

## To Our Shareholders



Kunio Suzuki *Chairman*

Akimitsu Ashida *President*

### Another Record Performance Proves the Strength of MOL's Strategy

Fiscal 2004, ended March 2005, was the first year of the MOL STEP three-year management plan. In its annual report for fiscal 2004, MOL described the plan as *A Big Step Toward Sustainable Growth*. Looking back at our results, that description proved to be accurate. Our ordinary income increased from ¥90.6 billion in fiscal 2003 to ¥175.0 billion in fiscal 2004 and then continued to rise, reaching ¥176.5 billion in fiscal 2005 and ¥182.5 billion in the past fiscal year, which was the final year of MOL STEP. Over the same period, our net income increased 2.2 times, rising from ¥55.4 billion to ¥120.9 billion. During the course of MOL STEP, seaborne trade was generally strong, but the marine transport industry also faced difficult challenges, including market fluctuations and spiraling fuel prices, which nearly doubled. In this challenging operating environment, MOL was the only international shipping company in the world that sustained growth in profits at a high level.

In fiscal 2006, MOL once again proved the strength of its strategy, which was detailed in the previous two year's annual reports as *Five Solutions for Issues Critical to Further Growth* and *A Proven Model for Value Creation*. With a focus on fields that have the potential to expand over the long term, we moved aggressively and

took the lead over other companies in bolstering our fleet. As a result, our bulkships recorded growth in ordinary income from ¥135.3 billion to ¥163.6 billion, which, together with growth in other segments, offset the lower profits in the containerships segment. Also, as a result of cost-reduction efforts spanning many years and measures to effectively control various risks, we were able to secure a profit of ¥3.2 billion in containership operations. On the other hand, with some companies falling into the red, market conditions reversed, as we had anticipated.

That success was a result of our balanced portfolio. Although we strived to secure stable earnings from medium-to-long-term contracts, we did not shy away from the spot market. Rather, we emphasized a balance between stable earnings and emerging opportunities in the spot market, and as a result we were able to move quickly and capture developing opportunities throughout the marine transport industry.

From the level of ¥11.00 per share in fiscal 2003, we have increased dividends each year, raising them to ¥20.00 per share in the past fiscal year. In January 2007, our stock price set a new high for the first time in 17 years, and our market capitalization at the end of March 2007 was ¥1,576.6 billion, 2.4 times the level at the start of MOL STEP.

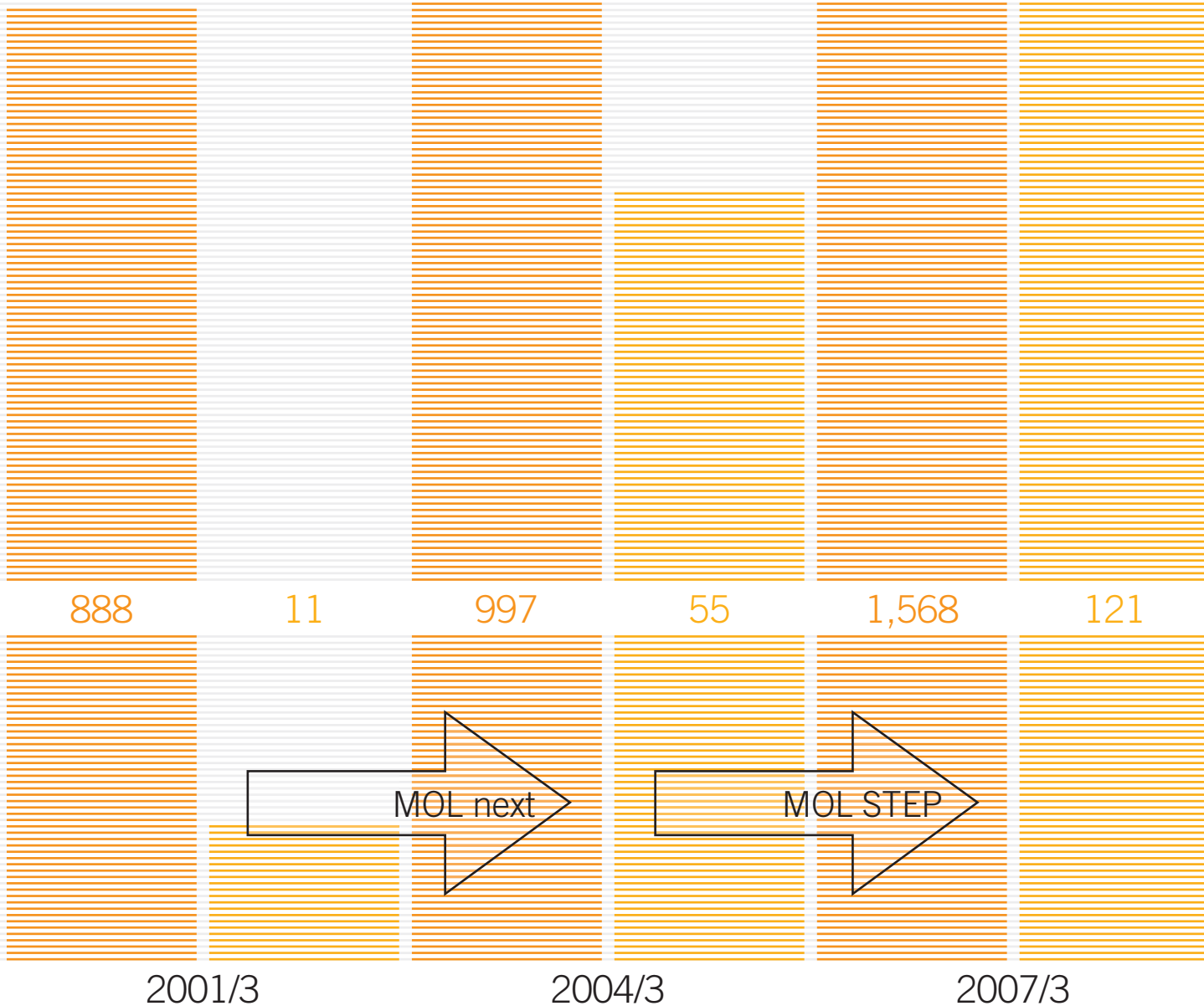
# MOL next through MOL STEP— Six Years of Progress

- MOL has made steady progress over the past six years.
- Revenues have increased about 1.8 times.
- Net income has increased about 11-fold.

 Revenue (¥ billions)  
 Net Income (¥ billions)

Net income:

from ¥10.9 billion to ¥120.9 billion



## Positioned to Benefit from the Paradigm Shift in the Marine Transport Industry

Our growth has been supported by multipolar expansion of the world's economies. In addition to the role of the U.S. as a growth engine, multiple new drivers of economic growth have taken on important roles, including the BRICs and other rapidly growing industrializing economies, as well as Europe expanding to the east. That is the reason why the global economy continues to post favorable economic expansion, despite a number of adverse factors.

With its central role in international trade, the marine transport industry has also posted strong growth. Since 2000, China has recorded particularly rapid economic expansion, with dramatic gains in imports of natural resources and energy. China now accounts for more than 45% of global iron ore shipments.

Moreover, in industrialized regions, such as the U.S. and Europe, consumer goods are imported in containers from China, and other Asian countries that have come to be known as "the world's factories." Recently, regions benefiting from robust exports of natural resources and energy—such as Brazil and Middle Eastern countries—as well as Eastern European countries, have also started to import increased amounts of consumer goods and machinery. Manufacturing in such industries as cars, chemicals, and refined petroleum products is also being shifted to the most cost-competitive locations.

This trend is generating higher demand for transport over longer distances, and with a shortage in shipping capacity, the supply-demand balance has tightened. The global shipping industry has been transformed by this paradigm shift, and MOL has done an excellent job of positioning itself to benefit from these market conditions. We accurately forecasted market trends, allocated vessels appropriate for cargoes and trade routes for which we anticipated strong demand, and provided customers with efficient shipping solutions. Through this approach, we have transformed MOL into a high growth company.

In formulating MOL ADVANCE, the new midterm management plan, we once again conducted rigorous market research, acquired data from the front lines of sales and marketing operations, and forecast marine cargo movements over the medium to long term. Our conclusion is

that we expect the annual average growth in ocean cargo trade to exceed 5% over the medium term. As the global economy continues to expand, we are confident that MOL will record further growth and development.

## The Next Phase of Growth

Targeting the next phase of growth, in March 2007, we announced MOL ADVANCE, which is discussed in detail in the interview section on page 12 to 21. The main theme of the new plan is *Growth with Enhanced Quality*.

Safety will be the most important task under MOL ADVANCE. Since April 2006, MOL-operated vessels have been involved in four major accidents, causing considerable distress to customers and other related parties.

Everyone at MOL has taken this matter very seriously. We have returned to the basics and are doing our utmost to ensure safe operation, which is the foundation of the Group's business activities. In addition to "growth," which was a key focus of our efforts under the preceding MOL next and MOL STEP plans, under MOL ADVANCE we have reinforced our commitment to safe operations as our top priority. We are aiming to achieve the world's highest level in both service and safety, in other words, to achieve quality in growth under MOL ADVANCE.

Moreover, to achieve growth with enhanced quality, we cannot simply expand our fleet as the market grows. We need to control investment within an allowable range of risk while continually monitoring the overall risks faced by the group. While we strengthen our financial position, we will continue to focus on maintaining the optimal balance in our business portfolio between stable earnings and market-sensitive profits. To do so, we need to make well-timed investments while carefully considering the appropriate scale and cost-competitiveness of our entire fleet.

## Building Shareholder Value

Our approach to the creation of shareholder value includes a focus on bolstering our financial position, which is also closely linked to the achievement of growth with enhanced quality. Marine transport is a growing industry, but success in the field requires the ability to control a range of risks. When interest rates are high, for example, a strong credit rating is needed to raise funds at competitive interest rates. MOL dealt with significant exchange rate fluctuations in the

## MOL next through MOL STEP— Six Years of Progress

- MOL has strengthened its financial resources.
- Interest-bearing debt has been reduced by ¥175.2 billion.
- Growth in shareholders' equity\* by ¥406.4 billion has substantially improved the gearing ratio.

Interest-bearing Debt (¥ billions)

Gearing Ratio (%)

\* The figure corresponding to "shareholders' equity" in FY2006 is the total of owners' equity and accumulated gains from valuation and translation adjustments, as prescribed under Japan's new Corporate Law. Since shareholders' equity has been employed as a quantitative target in MOL's planning hitherto, the same term is used for the fiscal year under review. In other words, throughout this annual report (excluding the financial statements), where the term "shareholders' equity" is used in regard to FY2006 and subsequent years, the corresponding figure comprises the total of owners' equity and accumulated gains from valuation and translation adjustments.

\*\* Interest-bearing Debt/Shareholders' Equity = Gearing Ratio

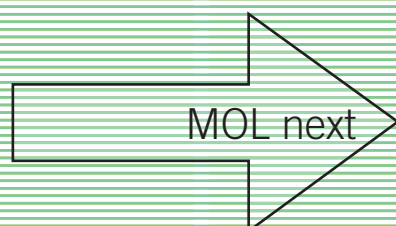
Interest-bearing debt:

from ¥744.6 billion to ¥569.4 billion

$$745 / 144 = 516\%^{**}$$

$$491 / 222 = 222\%$$

$$569 / 551 = 103\%$$



2001/3

2004/3

2007/3

1980s and 1990s, and we know that, if our operations are adversely affected by exchange rate trends, the ability to quickly allocate funds to enhance our competitiveness is instrumental in the creation of shareholder value over the long term. Above all, a strong financial position enables us to take decisive action to meet demand by making timely investments and targeting the returns that can be earned from prudent risk-taking.

Over the three years of MOL STEP, our shareholders' equity increased from ¥221.5 billion to ¥550.8 billion, our gearing ratio improved from 222% to 103%, and our equity ratio rose from 22% to 34%. Our objective is to raise the equity ratio to more than 40% by the final year of MOL ADVANCE, and subsequently to increase shareholders' equity to ¥1 trillion as rapidly as possible.

On the other hand, we will continue to allocate cash flow to capital investment. We increased the scale of our operations from 645 vessels at the end of March 2004 to 803 vessels at the end of March 2007, and in order to reach 1,000 ships by March 2010, we will invest about ¥620.0 billion. At the same time, we will place the orders needed to meet our objective of having 1,200 vessels in operation by the end of March 2013. We will maintain our investment efficiency by keeping ROA at the 7% level and work to add shareholder value through gains in EPS.

We will continue to base dividends on a payout ratio of 20%, and we will address the need to increase the ratio under our medium and long term management policies. Of course, even while we hold the dividend payout ratio constant, growth in our profits will result in an increase in the total amount of dividends that we pay.

## Emphasizing the One S and Four Gs—Safety, Growth, Global, Group, and Governance

To prepare for further growth during the course of MOL ADVANCE, we will continue to emphasize what we call the "1 S and 4 Gs"—Safety, Growth, Global, Group, and Governance. Specific measures that will be implemented in accordance with the "1 S and 4 Gs" are described in more detail in a subsequent section of this report.

We believe that our human resources are the key element in pursuing the "1 S and 4 Gs," and this belief has been strengthened by the events of the past year, including the growth recorded in a challenging environment and the four major accidents.

Medieval Chinese philosopher Chu Hsi said "When there is ch'i (utmost sincerity and concentration), it can go through even gold and stone." To us, this means that nothing is impossible if we have the determination and a can-do spirit.

MOL has the determination and the spirit to take on the challenge of achieving quality in growth. In December 2006, we opened a new training facility near Tokyo to enhance the training and education of onshore and seagoing employees from Japan and overseas. Moreover, in July 2007, with the objective of strengthening and enhancing our human resources to enhance safety, we will begin to operate our own purpose-built training ship. As we move forward, we will make full use of the group's human resources, which include onshore and seagoing personnel of many nationalities, as well as the group's accumulated know-how, knowledge, and experience, to record continued growth on a global scale. In this way, we will make steady progress toward the achievement of our long-term vision of making the MOL Group "an excellent and resilient organization that leads the world shipping industry."

We concluded the MOL STEP plan on a strong note, and we have begun to implement MOL ADVANCE. With multipolar growth in the world's economies, global demand for ocean shipping is expected to continue to show high rates of growth. At this point, we look forward with confidence and anticipation. We would like to ask for your continued support in the years ahead as we take on new challenges and strive to record further growth.

June 21, 2007



Kunio Suzuki Chairman



Akimitsu Ashida President

# MOL next through MOL STEP—

## Six Years of Progress

- With the scale of MOL's operations expanding, total assets have increased.
- Accompanying growth in profits, ROA has steadily increased.
- MOL will continue to maintain a constant focus on ROA under the new management plan.

ROA (%)

ROA:  
from 0.9% to 7.8%

0.9

5.4

7.8

MOL next

MOL STEP

2001/3

2004/3

2007/3