

## OVERVIEW OF OPERATIONS

—Results of the First Year of MOL STEP and Tasks of MOL STEP Review



**Masakazu Yakushiji**  
Senior Managing  
Executive Officer



The containership  
MOL Efficiency

### POSITIONED TO BENEFIT FROM RISING DEMAND IN ALL MAJOR TRADES

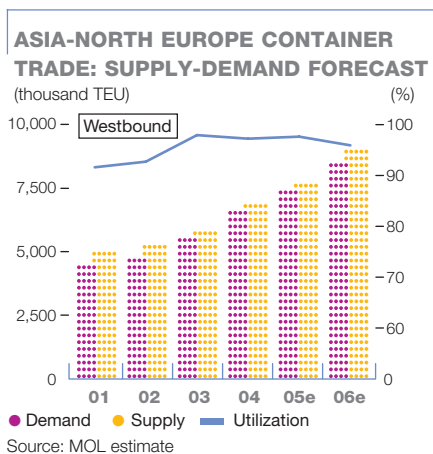
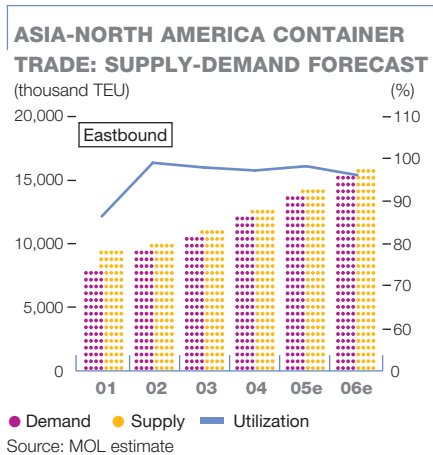
During the first year of MOL STEP, containership operations posted earnings that were well above the target set by MOL STEP. There were a number of factors. Cargo volume was consistently high on core east-west trades linking Asia with North America and Europe. Particularly noteworthy was a sharp rise in demand on north-south trades, such as Asia-Brazil, that significantly improved profitability. Another factor was market acceptance of an average increase of 8% in freight rates. Also contributing to growth in revenues was the first full fiscal-year contribution of eight high-speed Panamax containerships that joined the MOL fleet during the prior fiscal year and the start of new services. In all, MOL's containership capacity rose by 14% during the fiscal year. At the same time, effective sales activities produced 17% growth in cargo volume, raising capacity utilization by 2 percentage points. Earnings from containership operations also benefited from cost-cutting initiatives.

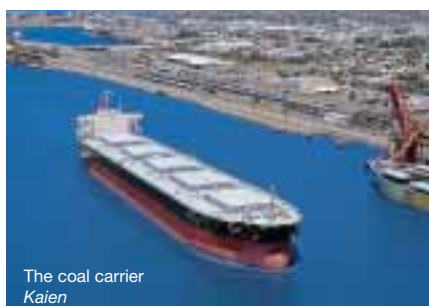
Containership operations are now establishing new, more ambitious goals, having achieved the targets of MOL STEP ahead of plan. The highest priority is to maintain and enhance the current level of profitability. Challenges are posed by rising costs, due to factors ranging from higher fuel costs to shore-side costs such as railway freight in the U.S. On the positive side, supply and demand are projected to remain balanced over the next several years even as the world's containership operators raise capacity at a double-digit pace. Trade volume on east-west trades, which rose about 15% in 2004, is expected to rise by about 12 to 14% over the next several years. Importantly, growth in shipments from China and elsewhere in Asia shows no signs of weakening. Companies in Europe and North America are expected to continue to rely on this region as a manufacturing base. Population growth in the U.S. along with expansion of the EU zone point to continued growth in demand for these inexpensive imports over the long term.

In May 2005, A.P. Moller-Maersk announced its decision to acquire P&O Nedlloyd, a development that symbolizes the current trend of growth in the scale of containership operations. This acquisition is expected to create even higher barriers to entry in the containership market. In response, MOL will continue to make timely investments in its fleet, while using alliances to enhance the scale and quality of its services. Four large containerships will be delivered during the March 2006 fiscal year, followed by two in the following year and six more in the March 2008 fiscal year. Four of these last eight ships will be 8,100 TEU vessels.

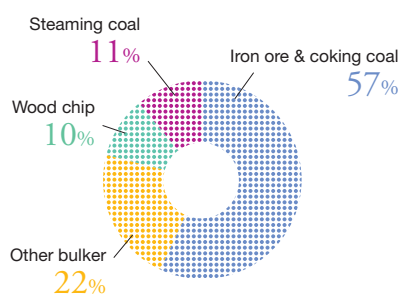
While the outlook is generally positive, a number of uncertainties remain. Most significant are the possibilities of rising competition as global capacity rises and of cargo growth falling short of forecasts. But with a cost-competitive fleet of owned vessels, which is largely unaffected by the current hike in charterage rates, and a relentless cost-cutting program spanning more than a decade, MOL is positioned to withstand such challenges. MOL now ranks among the world's most cost-competitive containership operators. Solidifying this position is cargo yield management. Many shipping companies have recently begun to focus on this subject, but MOL has made yield management central to its operations for well over two decades. The recent worldwide coverage of organizations by the StarNet data management system took yield management, including balancing round-trip cargo volumes, to an even higher level.

Furthermore, while benefiting from growth in established trades, MOL is deploying vessels and taking other steps to capture rising demand in high-potential markets. For example, MOL has a major presence in Brazil. Elsewhere, MOL is enhancing its services in India, the Middle East and other growing markets. This focus on growth driven by additional capacity, a lower cost structure and yield management will continue to distinguish MOL in the highly competitive containership marketplace.





## NON-CONSOLIDATED REVENUES BREAKDOWN



## Dry Bulk

### POSITIONED FOR MAXIMUM BENEFITS AMID CONSISTENTLY SOLID DEMAND

Higher freight rates driven by rising demand and a tight supply of vessels underpinned an extremely strong performance by dry bulkers in the past fiscal year, the first of MOL STEP. However, this accomplishment reflected much more than favorable market conditions. For many years, MOL has been restructuring its dry bulker fleet to become more competitive and profitable. A combination of investments in new vessels and the elimination of costly vessels gave MOL a highly cost-competitive fleet that took advantage of the enormous demand for dry bulkers throughout the past fiscal year. MOL also concentrated vessels on growing market sectors offering the best opportunities to differentiate services from those of competitors. Also noteworthy is the rising contribution of group companies. Gearbulk Holding Ltd., Mitsui O.S.K. Kinkai Ltd. and Daiichi Chuo Kisen Kaisha generated record results in the past fiscal year.

MOL's sizable iron ore and coking coal carrier operations are a key aspect of its strong market position. Rising consumption by China led to a surge in demand for ocean transport of these materials. MOL was able to expand its fleet during the past year with ideal timing because of orders placed several years ago. The core Capesize bulk carrier fleet rose from 70 to 80 vessels. Higher capacity was used to meet the demand for long-term charters as well as to enter into medium-term COA at favorable rates. The larger fleet also enabled MOL to eliminate unprofitable sailings by no longer using expensive spot-chartered vessels.

Demand for bulkers for iron ore and coking coal is expected to remain solid, a situation that is likely to continue until at least the end of the decade. This is due in part to the fact that world's shipyards are operating at full capacity, making them unable to accept new orders for bulkers for at least four years. Having had the foresight to place orders for bulkers well in advance, MOL is positioned to benefit from this market expansion. Between 2004 and 2008, about 50 iron ore and coking bulkers will join the MOL fleet. Long-term contracts have been signed for more than 80% of these vessels. As the fleet grows, MOL will be holding the share of vessels operating on COA and spot rates steady, sustaining prudent exposure to market rates. This will be achieved by using new vessels, vessels that have completed long-term contracts and, when market conditions warrant, newly chartered bulkers.

For Panamax, Handy and other bulkers, market conditions are always challenging because of the large number of operators. In response, MOL in 2004 completed the process of assembling a cost-competitive bulk carrier fleet and replaced many COA with agreements at better terms. These actions position the Panamax and Handy fleet to be a reliable source of earnings. MOL does not plan to simply pursue market share. To achieve prudent growth, MOL is focusing resources on carefully chosen businesses. One is combining the stable volume of steel product exports from Japan with COA cargo destined to Japan to carry cargo on outbound and inbound voyages. Plans in this category also include transporting steel materials from China, industrial plants to the Middle East, and targeting other growing market sectors requiring specialized skills.

Almost all of MOL's steaming coal and wood chip carriers operate under long-term charters. Making this possible are relationships of mutual trust that span decades. This gives MOL a highly advantageous position in these two markets. MOL is prepared to meet China's increasing demand for imported wood chips, an opportunity that MOL identified some time ago.

As the world's largest operator of dry bulkers, MOL will be a major beneficiary of the favorable market conditions foreseen for the remainder of the decade. Backed by a competitive fleet, close customer relationships and a wealth of information, the dry bulk carrier operations of MOL are on the verge of becoming the company's largest contributor to earnings.

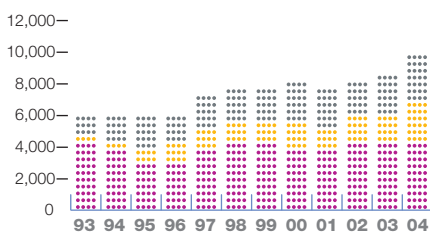
### Car Carriers

**Setsuyasu Hagiwara**  
Managing Executive  
Officer



### WORLD CAR CARRIER TRADE

(thousand vehicles)



● ex Japan ● ex Korea ● Others  
(MOL internal calculation: excluding CKD)

## Car Carriers

### ADDITION OF LARGE VESSELS RAISES OPERATING EFFICIENCY AND CUSTOMER SERVICE

MOL has ranked among the world's largest ocean transporters of vehicles for decades. This solid market position has proved particularly valuable in the past few years as the world's automakers increase the volume of cars they ship, often leading to a shortage in car carrier capacity.

Deliveries of large, sophisticated car carriers that began in 2003 have helped MOL to retain its prominent position in the car carrier market. MOL took delivery of four of these car carriers, which hold 6,400 vehicles, during the past fiscal year. In all, 28 car carriers will be delivered between 2003 and 2009. In addition to their size, the ships feature more speed and greater fuel efficiency, which reduces the environmental impact.

Quality is the central theme concerning future goals. MOL is determined to further enhance its reputation as a source of services that are fast, on time, safe and clean. By leveraging this reputation, MOL plans to target opportunities worldwide, especially in expanding markets in Asia, South America and Africa. MOL has a growing presence in South and Central America, where many vehicles are shipped from Brazil and Argentina to other countries in this region. In Asia, Thailand's rising automobile exports present another opportunity. Following the establishment in 1998 of a company to transport cars by truck in Thailand, MOL formed a company for the same purpose in China in August 2004 to lay the groundwork for growth in exports by sea. Nevertheless, the focus of car carrier operations will remain on Japan and South Korea, which together account for about 70% of global automobile exports by ship.

The outlook for car carriers is generally favorable. Furthermore, MOL will benefit from the continuing emphasis shippers place on the quality of vessels and services. Through the timely procurement of ships, a strategic focus on attractive markets and a commitment to retaining long-term relationships with customers, MOL plans to continue the steady expansion of its car carrier operations.

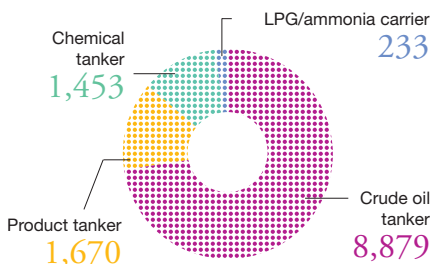
### Tankers

**Masashi Seki**  
Managing Executive  
Officer



### COMPOSITION OF TANKERS

(1,000 dwt)



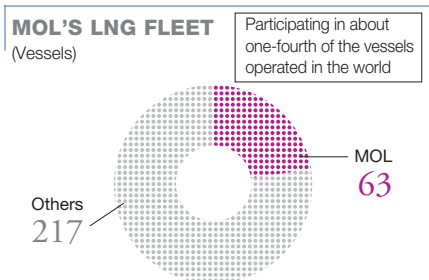
## Tankers

### BALANCED GROWTH IN CRUDE OIL AND PETROLEUM PRODUCTS TRANSPORT

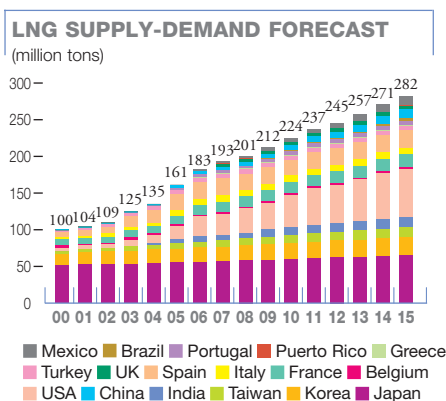
A combination of strong spot rates and MOL's success at assembling a tanker fleet structured for high returns propelled earnings from tankers to well above the level projected for the first year of MOL STEP. Central to the year's high earnings was MOL's fleet of VLCCs and other crude oil tankers that maintains an appropriate balance between long-term charters and vessels operating on spot rates. Product tankers, almost all of which operate at spot rates are another key strength of MOL, and an important source of earnings. Including a pool partner that is an MOL affiliate, MOL has a fleet of more than 31 product tankers, most of which carry naphtha, kerosene and gasoline.

Growth prospects are excellent in the product tanker market. Exports of petroleum products are rising as oil refiners shift production to the lowest-cost locations worldwide, the same trend that is fueling demand for containerships and car carriers. MOL has two key advantages. First, consistent earnings from the VLCC, methanol and LPG carrier fleet provide a foundation for targeting product tanker opportunities, a market where rates and earnings are often volatile. Second, MOL has access to an immense pool of information through its large customer base, which includes many long-term relationships. This was instrumental to MOL's ability to accurately foresee the current upturn in demand for product tankers. As a result, MOL will take delivery of 19 of these tankers, all at a competitive cost, between 2005 and 2008.

Following a highly successful first year of MOL STEP, tanker operations are aiming for higher goals. Orders have been placed for almost all the VLCCs and other tankers MOL will require over the next few years. For example, MOL took delivery of two VLCCs in the



World LNG Fleet: 280 vessels including the ones to be delivered by 2009 (as of March 2005)



past fiscal year and will add seven VLCCs during the next two fiscal years. These vessels present outstanding opportunities to capture more long-term contracts with prominent customers in Japan and overseas. However, even as MOL increases its VLCC fleet, the supply of these tankers is likely to remain insufficient relative to demand, especially for double-hull VLCCs. Holding down supply are limited VLCC capacity at shipyards and impending restrictions on the use of single-hull VLCCs. Demand is so strong that the initially planned 2010 deadline for banning the use of single-hull VLCCs has been extended to 2015 under certain conditions. Overall, there is unlikely to be any easing in the tight supply of VLCCs until at least the start of the next decade.

One important trend in the tanker market is the growing interest among oil exporting and importing nations in developing their own tanker fleets. MOL's extensive relationships in the industry and its operation of a full line of tankers make the company an ideal partner for joint ventures. During 2004, joint venture contracts were signed with partners in China and the UAE.

MOL is making substantial investments in training personnel to operate and manage its tankers. MOL is determined to see expansion accompanied by even more advances in the overall quality of activities, particularly with regard to safety. This dedication to safety is earning MOL an excellent reputation among customers amid the widespread increase in public interest in corporate social responsibility.

## LNG Carriers

### NO END IN SIGHT TO STEADY EXPANSION OF LNG DEMAND

During the past fiscal year, MOL preserved its solid position of leadership in the LNG carrier market, taking delivery of five carriers and signing contracts for participation in seven new carriers. The global market for LNG transportation continues to grow. The number of LNG carriers operating worldwide has increased from about 130 in 2001 to 174 at the end of 2004. Based on orders already placed, this will rise to about 280 by the end of 2009, a figure likely to be even higher due to additional orders for LNG carriers.

Competition for new contracts is intense. But distinguishing MOL is an unsurpassed level of experience in the operation and management of LNG carriers. Experience is also critical in meeting the rising demand from LNG producers for joint ownership and operating agreements. The enormous volume of expertise MOL can share makes the company a highly attractive business partner. Illustrating this strength is a joint venture with the Sultanate of Oman that began in 2002. The joint venture is currently operating two LNG carriers, a fleet that is eventually to rise to six. Another example is a joint venture with Sonatrach, an Algerian state-owned hydrocarbon company. One LNG carrier is operating and two more will be added.

Orders for almost all LNG carriers to be delivered between now and 2008 have been placed, and long-term contracts for these carriers signed. Current new business development activities therefore target LNG carriers that will enter service in 2009 and 2010. As of March 2005, MOL operated or participated in 47 LNG carriers, about one-fourth of all LNG carriers in the world. By 2008, there will be at least 60% more of these carriers operating. Since MOL is certain to retain its current market share, this growth will make LNG carrier operations an even greater contributor to consolidated earnings.

Japan and South Korea presently purchase well over half of the world's LNG. In the coming years, however, the U.S. and Europe will account for much of the growth in demand. MOL is closely monitoring trends in these markets and targeting opportunities involving long-term contracts as well as short-term needs of LNG consumers. With the world's largest fleet of LNG carriers, a number of which will become available in a few years for the spot market as well as short- and medium-term contracts, MOL has the flexibility to benefit from the increasing breadth of opportunities in LNG transportation.

# Logistics

**Masakazu Yakushiji**  
Senior Managing  
Executive Officer

MOL Logistics truck in  
Hong Kong



## ALLIANCE WITH KINTETSU WORLD EXPRESS INC. DRIVES FORWARD MOL'S LOGISTICS STRATEGY

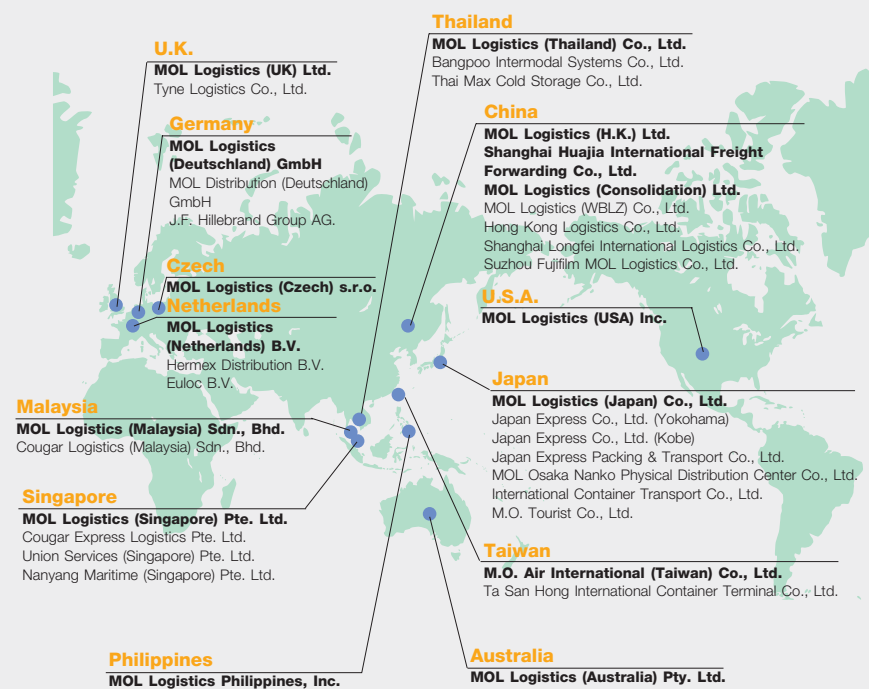
Logistics moved into the black in the first year of MOL STEP. This accomplishment is the result of realignment initiatives taken in earlier years, and would have happened in the previous year without the negative impacts of SARS and the war in Iraq. Even more noteworthy in the year ended March 2005 were forward-looking initiatives to position logistics as a key business unit to execute MOL's strategy of being a leading global shipping company. This goal was established when the Logistics Office was upgraded to the Logistics Business Division in 2003.

Most significant is the ongoing shift in logistics operations from a "product-out" approach of selling ready-made assets to a "market-in" stance, whereby MOL works with customers to create the services they want. Illustrating this approach is MOL's ocean consolidation business (OCB), which is also known as "buyer's consolidation," a rapidly growing business that mostly serves major retailers in Europe and North America. Their outsourcing of production to suppliers in China and elsewhere in Asia is contributing to a sharp increase in container cargo movement. In response, MOL is reinforcing this business with MOL Logistics (Consolidation) Ltd. in Hong Kong as the center of operations. OCB allows these retailers to reduce shipping costs by consolidating small quantities of various goods at container freight stations in countries of origin. At the heart of the OCB is the Starlink cargo management system, which has functions that provide a "glass pipeline" for the merchandise of customers. Recognizing these advantages, a number of companies, including two major U.S. sporting goods manufacturers, selected MOL as its consolidator for merchandise produced in Asia.

New directions of growth in the strategic Chinese market are another aspect of the ongoing enhancement in MOL's logistics capabilities. One significant development is participation in a bonded logistic zone project in Shanghai, which was announced in April 2004. At the Shanghai park, newly formed subsidiary MOL Logistics (WBLZ) Co., Ltd. began handling cargo in July 2004. The right to allow cargo owners to receive documents for VAT refunds a few days after bringing cargo into the zone, rather than after loading cargo on ships as is customary, is attracting strong interest from customers in MOL's logistics services in China.

In a move that at once drives forward this logistics framework, a strategic alliance was formed in May 2005 with Kintetsu World Express, Inc. (KWE). The world's eighth largest air forwarder, KWE in combination with MOL Logistics enables MOL to offer its customers one-stop shopping for competitive sea and air freight services. KWE has a reputation for its cutting-edge logistics network in China, with 87 offices in 31 cities and approximately 500 trucks serving all areas of the country. Through this alliance, MOL will be able to significantly enlarge its logistics infrastructure and add services that will be highly valued by customers that use its ocean transport services. The originator of alliances in containerships, MOL is now using a clear strategy and proven methodology to take its logistics services to the next stage.

## MOL GROUP LOGISTICS NETWORK



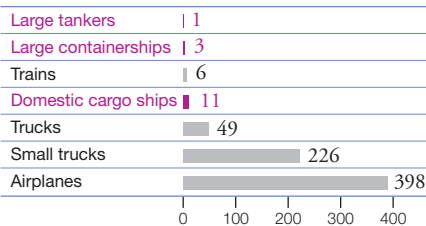
## Ferry and Domestic Transport

**Takehiko Yamamoto**  
Executive Officer



### CO<sub>2</sub> UNIT-EMISSIONS BY MODE OF TRANSPORTATION

(Unit: g-C/ton-km)



Note: CO<sub>2</sub> unit-emissions represent the volume of CO<sub>2</sub> (g-C/ton-km, coal equivalent) emitted when transporting one ton of cargo over one kilometer.  
(Sources: "Transportation Energy Handbook, Fiscal 2001, 2002," Ministry of Land, Infrastructure and Transport, and MOL data)

### PROGRESS TOWARD ESTABLISHING A PROFITABLE OPERATING STRUCTURE

Interest in ferry transportation as a means of shipping cargo is growing in Japan due to the February 2005 enactment of the Kyoto Protocol. Ferries are well suited to facilitating a "modal shift" in which domestic cargo is shipped by sea rather than by truck, thus helping protect the environment by reducing emissions. Backed by this trend, ferry operations continued to improve during the first year of MOL STEP. Most noteworthy was the performance of Shosen Mitsui Ferry Co., Ltd., which met its operating targets in the past fiscal year despite a large number of typhoons and much higher fuel costs. Another important development was the addition of ferry operator Kansai Kisen Kaisha to the MOL Group as an equity-method affiliate. With the support of the MOL Group, especially joint marketing and ship management with group member The Diamond Ferry Co., Ltd., Kansai Kisen reported its first non-consolidated profit in well over a decade.

Progress continued in raising volume in both domestic and international services. The two high-speed, roll-on, roll-off (RORO) ferries between Tokyo and Kyushu, operated through a tie-up with Nippon Express Co., Ltd., attracted growing interest from shippers by offering a reliable daily service. The "Shanghai Super Express" ferry, which links Fukuoka (Japan) and Shanghai, is now in its third year of operations. This service continues to attract new customers by promoting its unique cost-competitive format that has a speed between conventional ships and air freight.

For the remainder of MOL STEP, the streamlining and integration of ferry operations is to continue. Most visible will be the establishment of unified brands: Shosen Mitsui for ferry services in eastern Japan and Sunflower for most services in the west. Potential benefits are great. For example, even prior to the brand unification, Kansai Kisen and Diamond Ferry used their combined ability to offer more frequent service to capture a contract in 2004 from a large auto maker to carry auto parts to its Kyushu factory. With a sound operating framework in place, ferry operations are positioned to make a greater contribution to consolidated earnings in the final two years of MOL STEP.

MOL Naiko, Ltd., which transports cement, steel products, coal, salt and other materials within Japan, has been posting steady improvements in operating results since its 2003 establishment. Steel products were mainly responsible for growth in cargo volume in the past fiscal year. Market conditions for domestic shipping remain healthy. Backed by sound demand, MOL Naiko and other domestic bulk carriers raised freight rates in May 2005, the first increase in 14 years.

## Associated Businesses

**Takehiko Yamamoto**  
Executive Officer

Akihabara Daibiru  
opened March 2005



### DAIBIRU ADDS NEW GROWTH VECTOR TO MOL GROUP

In associated businesses, the first year of MOL STEP was highlighted by MOL's increase of its equity stake in Daibiru Corporation from 27% to 51%. An owner and lessor of office and residential buildings in Tokyo and Osaka, Daibiru was established in 1923 by one of the predecessors of MOL. This move firmly positioned Daibiru as the nucleus of the MOL Group's real estate businesses. Further solidifying this position was the February 2005 announcement of plans to transfer to Daibiru some MOL and MOL Group real estate holdings, including the MOL head office building in Tokyo's Toranomon district. Consolidation of this company adds a highly stable source of earnings to the MOL Group. Steady, long-term growth is also foreseen. In March 2005, Daibiru completed an office building in Tokyo's Akihabara district and plans to reconstruct one of its Osaka office buildings in 2008.

Tugboat operations continue to generate consistent earnings. To benefit from growth opportunities outside Japan, MOL made investments in tugboat operations at Hong Kong and Fangchenggan in China.