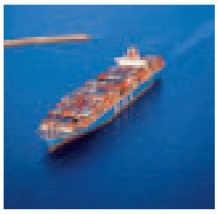
The Answers

The containership
MOL Encore

The containership
MOL Promise



The containership
MOL Priority

What?

What factors made last year's liner market so difficult?

Masakazu Yakushiji
Managing Executive Officer

Liner results were impacted by low freight rates during much of fiscal 2002, but this business is now positioned to stage a strong recovery.

Performance Impacted by Low Freight Rates

MOL has been taking broad-based actions for many years to establish a sound base for liner operations. Numerous streamlining initiatives have significantly reduced costs. On the transpacific trade, The New World Alliance (TNWA), an alliance that was formed with MOL playing a leading role, helps cut costs while enhancing services. Unfortunately, persistently low rates, due in large part to a chronic oversupply of container space, have prevented MOL's actions from having a lasting impact on the bottom line.

Containership capacity has grown significantly in recent years as operators took delivery of vessels ordered in the late 1990s when there was strong growth in demand. Global capacity rose more than 10 percent in 2001 alone. Expansion continued in 2002 as there was a net increase of 10 percent in the number of containerships operating worldwide to 3,035.

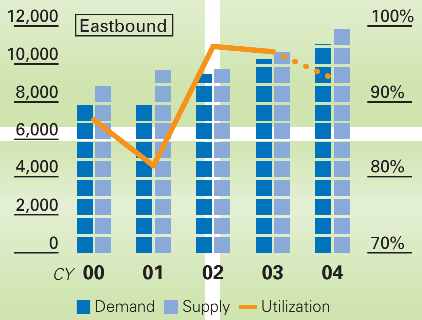
The timing of the recent fleet additions to the transpacific trade turned out to be bad. Demand plummeted in the wake of the September 2001 terrorist attacks. Giving up on hope for growth in 2002, liner companies, including MOL, signed contracts at relatively low rates for 2002 shipments. However, container volume unexpectedly turned upward in the summer of 2002 and continues to grow. For all of 2002, year-on-year growth was about 20 percent for shipments from Asia to North America. Having already locked in low rates, though, MOL and other liner operators benefited only slightly from this growth. This caused average container rates to drop more than 10 percent below the level that MOL had projected for North American services in the March 2003 fiscal year.

Still More Cost Savings Foreseen

But MOL has made deep cuts in the cost structure of its liner operations that have offset the impact of these lower rates. Actions have included raising container utilization rates, lowering feeder expenses on land and sea, cutting terminal-related expenses and lowering agency fees. Costs were slashed by ¥7.7 billion in the year to March 2002 and a further ¥12.0 billion in the year to March 2003, well above the ¥9.5 billion target for that year. In the March 2004 fiscal year, the liner cost structure is to shrink by another ¥4.5 billion.

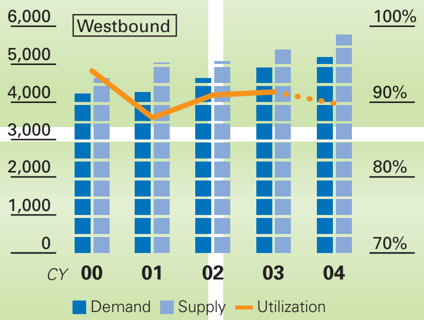
Through further streamlining measures and other means, MOL will continue to raise the bar, positioning itself as a company that can maximize earnings when times are good while suffering the least during market downturns.

ASIA-NORTH AMERICA CONTAINER TRADE: SUPPLY-DEMAND FORECAST
(thousand TEU)



Source: MOL estimate

ASIA-EUROPE CONTAINER TRADE: SUPPLY-DEMAND FORECAST
(thousand TEU)



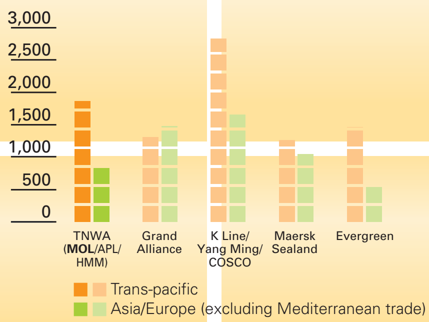
Source: MOL estimate

Taking the Offensive to Sustain Growth

MOL's liner operations are now advancing from a period of retrenchment and reinforcement to one of growth and profitability. For almost half a decade, MOL refrained from expanding its liner fleet in major east and west routes due to the difficulty of earning sufficient returns. The global liner market has expanded steadily, but MOL intentionally held its capacity steady, refusing to be drawn into competitions for market share that would have only served to increase operating losses. Nevertheless, MOL remains fully committed to liners, viewing this business as one of the most attractive sectors of the ocean shipping industry. Based on this stance, MOL has been laying the groundwork for growth for many years, chiefly by forming a strategic alliance with similarly positioned partners. This collaboration offsets the impact of a lack of new tonnage by extending the coverage and frequency of service while making operations more cost efficient.

Benefits have been substantial, giving MOL a framework oriented toward profitability and productivity. In terms of cost, MOL is firmly positioned as one of the world's most cost-competitive containership operators. In services, MOL is recognized worldwide as a provider of total logistics solutions incorporating premiere liner services.

YEARLY CONTAINER CAPACITY BY ALLIANCE GROUP
(thousand TEU)



Source: MDS Transmodal "Containership Databank" February 2003

A New Era in Liner Operations Begins

As the March 2004 fiscal year begins, MOL stands on the verge of a new era in its liner operations. Most significant will be the completion of delivery of the 16 containerships that were ordered between 1999 and 2001. These 4,500TEU, 5,900TEU and 6,400TEU, high-efficiency vessels, the first major additions to MOL's containership fleet since 1995, will make MOL one of the world's 10 largest liner companies, returning it to the market ranking it had in the mid-1990s. At the same time, shipping expenses per container will fall. Nine vessels had been delivered as of March 2003 with the remainder to join the fleet by March 2004. The increased capacity will also be instrumental to making greater inroads in China, the world's fastest-growing market for container shipments.

Deploying the new vessels on core routes, chiefly the trans-pacific and Asia-Europe trades, will allow MOL to shift existing mid-size vessels to other routes. Services from Asia to South America will be upgraded, for example. Additional capacity will also make it possible to establish new routes, such as more links from Europe to Africa and South America. Another advantage of the ongoing fleet expansion is the flexibility to use higher-grade vessels on north-south trades. Overall, MOL will be better able to offer logistics services on a truly global scale to match the requirements of its customers.

TNWA will continue to be pivotal to MOL's growth in the container transportation market. With the addition of our 16 new vessels, together with those newly added by our partners, TNWA will encompass more than 100 vessels of the highest quality. This size and quality will allow alliance members to offer even more competitive services while reaping greater economies of scale.

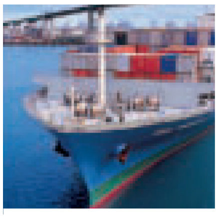
Intent on Reaching the *MOL next* Targets

The outlook for earnings is encouraging as well. Solid growth in volume on the key transpacific and Asia-Europe trades and on other important routes that began in mid-2002 indicates that freight rates will remain high. Combined with MOL's much leaner cost structure, thanks to a relentless cost-containment program, higher rates are expected to produce a big increase in liner earnings in the March 2004 fiscal year.

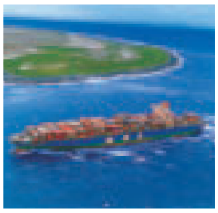
MOL's ultimate objective is positioning liner operations as a completely self-reliant business that is consistently profitable over the long term, even amid the inevitable market swings in this business. Due to the considerable accomplishments in improving liner operations thus far, MOL believes that prospects are good for reaching the liner profit goal for the final year of *MOL next.*

MOL regards liners as one of its most promising businesses in terms of the potential for sustained, long-term growth.

The containership
MOL Excellence



The containership
MOL Advantage



The containership
MOL Efficiency

How?

How can the liner business become a more reliable source of earnings?

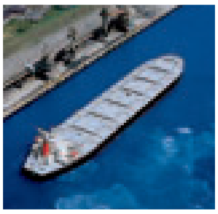
Hiroyuki Sato
Deputy President
Deputy President Executive Officer

When?

When will energy-related shipping become an even more powerful source of earnings growth?

Tokinao Hojo
Deputy President
Deputy President Executive Officer

The coal carrier
Tarumaesan Maru



The LNG carrier
Al Wakrah

LNG Reinforces Its Position Among Core Businesses

Energy-related shipping is steadily rising as a share of revenues and earnings. One reason is the growth in the MOL's VLCC, LNG carrier and product tanker fleet from 55 in 1996 to 100 in the March 2003 fiscal year. Most noteworthy, however, has been the increase in revenues from specialized vessels such as LNG and methanol carriers, demonstrating MOL's ability to establish dominant positions in the most technologically demanding sectors of the world shipping industry.

MOL has been particularly successful in LNG carriers. Having played a pioneering role in this market, MOL today is the world's preeminent operator of LNG carriers, with involvement of some sort in 38 of the world's 138 LNG carriers. Growth continues. Since the start of *MOL next* in April 2001, MOL has signed contracts that will add 16 LNG carriers to its fleet for projects in the U.S., India, Norway, Qatar, Oman, Algeria and others. This is well above the initial goal of 10 LNG carriers for the entire 3-year *MOL next* plan. Significantly, despite the recent trend to shorter contracts in other energy-related shipping fields, all these carriers will operate under contracts of 20 to 25 years.

The World's Largest LNG Carrier Fleet

When MOL started the LNG business in the early 1980s, the company's LNG carriers served only buyers in Japan. Today, a significant share of LNG volume is accounted for by customers outside Japan. Serving customers are offices in Jakarta, Doha and Muscat. To support this growth, MOL sent LNG specialists to its offices in London and Houston in late 2002.

The outlook for LNG carriers remains highly favorable because interest is strong worldwide in the cost-efficient and clean fuel they carry. At MOL, LNG-related earnings are certain to rise as new vessels enter service. Additionally, now that the LNG market has reached a significant global scale, it is highly likely that a healthy spot market for LNG carriers, much like the one for VLCCs, will begin to take shape in the coming years. With the world's largest fleet of LNG carriers, MOL is positioned to be a major beneficiary.

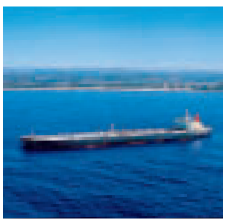
Expansion Continues in VLCCs and Methanol Carriers

Just as MOL pioneered the market for the ocean transport of LNG in the 1980s, the company is now taking the lead in the transport of methanol. Having targeted this market early on, MOL now has a dominant market position. With a fleet of 17 methanol carriers, 14 of which are double-hulled, MOL operates two-thirds of all these carriers in the world. One more is now on order.

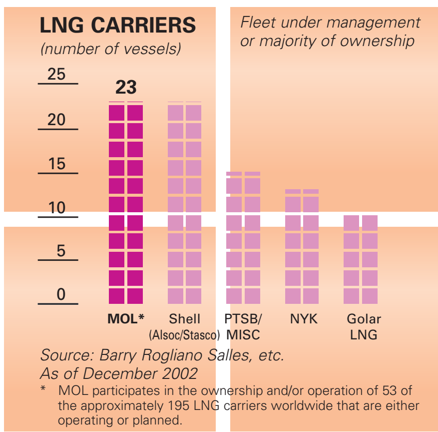
In VLCCs, MOL has been making substantial investments over the years to assemble a fleet that is entirely double-hulled. About 45 percent of MOL's 29 VLCCs had double hulls as of March 2003. This figure is to reach 100 percent in 2008. While a significant share of VLCCs operate on long-term contracts, earnings from MOL's VLCC fleet rise and fall with charter rates to some degree. In fiscal 2002, this exposure to spot rates had a beneficial effect on earnings as the average VLCC World Scale freight rate surged from a low of 28 in the first half of the year to well over 100 in the second half. With this trend continuing into fiscal 2003, it appears that there will be a significant increase in VLCC earnings in the current fiscal year.

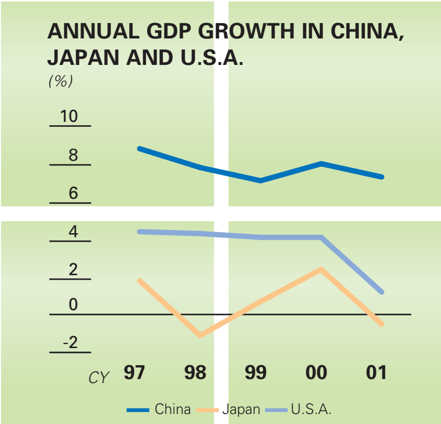
Energy-related operations are now firmly entrenched as a major source of earnings for MOL. Looking ahead, growth in the energy-related fleet along with measures to utilize vessels more productively point to still more earnings growth.

During the management plan that will follow MOL next, energy-related shipping will be an even greater source of earnings.



The double-hull VLCC Washusan





In car carriers, dry bulk and other market sectors, MOL is taking steps to tap opportunities created by expansion of the Chinese economy.

Car Carriers Post Consistent Growth

The *MOL next* plan focuses on liners and energy-related shipping as the primary growth drivers. At the same time, the company is making investments and taking other actions that target several other markets that are exhibiting consistent growth.

Car carriers is one. This has been a stable source of growth in revenues and earnings for many years. With a fleet of over 70 car carriers, MOL ranks among the world's top five car carrier operators. In the most recent fiscal year, MOL transported 1.84 million vehicles, almost 30 percent of which were vehicle exports originating in countries other than Japan. Illustrating the vitality of this market, capacity was extremely tight for much of 2002 in the core Japanese export market.

Over the long term, MOL expects that markets outside Japan will be the main driver of growth in its car carrier business. Having many well-established relationships with prominent foreign auto makers, MOL is well placed to capitalize on the growth in new car exports worldwide. Significantly, this growth is occurring in both existing supply regions, such as Europe, as well as in emerging export bases, such as South America and Southeast Asia. Farther down the road, China is likely to become a significant car exporter as output by Chinese and Japanese auto makers climbs. A car carrier specialist was assigned to MOL (China) Co., Ltd. in 2001 to more closely monitor trends in China and cope with customers' requirements.

Many Opportunities for Growth in Dry Bulk

Dry bulk is another strategic field. Opportunities for expansion exist in all four dry bulk categories: iron ore, coal, grain and other bulk cargoes. As dry bulk shipments to Japan are expected to be flat, MOL is targeting overseas markets, especially China and Southeast Asia. As one way to become more competitive on a global scale, MOL is upgrading its ability to accommodate greater exposure to market fluctuations as it operates more ships on contracts with shorter time frames. Currently, almost half of MOL's 57 Capesize bulkers operate at spot market rates. To better manage risk associated with this market exposure, the bulker fleet is being switched entirely to charters. The ultimate goal is eliminating most of MOL-owned vessels, to provide greater flexibility in serving both Japanese and overseas customers.

Positioned to Grow With the Chinese Economy

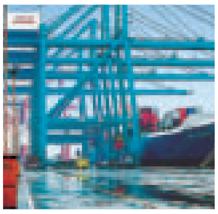
In terms of geographic regions, China has by far the greatest potential. MOL is heightening its presence in this growing market across its entire line of shipping and logistics operations. For liner operations, MOL has bases in Shanghai and 15 other locations in China, which accounts for about 65 percent of MOL's freight volume. Fourteen more offices are to be opened over the next 18 months, raising the Chinese liner service network outside Hong Kong to 29 locations. Furthermore, to enlarge logistics capabilities and offer comprehensive solutions, MOL is working with local forwarder business partners based on ties that in many cases include equity investments.

Liners, energy-related vessels and bulkers are all positioned to benefit from economic expansion in China. In the energy field, MOL plans to help meet the growing demand for LNG. Opportunities will increase in the spot market for VLCCs, too. In dry bulk, MOL foresees a consistent increase in the volume of iron ore shipments to China as the production of steel climbs. Grain shipments to China are also likely to increase. In all these markets, MOL is bolstering marketing efforts and forming more ties with local partners to grow in step with robust economic expansion in this country. Unifying these initiatives across the entire MOL Group is the China Business Strategy Committee, which was established in April 2002. The formation of this committee further underscores MOL's determination to retain a prominent role in the expansion of China's transportation and logistics industries.

Where?

Where are the markets outside energy and liners and geographic regions from which MOL will derive the most growth?

The containership *MOL Wisdom* at Shanghai port



Suzhou Fujifilm MOL Logistics Co., Ltd.

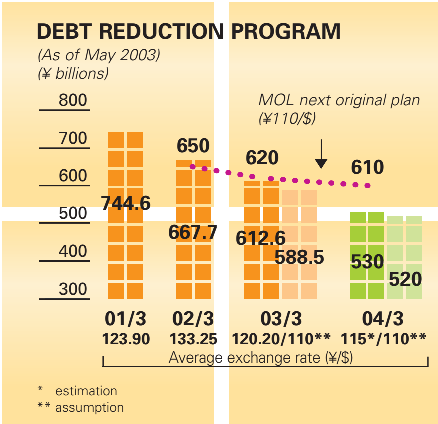
Masao Sagara
Senior Managing Director
Senior Managing Executive Officer

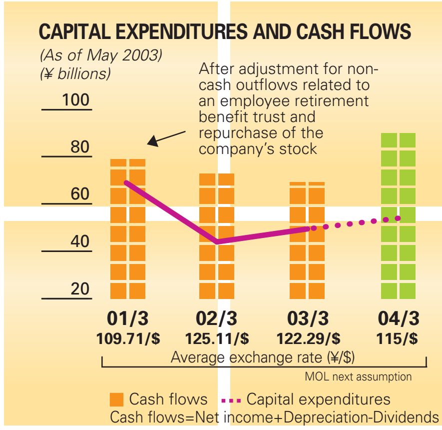
Setsuyasu Hagiwara
Managing Executive Officer

Why?

Why will MOL’s financial strategy lead to higher returns and earnings?

Kazuaki Konishi
Senior Managing Director
Senior Managing Executive Officer





MOL's Priorities: Lower Debt and Higher Profitability

Building a sounder financial base that is less reliant on debt and capable of generating greater profit margins has been a central part of MOL management plans for many years. Having completed the second year of the ongoing *MOL next* plan, MOL is well on the way to meeting several major targets.

Progress is most apparent on the balance sheet. During the past fiscal year, total interest-bearing debt fell from ¥667.7 billion to ¥612.6 billion. There is no doubt that MOL will far exceed the *MOL next* target of reducing interest-bearing debt to ¥600 billion (¥110=US$1) by March 2004, a fiscal year when much stronger net operating cash flows are foreseen. Furthermore, lower debt in concert with declining interest rates in Japan and elsewhere brought cash interest expenses down by 34% to ¥22 billion in the past fiscal year.

With regard to growth, MOL is making equally significant headway, but a number of negative trends prevented benefits from translating into higher earnings in the past fiscal year. Since about 80% of revenues are denominated in U.S. dollars, the stronger yen reduced consolidated revenues by ¥16.4 billion. Offsetting this was the contribution of higher revenues from bulkers and car carriers. The net result was a 0.7% increase in shipping and other revenues to ¥910 billion.

Losses on the devaluation and sale of investment securities totaled ¥8.4 billion, most of which reflected falling market values of bank stocks. The latest write-downs of these investments have reduced MOL's holdings of bank stocks to a level where the possibility of future significant valuation losses is virtually nonexistent. Excluding bank stocks, however, MOL still retains a substantial volume of unrealized gains on equity investments in publicly owned companies.

A financial strategy that emphasizes streamlining the balance sheet is making a major contribution to improving the MOL Group's profitability.

Channeling Investments to Fields With Growth Potential

While streamlining of the balance sheet will continue, this in no way signals a retreat from MOL's growth-oriented stance. Between 20 and 30 new vessels will join the fleet annually, as in recent years. But an increasing share will be chartered from third-party ship owners, owned by institutional investors or procured through leases and other means that keep vessels off the balance sheet. At the same time, MOL will be making investments as required to develop new business activities.

MOL is positioned for a sharp rebound in earnings. Successful cost-containment efforts along with a much more profitable fleet allow the company to amplify improvements in market dynamics into earnings increases that are proportionally much greater than sales. Realignment of the fleet will continue along with further reductions in the cost structure.

As a result, MOL is currently forecasting net income of ¥38 billion in the fiscal year ending in March 2004, well above the past year's ¥14.7 billion, on a 5.5% increase in revenues to ¥960 billion.