

TO OUR SHAREHOLDERS



Kunio Suzuki
Chairman

Akimitsu Ashida
President

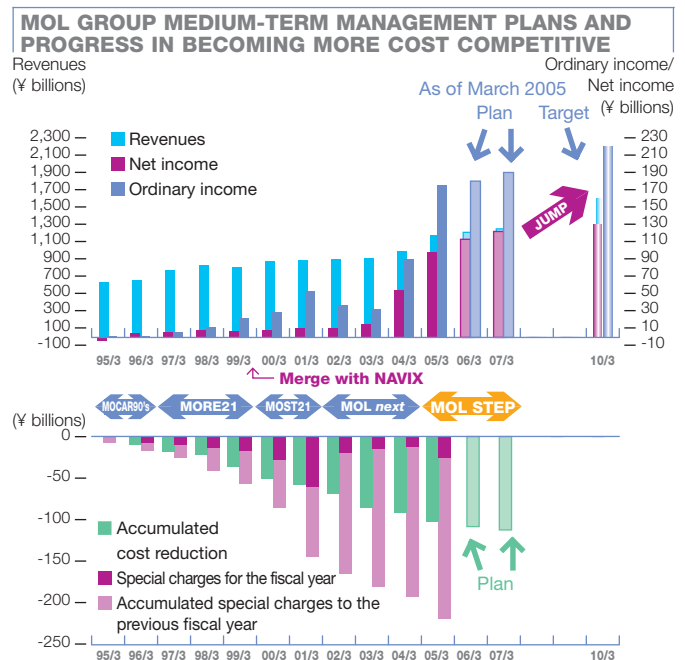
ANOTHER RECORD-SETTING PERFORMANCE

Progress in the transformation of MOL into a highly profitable corporate group continued at a remarkable pace during the past fiscal year. Consolidated net income was up 77.4% to ¥98,261 million as revenues increased 17.7% to ¥1,173,332 million. Only two years ago, our net income was ¥14,710 million. Due to this stellar performance, we surpassed our earnings target for the final year of MOL STEP in this three-year management plan's first year. And we rewarded shareholders by raising the annual dividend from ¥11 to ¥16, in line with a policy of maintaining a payout ratio of about 20%. Our performance shows that, despite its reputation as a mature business, shipping is a growth industry.

Strong demand for ocean transport in all categories was a major reason for our performance. But events set in motion back in 1994—with the aim of becoming one of the world's premier corporate groups in every respect, especially profitability—have been instrumental to our growth, too.

A DECADE-LONG PROCESS

The list of actions—and achievements—is long. Thanks to a constant cost-reduction campaign that started more than a decade ago, our annual cost structure has been streamlined by more than ¥100 billion. In the past fiscal year alone, we lowered annual expenses by ¥9.5 billion, well above our target of ¥6.5 billion. To improve asset productivity, we recorded in excess of ¥200 billion in special charges to restructure our fleet and group companies. Cash flows from operating activities and asset sales were used to slash debt by almost half between April 1998 and 2005.



With restructuring expenses behind us and interest expenses much lower, non-operating items no longer hold back earnings. Perhaps most significantly, this transformation was combined with a realignment of our fleet based on accurate foresight in long-term trends in ocean transport. Among the most important initiatives were our 1999 merger with Navix Line and an increase in our focus on shipping sectors associated with energy and natural resources. MOL was thus ideally positioned to capitalize on the robust market conditions of the past two years or so.

ON A STEADY COURSE FOR GROWTH

We remain dedicated to growth. For the fiscal year ending in March 2007, the final year of MOL STEP, we have established even higher goals based on a revised plan called MOL STEP Review. We now plan to raise consolidated revenues to ¥1,250 billion and operating income to ¥186 billion. If we reach this goal, net income per share will be more than ¥100 in the March 2007 fiscal year. For the following three-year period, which ends in March 2010, we have established the goal of increasing revenues and operating income by another 28% and 16%, respectively. While forecasts inherently include uncertainties, we want to emphasize that our forecasts are based on a large share of highly predictable income streams. Much of this is from ships that have already been ordered and have long-term charter contracts arranged. Overall, about half of our projected earnings come from sources that are either already locked-in by long-term contracts or highly stable for other reasons.

Between March 2004 and 2007, the MOL fleet will increase from 645 to 750 vessels. This includes 145 new vessels. Our plan is to expand the fleet to 900 vessels by March 2010 by adding 142 new vessels during the following three years. The six-year total of 287 new vessels is well above the initially planned 243, because demand for ships that operate under medium- and long-term contracts was greater than we had expected. During this growth we will hold the share of vessels transporting energy and natural resources steady at just over 70% of our fleet, in terms of number of ships.

Naturally, large investments will be required for the portion of these new ships that MOL will own. But we expect to fund these investments with consistently high cash flows from strong earnings and substantial depreciation. Even after these investments, we expect that sufficient cash will remain to continue reducing debt. In the fiscal year ending in March 2006, for instance, we expect operating cash flows of ¥163 billion, capital expenditures of ¥64 billion and a debt reduction of ¥74 billion.

GREATER STRUCTURAL STRENGTH IN GLOBAL DEMAND

The scale of these investments naturally raises questions about demand growth. We believe the long-term outlook for ocean transport demand is highly favorable. There is no doubt that the ocean transport market has entered a new phase. In many categories, notably LNG and refined product tankers and iron ore bulkships, there is virtually no danger that strong market conditions will spark excessive growth in supply, as has occurred repeatedly in the past. The reason is that demand is being fueled by structural, long-term trends while the ability to increase supply is limited.

Today's borderless global economy is enabling companies to shift manufacturing to the most cost-efficient locations worldwide. That means more exports of manufactured goods, and more imports of raw materials by nations that serve as manufacturing centers. At the same time, booming consumer spending in China and other countries joining the ranks of industrialized nations is adding to the demand for energy and other resources. China's iron ore imports, for example,

rose from 111 million tons in 2002 to 208 million tons in 2004. The difference of about 100 million tons is equivalent to the annual capacity of almost 100 Capesize bulkers. Moreover, nations that import energy and natural resources are increasingly relying on more distant suppliers, further raising demand for ships. The investments we are now making are targeted specifically at enabling MOL to continue to capitalize on long-term trends, just as we have so successfully in recent years.

A DIVERSE, MULTINATIONAL CORPORATE GROUP

Our organizational structure is another important contributor to our strong performance. Excluding ship crews, approximately 40% of the MOL Group workforce is outside Japan. Containership operations are run almost entirely outside Japan. About 95% of the crews on our ships are non-Japanese. The recent expansion of a large crew training center in the Philippines further improves our ability to maintain a reliable supply of highly trained personnel. In Japan, our board of directors includes prominent individuals from outside the company. And at the head office, we are hiring mid-career professionals to add people with a variety of backgrounds. We are confident that this commitment to diversity, which gives us a highly talented workforce, will continue to play an important part in our future success.

Information is one more invaluable benefit of this large and diverse organization. No other shipping group in the world is better at gathering and analyzing information, a skill that we believe is more important than any other to succeeding in today's difficult global markets.

In closing, we want to reiterate that MOL and our markets are dramatically different compared with just four or five years ago. We have a fleet structured for growth and profitability. We have a much sounder financial position. And we expect demand to remain solid for many more years. Last year these attributes underpinned a record-setting performance. Our priority now is to keep MOL advancing "steady as she goes" toward sustained growth.

June 23, 2005



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