considered to fall permanently below 50% of the book value, 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 mainly by the declining-balance method.

Estimated useful lives are as follows:

Vessels	13–20 years
Containers	7 years

(8) Interest capitalization

In the event of a vessel's construction period being substantially long and amount of interest accruing in such a period being significantly large, such interest cost is capitalized as a part of acquisition cost.

(9) Employees' retirement benefits

The Company has tax-qualified pension plans covering all employees. On top of the money from the pension, an employee of sea service retiring earlier than certain age is entitled to a lump-sum payment from the Company, wherefore the Company sets up an unfunded reserve for the lump-sum payment.

Certain subsidiaries have tax-qualified pension plans which cover all or a part of the retirement benefits.

Several subsidiaries set up reserves for a lump-sum payment for retirement benefits.

(10) Accounting for certain lease transactions

Finance leases other than those, the contracts of which prescribe or are deemed to prescribe that the titles of the leased assets will be transferred to lessees upon completion of the lease periods are considered to be operating leases as provided for in the accounting principles generally accepted in Japan.

(11) Translation of currencies other than Japanese yen

Revenues and expenses in currencies other than Japanese yen are translated into Japanese yen at the spot rate prevailing on the last day of the month after which revenues are earned or expenses are incurred, or at the spot rate prevailing on the date of the transaction according to the policy of each company. Current monetary assets and liabilities denominated in currencies other than Japanese yen are translated into Japanese yen at the year-end rate, and non-monetary assets and liabilities are translated at their respective historical rates. If a forward currency exchange contract is concluded to cover a long-term debt in non-Japanese currency, the debt is translated into Japanese yen at the forward contract rate. Gain or loss arising from the difference between the forward contract rate and the historical rate applicable to a long-term debt is deemed an asset or liability which is to be amortized over the remaining period of the debt.

(12) Income taxes

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

Income taxes consist of corporation, inhabitant and enterprise taxes. The aggregate normal effective tax rate on income before income taxes was approximately 52% in 1997 and 1996 in Japan.

The difference between the actual effective tax rate and the aggregate normal effective tax rate is attributable primarily to the effect of temporary differences for accounting and tax purposes.

(13) 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. Diluted net income per share for the year ended March 31, 1996 was not presented since the outstanding convertible bonds had no dilutive effect.

Cash dividends per share represent the actual amount applicable to the respective years.

3. *Changes in accounting policies*

During the year ended March 31, 1996, the Company changed its depreciation method for buildings from the declining balance method to the straight-line method.

This change was made to better match investment costs with related lease income, based on the fact that the Company became a lessor , under long-term contracts, of warehouses in Tokyo and Osaka, which had been operated by the Company before.

Due to this change in the manner of operation, the ratio of leased-out property of the total buildings increased from approximately 20% to 60% and this would provide the Company with a stable return on investment over the coming years

This change resulted in a decrease in operating expenses of ¥553 million ($5,200 thousand) and an increase in income before taxes of the same amount for the year ended March 31, 1996.

Effect on the segment information is disclosed in Note 10 "Segment information."

4. *Market value information and derivatives (the Company only)*

(A) Marketable securities (unaudited for 1996)

At March 31, 1997 and 1996, book value, market value and unrealized gains of quoted securities were as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	**1997**
Current assets:			
Book value	**¥ 22,787**	¥ 23,883	**$ 183,618**
Market value	**41,221**	46,191	**332,160**
Unrealized gains	**18,434**	22,308	**148,542**
Investments and other assets:			
Book value	**73,034**	74,039	**588,509**
Market value	**154,027**	207,018	**1,241,152**
Unrealized gains	**80,993**	132,979	**652,643**
Total unrealized gains	**¥ 99,427**	¥155,287	**$ 801,185**

(B) Derivative transactions (Unaudited for 1996)

The Company enters into derivative transactions including forward currency exchange contracts mainly to hedge the Company's exposure to fluctuation of interest rates and currency exchange rates, to the extent decided by the management beforehand. The Company does not trade high-risk derivatives as leveraged transactions.

The contract amounts outstanding, market values and unrealized gains/losses of financial derivatives at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	**1997**
(1) Currency related			
Forward currency exchange contract			
Sell (U.S. dollar):			
Contract outstanding	¥ –	¥ 952	$ –
Market value	–	957	–
Unrealized gain (loss)	¥ –	¥ (5)	$ –
Buy (U.S. dollar, Canada dollar, Singapore dollar, Australia dollar):			
Contracts outstanding	¥ **109**	¥ 339	$ **878**
Market value	**109**	340	**878**
Unrealized gain (loss)	¥ **0**	¥ 1	$ **0**
Currency swap:			
Receive Yen, pay U.S. dollar	¥ **4,073**	¥ 4,430	$ **32,820**
Receive U.S. dollar, pay Yen	**5,000**	5,000	**40,290**

	Millions of yen		Thousands of U.S. dollars
	1997	1996	**1997**
(2) Interest related			
Interest swap:			
Receive floating, pay fixed	**¥132,940**	¥112,042	**$1,071,233**
Receive fixed, pay floating	¥ **64,582**	¥ 30,441	$ **520,403**
Interest cap:			
Buy	¥ **28,115**	¥ 20,079	$ **226,551**

	Millions of yen		Thousands of U.S. dollars
	1997	1996	**1997**
(3) Bond related			
Bond futures:			
Sell: Contracts outstanding	¥ –	¥ 237	$ –
Market value	–	238	–
Unrealized gain (loss)	¥ –	¥ (1)	$ –
Buy: Contracts outstanding	¥ –	¥ 238	$ –
Market value	–	238	–
Unrealized gain (loss)	¥ –	¥ 0	$ –

Market values and unrealized gains/losses of derivatives contracts are disclosed for derivatives traded on the exchanges and for forward foreign exchange contracts. But, they are not stated for other derivatives traded over-the-counter.

5. *Bank loans and long-term debt*

Bank loans at March 31, 1997 (¥50,525 million) and 1996 (¥83,379 million) were principally unsecured short-term loans. Long-term debt at March 31, 1997 and 1996 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Bonds:	**1997**	1996	**1997**
6.000% yen bonds due 1999	**¥ 15,000**	¥ 15,000	**$ 120,870**
3.900% yen bonds due 2000	**30,000**	30,000	**241,741**
2.350% yen bonds due 2002	**10,000**	–	**80,580**
2.750% yen bonds due 2004	**10,000**	–	**80,580**
3.025% yen bonds due 2006	**10,000**	–	**80,580**
3.075% yen bonds due 2007	**10,000**	–	**80,580**
3.250% yen bonds due 2009	**10,000**	–	**80,580**
3.500% domestic convertible bonds due 1998	**1,161**	1,163	**9,356**
Floating rate yen notes due 1997	**15,000**	15,000	**120,870**
Floating/fixed rate yen notes due 2004	**1,000**	–	**8,058**
9.0% Nikkei-linked bonds due 1999	**7,570**	6,745	**60,999**
10.0% U.S. Treasury-linked bonds due 2000	**3,997**	3,562	**32,208**
Floating/fixed rate Euro medium term notes due 1996-2004	**23,346**	20,110	**188,122**
Secured loans from:			
Japan Development Bank due through 2015 at interest rates of 2.00% to 8.50%	**90,719**	88,781	**731,016**
Other banks due through 2023 at interest rates of 0.75% to 8.50%	**96,185**	56,624	**775,061**
Unsecured loans from:			
Unsecured bank loans due through 2032 at interest rates of 0.20% to 7.30%	**513,284**	461,738	**4,136,052**
	847,262	698,723	**6,827,253**
Amount due within one year	**112,161**	65,945	**903,796**
	¥735,101	¥632,778	**$5,923,457**

The indenture covering the 3.5% convertible bonds provides, among other conditions, for conversion into shares of common stock at the current conversion price per share of ¥227.20 ($1.83), (subject to change in certain circumstances). At March 31, 1997, 5,110 thousand additional shares of common stock would have been issued upon full conversion of outstanding convertible bonds at the current conversion price.

At March 31, 1997, the aggregate annual maturities of long-term debt were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1998	¥112,161	$ 903,796
1999	80,817	651,225
2000	142,506	1,148,316
2001	118,429	954,303
2002	78,932	636,035
2003 and thereafter	314,417	2,533,578
	¥847,262	**$6,827,253**

Secured loans are secured by mortgages on vessels, other property, marketable securities and investment securities.

6. *Contingent liabilities*

At March 31, 1997, the Company and consolidated subdiaries were contingently liable mainly as guarantors or co-guarantors of indebtedness of related and other companies in the aggregate amount of ¥96,880 million ($780,661 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 loan for construction of specified vessels. The subsidies should have been refunded if the Company's net income had exceeded the amount of 13% of the common stock 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.

7. *Shareholders' equity*

In accordance with the Commercial Code of Japan (the "Code"), certain issues of shares of common stock, including conversions of convertible bonds and exercise of warrants, are required to be credited to the common stock account to the extent of the greater of par value or 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to additional paid-in capital.

The Code stipulates that an amount equal to at least 10% of cash dividends paid and bonuses to directors be appropriated to the legal reserve until such reserve equals 25% of the common stock. This reserve is not available for dividends but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

8. *Special credits (charges), net*

For the year ended March 31, 1997 and 1996, special credits (charges), net were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	**1997**
Gain on sale of vessels, investment securities and others	**¥ 6,419**	¥8,573	**$51,724**
Loss on sale and disposal of vessels, investment securities and others	**(4,550)**	(1,857)	**(36,664)**
Amortization of past service costs of pension plan	**(1,728)**	(1,751)	**(13,924)**
Loss on cancellation of money in trust	**–**	(1,018)	**–**
Loss on write-offs of securities and other investments	**(377)**	(205)	**(3,038)**
Special retirement	**(640)**	(370)	**(5,157)**
Earthquake damage	**–**	(574)	**–**
Others	**(1,569)**	(1,090)	**(12,643)**
	¥(2,445)	¥1,708	**$(19,702)**

9. *Leases*

Certain information for finance leases, which are accounted for in the manner as operating leases, for the year ended March 31, 1997, is as follows:

	Millions of yen	Thousands of U.S. dollars
Lease payments	¥11,429	$92,095
Lease income	298	2,401

This information is required to be disclosed with effect from 1997.

10. *Segment information*

(A) Business segment information

The Companies' business segments are divided into shipping and others.

A summary of net sales, operating expenses and operating income by segment of business activities for the years ended March 31, 1997 and 1996 is as follows:

For the year ended March 31, 1997:	Millions of yen			
	Shipping	Others	Elimination	Consolidated
1. Revenues				
(1) Revenues from outside 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
2. Operating expenses	627,804	119,952	(8,465)	739,291
Operating income	¥ 35,864	¥ 4,579	¥ (1,838)	¥ 38,605
3. Assets, depreciation and capital expenditure:				
(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, 1996:	Millions of yen			
	Shipping	Others	Elimination	Consolidated
1. Revenues				
(1) Revenues from outside customers, unconsolidated subsidiaries and affiliated companies	¥564,591	¥ 97,455	¥ –	¥ 662,046
(2) Inter-segment revenues	775	11,090	(11,865)	–
Total revenues	565,366	108,545	(11,865)	662,046
2. Operating expenses	538,240	104,757	(9,224)	633,773
Operating income	¥ 27,126	¥ 3,788	¥ (2,641)	¥ 28,273
3. Assets, depreciation and capital expenditure:				
(1) Assets	¥888,194	¥170,132	¥ –	¥1,058,326
(2) Depreciation	47,059	1,998	–	49,057
(3) Capital expenditures	112,172	3,136	–	115,308

The change in accounting for depreciation in 1996, as described in Note 3, resulted in a decrease in operating expenses in the "other" segment by ¥553 million ($5,200 thousand) and an increase in operating income by the same amount.

For the year ended March 31, 1997:	Thousands of U.S. dollars			
	Shipping	Others	Elimination	Consolidated
1. Revenues				
(1) Revenues from outside customers, unconsolidated subsidiaries and affiliated companies	$5,341,531	$ 926,769	$ –	$6,268,300
(2) Inter-segment revenues	6,318	76,704	(83,022)	–
Total revenues	5,347,849	1,003,473	(83,022)	6,268,300
2. Operating expenses	5,058,856	966,575	(68,211)	5,957,220
Operating income	$ 288,993	$ 36,898	$(14,811)	$ 311,080
3. Assets, depreciation and capital expenditure:				
(1) Assets	$8,187,220	$1,408,840	$ –	$9,596,060
(2) Depreciation	453,666	15,915	–	469,581
(3) Capital expenditures	832,466	11,225	–	843,691

(B) Geographical segment information

For the year ended March 31, 1997:	Millions of yen			
	Domestic	Overseas	Elimination	Consolidated
1. Revenues				
(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
2. Operating expenses	699,490	76,844	(37,043)	739,291
Operating income	¥ 38,154	¥ 3,106	¥ (2,655)	¥ 38,605
3. Assets	¥1,124,239	¥66,632	¥ –	¥1,190,871

For the year ended March 31, 1996:	Millions of yen			
	Domestic	Overseas	Elimination	Consolidated
1. Revenues				
(1) Revenues from outside customers, unconsolidated subsidiaries and affiliated companies	¥626,091	¥35,955	¥ –	¥ 662,046
(2) Inter-segment revenues	2,649	33,279	(35,928)	–
Total revenues	628,740	69,234	(35,928)	662,046
2. Operating expenses	600,597	66,614	(33,438)	633,773
Operating income	¥ 28,143	¥ 2,620	¥ (2,490)	¥ 28,273
3. Assets	¥993,044	¥65,282	¥ –	¥1,058,326

The change in accounting for depreciation in 1996, as described in Note 3, resulted in a decrease in operating expenses in the "domestic" segment by ¥553 million ($5,200 thousand) and an increase in operating income by the same amount.

For the year ended March 31, 1997:	Thousands of U.S. dollars			
	Domestic	Overseas	Elimination	Consolidated
1. Revenues				
(1) Revenues from outside customers, unconsolidated subsidiaries and affiliated companies	$5,921,773	$346,527	$ –	$6,268,300
(2) Inter-segment revenues	22,176	297,712	(319,888)	–
Total revenues	5,943,949	644,239	(319,888)	6,268,300
2. Operating expenses	5,636,503	619,211	(298,494)	5,957,220
Operating income	$ 307,446	$ 25,028	$(21,394)	$ 311,080
3. Assets	$9,059,138	$536,922	$ –	$9,596,060

(C) International business information

Revenues from international business, which mainly consist of ocean-going vessel and voyage revenues, were ¥618,138 million ($4,980,967 thousand) and accounted for 79.5% of consolidated revenues for the year ended March 31, 1997. Comparable figures for the year ended March 31, 1996 were ¥517,488 million and 78.2%, respectively.

Report of Independent Public Accountants

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, 1997 and 1996, 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, 1997 and 1996, 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 except for the change in 1996, with which we concur, in accounting policies as described in Note 3.

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

Auditors-Asahi & Co.-A member Firm of Andersen Worldwide.

Tokyo, Japan
June 27, 1997

The MOL Group

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

Segment		Company	Registered office	MOL's Ownership (%)	Paid-in Capital (Millions)
Marine Transportation	■	International Marine Transport Co., Ltd.	JAPAN	58.55	¥500.0
	■	Mitsui Kinkai Kisen Co., Ltd.	JAPAN	61.85	¥350.0
	■	Mitsui O.S.K. Passenger Line, Ltd.	JAPAN	51.00	¥2,000.0
	■	M.O. Cableship	JAPAN	100.00	¥10.0
	■	MOL-NIC Transport Ltd.	LIBERIA	80.00	US$40.0
	■	M.O. Seaways, Ltd.	JAPAN	98.83	¥660.0
	■	Tokyo Chemical Tanker Co., Ltd.	JAPAN	55.00	¥200.0
	■	Tokyo Marine Co., Ltd.	JAPAN	51.33	¥300.0
	■	White Night Investment Ltd.	LIBERIA	100.00	US$5.0
	▲	Act Maritime Co., Ltd.	JAPAN	49.00	¥90.0
	▲	Asahi Tanker Co., Ltd.	JAPAN	24.75	¥400.3
	▲	Burmah LNG Shipping Inc.	U.S.A.	40.00	US$0.001
	▲	Burmah M.O.L. Transport Ltd.	VIRGIN ISL.	50.00	US$0.01
	▲	Daiichi Chuo Kisen Kaisha	JAPAN	20.97	¥13,258.4
	▲	Gearbulk Holding Ltd.	BERMUDA	40.00	US$260.0
	▲	International Energy Transport Co., Ltd.	JAPAN	45.18	¥1,224.0
	▲	Inui Steamship Co., Ltd.	JAPAN	24.80	¥1,250.0
	▲	Liquimarine Gandria Chartering Co., Ltd.	GRAND CAYMAN	50.00	US$10.0
	▲	Methane Carriers Ltd.	BAHAMAS	50.00	US$0.5
	▲	Osaka Shipping Co., Ltd.	JAPAN	30.12	¥498.0
	▲	Silent Breeze Maritime Ltd.	LIBERIA	49.75	US$4.5
	■	shipowner companies (91 companies) in Panama, Liberia, Hong Kong, Singapore, Bahamas, Grand Cayman			
Harbor Transportation and Terminal Operation	■	International Container Terminal Ltd.	JAPAN	99.28	¥700.0
	■	Jumbo Container Transport Co., Ltd.	HONG KONG	51.00	HK$5.0
	■	Kitanihon Soko Koun Co., Ltd.	JAPAN	95.41	¥179.5
	■	MOL Intermodal, Inc.	U.S.A.	100	US$0.04
	■	The Shosen Koun Co., Ltd	JAPAN	78.32	¥300.0
	■	Tomakomai Hokusou Koun Kaisha Ltd.	JAPAN	90.00	¥60.0
	■	Trans Pacific Container Service Corp.	U.S.A.	100.00	US$3.0
	■	Tyne Logistics Co., Ltd.	U.K.	100.00	£0.04
	▲	International Container Transport, Co., Ltd.	JAPAN	48.00	¥199.0
	▲	Seitetsu Unyu Co., Ltd.	JAPAN	20.00	¥2,000.0
	▲	Utoku Express Co., Ltd.	JAPAN	22.31	¥1,455.3
Shipping Agents	■	Chugoku Shipping Agencies Ltd.	JAPAN	80.00	¥10.0
	■	Mitsui O.S.K. Bulk Shipping (U.S.A.), Inc.	U.S.A.	100.00	US$0.2
	■	Mitsui O.S.K. Lines Agencies (Kobe) Ltd.	JAPAN	100.00	¥10.0
	■	Mitsui O.S.K. Lines Agencies (Yokohama) Ltd.	JAPAN	100.00	¥10.0
	■	Mitsui O.S.K. Lines (America) Inc.	U.S.A.	100.00	US$0.006
	■	Mitsui O.S.K. Lines (Austria) GmbH	AUSTRIA	100.00	ATS0.5
	■	Mitsui O.S.K. Lines (Deutschland) GmbH	GERMANY	95.00	DM0.5
	■	Mitsui O.S.K. Lines (Europe) Ltd.	U.K.	100.00	£1.5
	■	Mitsui O.S.K. Lines (H.K.) Ltd.	HONG KONG	100.00	HK$40.0
	■	Mitsui O.S.K. Lines (SEA) Pte. Ltd.	SINGAPORE	100.00	S$0.2
	▲	Mitsui O.S.K. Lines (Singapore) Pte. Ltd.	SINGAPORE	50.00	S$5.0
	▲	Mitsui O.S.K. Lines (Thailand) Co., Ltd.	THAILAND	47.00	B20.0
Ferry Transportation and Related Business	■	Blue Highway Line Corporation	JAPAN	50.22	¥1,410.0
	■	Blue Highway Service	JAPAN	100.00	¥30.0
	■	Diamond Line K.K.	JAPAN	100.00	¥20.0
	■	Ehime Hanshin Ferry Co., Ltd.	JAPAN	100.00	¥300.0
	■	Kitanihon Kosan K.K.	JAPAN	100.00	¥320.0
	■	Muroto Kisen K.K.	JAPAN	99.84	¥300.0
	■	The Diamond Ferry Co., Ltd.	JAPAN	65.35	¥900.0
	▲	Kyodo Kisen Kaisha, Ltd.	JAPAN	39.00	¥500.0
	▲	Kyushu Kyuko Ferry Co., Ltd.	JAPAN	47.00	¥840.0
	▲	Meimon-Taiyo Ferry Co., Ltd.	JAPAN	32.13	¥880.0

			Registered office	MOL's Ownership (%)	Paid-in Capital (Millions)
Ship Supplies and Repair	■	Mitline Hong Kong Ltd.	HONG KONG	100.00	HK$0.02
	■	Mitsui O.S.K. Kogyo Kaisha, Ltd.	JAPAN	80.10	¥540.0
	■	Nippon Engineering & Machineries Co., Ltd.	JAPAN	100.00	¥60.0
Air Cargo Transportation and Travel Agents	■	M.O. Air International (H.K.) Ltd.	HONG KONG	100.00	HK$3.2
	■	M.O. Air International, Inc.	U.S.A.	100.00	US$2.8
	■	M.O. Air International (Singapore) Pte. Ltd.	SINGAPORE	51.00	S$0.7
	■	M.O. Air International (UK) Ltd.	U.K.	100.00	£0.4
	■	M.O. Air System, Inc.	JAPAN	52.00	¥756.3
Tugboat Operation	■	Kyushu Tugboat Co., Ltd.	JAPAN	90.00	¥90.0
	■	Nihon Tug-Boat Co., Ltd.	JAPAN	50.45	¥120.0
Harbor Construction and Dredging	■	Kusakabe Maritime Engineering Co., Ltd.	JAPAN	80.00	¥200.0
	●	Shosen Mitsui Kaiji Co., Ltd.	JAPAN	100.00	¥95.0
Land Transportation, Warehousing, and Logistics Service	■	AMT Freight GmbH Spedition	GERMANY	100.00	DM0.05
	■	AMT Freight, Inc.	U.S.A.	100.00	US$6.0
	■	Blue Highway Express K.K.	JAPAN	100.00	¥218.4
	■	Cougar Logistics (Singapore) Pte., Ltd.	SINGAPORE	52.50	S$3.6
	■	Euloc B.V.	NETHERLANDS	100.00	DGL8.0
	■	Hermex Distribution B.V.	NETHERLANDS	100.00	DGL0.5
	■	Hong Kong Logistics Co., Ltd.	HONG KONG	100.00	HK$58.6
	■	Japan Express Co., Ltd. (Kobe)	JAPAN	86.27	¥102.0
	■	Japan Express Co., Ltd. (Yokohama)	JAPAN	93.94	¥235.0
	■	Japan Express Konpou K.K.	JAPAN	100.00	¥10.0
	■	Japan Express Unyu K.K.	JAPAN	100.00	¥50.0
	■	J. Wassing Administratie-En Expeditiekantoor B.V.	NETHERLANDS	100.00	DGL0.04
	■	Kitaichi Truck K.K.	JAPAN	100.00	¥20.0
	■	Mitsui O.S.K. Express International B.V.	NETHERLANDS	100.00	DGL0.7
	■	M.O. Logistics Netherlands B.V.	NETHERLANDS	100.00	DGL0.9
	■	Wassing B.V.	NETHERLANDS	100.00	DGL5.0
	■	Wassing UK Ltd.	U.K.	100.00	£0.01
	▲	J.F. Hillebrand GmbH	GERMANY	50.00	DM1.0
Office Rental and Real Estate	■	Santo Tatemono Service	JAPAN	100.00	¥10.0
	■	Shokusan Kogyo. Ltd.	JAPAN	100.00	¥10.0
	■	Shosen Mitsui Kosan Co., Ltd.	JAPAN	89.47	¥380.0
	▲	Daibiru Corporation	JAPAN	27.06	¥12,227.8
Finance and Insurance	■	Euromol B.V.	NETHERLANDS	100.00	DGL18.6
	■	Linkman Holdings Inc.	LIBERIA	100.00	US$0.003
	■	Mitsui O.S.K. Finance Plc.	U.K.	100.00	US$6.6
	■	Mitsui O.S.K. LNG Transport (Bermuda) Ltd.	BERMUDA	100.00	US$0.01
	■	MOL FG, Inc.	U.S.A.	100.00	US$0.02
	■	MOL International S.A.	LUXEMBOURG	100.00	US$11.0
	■	MOL SI, INC.	U.S.A.	100.00	US$0.1
	●	M.O. Reinsurance S.A.	LUXEMBOURG	100.00	US$5.4
Ship Management and Manning	■	Mitsui O.S.K. Manning Service S.A.	PANAMA	100.00	US$0.004
	■	M.O. Ship Management Co., Ltd.	JAPAN	100.00	¥50.0
	■	M.O. Ship Tech Inc.	JAPAN	100.00	¥50.0
Information Systems	■	Combined Data Resource, Inc.	U.S.A.	98.33	US$3.0
	■	MOL Information Systems. Ltd.	JAPAN	100.00	¥100.0
Other Business	■	Arabian Marine Bunker Sales Co., Ltd.	BERMUDA	90.00	US$13.4
	■	International Transportation Inc.	U.S.A.	100.00	US$0.1
	■	Mitsui Line Kouyu K.K.	JAPAN	100.00	¥0.02
	■	Mitsui O.S.K. Holdings (Benelux) B.V.	NETHERLANDS	100.00	DGL38.0

Shareholder Information

As of March 31, 1997

Founded:	1884
Capital:	¥58,736,821,818
Head Office:	1-1, Toranomon 2-chome, Minato-ku, Tokyo 105, Japan
Number of MOL employees:	1,760
Number of MOL Group employees:	15,000
Total number of shares authorized:	3,178,000,000
Number of shares issued:	1,107,006,056
Number of shareholders:	93,397
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, Japan
Communications materials:	Annual report (English) News releases (English) Quarterly newsletter *Open Sea* (English) Monthly newsletter *Unabara* (Japanese) Annual *Review and Outlook of World Shipping Market* (English and Japanese)
For further information, please contact:	Publicity Office Mitsui O.S.K. Lines, Ltd. 1-1, Toranomon 2-chome, Minato-ku, Tokyo 105, Japan Telephone: 81-3-3587-7015 Facsimile: 81-3-3587-7705 Telex: J22266 AAB MOLINE

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Long Beach: Tel. 1-562-983-6200 Fax. 1-562-983-6292
Seattle: Tel. 1-206-464-3930 Fax. 1-206-654-7991
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