Operation Overview and Strategy Summary
Information Meeting
December 1, 2006

Leader 30:51
I am glad to see you all here despite your tight schedule. Now, I am going to explain our business and strategy.

Let me start with business environment surrounding the non-life insurance industry in Japan. The domestic non-life insurance market in Japan superficially reflects recovery of the Japanese economy, but it seems difficult to surpass growth rate of the Japanese economy in our opinion. As a problem common throughout the industry, claims handling service of non-life insurers have been left far behind social and customers' expectations. MSI as well as all peers have come under severe criticism. On June 21st, MSI received an administrative dispositions [from the Financial Services Agency of Japan] for the reason of unsatisfactory performance in respect of the claims payment administration, product development, complaints handling systems and legal compliance and other systems, and was ordered to suspend certain business. Taking it seriously, we formulated a business improvement plan made of remedies urgently needed and began implementing it to make a re-start. Today, I would like to report to you what we think of the aforementioned business environment and disposition, what actions we actually decided to take in response and the progress of them at this moment.

We have been implementing business improvement plan for specific problems which need urgent remedies as shown on the screen. Also please refer to the footnote later for what we have done in detail. We place the business improvement plan as a framework for solving these specific problems, and have steadily been stepping forward according to the plan. The vital point is nothing else but whether or not we succeed in making ourselves "a company that puts the first priority on customers' views." There are two entities that are achieving those important roles. The first one is the New Group Vision Promotion Headquarters. The headquarters are going to formulate a new group vision by next March, along which we will change ourselves not only nominally but substantially, taking time to develop it. The second one is a new corporate culture creation project, in which all employees participate. We call it *Tsukuru Kawaru* Project [meaning a create-and-change project in Japanese] within ourselves. The project gathers and summarizes suggestions from employees for a new vision with intention to assure open-minded atmosphere and help close communications within the organization. Actually, I devote myself very much to the Meet-the-Management campaign, shown in the bottom box on the slide, in addition to developing the new vision. In this campaign, executive officers in Head office, including me, go to an office, whether in Japan or abroad, and have a meeting to directly exchange opinions with local staff there. 118 meetings have already been held so far.

The next slide illustrates the program for developing the new vision. In addition to the Meet-the-Management campaign I have just finished, workplace meetings held at each organization unit and a proposal project that provides a board on the corporate intranet. Proposals received broadly in these three will be summarized on an agenda for the management meeting to formulate the new vision. These activities aim at spontaneous participation of employees and thorough permeation of the new vision among employees by way of such participation. The goal is to be “a company that puts the first priority on customers’ views.” “Customers’ view” referred to here means those of not only our policyholders but consumers or people of ordinary life that the first priority should be put on in general in various judgments to be made in various aspects of our operations, and we all at MSI determine to make it into practice. I am convinced that, in the end, these efforts will lead us towards better our corporate quality and generate a real cutting edge for survival in the intense competition of these days. Challenge Ten in the footnote is now under discussion again in respect of positioning of the targets in the new vision.

Now I move to impact of the administrative dispositions. The upper box of the slide describes the operations actually ordered to suspend. Certain part of the third-sector product sale and applications for approval and notifications regarding insurance products are still subject to the suspension order. The lower chart shows trend of monthly accumulated premiums of general lines on a sales basis, including forecast. And besides, non-consolidated net premiums written are forecast to drop 2.1 percent. Naturally it is partly because of negative impact of the business administrative dispositions, as Mr. Ikeda explained earlier. But it is rather due to the structural reform which we are undertaking for raising sales network to a proper quality level, taking this opportunity. Impacts on payout and expenses are, in our view, trivial in comparison with that on premium income.

The forecast for the full term of fiscal 2006 was reported, as earlier explained, within the announcement of the results for the ended interim. Let me compare the full year forecast with the targets planned in the Challenge Ten of the Stage One. Consolidated net premiums written will make up for a drop at MSI due to the administrative dispositions and secure a 0.4 percent increase. Group Core Profit is expected to fall, compared to a year ago, but benefit from large contributions of the overseas and life insurance business.

Non-consolidation forecast is as shown on the slide. Combined ratio is expected to rise due to higher loss ratio. Let us go next for a detailed explanation of the automobile insurance line, the largest product line, in respect of payouts and company expenses.

First, loss ratio of the automobile line. Incurred-to-earned loss ratio was planned to drop 2.4 percent in the pre-year forecast as shown in the bottom half, but it is expected to rise 2.3 percent at this moment mainly because of the number of accidents increasing [faster]. As our analysis of the rise in loss ratio is shown in the material, the most significant reason is the number of accident on first party injury protection increasing [beyond the pre-year forecast]. Although a policyholder used to file claims after reaching a private settlement with the responsible party in most of first party injury protection cases, we have changed it to register a claim upon the first report of an accident from a policyholder, and this change accounts much for increasing accidents. Besides, we will afforded to give underwriting guidance to agents who have reported high loss ratio for years as well as accident prevention advice to fleet clients with high loss ratio, though we had planned to do it. We regard it as one of the most critical issues to improve loss ratio of the automobile line to a reasonable level. As shown on the slide, we will raise awareness of agents against loss, and simultaneously promote underwriting guidance and accident prevention activity. By all these attempts, we will make loss ratio to a reasonable level. Although we will intensively promote these specific activities for the second fiscal half year, we expect the negative effect [on loss ratio] somewhat inevitable. Watching carefully outcome of all these, we will then take measures in the product reform, including revising the premium table.

Net expense ratio is forecasted as shown on the slide. First, as for agent commissions paid, shown in the lower box. Although we gave sole agents special fee points to make up for their losses during the business suspension period, we expect that agent fees will trend as the plan. However, we forecast that underwriting company expense ratio will be 15.4 [fifteen point four] percent, 0.7 [zero point seven] percentage points higher than the original plan of 14.7 [fourteen point seven] percent. In addition to the pre-year plan which includes expenses related to the Five Reforms, we decided to invest about five billion yen for the necessity to promptly execute the Customers' Viewpoint service improvements. We continue to invest management resources for corporate quality improvement, mainly in the online systems, for some years. We are convinced that this investment is requisite for keeping infrastructure updated in order to sustainably and effectively provide our best service to customers in the changing business environment to the future. Please remember, this is a prior investment, not recurring but one time only, and please understand it necessary for us to be more trustworthy company.

The next slide explains the principles in the Product Reform. We have discussed an approach to make the product development system cross-divisional as part of the Five Reforms since last year. The product development system was reviewed for opening a permanent reporting channel to the Board of Directors this September. The discussion has been going on, currently seeking for a closer control in the cross-divisional development process. As a part, the Product Division was established on October 1st. The mission given to this division is development and supply of products easy for customers to understand above all. Under this new product development system, we will pave way towards better corporate quality.

Next topic is the Sales Network Reform. Since we commenced this reform in fiscal 2003 [two thousand and three], a great progress has been made. From this second fiscal half year, we drive this activity faster to build up a sales network which is able to offer better service from Customers' Viewpoint. First in respect of the top-tier agents, who generate about 70 [seventy] percent of MSI's premium income, we ask to continue their effort to improve service quality, using *Anshin Otodoke-bin*, customized direct mail service, and others for customers. Simultaneously, both top-tier and mid-tier agents are advised to pursue to be upgrade as a large-scale agent or incorporation. We have positively opened new agents of high service quality, and will continue to do it. Besides, particularly in respect of small-scale tier agents and those who are not accountable enough in service to customers, we preemptively make them absorbed by others or dismiss them for the second half year.

In reference to responsibilities to customers, returning to a basic point, we confirm the "basic cycle of insurance" as shown on the slide, and will ensure agency operation according to it. Currently a fundamental program is implemented to embed this activity cycle at all agents and will be finished by March 2007.

Now I move to the life insurance business, another core business of the MSI group. Mitsui Sumitomo Kirameki Life Insurance celebrates its tenth anniversary this year. For this decade, Kirameki increased its amount in force to eight trillion yen as of September 30th. Kirameki not only released a commemorative insurance product but reinforced sales staff. Its earnings increased smoothly to 3.5 [three point five] billion yen in effective net income, net income before provision for policy reserves for standard underwriting reserve, for the ended interim

Mitsui Sumitomo MetLife Insurance, our variable annuity insurance arm, follows Kirameki. Four years have passed since MS MetLife started its operation. It has successfully expanded its business for this period and come to retain 1.9 [one point nine] trillion yen of insurance in force as of September 30th. It reported 4.1 [four point one] billion yen in net income under the U.S. GAAP for the ended interim, 0.8 [zero point eight] billion yen higher than a year before. We hold its half stake, so equity in earnings is two billion yen as shown on the slide.

Now, this chart is our outlook of growth of the individual annuity market in Japan. Although growth rate is lower this year than in the prior years, as you know, we expect that the market keeps growing at five percent or higher annually, backed by continuous cash flows of individuals into investment products. MS MetLife will use expertise introduced from Met Life from the U.S., drawing on its advantage of being a joint venture of the U.S. leading insurer. To strengthen sales promotion, MS MetLife has 59 [fifty nine] distribution channels of bank over-the-counter sales and will open more channels. For this specific purpose, we dispatch a team called “Wholesaler” which assists sales activity to each bank OTC base. The team teaches the sales staff of the bank what and how to make a necessary explanation appropriately to customers there. We will strengthen the function of this support.

Here is now the overseas business. The chart you see shows performances of three regional operations and a reinsurance one abroad by net premiums written and net income. Net income in total was minus 1.4 [one point four] billion yen for fiscal 2005 [two thousand and five] mainly due to Hurricane Katrina, but sharply recovered to 5.2 [five point two] billion yen for the ended interim. We forecast that it will be10.2 [ten point two] billion yen for this full year. The interim net income and the full year forecast include 2.2 billion yen and 3.5 billion yen, respectively, in sum of those from the former Aviva operation and Mingtai Fire and Marine, whose earnings for a full year will be booked from this year. Net premiums written are also expected to rise 21.2 [twenty-one point two] percent from a year before. In terms of earnings by region, while the Asian operation will lead the overseas business, the reinsurance will make a rapid recovery.

The next slide is an overview of our global expansion by region. MSI has an advantage of worldwide business network, and continues to proactively use it in order to extend its risk management services to Japanese clientele abroad as well as explore local markets in Europe and in Asia. Particularly in Asia, insurance demand is expected to grow very much. MSI has a solid presence as a top-tier insurer in each of the major local markets in Asia. We continue to not only cultivate local markets but contribute ourselves to their growth. We are also positive to acquisition of an excellent local insurer. In the reinsurance operation, we made a capital injection of 100 [one hundred] million dollars to MS Frontier Reinsurance in this October, raising its capital from 200 [two hundred] to 300 [three hundred] million dollars. On this stronger capital base, MS Frontier

Re will underwrite more deals. Besides, we will strengthen legal compliance system in each overseas office as well as the head office will enhance the system to govern overseas office. Thus the entire group will improve internal control system.

Move on to investment management, please. Interest and dividend income increased to 65.4 [sixty-five point four] billion yen, ten billion yen higher than a year before. It is mainly because dividends received increased due to recovery of corporate earnings and coupons from euro denominated foreign bonds rose in yen value due to strong euro. To the contrary, net investment income fell 1.2 [one point two] billion yen from a year before due to decreased gains on equities sold. Investment assets also dropped to 7,094.7 [seven thousand ninety four point seven] billion yen, 105.4 [one hundred and five point four] billion yen lower than that at the end of last fiscal year, because market value of the Japanese equity portfolio decreased due to lower stock prices. On the next slide, I will explain investment principles.

As a basic policy in the investment management, we put priority on asset liability management to secure assets in safety and stabilize return. Under the policy, we are lengthening average life of interest bearing yen denominated assets and are hedging interest rate risks from liabilities so that we can reduce overall interest rate risk. Simultaneously, we are constantly reducing equities held for corporate customer relationship purpose to decrease risk exposure to Japanese equities, and reallocating the proceeds to credit risk assets such as personal loans as well as alternative investments, including hedge funds. We stick to this policy for the second half year. Just for information, regarding impact of interest rate hike, one percentage point rise in both short and long term interest rates would decrease market value of assets about 150 [one hundred and fifty] billion yen and liabilities of general account and segregated account also decrease about 180 [one hundred and eighty] billion yen. As a result, there would be a positive effect of about 30 billion yen on a stock basis. As for flows, net interest and dividend income would increase about one billion yen for a half year.

Now I move to capitalization policy. As for distributing return to shareholders, MSI intends to return about forty percent of Group Core Profit by way of cash dividends and buyback of its own shares. We basically intend to continuously increase cash dividend per share. We plan a six yen dividend per share for the ended interim, two yen higher than a year before. We will constantly but flexibly buy back our own shares, watching supply-demand balance and share price movement in the stock market.

Next I explain an idea of net excess capital. The image you see now illustrates comparison of market value of our net asset and total risk exposure. According to calculation by our original measurement as of March 31, 2006 [two thousand and six], consolidated net asset value amounts about three trillion yen while total risk exposure about 1.2 [one point two] trillion yen by value at risk measured at 99 [ninety nine] percentile probability level over a year. In addition to this, putting a buffer amount for unpredictable risks aside, the net margin left behind is the net excess capital. By the way, net asset value consists mostly of equities held, and the aggregate revaluation gain on them accounts for almost half of the market value. Therefore, we will constantly reduce equities held to diminish this variable factor and secure stable capital base. Proceeds of sold equities will be invested in new businesses or interest bearing long-term yen assets to make an interest rate gap narrower.

That is all from me. The financial outlook now you see on the slide is Page forty three of your handout. Have a look at it later, please. Thanks for your attention.