Kenichi Yonetani
Senior Managing Executive Officer

The MOL Group's Financial Strategy—Current Status and Future Direction

As a result of relentless cost cutting efforts in the past decade, including the disposal of uneconomical ships in the fleet and measures to deal with unprofitable companies in the group, the company now has a stronger financial structure. Under MOL STEP, the three-year management plan that was commenced in fiscal 2004, MOL recorded sustained growth in ordinary income, which rose from ¥90.6 billion in fiscal 2003 to ¥182.5 billion in fiscal 2006, and an increase of 2.2 times in net income, which increased from ¥55.4 billion to ¥120.9 billion over the same period. Despite fluctuating market conditions and rising fuel prices, MOL was able to sustain growth in profits at a high level. Details about our performance are provided in the "To Our Shareholders" and "Overview of Operations" sections of this report. In this section, we evaluate our financial strategy under MOL STEP and introduce the financial strategy that we will implement under our new management plan, MOL ADVANCE.

MOL STEP Review Financial Targets—Progress and Evaluation

We cleared the target for shareholders' equity, but we failed to achieve the equity ratio and gearing ratio targets. The three-year cumulative total of net income was in line with the plan. With a background of favorable market conditions and robust demand, we made a strategic decision to put a high priority on timely fleet expansion, which resulted in increases in total assets—from the projected ¥1,272 billion to ¥1,640 billion—and in interest-bearing debt. Consequently, we succeeded in increasing stable earnings and in reinforcing our earnings structure.

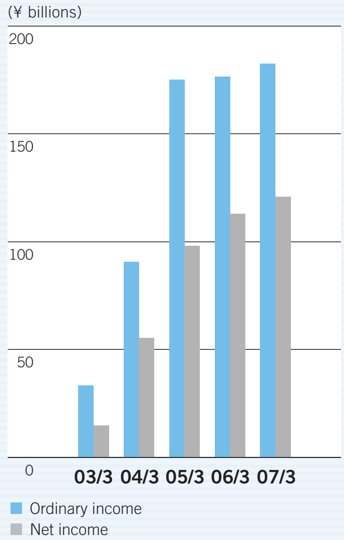
	MOL STEP Review Target	FY2006 Results
Shareholders' equity	¥490.0 billion	¥550.8 billion
Equity ratio	38%	33.6%
Gearing ratio	80%	103%

Fund-Raising

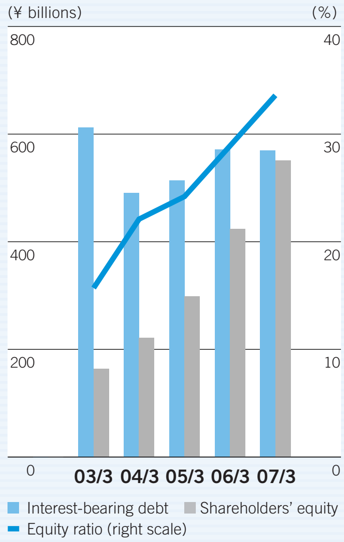
To ensure stable fund-raising and cost-competitiveness, we utilize a variety of fund-raising methods. For example, in March 2006, we issued ¥50.0 billion in euro yen zero coupon convertible bonds due 2011. The zero coupon format ensures that costs will remain low until the bonds are converted. When they are converted, we will effectively raise capital while controlling dilution. By accelerating the introduction of additional capital—on top of organic growth in equity—we will prepare for increased investment in the years ahead. We will secure greater financial flexibility, which will enable us to raise funds under more favorable terms.

The funds raised have been and will be used mainly for capital expenditures and the repayment of the loans with relatively higher interest rates. For instance, in March 2005, we implemented in-substance defeasance for bonds No. 6, 7, and 9, thereby moving a total of ¥29.4 billion off the balance sheet. This is one of the ways we are controlling the increase in interest-bearing debt within acceptable limits, despite maintaining a high level of capital investment. Other uses of cash flows include investment in group reorganization initiatives. In October 2004, through a tender offer we acquired a controlling interest in Daibiru Corporation, which owns and leases 17 office buildings in Tokyo and Osaka. In February 2006, we completed a tender offer for the shares of Utoc Corporation, which runs a harbor and transportation business. We eventually made these two companies consolidated subsidiaries. We are also using cash flow to implement external growth strategies. In January 2006, for example, we acquired the rights to P&ONL's Europe-South Africa routes from AP Moller-Maersk.

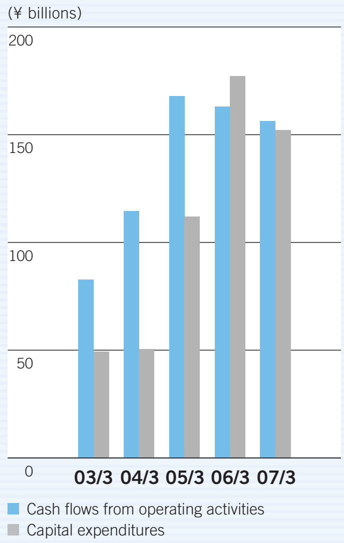
Ordinary Income, Net Income



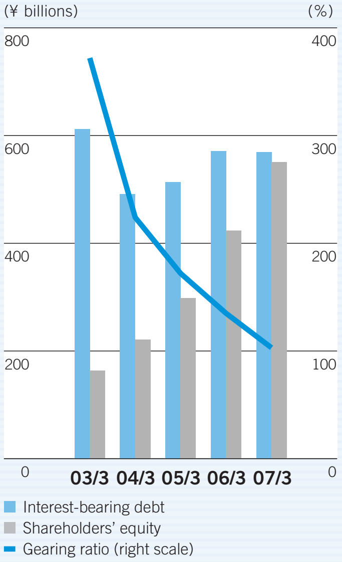
Interest-bearing Debt, Shareholders' Equity and Equity Ratio



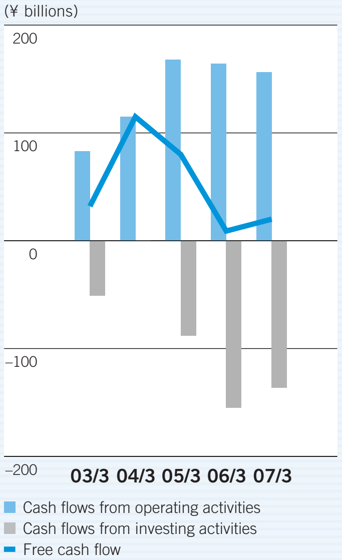
Cash Flows and Capital Expenditures



Interest-bearing Debt, Shareholders' Equity and Gearing Ratio



Cash Flows from Operating Activities, Cash Flows from Investing Activities, Free Cash Flow



Free Cash Flow =
Cash flows from operating activities +
Cash flows from investing activities

Financial Quality in Growth

Capital Policy

In accordance with its growth strategy, since 2001, MOL has sustained aggressive capital investment and worked to increase its enterprise value through growth in profits. On the other hand, we have strengthened our financial position with an increase in shareholders' equity, which we believe to be essential for a higher credit rating, and we improved our financial resiliency. In order to maintain a balance between interest-bearing debt and shareholders' equity, we monitor this relationship with the gearing ratio, which has continued to decline in the past decade. As a result of this process, however, ROE fell from more than 30% to about 25%, and is likely to decrease to a few percentage points below 20% at the end of fiscal 2009. We are well aware of this declining trend for ROE. We believe that we have taken steps to lay the foundation for the next stage of growth. With support from strong demand for ships, the top priority under MOL ADVANCE will be the achievement of sustained growth in both quantity and quality. Our capital policy in the period from fiscal 2007 to fiscal 2009 is to increase shareholders' equity at a pace exceeding that of interest-bearing debt, and thereby reducing the gearing ratio. As a result, ROE will decline. We will sustain a dividend payout ratio of 20%. While maintaining a careful balance between shareholders' equity and interest-bearing debt, we will give priority to investment for future growth.

Various Types of Fund-raising for Vessel Procurement

With growth in profits since 2005, we have been able to fund a large portion of capital investment with cash flow. Currently, we have a very high degree of financial flexibility for vessel procurements, with such options as owning directly or through wholly owned SPCs, charters, financing, operating leases, and ship funds. From the range of options available to us, we will select the method and institution that offers the most competitive terms.

Generally speaking, for vessels that require advanced levels of ship management, such as LNG carriers, crude oil tankers, and large containerships, and for specialized vessels, such as wood chip carriers and car carriers, our basic policy is to own them directly or through wholly owned SPCs. On the other hand, we typically charter multi-purpose dry bulkers from domestic shipowners who are interested in owning them and have abundant ship management experience.

MOL-owned vessels are financed with cash flow or borrowings from such institutions as banks and life insurance companies. Vessels owned by MOL's wholly owned SPCs are financed with borrowing and/or equity from MOL. Also, as a hedge against residual value risk, we utilize operating leases in some cases.

For LNG carriers owned by equity-method affiliates, we generally raise funds on a project finance basis to reduce our contingent liability. MOL has actively played a key role in project finance activities. As a project leader, MOL successfully leads two project finance deals for the record-setting RasGas II project (April 2004, US$569 million), and for the RasGas III project, the largest in history, (January 2006, US$1,632 million). In the future, we will continue to make use of this experience and know-how and actively participate in other projects.

Cash Management

With expansion in the scale of operations and favorable market conditions, our cash inflows are increasing, and in the future, the importance of efficient cash management will continue to heighten. Using global cash management, which we introduced in fiscal 2001, we quickly collect from major overseas shipping agents the fares and charter fees paid by customers. We have steadily expanded the coverage of this system to the Americas, Europe, Asia, and Oceania. We have also been using a cash management service for group companies in Japan—44 companies as of March 2007. The amount of cash handled through this system is increasing steadily, and we continue working to increase cash management efficiency for the group overall while reducing interest-bearing debt. At the same time, we will continue working to speed up the recovery of outstanding receivables.

Credit Ratings

MOL recognizes that credit ratings represent the opinions of neutral institutions regarding the certainty of a company's ability to generate cash flows from its operations, which are the source of the funds used to service debt. Therefore, the rating upgrades that we have received in the past few years, which are based on the qualitative and quantitative analyses of outside experts, reaffirm that we have further bolstered our ability to generate cash flow.

As of March 2007, MOL's rating from four domestic and overseas rating agencies were as follows:

R&I	A+
JCR	A+ positive
Moody's	Baa1 positive
Standard & Poors	BBB

From the viewpoint of the finance officer, the external environment is favorable, including foreign exchange rates and interest rates as well as steady market growth. It is especially in times like this, however, that attention must be paid to preparing for a crisis. The most important challenge in this environment is to improve our credit ratings so that we can secure funds on competitive terms. Accordingly, our objective is to earn ratings of at least A from overseas rating agencies and AA from domestic rating agencies, and we will continue striving to earn even higher ratings. As mentioned, shareholders' equity plays a key role in the rating process.

Exchange Rate and Interest Rate Risk Management

Exchange rate risk as a percentage of consolidated ordinary income is declining, and exchange rate volatility is also decreasing. On the other hand, the differential between domestic and overseas interest rates has led to increases in the cost of foreign exchange forward contracts. In consideration of this trend, we will take steps to prepare for a certain degree of yen appreciation while reaping the benefits of yen depreciation, and we will work to control costs. Looking at our exchange rate sensitivity, under recent conditions, a change of one yen in the yen-dollar exchange rate has raised or lowered ordinary income by about ¥2.3 billion a year. In the future, as we expand our operations we anticipate continued growth in cross trade, and exchange rate risk management will become even more important. Accordingly, to control risk, we must implement hedging transactions. Regarding interest rate risk, in yen, we have worked to increase the percentage of our obligations that carry fixed rates, and over the short term we will maintain the current fixed-rate percentage. In dollars, we will track interest rate trends, and work to raise the percentage of our obligations that carry fixed rates especially in containership operations, which have been more susceptible to the influence of market fluctuations.

MOL ADVANCE

MOL ADVANCE, the company's sixth mid-term management plan, covers the period from fiscal 2007 to 2009. Under MOL ADVANCE, we will implement aggressive capital investment and increase shareholders' equity, thereby further strengthening our financial position. We will work to achieve further growth, both in quantity and quality, thereby establishing the leading position in the global shipping industry and building the foundation for taking advantage of larger business opportunities.

Financial Indicators under MOL ADVANCE

1. Shareholders' equity ratio: 40% or more

Over the three years of MOL STEP, our financial position was considerably strengthened. We are planning substantial capital investment under MOL ADVANCE as well as the three subsequent years, fiscal 2010 to fiscal 2012. In this environment, in order to implement flexible fund-raising under favorable terms and to reinforce our ability to handle risk, a strong level of shareholders' equity is essential. Accordingly, we will continue working to increase shareholders' equity, and we will strive to raise the ratio to more than 40% by March 2010.

2. Gearing ratio: 1 time or less

In accordance with the growth strategies included in MOL ADVANCE, to further raise enterprise value we are planning ongoing capital investment, centered on continued aggressive fleet expansion measures. The total amount of our interest-bearing debt is projected to increase. To avoid weakening our financial position, we will maintain a close focus on the gearing ratio, which we will use as an indicator of the balance between interest-bearing debt and shareholders' equity.

3. ROA: 7% or more

We are always conscious of the importance of capital efficiency, and in consideration of our asset structure—which has the distinctive characteristic of a high percentage of chartered and leased vessels—we will use it as a yardstick for monitoring management. In fiscal 2006, our ROA was 7.8%. To maintain capital efficiency even after increasing the scale of our assets, we will not change our policy of maintaining ROA above 7%.