

Annual Report 2004

Year ended March 31, 2004

# A Big Step Toward Sustainable Growth



## MOL Group Corporate Principles

1. As a multi-modal transport group, we will actively seize opportunities that contribute to global economic growth and development by meeting and responding to our customers' needs and to this new era.
2. We will strive to maximize corporate value by always being creative, continually pursuing higher operating efficiency and promoting an open and visible management style that is guided by the highest ethical and social standards.
3. We will promote and protect our environment by maintaining strict, safe operation and navigation standards.

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### Forward-Looking Statements

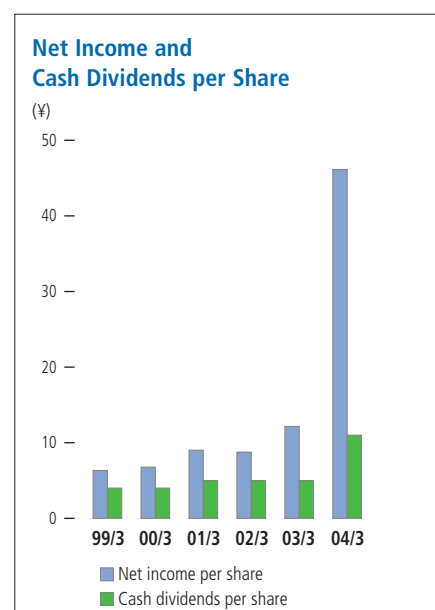
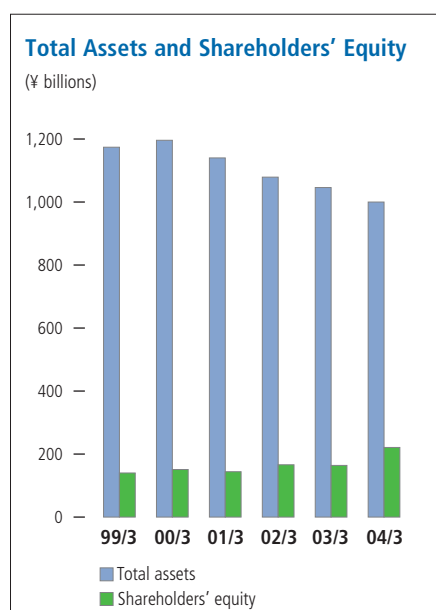
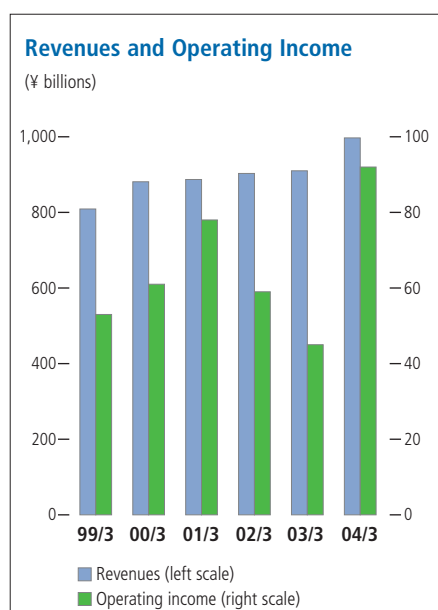
This annual report contains forward-looking statements concerning MOL's future plans, strategies and performance. These statements represent assumptions and beliefs based on information currently available and are not historical facts. Furthermore, forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, worldwide competition in the shipping industry, customer demand, foreign currency exchange rates, price of bunker, tax laws and other regulations. MOL therefore cautions readers that actual results may differ materially from these predictions.



# Financial Highlights

Mitsui O.S.K. Lines, Ltd. Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	2004
<b>For the year:</b>							
Shipping and other revenues . . . . .	¥ 997,260	¥ 910,288	¥ 903,943	¥ 887,867	¥ 881,807	¥ 809,161	\$9,435,708
Vessel depreciation . . . . .	48,547	54,211	62,238	64,851	55,112	52,637	459,334
Other expenses . . . . .	776,355	733,329	699,269	667,661	690,936	630,405	7,345,586
Amortization of consolidation differences . . . . .	535	446	588	663	583	563	5,062
Other general and administrative expenses . . . . .	79,697	76,946	82,075	76,453	73,856	72,019	754,064
Operating income . . . . .	92,126	45,356	59,773	78,239	61,320	53,537	871,662
Equity in earnings of unconsolidated subsidiaries and affiliated companies . . . . .	6,613	3,387	4,426	3,681	1,403	4,127	62,570
Income before income taxes and minority interests . . . . .	89,776	25,114	24,851	20,860	15,314	15,338	849,427
Income taxes, current . . . . .	(35,346)	(10,872)	(6,101)	(19,473)	(6,427)	(8,362)	(334,431)
Income taxes, deferred . . . . .	2,152	1,435	(6,633)	7,709	(529)	–	20,361
Minority interests . . . . .	(1,191)	(967)	(1,572)	1,847	(33)	34	(11,269)
Net income . . . . .	55,391	14,710	10,545	10,943	8,325	7,010	524,088
<b>At year-end:</b>							
Current assets . . . . .	299,544	289,645	251,388	255,774	239,860	230,996	2,834,175
Current liabilities . . . . .	398,091	423,838	375,032	399,996	412,717	337,417	3,766,591
Vessels, property and equipment, at cost . . . . .	477,621	569,234	619,645	691,307	756,623	753,347	4,519,075
Total assets . . . . .	1,000,206	1,046,612	1,079,090	1,140,400	1,196,474	1,174,640	9,463,582
Long-term debt . . . . .	311,021	395,589	475,696	540,159	598,999	670,363	2,942,767
Shareholders' equity . . . . .	221,535	164,790	166,970	144,355	151,992	140,490	2,096,083
Retained earnings . . . . .	101,991	56,469	47,818	43,433	43,199	37,900	965,002
<b>Amounts per share of common stock (yen, U.S. dollars):</b>							
Net income . . . . .	46.14	12.16	8.76	9.01	6.77	6.33	0.437
Shareholders' equity . . . . .	185.06	137.44	138.78	119.88	123.63	126.81	1.751
Cash dividends . . . . .	11.00	5.00	5.00	5.00	4.00	4.00	0.104
(Translation of foreign currencies) The Japanese yen amounts for 2004 have been translated into U.S. dollars using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1.00, solely for the convenience of readers. (The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.)							
(Amounts per share of common stock) Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).							



## To Our Shareholders



**Akimitsu Ashida**  
President

**Kunio Suzuki**  
Chairman

Strategically and in terms of operating results, the past fiscal year was a momentous period for MOL. March 2004 marked the end of MOL *next*, a three-year plan that shifted our focus from internal actions to build a foundation for initiatives to actually achieve growth. We are pleased to report that we met all the plan's financial goals. During the three-year period, consolidated revenues rose 12% to ¥997,260 million. Operating income was more than twice as high as in the fiscal year that ended in March 2003, when earnings were held back by a number of one-time factors. Net income rose almost fourfold to ¥55,391 million.

Perhaps most gratifying, though, is the increase in our stock price from ¥240 at the end of March 2001 to ¥536 at the end of March 2004 when MOL *next* ended. Shareholders are also being rewarded with a ¥6 increase in the dividend to ¥11 per share, including a ¥1 commemorative dividend for our 120<sup>th</sup> anniversary. All in all, we are in an excellent position to move on to MOL STEP, our new growth-oriented plan launched in April 2004.

FY2001-2003 MOL <i>next</i> Target Achievement (Consolidated)			
(¥ billions)			
	FY2000	FY2003 (Target)	FY2003 (Result)
Revenue	¥ 888	¥1,000	¥ 997
Ordinary income	53	66	91
Net income	11	34	55
Earnings per share (Yen)	¥9.01	¥ 28	¥46.14
ROE (%)	7.4	15.0	28.7
ROA (%)	3.0	4.0	6.4
Equity Ratio (%)	12.7	20.0	22.1
Interest-bearing debt	¥ 745	¥ 600	¥ 492

### Strategic Goals Met—Beyond the Numbers

But the financial statements only tell half the story of the benefits of MOL *next*. The real story lies beyond the numbers, in the numerous initiatives we took to make these numbers possible. One theme was building a sounder financial position. We cut our debt by ¥252,919 million, or 34%, during the past three years, mainly using operating cash flows and proceeds from sales of vessels and other assets. Equity rose 53% during this period. Relentless cost-cutting amounting to approximately ¥34,700 million further contributed to earnings and cash flows. At the same time, we realigned and reinforced our business portfolio, chiefly through substantial investments to build a more profitable and competitive fleet. During MOL *next*, 71 vessels were added to our fleet, resulting in a net increase of 25 vessels between April 2001 and March 2004 at the parent company. Many of these investments targeted containerships and energy/natural resources, especially LNG carriers and dry bulkers.

### A Different Company

MOL *next* has transformed MOL into a company that is quite different from what we were just three years ago. Here are several illustrations.

**Containerships**—Long a major cause of earnings volatility at MOL, the performance of containership operations has become more stable during the past three years. This business generated losses in the first two years of MOL *next*, the result of the impact of the 9-11 terrorist attacks on the global economy, rising fuel costs and other challenges. In the final year, the benefits of our past actions and favorable market conditions lifted earnings well above our goal. With a streamlined infrastructure and a growing number of large, efficient containerships, MOL is now positioned among the world's most cost-competitive containership operators.

Strategically and in terms of operating results, the past fiscal year was a momentous period for MOL. March 2004 marked the end of *MOL next*, a three-year plan that shifted our focus from internal actions to build a foundation for initiatives to actually achieve growth.

**Dry Bulkers**—We had the foresight to place orders for many large bulkers several years ago when shipbuilding prices were relatively low. As some of these ships joined our fleet during *MOL next*, we gained an even more powerful presence in the global market for the ocean transportation of coal, iron ore, grain and other kinds of bulk cargo. No other company in the world can match our scale or the level of flexibility and service quality that we can offer our customers.

**Energy**—Expanding in this sector was one of central themes of *MOL next*. Taking advantage of our global reputation for reliability and safety, we added VLCCs, LNG carriers and other vessels operating on long-term contracts. During *MOL next*, the number of LNG carriers in which MOL participates increased from 35 to 42, and will reach 58 in March 2007. We are well positioned to continue benefiting from the rising global demand for imported energy sources, especially for LNG.

**Ferries**—We made great strides in ferry operations, too. Structural restrictions and other challenges have made it difficult to generate a profit. By taking many decisive steps, including the integration of subsidiaries, formation of business alliances and addition of new vessels, our ferry operations became profitable in the final year of *MOL next*.

#### The Biggest and the Best

MOL ranks as one of the world's largest shipping companies in a number of categories. But our central objective is to be the biggest and the best. That includes adhering to the highest standards of safety, citizenship and corporate ethics. It also means generating quality earnings, which basically means profits backed by higher margins. Furthermore, we want to have a distinctive identity. MOL is not an organization that merely follows industry-wide trends. This is why we have been concentrating resources on strategic

fields, such as natural resources and energy. Nevertheless, we are still only half way to reaching our goal of becoming a truly excellent company, one resilient enough to target every attractive opportunity in our industry. That is why we established the target of solidifying our financial position throughout MOL STEP. Once this target is met, we will be able to take on more risks in line with the financial strength so achieved, whether in the form of larger investments in growing sectors of ocean transportation or the launch of new businesses, to earn greater rewards.

The ultimate measure of performance is shareholder value, and we have definitely done well in this regard over the past three years. But as we embark on MOL STEP, I pledge to focus even more intently on continuing this process of value creation.

June 24, 2004



Kunio Suzuki  
Chairman



Akimitsu Ashida  
President

Interview with the Chairman

# MOL STEP— A Big **Step** Toward Sustainable **Growth**

The Chairman Discusses Issues Central  
to MOL's Future  
—The New Mid-term Management Plan  
"MOL STEP"



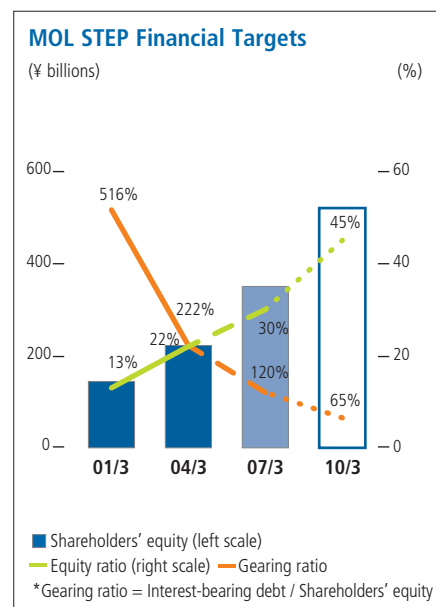
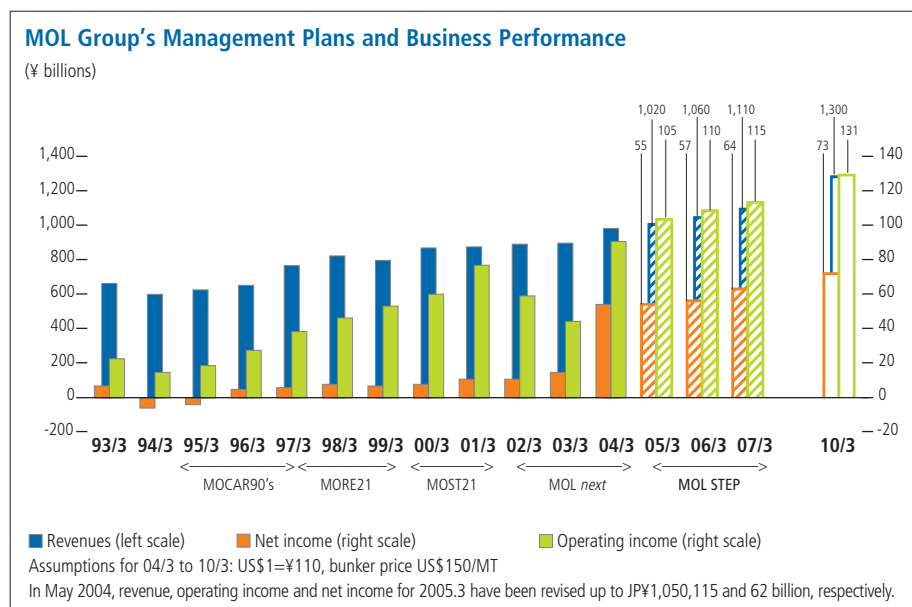
Kunio Suzuki  
Chairman

**Q**

**MOL has stated that MOL STEP is a blueprint for sustainable growth. How has this thinking been translated into specific strategies?**

The essence of this plan is embodied in its name: STEP stands for “strategy for becoming an excellent and powerful group.” Our desire is to be not only the world’s largest ocean transportation group, but also one with the highest quality and a unique identity. We are concentrating on two strategies. First is making aggressive investments in attractive sectors of the shipping industry. We plan to invest a total of ¥490 billion in new vessels during MOL STEP, adding 117 vessels to increase our fleet to about 620 vessels. The second theme is stepping up emphasis on growing markets. China is likely to be the largest source of growth in the coming years, but we are also looking ahead to emerging opportunities in India, Russia and elsewhere. In Europe and the Americas, we will expand our customer base by enhancing sales activities, the quality of services, and serving the growing demand for imported energy sources.

Through these measures, we plan to raise revenues and operating income by about 11% and 25%, respectively, during MOL STEP. Specifically, we plan to raise revenues to ¥1,110 billion, operating income to ¥115 billion and net income to ¥64 billion in the fiscal year ending in March 2007. We plan to build a much sounder financial position, too. Shareholders’ equity is to rise 58% to ¥350 billion, mainly from retained earnings, bringing interest-bearing debt down from 222% of equity as of March 2004 to 120% by March 2007. This greater financial strength will give us much more freedom to act quickly and decisively when attractive opportunities arise. These actions will also be instrumental to establishing the unique identity I mentioned.



**Q** **Would you briefly describe your strategies and goals for the shipping business? Why are you confident that these goals will be met?**

In managing MOL, the most crucial decisions of all are those involving the fleet. We are constantly weighing various options to determine which market sectors offer the best opportunities. Expansion is to take place primarily in two domains of transportation: natural resources and energy, and finished products. In the natural resources and energy transport sector, we plan to increase our fleet from 414 vessels as of March 2004 to 470 by March 2007 and 550 by March 2010, to solidify our world-leading position. To achieve this growth, we plan to begin operating 98 new vessels during MOL STEP and 95 new vessels during the following three-year period. The transportation of finished products is another strategic field of ours, and one that is expanding rapidly worldwide. Our fleet for transporting products, which mainly represents containerships and car carriers, is slated to rise from 133 vessels in March 2004 to 150 in March 2007 and 170 three years later, in line with market growth. Logistics operations are to grow in tandem with

this business sector, as we increasingly focus on offering solutions that target specific customer needs. Based on these plans, we are planning to raise revenues to ¥1,110 billion and operating income to ¥115 billion by the fiscal year ending in March 2007.

Our confidence level regarding MOL STEP is very high. Virtually all new vessels during this three-year period are either under construction or on order. And these vessels were ordered before the recent increase in the cost of building new vessels. Furthermore, we already have long-term contracts for more than two-thirds of these vessels, other than the containerships and car carriers. So we are confident that earnings during MOL STEP will not differ from our projections. Because of this visibility, we are now working with customers on plans for activities for the three-year period beginning in 2007. This is why MOL STEP includes targets for the fiscal year ending in March 2010.

**Q** **What is your outlook concerning expansion of the ocean transportation market during MOL STEP? Where are the greatest opportunities?**

In the past fiscal year, estimated growth in global containership volume was 8%, with most of this increase coming from exports from China. Most noteworthy is that most of the contracts for this cargo are coming from importers in U.S. and Europe that are outsourcing manufacturing to China. With the global economy generally healthy, and companies making increasing use of the international division of labor, we expect to see annual growth of about 8% to 10% over the next several years in demand for space on containerships.

The outlook for car carriers is positive. We will concentrate on Japan and South Korea, where export volumes are likely to remain solid even as auto makers in these countries step up overseas production. At the same time, we will be seeking more opportunities in cross trades in regions such as Europe, Southeast Asia and Latin America.

The main sources of growth for dry bulk will be China and India, with the largest share of growth coming from iron ore exported from Australia and Brazil to China. Since this is a market where most ships operate on multi-year contracts, profitability should be stable.

In the energy sector, we foresee strong growth in demand for crude oil imports in China and the U.S. Regarding LNG, the U.S. will be a primary source of growth in imports as natural gas demand exceeds pipeline capacity. Qatar will account for much of this LNG. And since the U.S. is about 30% farther from Qatar than Japan is, rising U.S. imports will have a big impact on demand for LNG carriers. European countries are also expected to step up LNG imports.

Regarding China, our goal is sustaining stable growth by capitalizing on opportunities in shipping and related businesses that emerge as this nation's economy continues to expand. Outside China, the U.S. and Europe will present many long-term opportunities for growth in energy shipments, mainly crude oil and LNG. We will also be closely watching developments in India, Russia and other regions that may become significant sources of business in the future.

I also want to point out that Japan will remain very important to us as a base for a large percentage of our customers. We expect stable growth in demand for our services.



## Q In what ways is MOL fulfilling its obligations with regard to corporate citizenship?

The MOL Group views corporate governance as a vital means of maximizing value for all stakeholders by increasing the transparency of management and allocating resources in an optimal manner. Compliance is an integral part of this. We take a variety of measures to ensure strict compliance with laws and regulations, as well as ethical and social standards. One illustration is a unit that group employees can contact concerning questions and concerns about any compliance issue. And to help provide an objective viewpoint for assuring that management decisions are proper and reflect the interests of shareholders, we have three directors and two auditors from outside the group.

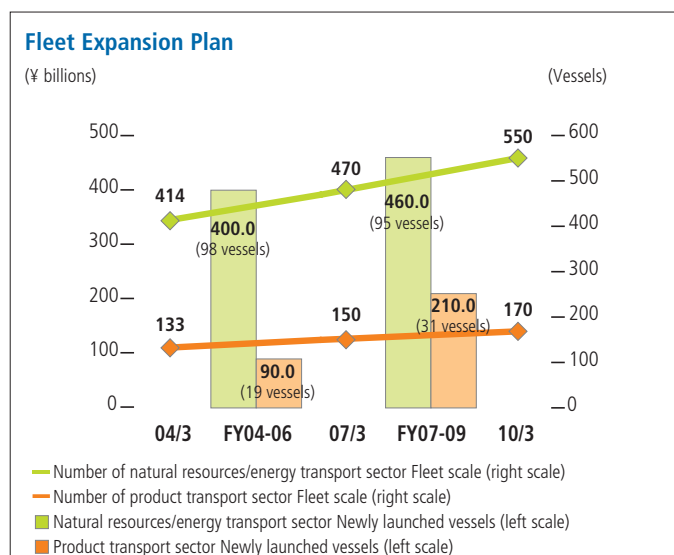
As an operator of hundreds of ships, we take environmental issues very seriously. We have one of the most extensive and sophisticated programs in the industry to ensure safe navigation and minimize the release of pollutants from our ships. For example, we will reach our goal of an entirely double-

hulled VLCC fleet by March 2007, about four years before the MEPC deadline for phasing out single-hull tankers. We have our own environmental management system, MOL EMS 21, which incorporates a PDCA (plan, do, check, act) cycle and has received ISO 14001 certification. Specific targets are established for the prevention of pollution, energy conservation and other themes. And when ordering new vessels, we incorporate the latest technology to minimize fuel consumption and the overall environmental impact.

## Q Finally, would you give us your thoughts on maximizing shareholder value?

As I stated earlier, our goal is to be a strong yet flexible corporate group that is a leader in the global ocean transportation industry. This primarily involves putting together a large and highly competitive fleet and building a framework capable of meeting a diverse range of customer needs. Relentless cost-cutting measures will continue at the MOL Group. All group companies are involved in formulating and executing cost-reduction plans. The entire group is dedicated to working together to enhance consolidated profitability by making business operations and administrative processes

more efficient. Through MOL STEP, which as the name implies, is the next step in our growth, we will continue to channel resources to two types of fields: businesses exhibiting the most growth potential, and businesses where we can be most competitive. Employing resources based on this policy is the best way to meet the expectations of shareholders by generating sustainable growth.



### Cost Reduction Plan

(¥ billions)

	2005.3	2006.3	2007.3	Total
<b>Sales Division</b> <i>(Voyage expenses, Cargo/container expenses, etc.)</i>	4.0	3.5	3.5	11.0
<b>Administration Division</b> <i>(Vessel expenses, Administration expenses, Interest payments, etc.)</i>	2.5	3.0	3.5	9.0
<b>Total</b>	6.5	6.5	7.0	20.0
MOL (Non-Consolidated)	5.5	6.0	6.0	17.5
Group Companies	2.0	1.5	2.0	5.5
Contribution to MOL	-1.0	-1.0	-1.0	-3.0

**Long-term vision: To make the MOL Group an excellent and**

**Main theme: "Growth" – Develop the MOL Group into the world's largest, highest-quality,**

**Strategies for growth – Focusing on the expanding global ocean shipping market**

- **Aggressive investment in shipping industry – Create a unique business portfolio by selectively allocating resources in growing areas**
  - 1) Natural resources/energy transport business: Solidify the MOL Group's world-leading position by further expansion.
  - 2) Product transport business (by containerships, car carriers, logistics): Meet diversified customer needs and grow in time with the market.
- **Increase business in high-growth markets around the world**
  - 1) Chinese market: Participate in all facets of burgeoning ocean shipping, taking advantage of business opportunities such as natural resources and energy, automobiles, and other product exports.
  - 2) European and American markets: Expand customer base by offering high-quality services and strengthening sales force.
  - 3) Emerging markets: Secure business in markets such as India, Russia, etc., which show significant potential for future growth.

**Natural resources/energy transport field**

	<b>Dry bulk carriers</b>	<b>Tankers</b>	<b>LNG Carriers</b>
	Consolidated subsidiaries: 54 Equity method affiliates: 6	Consolidated subsidiaries: 81 Equity method affiliates: 4	Consolidated subsidiaries: 21 Equity method affiliates: 7
<b>Fleet scale</b>	FY2003 414 vessels	FY2006 470 vessels	FY2009 550 vessels
<b>Newly launched vessels</b>	From FY2004 to FY2006 98 vessels/¥400 billion		From FY2007 to FY2009 95 vessels/¥460 billion

**Total newly launched vessels and investment scale: 243 vessels, ¥1,160 billion (FY2004 – FY2006: 117 vessels, ¥490 billion);**

**Strategies to strengthen competitiveness – to ensure sustainable growth of the MOL Group**

- \* Strengthen customer-oriented sales force
- \* Strengthen cost competitiveness (accumulated target of cost reduction for 3 years: ¥20 billion)
- \* Offer high-quality services

**Safe operation**

# STEP

Towards Excellent and Powerful Group

resilient organization that leads the world shipping industry

unique ocean transportation company group with full range of services.

## Consolidated Financial Goals

(unit: ¥ billion)

	FY2003	FY2004	FY2005	FY2007	FY2009
Revenue	997	1,020	1,060	1,110	1,300
Operating income	92	105	110	115	131
Ordinary income	91	100	105	110	125
Net income	55	55	57	64	73
Ratio of ordinary income to revenue	9.2%	9.8%	9.9%	9.9%	9.6%
Shareholders' equity	222			350	520
Equity to total assets	22%			30%	45%
Gearing ratio*	222%			120%	65%

\* Interest-bearing debt divided by Shareholders' equity

(Assumed exchange rate: US\$1=¥110, bunker oil \$150/MT)

## Product transport business field

### Containerships

Consolidated subsidiaries: 32  
Equity method affiliates: 6

### Car carriers

Consolidated subsidiaries: 13  
Equity method affiliates: 4

### Logistics

Consolidated subsidiaries: 19  
Equity method affiliates: 5

Fleet scale	FY2003	FY2006	FY2009
	133 vessels	150 vessels	170 vessels
Newly launched vessels	From FY2004 to FY2006		From FY2007 to FY2009
	19 vessels/¥90 billion		31 vessels/¥210 billion

Develop solutions that meet customer needs and fully utilize our human resources, worldwide network, and information technologies, with MOL Logistics at the core.

FY2007 – FY2009: 126 vessels, ¥670 billion)

## Group business

Ferry and domestic transport  
Cruise ships  
Tugboats  
Maritime consulting  
Temporary staffing  
Trading  
Construction  
Real estate, building maintenance  
Others  
Consolidated subsidiaries: 31  
Equity method affiliates: 6

\* Maintain and develop surrounding businesses with ocean shipping as core.

## Environmental protection

## Strategies to increase corporate strength – to prepare for a new stage of growth

- \* Strengthen financial position
- \* Expand groupwide management
- \* Develop human resources

# What **China** Means to the Future of **MOL**





## China's Rising Demand for Natural Resources and Energy

In March 2004, MOL signed a 20-year contract with Shanghai Baosteel Group, China's largest steelmaker, to operate a 300,000-ton class "very large ore carrier." To be completed in the second half of 2008 or first half of 2009, the vessel will carry iron ore from Brazil to China. This is the fourth ship to operate under a long-term contract between Baosteel and MOL. Excluding its shipping subsidiary, Baosteel had relied almost entirely on the spot market for its ocean transport needs until recently. A senior executive at Baosteel noted that only MOL could provide the required vessels, and that this ability was the key to forming a partnership with MOL. This relationship is still expanding: Baosteel is considering the construction of even more vessels in conjunction with MOL.

In its 2003 annual report, MOL stated that "we also expect better results in dry bulk thanks to the consistent growth in crude steel production



Contract Signing Ceremony with Shanghai Baosteel Group

worldwide, especially in China." MOL then confirmed this outlook by using its own network to gather information in China, and decided to place a large order for Capesize bulkers ahead of other shipping companies—and before tight capacity prompted shipyards to raise prices.

As table 1 shows, China's iron ore imports in 2003 were 148 million tons, 37 million more than in 2002. This growth was responsible for much of the global increase in iron ore shipments as well as for the healthy market conditions for the entire bulker market. As is often the case in countries with economies that have started to take off, China requires huge volumes of steel for massive construction projects. There are now many highways,

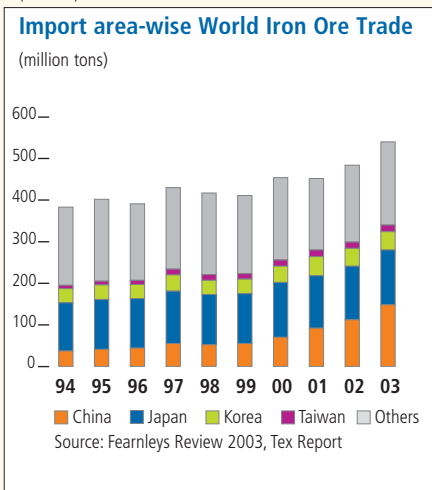
bridges and other infrastructure projects leading up to the 2008 Beijing Olympics and 2010 Shanghai Expo, as well as for development of western regions of the country. Also driving demand for steel are manufacturing, notably for autos and ships (see table 2), and public-works projects requiring water and fuel pipes. The Chinese government is supporting this growth while at the same time keeping the market from becoming overheated by encouraging the closing of unproductive small and midsize steel mills. The resulting growth rate in iron ore imports will most likely not be below the pace at which the supply of bulk carriers rises. Based on its rising need for iron ore along with expectations for bulker rates to remain relatively high, Baosteel decided to enter into long-term contracts with MOL to ensure a reliable flow of raw materials. Baosteel's stance meshes well with MOL's policy of building long-term relationships with trustworthy partners rather than pursuing big short-term profits during the brief periods when rates are unusually high.

The positive outlook for bulkers is not limited to China's steel industry. The highly competitive 35 Capesize bulkers that MOL has ordered (as of May 2004), the first of which was completed in January 2004, are attracting attention among Japanese steelmakers. During the past year or so, MOL has signed a number of medium- to long-term contracts with these companies, MOL's core customer segment for these bulkers.

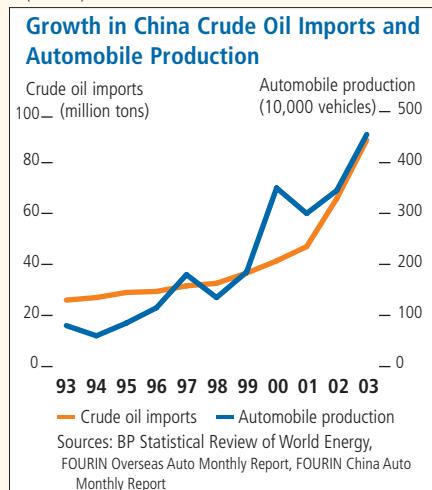
In fiscal 2003, China accounted for only about 1% of iron ore transported by MOL. According to MOL's plans, this share will rise to 5% in fiscal 2006 and 10% in fiscal 2009. Iron ore transport exemplifies MOL's China strategy. While closely monitoring opportunities in this market, MOL aims to reap benefits directly and indirectly from medium- and long-term perspectives. Earnings will be generated in a flexible yet stable manner that does not aim for short-term gains or result in an undue reliance on the Chinese market.

Of course, resources for steelmaking are not the only market sector in China having an impact on global demand for ocean transportation. China has been a net importer of crude oil since 1993. In 2003, China passed Japan to become the world's second-largest consumer of oil. That year, its

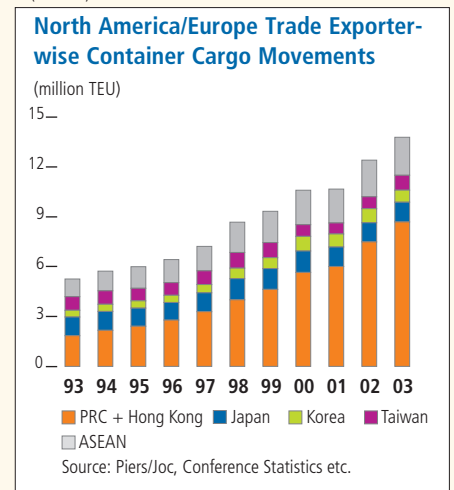
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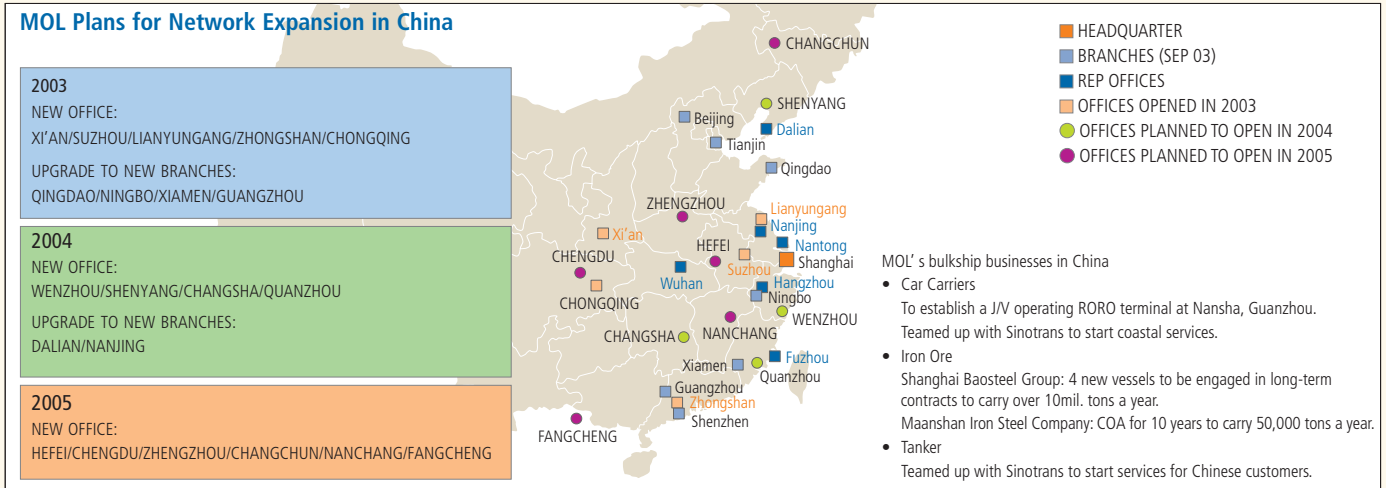
(Table 2)



(Table 3)



(table 4)



crude oil imports were more than 91 million tons (see table 2), 31% more than in 2002. Growth on this scale is one of the underlying factors supporting today's high crude oil prices and tanker rates. With a large fleet of VLCCs, MOL is a major beneficiary of the favorable market conditions. As the first step toward expanding its role in crude oil transport to China, MOL in April 2004 established a 50-50 joint-venture company with China's Sinotrans Ltd. The new company immediately started operations by purchasing a VLCC from MOL.

Besides iron ore, MOL also has its eye on China's rising demand for other dry bulk cargo. In June 2003, MOL became a senior partner in International Handybulk Carriers, which has bases in Hong Kong and Shanghai and is one of the world's largest independently managed pools of handysize bulk carriers. Targeting rising demand in China for wood chips and pulp for papermaking, MOL has begun entering into agreements with Chinese companies to operate the specially designed vessels needed to transport these materials.

### Exports From "The Factory to the World" Continue to Climb

MOL's strategy for China is based on a balanced approach covering domestic demand as well as exports. As table 3 shows, shipments of finished products from Asia to Europe and North America have increased by 2.4 times over the past decade. China is obviously the primary source of this growth. In 2003, China, including Hong Kong, accounted for a remarkable 63% of total Asian exports.

Much of this expansion is due to the transfer of factories to China, a trend that is evident in the fact that contracts with importers account for about 80% of MOL's exports from China to Europe and North America. Nothing but a weakening in the economies of importing nations could possibly have an impact on the strength of China's exports. But no slowdown in outsourcing of production to China is likely as long as there are importing nations whose citizens demand inexpensive household goods.

China continues to be a highly cost competitive manufacturer due to the enormous pool of labor in interior regions of the country. Furthermore, China has improved its legal structure for foreign investments and trade to some extent following its 2001 admission to the WTO. And by skillfully managing the foreign exchange issue, China is preserving its position as the factory to the world. According to a foreign direct investment survey by prominent U.S. consulting firm A.T. Kearney, Inc., China was chosen in both 2002 and 2003 as the world's most attractive country for direct investments.

To target the rapid growth in China's finished product exports, MOL is stepping up sales activities in importing nations. At the same time, based on a three-year plan ending in 2005, 29 sales offices (see table 4) are being added in China, including in inland cities. Additionally, MOL is increasing the frequency of calls to Chinese ports by containerships (see table 5) and is participating in the Shanghai Super Express, an innovative high-speed RORO (roll-on/roll-off) service between Shanghai and Japan.

In the car carrier sector as well, MOL is laying the groundwork for future growth. With Sinotrans, MOL in April 2004 established a company to ship cars on domestic routes along the Chinese coast. This joint venture is positioning MOL to help meet projected needs for transporting export vehicles in the future.

(table 5)

### Growth in Containership Service in China

2003	May	Started Japan-Taiwan-Hong Kong-southern China service
	May	Started direct service from southern China to U.S. West Coast
	June	Started loop service linking Shanghai and southern China with the U.S. East Coast
2004	Feb	Added Shanghai call to Asia-southern/western Africa service
	April	Started northern China-Philippines-Indonesia service
	June	Added route with first northern China port call to China-southeast Australia service
	June	Started U.S. West Coast service originating in northern China
	July	Started Asia-northern Europe loop service originating in southern China

In the logistics sector, MOL is participating in bonded warehouse projects in Shanghai and Shenzhen. And, as was noted earlier, since most exports are linked to outsourced production and the purchase of finished goods from Chinese suppliers, MOL is reinforcing its ocean consolidation business in Shanghai, Shenzhen and Hong Kong.

### Fundamental Shifts in Global Cargo Flows

MOL's ocean consolidation business is an effective means to attract major clients for exports from Southeast Asia as well as China. After all, the regional shifts and growth in ocean cargo movements has been occurring for many years. Initially driven by NIES and the ASEAN countries, shifts were then shaped by China (see table 6). Now, we are witnessing the emergence of India, Brazil and Russia as significant forces in the ocean transport market.

Growth in global ocean cargo movements is shown in table 7. The increases in containers, LNG and coal have all exceed global GDP growth every year, and iron ore volumes surpassed GDP growth as well in 2003. With the end of the Cold War, the socialist economic bloc, which then accounted for about one-third of the world's population, joined the market economy. The greater cross-border trust that resulted also broke down barriers that had prevented the international division of labor. And now south Asia, which has a collective population about the same as China's 1.3 billion, is becoming part of this trend. Furthermore, the rising distances between supply sources and importing nations are pushing up demand for ocean transport. So current trends in global logistics are not limited to China, but are in fact bringing about momentous changes on a global scale.

This is good news for companies like MOL. But success requires the ability to take concrete actions as far ahead of competitors as possible. The steep growth of LNG and container transport in recent years demonstrates the wisdom of MOL's decision to concentrate on these market segments during MOL *next*. In India, a market just now attracting attention, an LNG

carrier managed by MOL delivered that country's first LNG shipment in January 2004. Two months later, MOL established a joint-venture company with a prominent U.A.E. conglomerate to transport crude oil to India. MOL is also expanding its presence in Russia and Brazil for the transport of natural resources and containers.

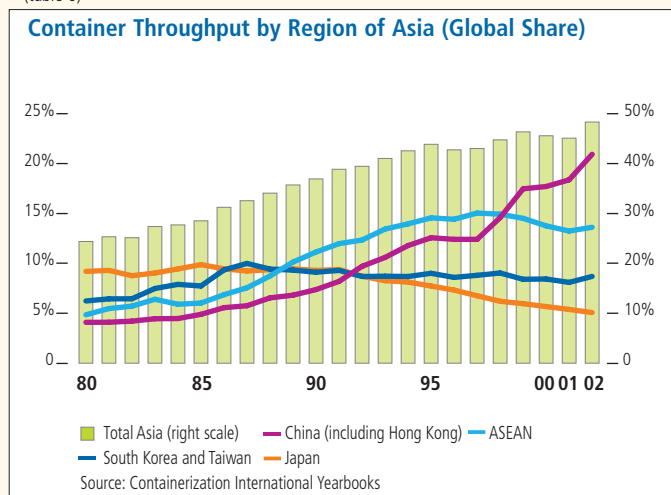
MOL's vision, backed by close ties with Middle East energy exporting nations, extends beyond countries such as China, Brazil, India and Russia. For instance, MOL was the first shipping company to realize what the magnitude of potential growth in U.S. demand for LNG means to the industry. Another example is refined petroleum products. Noting that petroleum imports by the U.S. are projected to rise by 2.3 times between now and 2025, MOL immediately went out to see customers to confirm this trend. This led to the conclusion that imports of refined products would increase as a share of U.S. petroleum imports. This finding led to MOL's placement during fiscal 2003 of a huge order for product tankers.

### What China Means to the Future of MOL

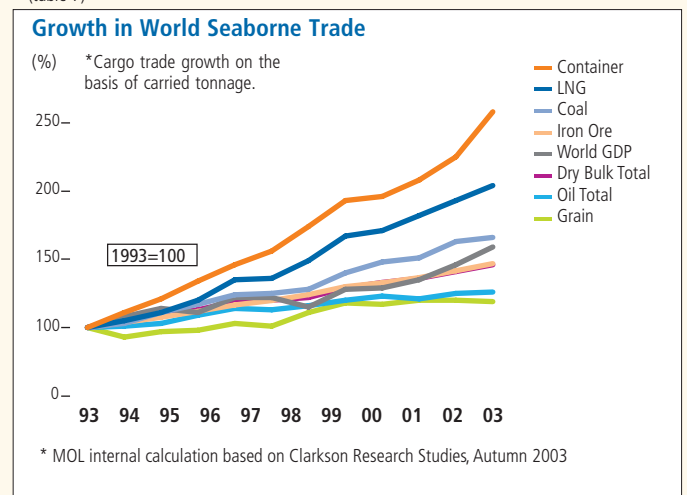
Gather information from many sources. Confirm the information through its own network. Make decisions quickly. This is the MOL formula for success in China and elsewhere. One illustration was the prescient decision in 2003 to place a large order for iron ore carriers. Another is the placement of orders for product tankers.

MOL will continue to closely monitor trends in ocean transport, aiming to be the first to take advantage of emerging opportunities. MOL believes that the ability to accurately analyze trends and quickly take appropriate actions is the key to sustainable growth for shipping companies. Within this context, MOL regards China as both an example and major component of the dramatic changes now taking place in global cargo flows. MOL's recent accomplishments in China therefore represent just the first of many steps to be taken worldwide that will establish a sound foundation for sustainable growth.

(table 6)



(table 7)



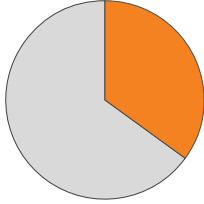
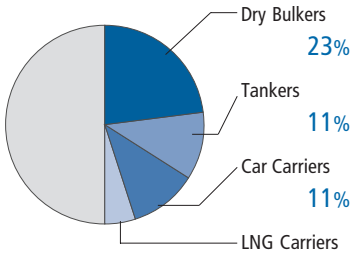
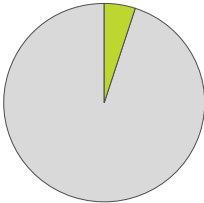
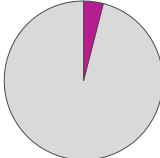
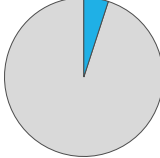
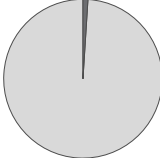
## MOL At a Glance

The following is a summary of MOL's business activities based on the business segments that have been newly adopted for the fiscal year ending March 2005.

		Revenues	
<b>Containerships</b>		(¥ billions)	
		<b>345.0</b>	<b>370.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>
<b>Bulkships</b>		(¥ billions)	
		<b>494.6</b>	<b>520.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>
<b>Logistics</b>		(¥ billions)	
		<b>52.9</b>	<b>55.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>
<b>Ferry and Domestic Transport</b>		(¥ billions)	
		<b>42.1</b>	<b>42.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>
<b>Associated Businesses</b>		(¥ billions)	
		<b>54.6</b>	<b>55.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>
<b>Others</b>		(¥ billions)	
		<b>8.0</b>	<b>8.0</b>
		<b>04/03 (Results)</b>	<b>05/03 (Outlook)</b>

The results of 04/03 were un-audited due to change of business segments.



Business Description	Sales Breakdown by Segments
<p>MOL has a fleet of 71 containerships, serving customers in the Americas, Europe, Asia and on other major trade routes. MOL, APL and Hyundai Merchant Marine make up The New World Alliance (TNWA), which encompasses 92 containerships, placing it at the forefront of the global containership industry. Backed by a state-of-the art information system, investments in new vessels and relentless cost-cutting measures, the MOL Group has significantly raised operating efficiency while enhancing the quality of customer services.</p>	 <p>35%</p>
<p>MOL operates 280 <b>dry bulkers</b>, the world's largest fleet of vessels to carry iron ore, coking and steaming coal, wood chips, grain and other types of dry bulk. In <b>car carriers</b>, MOL has a 65-vessel core fleet and offers services of the highest quality, maintaining close ties with customers and accounting about 20% of the global car trade. In the energy transport field, MOL ranks first in the world with 110 <b>tankers</b> to carry crude oil, products, chemicals and LPG. MOL is also the world leader in <b>LNG carriers</b>, participating in projects with a total of 42 vessels. This segment is characterized by its high percentage of locked-in revenue from long- and medium-term contracts.</p>	 <p>50%</p> <ul style="list-style-type: none"> <li>Dry Bulkers 23%</li> <li>Tankers 11%</li> <li>Car Carriers 11%</li> <li>LNG Carriers 5%</li> </ul>
<p>The June 2003 upgrading of the Logistics Office to the Logistics Business Division created a centralized head office unit to formulate and execute strategies for logistics operations across the entire MOL Group. This enables the group to capture the greatest possible synergies among MOL's business segments. Group logistics companies, now unified under MOL Logistics brand, are taking many actions to expand operations, including strengthening air cargo operations and the ocean consolidation business in China.</p>	 <p>5%</p>
<p>With an extensive domestic service network that is now integrated to return to profitability, MOL offers a variety of high-grade transportation services. Two examples are a 30 knot high-speed cargo ferry, and the launch of a roll-on, roll-off (RORO) joint service with another transportation company. These and other MOL services are attracting much attention as a model for the Japanese government's "modal shift" policy, which is aimed at protecting the environment.</p>	 <p>4%</p>
<p>Operations in this segment include a cruise ship business, mainly using <i>Nippon Maru</i>, and a tugboat service with one of the largest fleets in Japan. Other businesses include marine consulting, real estate, manning, trading and many other activities, most of which target business opportunities by focusing on fields related to ocean transport.</p>	 <p>5%</p>
<p>Major activities included in this business segment are manning, ship management, finance and information system development. Most of these activities involve the provision of administrative functions for the MOL Group.</p>	 <p>1%</p>

# Containerships



**Hiroyuki Sato**  
Deputy President

## Years of hard work produce a strong recovery

After many difficult years during the 1980s and 1990s, containership performance finally began to rebound as the current decade began. The turnaround was mainly the result of MOL's aggressive steps to cut costs and enhance services along with better market dynamics.

A central goal of MOL *next* was to build a framework for sustainable profitability and growth. Due to challenging market conditions early in MOL *next*, notably in the wake of the 9-11 terrorist attacks, containership earnings fell well short of goals during the plan's first two years. However, performance in the plan's final year was solid, backed chiefly by strong growth in cargo volume, relentless cost-cutting measures and the success of rate restorations in the key east-west trades. North-south trades also returned to profitability. The overall result was a ¥29.7 billion improvement compared with the ¥9.7 billion loss in the prior fiscal year.

## The containership business transformation gains momentum

Containership operations are undergoing the greatest transformation in well over a decade. Most obvious is the change in the fleet, with the delivery of 16 containerships having been completed late in 2003. Ranging from 4,500TEU to 6,400TEU, these highly efficient vessels are now plying routes linking Asia with North America or Europe. With annual growth in container cargo volume projected at 8% to 10% over the next few years, the additional capacity is timely. As the new vessels joined the fleet, many mid-size capacity vessels were cascaded to north-south trades, making MOL more cost competitive.

The ongoing transformation is making MOL more resilient to volatility in freight rates, an inherent facet of containership operations due to the absence of long-term contracts. Most significant are the great strides in recent years in making operations more cost competitive. In fact, ¥24.0 billion was removed from the containership cost structure during MOL *next* alone. With a lean operating structure, MOL will be able to preserve a better financial position than competitors

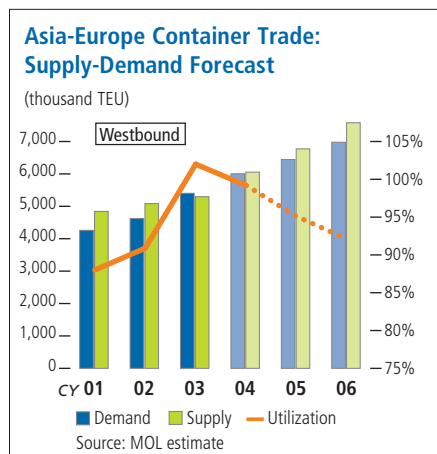
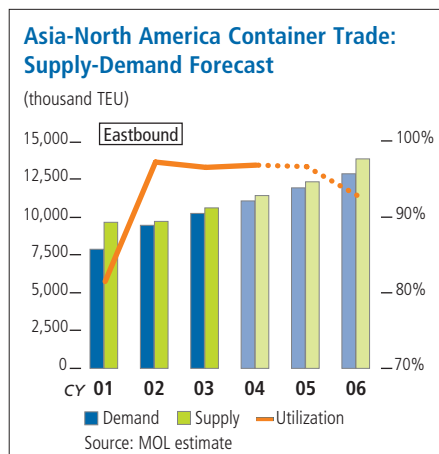
even during market downturns. And MOL is now confident that markets will rebound from downturns more quickly than before because container operators have learned that, with today's narrower differences of operating costs, self-destructive rate-cutting competition will produce no winners. Stronger demands for profits by their shareholders are also helping to prevent excessive rate cutting.

## Investments continue to upgrade and enlarge the fleet

Due to the strong final year of MOL *next*, MOL has raised its containership earnings target for the three years of MOL STEP, foreseeing strong and generally stable earnings during the entire period.

Exports from China continue to be the primary source of growth in demand for containership services, as global out-sourcing of production progresses. In 2003, container volume rose 7.4% on the trans-pacific trade and 16.9% on Asia-Europe trade. During MOL STEP, six 6,350TEU containerships will join MOL's fleet, followed by two more soon afterward along with four 8,100TEU vessels. On the other hand, our initiatives to reduce our expenses continue. Plans to eliminate approximately ¥3 billion each year during MOL STEP will target terminals, trucks and other cargo-related expenses; measures to use equipment more effectively; and the cutting of administrative and ship expenses. Participation in TNWA, which covers about 100 containerships, will remain a central element in holding down expenses while maximizing the quality of services on trunk routes. Making MOL even more competitive is one of the industry's strongest customer-driven teams of professionals in container logistics.

Overall, the outlook for containerships is good. Favorable supply-demand dynamics indicate that rates will be stable at the least and may even rise, although visibility for rates drops over a longer time frame. As MOL introduces new vessels while making further gains in cost cutting, containership operations will be even better structured to generate consistently solid returns on capital over the long term.



# Bulkships



**Dry bulkers**  
**Masao Sagara**  
 Senior Managing Director

## Dry bulkers

### Solidifying MOL's global leadership

In this category, which mainly represents the transportation of iron ore, coal, wood chips, grain and steel, operating results were generally in line with the goals of MOL *next*, despite a brief downturn in 2002 as dry bulker rates fell to an unusually low level. Most significantly, MOL was well over its targets with regard to the restructuring of the fleet, the placement of timely orders for new launchings, and the acquisition of new contracts. Overall, this business is now well positioned to achieve the targets set forth in MOL STEP.

During 2003, MOL placed a large number of orders for bulkers, mainly in the Capesize class. The timing was perfect: Today, the cost of building bulkers is much higher. Furthermore, these new vessels are being delivered precisely as demand for large-scale bulkers is expected to be strongest. A total of 35 Capesize bulkers began joining the MOL fleet in January 2004; long-term contracts have already been signed for more than two-thirds of these vessels.

For smaller sizes of bulkers, the fleet has been restructured. Charter contracts with relatively high charterages were terminated, and most of the small handy-size bulkers in the 18,000 to 26,000 ton range were replaced by larger vessels that match current demand patterns. When MOL merged with Navis in April 1999, there were about 100 Panamax and handy-size vessels. By the end of MOL *next*, the small bulker fleet had been reborn as a highly cost-competitive fleet of about 60 time-chartered and 15-20 spot-chartered vessels.

Dry bulker operators witnessed the most buoyant market conditions in almost a decade during the past fiscal year. But the speed of the recovery increased idle time for bulkers due to port congestion, preventing companies from fully reaping

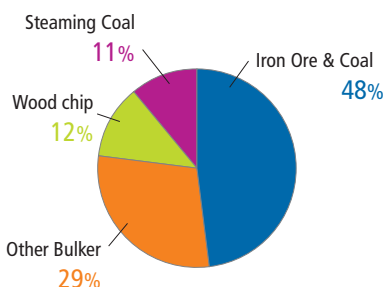
the benefits of the upturn. A full-scale rebound in operating results will thus not begin until the 2004 fiscal year. The long-term outlook is solid. In the iron ore category, for example, current market conditions are likely to last at least until 2008. A large increase in demand for iron ore is foreseen, especially in China. But since the world's shipbuilders are operating at full capacity, new orders for bulkers cannot be accepted until at least 2007.

As in recent years, MOL's basic policy will be to take advantage of strong market conditions and the competitive fleet to enter into medium- and long-term contracts on the current favorable terms, thus locking in long-term revenue streams. About half of the Capesize bulker fleet of 65 to 70 vessels operates on long-term contracts. The goal is to operate the remainder on COA (Contract of Affreightment) contracts with a length of about three years. In line with this policy, the lock-in rate is 95% in fiscal 2004, 70% to 80% in fiscal 2005 and 60% to 70% in fiscal 2006. Furthermore, due to consistently strong demand, considerable earnings are foreseen from smaller sizes of bulkers as well. Most of specialized carriers for wood chips and steaming coals operate on long-term contracts.

Due to this environment, MOL is virtually certain to meet the dry bulker goals set forth in MOL STEP.

MOL is the world's largest operator of dry bulkers. This position gives the company unsurpassed access to market and customer information, along with greater flexibility in supplying vessels when and where customers require them. Thanks to these strengths, MOL was recently able to capture in long-term contracts to supply five 230,000/320,000-ton-class large Capesize bulkers to three steel mills in Japan and one in China. During MOL STEP, still more progress will be made in building on this strength to establish an operating framework for bulkers that is highly profitable and resilient to market downturns.

### Dry Bulkers Revenue Breakdown



**Car carriers**  
**Setsuyasu Hagiwara**  
 Managing Executive  
 Officer



**Tankers  
 LNG carriers**  
**Tokinao Hojo**  
 Deputy Chairman



## Car carriers

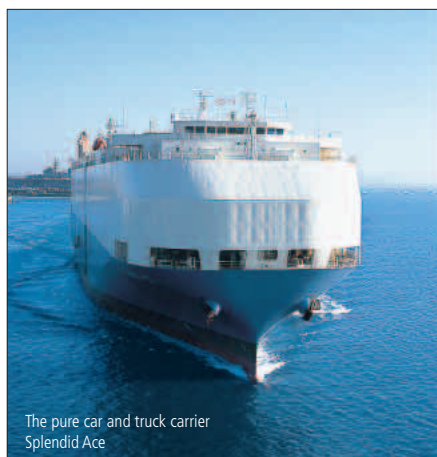
### Targeting overseas opportunities for growth

Continued growth in Japanese car exports during 2003 helped MOL to significantly increase its car carrier operations. The addition of larger, more efficient vessels to the MOL car carrier fleet, and an increase in the volume of vehicles carried in cross trades, also contributed to this expansion.

Due to strong demand in 2002, the car carrier industry was at times unable to supply sufficient capacity to meet customer needs. In 2003, with six new car carriers joining the fleet, MOL was comfortably positioned to accommodate the increase in car exports from Japan, and finished the year with a strong performance. The arrival of these six new vessels in 2003 had a significant impact on operations. In addition, four vessels are scheduled for delivery in 2004, six in fiscal 2005 and two in fiscal 2006. By 2007, all 18 car carriers ordered in the early 2000s will be in service, giving MOL a highly competitive, modern car carrier fleet.

Over the long term, the greatest growth in auto exports is expected in South-east Asia, China, and emerging producing regions such as Mexico and South America. MOL will use its competitive strength and emphasis on customer care and satisfaction to retain and build upon its existing business. MOL will also seek new opportunities to generate the consistent growth called for by MOL STEP, the new three year management plan.

MOL is proud to offer its customers a car carrier service that places a premium on safe and efficient operation, backed by many vessels that incorporate sophisticated environmental protection measures. MOL's workforce is trained to closely monitor all aspects of operations to identify ways to improve services and to ensure damage-free loading and unloading. The car carrier sector has good prospects for continuous growth, and MOL is well placed to be a primary beneficiary.



## Tankers

### Prioritizing profitability and safe navigation

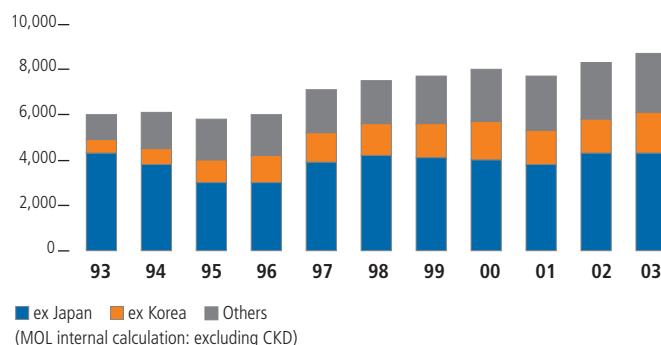
During MOL *next*, energy-related shipping was positioned as one of MOL's primary sources of growth. Fleet expansion coupled with generally strong market conditions enabled MOL to meet or exceed performance targets in this category. Improvements in tanker operations highlighted these improvements. Only a break-even business as recently as 1999, tankers now generate solid returns thanks to a relentless drive to sell or refinance high-cost vessels and take other steps to restructure the fleet. Today, MOL has one of the most competitive and credible tankers fleets in the world.

During the three years of MOL *next*, MOL ordered nine VLCCs, an investment that will make its entire VLCC fleet double-hulled by March 2007. An IMO Marine Environment Protection Committee decision in principle bans the use of single-hull VLCCs from 2010. By completing this process early, MOL has held down the cost of its VLCC fleet by avoiding an expected increase in the cost of building these vessels as the deadline approaches. While MOL's basic policy is to operate VLCCs on long-term contracts, between 10% and 15% of the fleet is typically operated on spot rates. Rising demand for crude oil in China and the United States is holding spot rates high, a trend that MOL expects will continue.

Significant growth is occurring in the product tanker fleet. MOL is targeting many opportunities in the transport of refined petroleum products. In December 2002, an order was placed that will raise MOL's fleet of MR (25,000 to 55,000 tons) tankers from 10 to 25. In February 2004, MOL ordered seven LR1 (55,000 to 85,000 tons) tankers, which will increase this fleet to 10 vessels. Oil-producing nations are increasing exports of refined products at the same time industrialized nations are finding it difficult to expand refining capacity due to environmental and other considerations. Demand for imports of these products is thus certain to grow, especially in China and the United States.

### World Car Carrier Trade

(thousand vehicles)





Also MOL is solidifying its world-leading position in the ocean transport of methanol, a steadily growing market that requires considerable expertise.

Overall, MOL *next* was generally a period for acquiring and ordering the tools for growth. Having largely completed this process, the company is positioning MOL STEP as a time to reap the benefits of its larger, more powerful energy fleet while making more investments for growth.

## LNG carriers

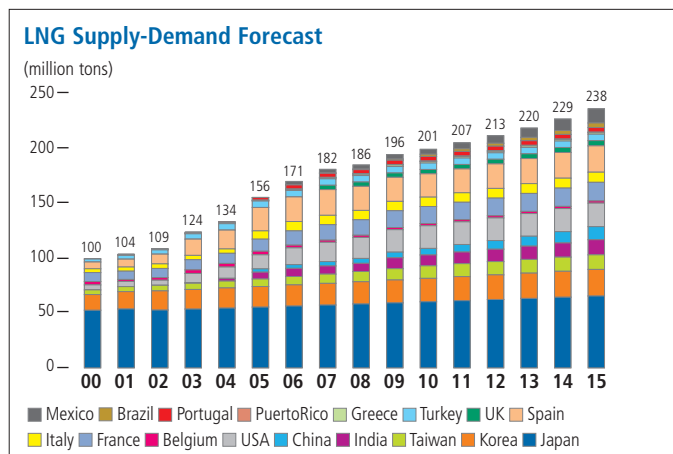
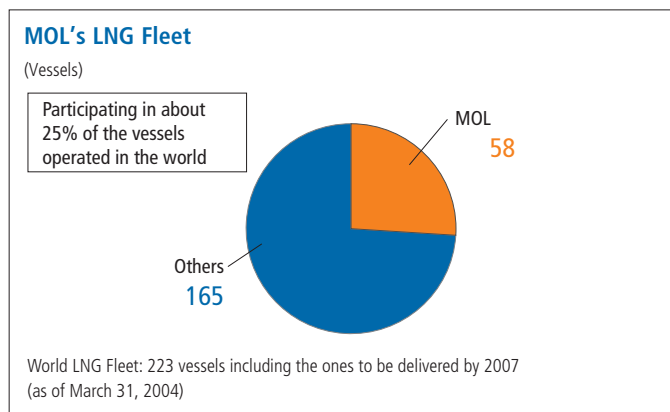
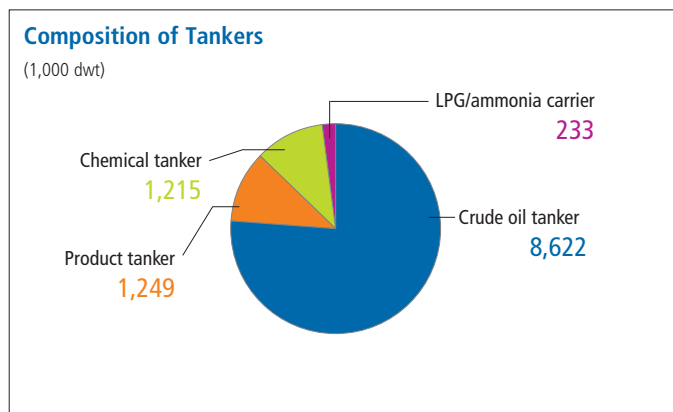
### A market with excellent long-term growth prospects

The LNG carriers business is becoming one of the most competitive categories of energy-related shipping. The undisputed leader in this market, MOL can combine reliable vessel operations with low-cost financing schemes. This is critical now as financing costs are typically the most decisive factor in the selection of LNG carrier owners and operators. Growth has been consistent. The number of LNG carriers that MOL operates or participates in has grown from 37 in April 2001, when MOL *next* began, to 42 in March 2004. During the same period, MOL captured

contracts for 16 vessels, well over the MOL *next* target of 10 vessels. By March 2007, this fleet is expected to grow to 58, about one-fourth of all LNG carriers projected to be in operation at that time.

The United States is expected to be a primary source of growth in demand because of limitations on the production of domestic gas and on imports from Canada. Using LNG to meet only 10% of total U.S. demand would translate into annual imports of 50 million tons, about the same as Japan imports now. Based on current growth forecasts, which include Europe, India and other emerging LNG markets, between 50 and 60 LNG carriers will be needed to handle the exports of Qatar alone. Many players are drawn to this growing market, including LNG producers and buyers themselves, leading to increasingly fierce competition. MOL is using its unmatched expertise to form more mutually beneficial relationships with producing countries. Most significant was a May 2003 agreement with the Sultanate of Oman to help develop that country's ocean transport industry, particularly for LNG shipping.

Since new LNG carriers are ordered only after the signing of long-term contracts, contributions to earnings are highly visible and reliable.



# Logistics



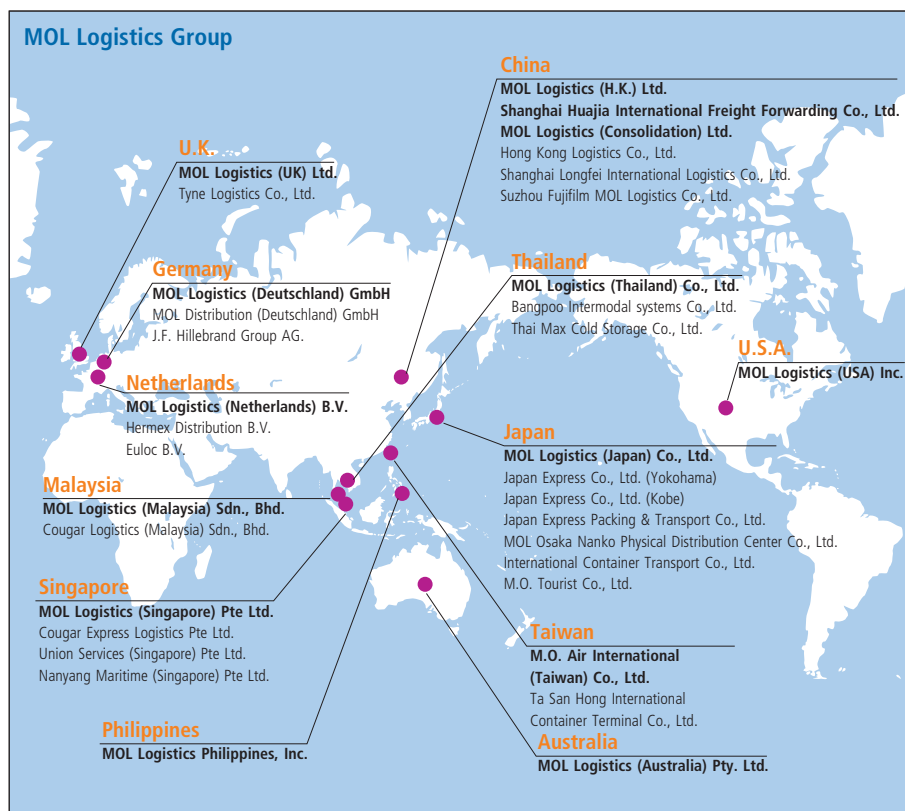
**Masakazu Yakushiji**  
Managing Executive Officer

## Leveraging the MOL brand to reinforce the logistics business

In the years leading up to MOL *next*, logistics operations were realigned and consolidated to serve primarily as an integral element of MOL's containership operations. Since much progress had been made by 2002, the strategic realignment advanced to the next stage in 2003, which involved adopting an even more aggressive stance. To centralize oversight of logistics, the Logistics Office was upgraded to the Logistics Business Division in 2003. Overseeing 36 companies, this division is concentrating on providing logistics services that originate from customers' needs and are located wherever customers are. Examples include an ocean consolidation business and the management of the European inventory of a Japanese manufacturer. This approach is sharply different from the conventional approach of simply seeking to fill space in MOL's own warehouses and trucks. At the nucleus of this drive is the powerful MOL brand. To take full advantage of this brand, and create a more unified image, the names of almost all logistics operating companies worldwide now incorporate the MOL Logistics name.

While the numerous actions taken during MOL *next* have given MOL a logistics organization that is much more efficient, it is not yet able to generate a

meaningful profit. During MOL STEP, the goal is therefore to use the customer-centric business models to raise sales by more than 50% from the current level of about ¥50 billion while improving profitability. By 2008, logistics operations aim to generate annual revenues of at least ¥100 billion. Achieving this scale will require more changes at the MOL Logistics group of companies. The aim is to position MOL Logistics as a source of comprehensive logistics solutions, based on expertise in containers and air cargo forwarding. As one way to accomplish this, a number of logistics specialists were recruited during 2003, adding considerable depth to MOL's global logistics capabilities. And network expansion is drawing on the MOL Logistics brand to go beyond air and sea forwarding, serving as a one-stop source of consolidation and other value-added services. Measures will target the establishment of a framework able to meet specific logistics needs of customers without the need for large investments. Emphasis is being placed on serving major users of MOL shipping services, especially for containerships and car carriers, in order to capture the greatest possible synergies. By offering a diverse lineup of support in this manner, MOL is determined to make logistics an even more important element of its operations.



# Ferry and Domestic Transport

**Kazuichi Okai**  
Managing Executive Officer



# Associated Businesses

## Return to profitability bodes well for ferry operations during MOL STEP

For many years, MOL has been integrating subsidiaries, forming alliances, withdrawing from selected routes and taking other decisive actions to turn around its ferry operations. One key action was the formation in 2001 of Shosen Mitsui Ferry Co., Ltd., which downsized previous ferry operations, withdrew from an unprofitable route and entered into an alliance with another ferry operator that had been a competitor. In parallel with these activities, investments were made in several vessels that made ferry transportation more appealing to truckers, cargo shippers and individual travelers. Japan's policy of encouraging a "modal shift" is one positive trend, prompting truck operators to rely on ferries for long-distance segments of their routes. Due to these initiatives, the final year of MOL *next* saw MOL's ferry operations return to profitability.

One means of expanding business is a tie-up with Nippon Express Co., Ltd., one of Japan's largest logistics firms. MOL and this partner now jointly operate four high-speed roll-on, roll-off (RORO) ferries between Tokyo and Kyushu. Operations began in October 2003 with daily service from January 2004. One more venture is a "Shanghai Super Express" ferry between Fukuoka, Japan, and Shanghai targeting cargo that can be transported at a speed between conventional ships and air freight.

During MOL STEP, ferry operations will continue to pursue the same strategies that have proven successful in the past. On underperforming routes, cost-cutting, alliances and other actions will be taken to establish a profitable operating framework. And further investments will be made to capitalize on opportunities in the cargo as well as passenger markets. At the same time, operations will be streamlined wherever possible.

MOL's domestic shipping operations are conducted primarily by MOL Naikou, Ltd., mainly for the transport of cement, steel, LPG and salt. This company became profitable from the first year of its formation in 2003 thanks to initiatives to restructure operations it succeeded. Domestic shipping recently began to transport imported coal from coal centers in Japan to power stations. To spur more growth, this activity is being linked with MOL's fleet of bulkers and backed by alliances with other operators of cargo ships within Japan.

Overall, improvements made during the past few years provide a sound base for further progress in strengthening MOL's ferry and domestic shipping operations during MOL STEP.

## Focusing on ocean transport related fields

Most activities in associated businesses are linked in some way to MOL's core shipping operations. Representative activities include trading to procure fuel and supplies required by ships, manning services, tugboat services, civil engineering and construction services, and building management. This segment also includes two cruise ships, one owned by MOL and the other held by a company owned by MOL and a partner.

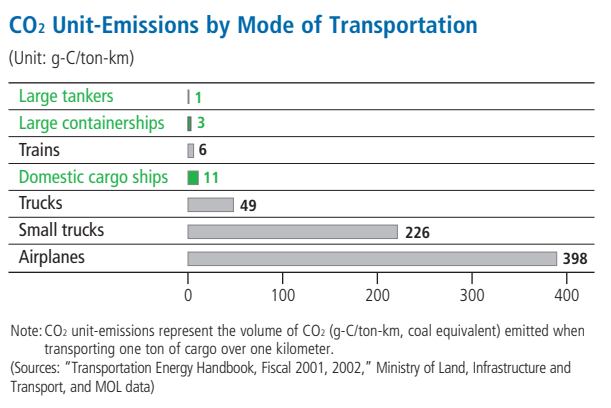
During MOL *next*, companies in this segment streamlined and bolstered their operations, significantly boosting productivity and profitability. Looking ahead, the central objective is to contribute to fulfilling the strategic goals of MOL STEP by seeking more opportunities for growth in businesses peripheral to ocean shipping. This process will be conducted so as to take full advantage of the collective resources of the MOL Group. Due to the breadth of its activities in associated businesses, MOL has numerous opportunities to establish new sources of earnings through the provision of services that can make ocean shipping operations more efficient. In the past, for example, both manning and data processing services were begun as an extension of shipping operations. Plans call for capitalizing on similar opportunities in the coming years.



The roll-on, roll-off ferry Sunflower Hakata



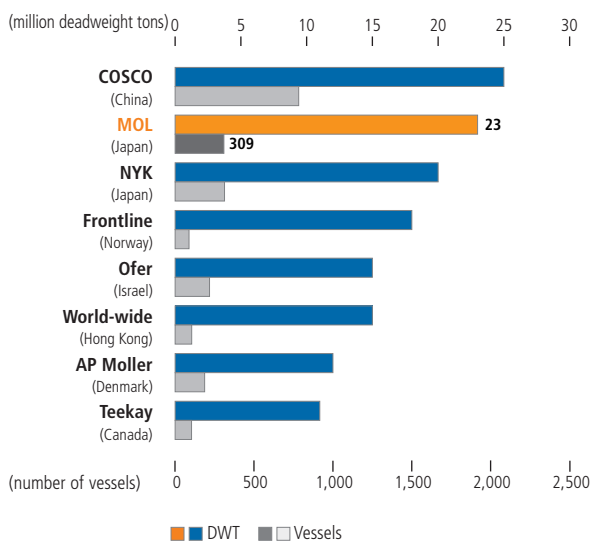
The tug boat Kamiya Maru



**MOL** operates a large and balanced ocean-going fleet. In terms of its total fleet size and presence in individual market categories, **MOL** ranks among the world's largest shipping companies.

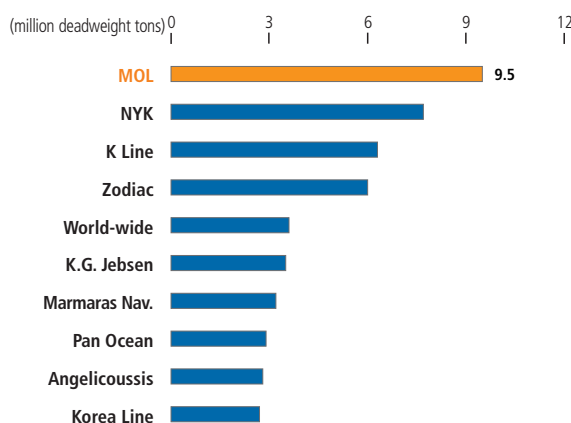
### World's Major Carriers (All Vessel Types)

\*Consolidated; chartered vessels excluded



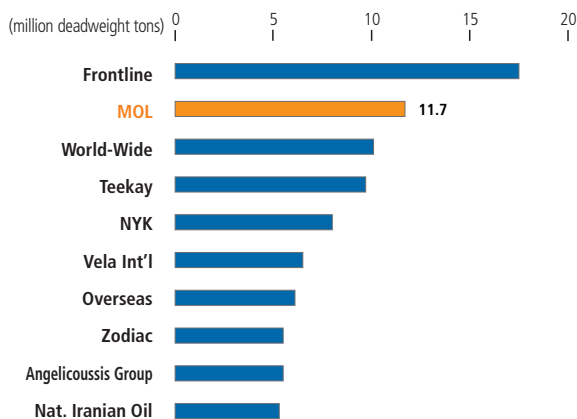
Source: Lloyds Register Fairplay  
As of January 2004

### Bulk carriers



Source: Clarkson Bulkcarrier Register 2004  
As of January 2004

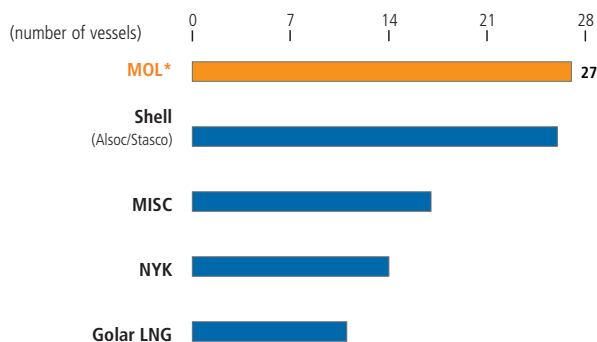
### Tankers



Source: Clarkson Tanker Register 2004  
As of January 2004

### LNG carriers

Fleet under management or majority of ownership

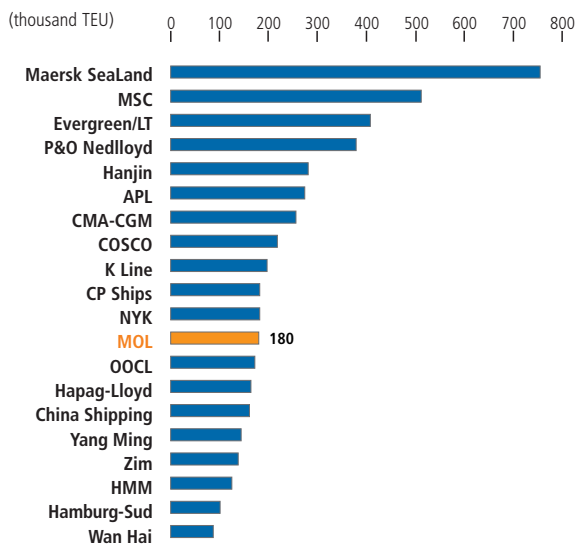


Source: Barry Rogliano Salles, etc.  
As of December 31, 2003

\* MOL participates in the ownership and/or operation of 58 of the approximately 223 LNG carriers worldwide that are either operating or planned.

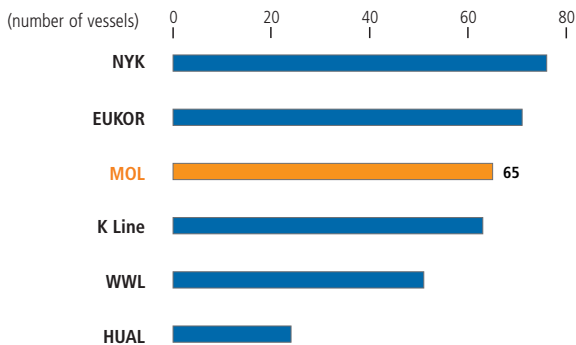


### Containerships












Source: MDS Transmodal "Containership Databank," February 2004  
As of February 2004

### Car carriers



Source: MOL internal calculation based on Fearnley's July 2003 and HESNES's December 2003 data

### MOL Fleet Composition (Consolidated)

Fleet	Containerships	<b>72</b> (3,034)	
	Car Carriers	<b>83</b> (1,195)	
	Bulk Carriers	<b>210</b> (20,627)	
	Wood Chip Carriers	<b>34</b> (1,574)	
	Crude Oil Tankers	<b>34</b> (8,622)	
	Chemical/Products Tankers	<b>78</b> (2,464)	
	LPG Carriers	<b>7</b> (233)	
	LNG Carriers	<b>33</b> (2,216)	
	Others (Ferries and Others)	<b>79</b> (570)	
	<b>Total</b>	<b>630</b> (40,535)	

Figures in parentheses show 1,000 deadweight tons.  
Spot chartered vessels included.

As of March 31, 2004

Note: Figures in the six tables do not match data in MOL Fleet Composition due to discrepancies between the calculation methods of external organizations and MOL.



- Local Offices
- Main Calling Ports



# Social Responsibility, Corporate Governance and Environmental Issues

## — How MOL Fulfills Its Obligations to Society —

### Corporate Social Responsibility

To reinforce activities involving corporate social responsibility (CSR), the MOL Group on June 24, 2004 established the CSR and Environment Committee and formed a CSR and Environment Office. The new committee was formed by re-organizing the Environment Committee, a committee that reports directly to the Executive Committee. In addition to its previous duty of formulating MOL Group environmental policies, the new committee will study and discuss CSR issues for the purpose of creating a stronger framework for group-wide CSR activities. The CSR and Environment Office serves as the committee's secretariat, taking over the environmental tasks that had been performed by the Environmental Group of the Technical Division. The new office also promotes a broad range of programs involving CSR across the entire MOL Group.

The MOL Group's corporate philosophy calls for the group to achieve customer satisfaction, contribute to global economic growth, conduct management in a transparent manner that adheres to social and corporate ethical standards, and protect the marine and global environment. In the belief that CSR is vital to sustainable growth at any company, the MOL Group has taken a number of actions. Among them are the election of outside directors and other steps to upgrade corporate governance and compliance systems; initiatives to ensure safe navigation and protect the environment; and information disclosure activities that include an IR program. The MOL Group is dedicated to making further improvements in its CSR programs in order to operate in a manner that reflects the interests of all stakeholders.

The MOL Group's commitment to CSR activities has earned the group recognition from international organizations.

### MOL Selected for Dow Jones Sustainability Indexes

In September 2003, MOL was selected for inclusion in the DJSI, a designation reserved for companies capable of sustaining growth over the long term while maintaining excellence in environmental, social and investor relations programs. The DJSI is made up of large companies in 34 countries and 59 market

sectors. At present, about 300 companies have been chosen from 2,500 eligible corporations. The index tracks the companies' financial performance, including stock prices and dividend payments. As a component of the DJSI, MOL is more likely to attract the attention of socially responsible investment funds.



### MOL Becomes Part of the FTSE4 Good Global Index

FTSE, a global index company owned by the Financial Times and London Stock Exchange, selected MOL for inclusion in its FTSE4

Good Global Index in September 2003. Companies are evaluated from three perspectives: environmental sustainability, social and ethical behavior, and human rights. The index is made up of 885 companies from around the world, about 120 of which are from Japan.



### Corporate Governance

To strengthen corporate governance, MOL in June 2000 added outside directors to its board and adopted the executive officer system. These actions raised the transparency of management while clearly separating the management and business execution functions. In June 2002, as the second stage of corporate governance reforms, the functions, authority and operating framework of the Board of Directors were reviewed. The aim was to create a more purpose-oriented decision-making system and establish a strategic management structure. This review had the following four basic objectives.

1. Reinforce the role of the Board of Directors, the ultimate decision-making body, with regard to the formulation of fundamental management policies and oversight of risk management.
2. In conjunction with a further division between the roles of determining corporate strategies and executing business activities, the Executive Committee was given much greater authority with regard to business activities.
3. Further speed decision-making at the business execution level.
4. Build a more effective reporting system to upgrade the monitoring of activities of executive officers and other managers.

MOL is confident that these management reforms will make its management and corporate governance even more efficient, thereby contributing to growth in corporate value and shareholder value.

### Compliance

MOL positions compliance as a means not only of observing laws and regulations, but also of adhering to internal regulations as well as other standards of behavior. Furthermore, by strictly adhering to rules of conduct that MOL has established on its own, the MOL Group can better promote its philosophy of conducting transparent management in line with social standards and corporate ethics. Based on this stance, the group is taking steps to further enhance its compliance system.

MOL establishes rules of conduct for its executives and employees by adopting the standpoints of all stakeholders. By reflecting these rules in their activities, MOL executives and employees are dedicated to improving MOL's operations by creating an even better working environment, and to continuously raising corporate value while earning the support of all stakeholders.

In another move to strengthen compliance programs, a Compliance Advisory Service Desk was established in November 2003, and new rules of conduct were established and posted on MOL's web site.

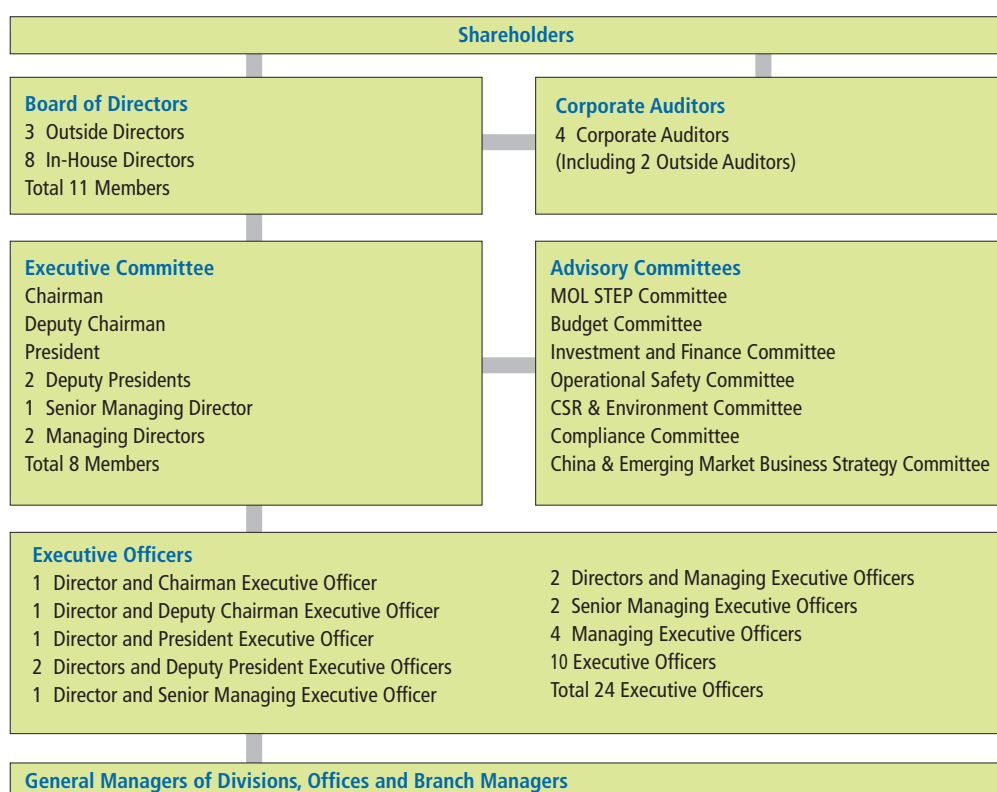


## Rules of Conduct (summary)

All executives and employees are required to base their activities on the following standards.

1. Observe laws and regulations while at all times exercising due caution as a good administrator
2. Respect human rights and refuse to permit discrimination and harassment
3. Protect confidential information and respect intellectual property rights
4. Clearly separate official and personal conduct, avoid conflicts of interest
5. Oppose anti-social activities
6. Fulfillment of social obligations
7. Ensure safe operations and protect the environment
8. Build relationships with clients and contractors that conform to laws, regulations and social standards
9. Provision of guidance and supervision by individuals in management positions
10. Report improper behavior, provide advice and deal with individuals who violate rules

## Organization



**1. Compensation for directors and corporate auditors**

Compensation for directors and corporate auditors in the fiscal year ended March 31, 2004 was as follows.

	(¥ million)
Compensation for internal directors	<b>¥282</b>
Compensation for external directors	<b>20</b>
Compensation for internal corporate auditors	<b>38</b>
Compensation for external corporate auditors	<b>12</b>
Total	<b>¥352</b>

U.S.dollar translations

	(Thousands of U.S.\$)
Compensation for internal directors	<b>\$2,668</b>
Compensation for external directors	<b>189</b>
Compensation for internal corporate auditors	<b>360</b>
Compensation for external corporate auditors	<b>113</b>
Total	<b>\$3,330</b>

**2. Compensation for independent public accountant**

In the fiscal year ended March 31, 2004, compensation for the independent public accountant was as follows.

	(¥ million)
Compensation for auditing services	<b>¥37</b>
Compensation for other services	<b>5</b>
Total	<b>¥42</b>

U.S.dollar translations

	(Thousands of U.S.\$)
Compensation for auditing services	<b>\$350</b>
Compensation for other services	<b>47</b>
Total	<b>\$397</b>

## The Environment

Transporting cargo by sea, the core business of MOL, is a reliable and economical means of moving large volumes of cargo. Ships also offer the advantage of having a smaller environmental impact than other modes of transportation. Through ferry and domestic shipping subsidiaries in Japan, the group is contributing to a modal shift that will help prevent global warming. MOL is devoted to playing an active role in ensuring sustainable economic growth. Based on this stance, the group has voluntarily initiated numerous environmental programs in advance of the establishment of laws and regulations. The development and adoption of new technologies is another important aspect of the MOL's environmental activities.

### Prevention of Air Pollution

MOL is making progress on a number of fronts. Most notable are the reduction of emissions of gasses that can cause global warming and acid rain, and reductions in the use of fluorocarbons and halogens, substances that damage the ozone layer.

### Global Warming and Acid Rain

Carbon dioxide, a greenhouse gas that contributes to global warming, is emitted by ships as they burn fossil fuels. MOL exercises care to operate ships efficiently and takes many actions to cut these emissions by reducing fuel consumption. For example, hulls are cleaned frequently to reduce friction and ships are equipped with energy-efficient propellers. The company has also developed and adopted new ship designs that reduce wind resistance.

With regard to the acid rain issue, MOL keeps all ship engines in optimal condition to reduce NOx emissions. To cut emissions of SOx (sulphur oxides), ships use fuel with little sulphur content, allowing MOL to hold SOx emissions far below regulatory limits.

In all, global warming prevention measures have reduced CO<sub>2</sub> and NOx emissions by ships per unit-load by 2.9% between the 2001 and 2003 fiscal years, thus meeting MOL's target.

### Ozone Depleting Substances

Fluorocarbons have been used for many years as a refrigerant for ships' refrigerators, on-board air conditioning systems, and reefer (refrigerated) containers. In 1992, MOL started using R-22 (HCFC), which has only a minimal environmental impact, as the refrigerant in reefer containers. In 1995, the company began a rapid shift to R-134a, a newly developed substance that does no damage to the ozone layer, thus further preventing air pollution. By February 2004, MOL completed the shift of all reefer containers that had used a conventional CFC refrigerant called R-12 to either R-134a or R-22.

### Protection of the Marine Environment

MOL takes extensive measures to ensure safe navigation and prevent the occurrence of oil discharges and accidents, both of which represent serious

threats to the marine environment. In addition, care is exercised to reduce the impact on the oceans even during normal operation of vessels.

MOL strictly adheres to all marine pollution treaties as well as applicable laws and regulations worldwide. The company has stringent internal rules to prevent oil discharges and ensure the proper disposal of lubricating oil and bilge water (which includes oil and other pollutants). Other measures are in place to use environmentally responsible anti-fouling paint and manage ballast water properly.

### Anti-Fouling Paints

MOL is shifting to tin-free (TF) paints to eliminate environmental problems that occur when tributyl tin is leached into seawater. By March 2004, approximately 85% of MOL's fleet was coated with TF paints. The complete conversion to TF coatings is to be completed by the end of 2005.

### Ballast Water

Ballast water performs such vital roles as controlling a vessel's stability, increasing hull strength and adjusting a vessel's draft. However, the intake and discharge of this water can result in the movement of harmful marine organisms from one area of the world to another, disrupting a regional ecosystem and making this an issue of global concern. In February 2004, an international treaty took effect that establishes rules for the management of ballast water and sediments. The treaty requires that all ships be equipped by 2016 with ballast water treatment equipment conforming to certain standards. Vessels without this equipment will not be allowed to discharge ballast water. MOL is currently conducting an R&D program to create a treatment system that can meet these standards by making ballast water harmless.

### Double-Hull Tankers

As the operator of the world's largest fleet of tankers, MOL is constantly working on employee training, emergency drills and other measures to upgrade the safety of navigation. To prevent an oil spill in the event of an accident, MOL is rapidly converting its tanker fleet to double-hull vessels. Currently, 70% of the company's tankers have a double-hull structure and MOL expects all its tankers will be double-hulled by March 2007.

### Environmental Topics

#### Conformity of MOL EMS 21 With ISO 14001

The MOL EMS 21 environmental management system, which applies to the head office and vessels (excluding vessels chartered for not more than one year), received ISO 14001 certification in January 2003. Certification of conformity with this international standard for environmental management systems was granted by Det Norske Veritas. This certification was extended to the head office of Mitsui O.S.K. Passenger Line, Ltd. and the *Nippon Maru* in

September 2003 and to the head office and fleet of Shosen Mitsui Ferry Co., Ltd. in January 2004. Since fiscal 2002, the MOL Group has applied its own Group Environmental Target System to major group companies, currently covering 42 companies and four key overseas operating bases.

### New Shipbuildings

The *M/V Courageous Ace*, which entered service in March 2003, illustrates MOL's commitment to reducing the environmental impact of its ships. To cut fuel consumption, this car carrier reduces wind resistance by incorporating an aerodynamically rounded and beveled bow and rounded surfaces as well as wind channels along the sides that help the ship maintain a straight course. These attributes earned the *M/V Courageous Ace* the prestigious Ship of the Year 2003 designation for all ships completed during fiscal 2003. MOL has since completed six more identical car carriers.

To reduce the risk of a fuel oil spill in the event of a grounding or collision, MOL and several partners developed a new fuel tank structure with two layers of protection. This new tank design was first used in the *M/V MOL Encore*, a containership that entered service in March 2003. The design will be incorporated in stages in all newly built containerships, car carriers and VLCCs.

### Wind Power Generation Trials

MOL is currently studying the feasibility of using wind turbines to help power its vessels. Under the direction of Dr. Kazuichi Seki, a professor at Tokai University, a compact marine wind turbine that can function irrespective of wind direction was developed jointly with Nishishiba Electric Co., Ltd. The device was then placed on the *Taiho Maru*, a wood chip carrier, to begin tests in March 2004 to determine the practicality of this technology. MOL is exploring ways to use wind turbines as a supplementary power supply for crew quarters.

## Fiscal 2003 Recognition of Environmental Activities From External Organizations

### MOL Recognized as "Green Top Runner"

The corporate rating unit of the Sustainable Management Forum of Japan, a non-profit organization, selected MOL as one of 68 Japanese companies for recognition as a "Green Top Runner" in fiscal 2003. MOL was also chosen in fiscal 2002. This honor recognizes a company's ability to operate in a responsible manner in every aspect of its activities. Earning this title requires an effective environmental protection program as well as excellence in two other categories: the soundness of management, including the corporate philosophy, corporate governance and risk management systems, and the disclosure of information; and corporate citizenship, including the corporate culture, workplace safety and equal opportunity practices. Out of a total of 63 categories, MOL was rated excellent in 52, good in eight and satisfactory in three.

### Nikkei Environmental Management Ranking

In the seventh annual environmental management survey of the *Nihon Keizai Shimbun Inc.*, which was announced in December 2003, MOL was ranked 19<sup>th</sup> overall among non-manufacturers and second in the transportation industry.

For more information concerning environmental and social activities of MOL, please read our latest Environmental and Social Report at <http://www.mol.co.jp/report.shtml>.



More information is available in Environmental Protection at: <http://www.mol.co.jp/>

## FY2003 Environmental Accounting (from April 2003 to March 2004)

Environmental Costs			
(¥ million)			
Classifications	Contents	Investment amount	Expense amount
Environmental protection costs (costs for global environmental protection)	Switch to TF anti-fouling ship bottom paints	¥ 0	¥348
	Investments in ship equipment (PBCF) (exhaust gas economizer and turbo generator (T/G) system*)	1,021	127
(resource recycling costs)	Environmental measures in offices (installation of hot-air hand dryers)	0	6
Management costs	Preparation of environmental reports, personnel expenses, etc.	0	140
Research and development costs		0	19
<b>Total</b>		<b>¥1,021</b>	<b>¥640</b>

Economic Benefits Accompanying Environmental Protection Measures	
(¥ million)	
Effect	Monetary value
<b>Reduction of fuel expenses</b> (Benefits of sandblasting hulls prior to repainting, adoption of PBCF, and installation of exhaust gas economizer and T/G system)	<b>¥1,443</b>
<b>Reduction in waste disposal expenses at offices</b> (benefit of installation of hot-air hand dryers)	<b>0</b>
<b>Total</b>	<b>¥1,443</b>

#### Notes:

- The above table does not reflect MOL's investment of about ¥2.8 billion in FY2003 in refrigerated containers using refrigerants that do not adversely affect the ozone layer.
- Fiscal 2003 depreciation expenses for PBCF and exhaust gas economizer and T/G systems installed during FY2000 or afterward are used as the basis for environmental expenses associated with investments in vessel equipment.
- (\*) The exhaust gas economizer and T/G (turbo generator) system converts thermal energy from the main engine's exhaust gas into steam, which drives a generator that supplies electricity. This system reduces consumption of fuel oil for generation of electricity, helping to reduce emissions of CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub>.

# Board of Directors, Corporate Auditors and Executive Officers

(As of June 24, 2004)





## Executive Officers

(As of June 24, 2004)

Chairman, Executive Officer

**Kunio Suzuki**

Deputy Chairman, Executive Officer

**Tokinao Hojo**

President, Executive Officer

**Akimitsu Ashida**

Deputy President, Executive Officer

**Hiroyuki Sato**

(Assistant to President)

Deputy President, Executive Officer

**Joji (George) Hayashi**

(Assistant to President, Chairman and CEO of MOL (America) Inc., Chairman of MOL (Europe) B.V.)

Senior Managing Executive Officer

**Masao Sagara**

(Bulk Carrier Division, Dedicated Bulk Carrier Division)

Senior Managing Executive Officer

**Makoto Iwata**

(LNG Carrier Division Dedicated Bulk Carrier Division)

Senior Managing Executive Officer

**Saburo Koide**

(Research Co-operation Office, Technical Division, Coal and Iron Ore Carrier Division)

Managing Executive Officer

**Hidehiro Harada**

(Corporate Planning Division, Public Relations Office, Marine Management Division)

Managing Executive Officer

**Masakazu Yakushiji**

(Liner Division, Logistics Business Division)

Managing Executive Officer

**Toshifumi Kato**

(Finance and Accounting Division, Internal Audit Office, Secretaries Office, Information Systems Office)

Managing Executive Officer

**Toshihiro Kagami**

(Human Resources Division, Marine Management Division)

Managing Executive Officer

**Setsuyasu Hagiwara**

(Car Carrier Division)

Managing Executive Officer

**Kazuichi Okai**

(Associated Business Division, Kansai Area)

Executive Officer

**Masashi Seki**

(Tanker Division)

Executive Officer

**Osamu Suzuki**

(Managing Director of MOL (Asia) Ltd.)

Executive Officer

**Kenji Hokazono**

(Liner Marketing)

Executive Officer

**Kenichi Yonetani**

(Finance and Accounting Division, Investor Relations Office)

Executive Officer

**Toshitaka Shishido**

(Car Carrier Division)

Executive Officer

**Shigeshi Omori**

(Tanker Division)

Executive Officer

**Nobuo Nishijima**

(Human Resources Division, General Affairs Division)

Executive Officer

**Yoichi Aoki**

(LNG Carrier Division)

Executive Officer

**Masafumi Yasuoka**

(General Manager of Coal and Iron Ore Carrier Division)

Executive Officer

**Koichi Muto**

(General Manager of Corporate Planning Division)

# Financial Section Management's Discussion and Analysis

## Operating Environment and Results of Operations

### Operating Environment

The fiscal year that ended in March 2004 began amid concerns about the global economy due to the outbreak of SARS and war in Iraq. However, the global economy was supported by a strong recovery in the United States and robust economic expansion in China and other Asian nations. The result was strong demand in containers, automobiles, natural resources, energy and almost all other categories of ocean shipping. On the other hand, crude oil prices remained high even after the May 2003 end of the war in Iraq because of historically low U.S. inventories, OPEC production cuts, speculation and other forces. The result was a 9% increase in the price of bunker compared with the prior fiscal year. In addition, the yen appreciated 7% versus the U.S. dollar compared with the prior fiscal year.

MOL was able to overcome the negative effects of the yen's strength and higher bunker prices through a variety of management initiatives, including the suitable structuring of the fleet, and continuous cost reduction measures. As a result, MOL succeeded in maximizing the benefits of favorable market conditions due to higher freight rates and growth in cargo volumes.

### Results of Operations

#### Revenues

There was an increase of ¥87.0 billion, or 9.6%, in revenue to ¥997.3 billion. Growth in container volume due to the completion of larger capacity vessels, the restoration of freight rates on individual routes, an upturn in the dry bulk market and other factors raised revenue by ¥137.5 billion. However, the yen's appreciation reduced revenue by ¥50.7 billion.

#### Operating Income

Operating income rose 103.1% to ¥92.1 billion, climbing to 9.2% of revenue, 4.2 points higher than one year earlier.

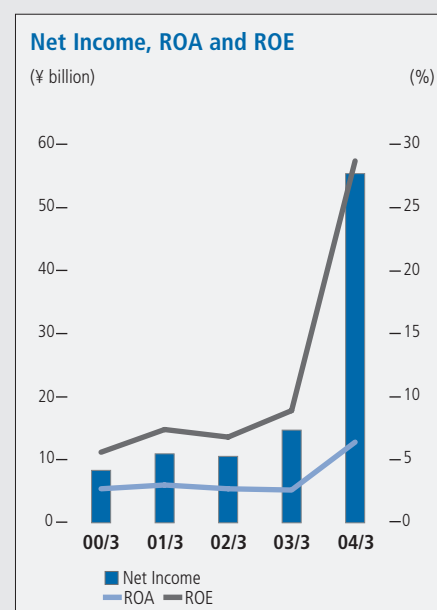
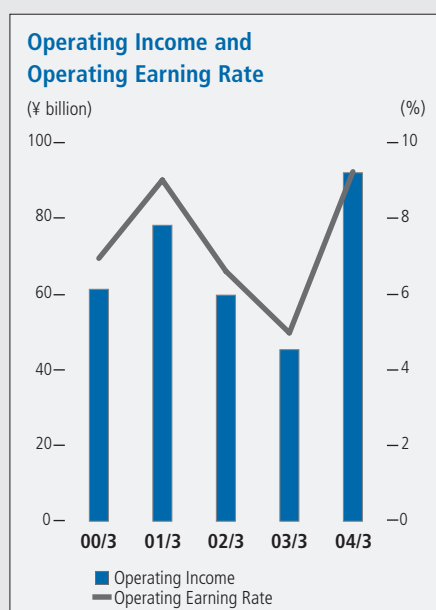
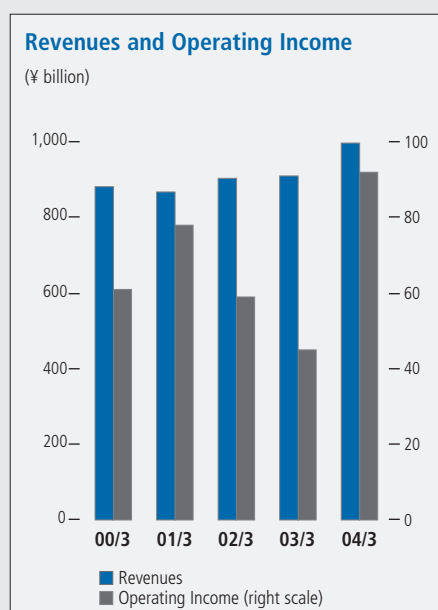
Operating income in the core overseas shipping segment was ¥83.1 billion, 90.2% of total operating income. This increase was mainly attributable to a substantial restoration in freight rates and cost reductions in the containership sector, and to an improvement in market conditions and addition of competitive vessels in the dry bulk and tanker sectors. The contributions of these items more than offset the negative impact of the yen's appreciation and high bunker prices. Due to the large volume of cargo during the fiscal year, there was also an improvement in earnings of consolidated subsidiaries engaged in "overseas shipping" and "shipping agents and harbor/terminal operation."

#### Other income (expenses)

Net other income (expenses) improved by ¥17.9 billion to a net expense of ¥2.3 billion. There was a ¥4.2 billion decrease in interest expense because of a reduction in debt and lower yen and U.S. dollar interest rates, and a ¥3.2 billion increase in equity in earnings of unconsolidated subsidiaries and affiliated companies. Also contributing to the improvement was the completion of aggressive measures that ended in the prior fiscal year aimed at giving MOL a sounder base of operations. Actions included the sale of uneconomic vessels and the liquidation and streamlining of unprofitable subsidiaries and assets. A large improvement in valuation gains on securities due to higher stock prices was another reason for the decline in net other expenses.

#### Net Income

Income before income taxes and minority interests rose from ¥25.1 billion to ¥89.8 billion, an increase of 257.5%. After deducting current and deferred income taxes, there was a 276.6% increase in net income from ¥14.7 billion to ¥55.4 billion. This was 5.6% of revenue, 3.9 points higher than one year earlier.



## Operating Results by Segments

The upper row for each segment is revenues and the bottom row is operating income.

(unit: ¥ billion)

	2004.3	2003.3	% increase/ decrease
Overseas shipping	830.2	743.0	87.2 / 11.7%
	83.1	37.5	45.6 / 121.8%
Ferry and domestic shipping	35.4	33.5	2.0 / 5.9%
	1.3	0.6	0.6 / 93.8%
Shipping agents and harbor/ terminal operation	84.7	78.9	5.8 / 7.4%
	5.4	2.3	3.0 / 132.2%
Cargo forwarding & warehousing	47.0	48.4	-1.4 / -2.9%
	0.2	-0.1	0.3 / -%
Others	72.1	74.8	-2.7 / -3.6%
	2.9	4.0	-1.1 / -27.4%

**Overseas shipping:** In this segment, revenues were higher and there was a large increase in earnings due to the reasons described earlier in this section.

**Ferry and domestic shipping business:** There was a significant improvement in profitability in ferry operations because of streamlining and cost cutting programs conducted by all ferry companies. Results at Shosen Mitsui Ferry Co., Ltd. benefited from the start of joint operations between Tokyo and Hakata and Oarai and Tomakomai, as well as from other actions. In domestic shipping, integrations of activities within the group produced an improvement in profitability.

**Shipping agency and harbor/terminal operation:** This segment generated higher revenues and a strong increase in earnings, a performance that reflected growth in shipping agency and container terminal activities due to higher cargo volume and favorable freight rates in overseas shipping operations.

**Cargo forwarding and warehousing:** Revenues were lower because of the effects of SARS, war in Iraq and the discontinuation of unprofitable businesses. However, profitability improved as the newly established head office Logistics Business Division established and executed a unified group strategy while the group companies' strengthening sales activities and cutting costs.

**Other businesses:** This segment includes trading, real estate, construction, financial services and other activities. Revenues and earnings were lower because of the completion of large construction projects.

## Revisions to Business Segments

Beginning in the fiscal year ending on March 31, 2005, MOL will report operating results based on the following six segments instead of the five segments used until the past fiscal year as shown in the above table.

Overseas shipping, which accounted for 83% of consolidated revenue in the past fiscal year, will be divided into two segments: "containerships," and "bulkships." Along with this change, business units and group companies involved in ship chartering, shipping agents and harbor/terminal operation will be integrated with one of these two segments to further clarify responsibility for the oversight of these activities.

Group companies involved in customs clearance, cargo forwarding and warehousing that are overseen by the Logistics Business Division will be combined with the "logistics" segment to provide a framework for conducting the logistics business in a more unified manner that draws on all MOL Group resources.

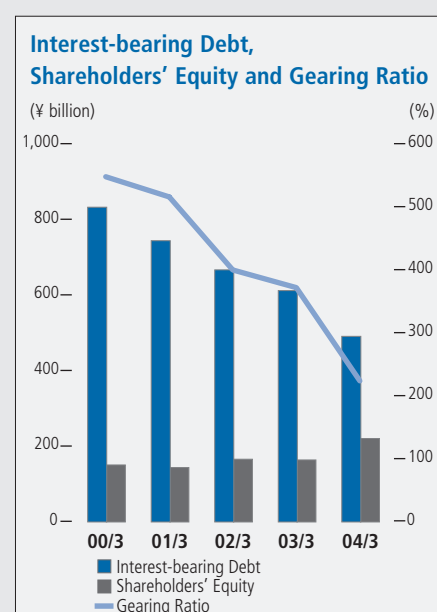
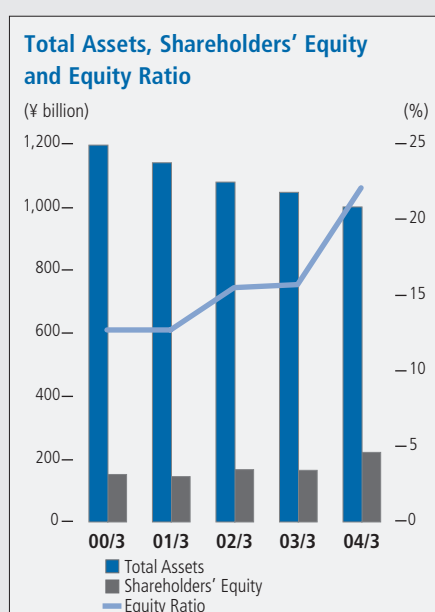
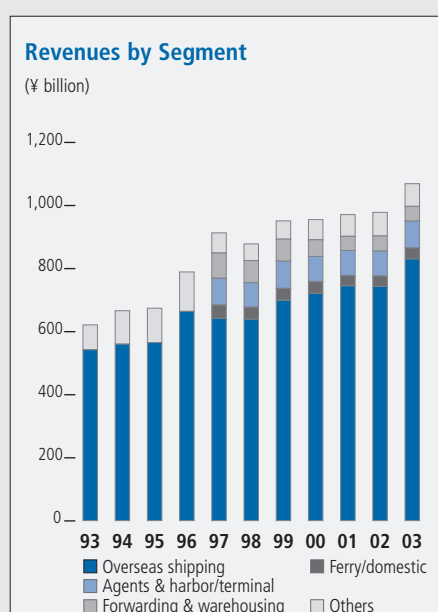
The ferry and domestic shipping segment, excluding tugboat operation, have been combined with group companies involved in domestic cargo forwarding to form the new "ferry and domestic transport" segment.

Tugboats, cruiseships and other associated businesses have been combined to create the "associated businesses" segment.

The "others" segment represents mainly MOL Group companies involved in administrative activities.

## Liquidity and Capital Resources

The MOL Group places great priority on reducing working capital by receiving payments from shippers more promptly and utilizing the group's internal funds more efficiently. During the past fiscal year, as the group was able to use sales of ships and other assets to generate sufficient funds for capital expenditures, primarily the purchase of vessels, there was a large reduction in debt because



operating cash flows were used almost entirely for the repayment of debt. During MOL STEP, the group is planning to make substantial capital expenditures to achieve growth in line with its goal of becoming the world's largest ocean transportation group, backed by a unique identity. While making these expenditures, part of operating cash flows will continue to be used to reduce debt in order to create an even sounder financial position.

## Comparison of Financial Position at March 31, 2004 and 2003

### Assets

As of March 31, 2004, total assets were ¥1,000.2 billion, ¥46.4 billion less than one year earlier. The decrease was mainly the result of a ¥116.0 billion decline in vessels. The increase in current assets was mainly attributable to an ¥8.4 billion increase in deferred and prepaid expenses as the growth in cargo volumes and higher market rates raised charterages and other expenses for vessels that have not completed voyages. Vessels, property and equipment, at cost, decreased mainly because the vessels category declined ¥116.0 billion. The number of owned vessels fell while the number of chartered and leased vessels increased. Investments and other assets increased ¥35.3 billion mainly because higher stock prices caused revaluations of investment securities.

### Liabilities and Shareholders' Equity

Liabilities decreased ¥102.6 billion to ¥771.5 billion. In line with MOL *next*, aggressive debt-reduction measures continued during the fiscal year, including the repayment of long-term and short-term loans. As a result, debt was ¥491.7 billion, ¥121.0 billion less than one year earlier. The ¥8.0 billion increase in advances received, which is closely related to the increase in deferred and prepaid expenses, reflects increases in payments for ocean freight and charterages for vessels that have not completed voyages, due to growth in cargo volumes and higher market rates. The ¥88.0 billion decrease in long-term bank loans due after one year is approximately the same as the decrease of asset in vessels after depreciation.

Shareholders' equity increased ¥56.7 billion to ¥221.5 billion, mainly the result of growth in retained earnings due to the higher net income and an increase in unrealized holding gains on available-for-sale securities, net of tax.

## Cash Flows

Net cash provided by operating activities was ¥114.6 billion, ¥31.7 billion more than one year earlier. The ¥64.7 billion increase in income before income taxes and minority interests was the largest factor. Also contributing to cash flows was a smaller change in trade receivables.

Net cash provided by investing activities was ¥0.4 billion, a difference of ¥51.1 billion compared with cash used one year earlier. The main sources of cash were proceeds from sale of vessels and a net decrease in short-term loans receivable.

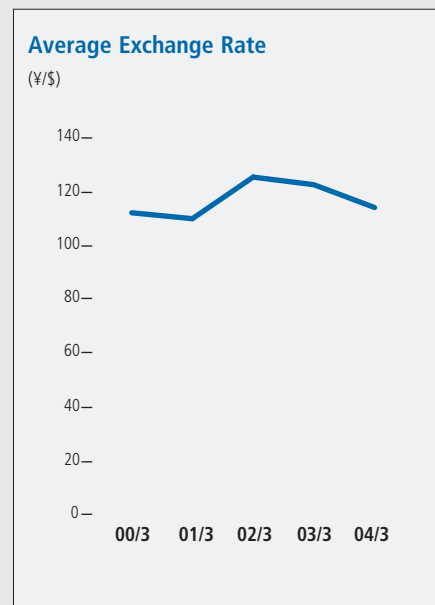
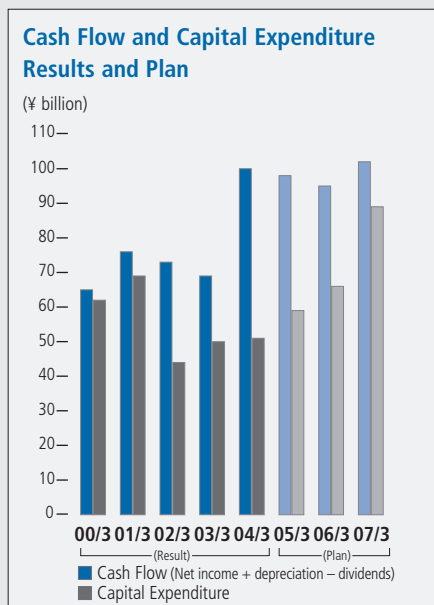
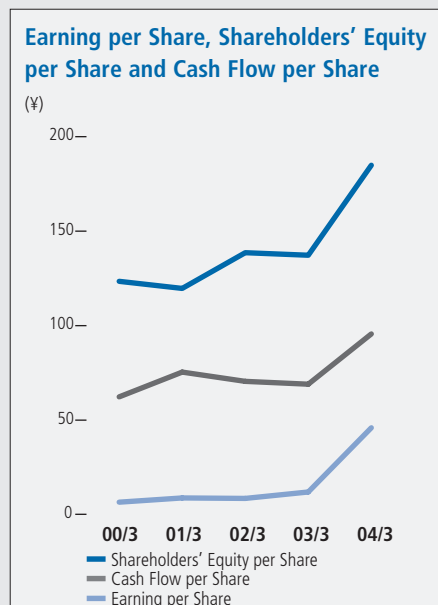
Net cash used in financing activities was ¥110.9 billion, ¥83.6 billion higher than in the previous fiscal year, mainly because of the repayment of long-term and short-term loans and a decrease in commercial paper.

Due to the above items, there was a net increase of ¥2.2 billion in cash and cash equivalents to ¥45.3 billion at the end of the fiscal year.

## Capital Expenditures

Capital expenditures amounted to ¥50.5 billion, mainly for the acquisition of vessels. During MOL *next*, the three-year period that ended in March 2004, a total of about ¥300.0 billion was used to construct 71 vessels. During MOL STEP, the three-year period ending in March 2007, MOL plans to increase this by over 60%, constructing 117 vessels at a total cost of approximately ¥490.0 billion. Slightly less than half of the total cost of these new vessels (¥214.0 billion) will appear on the balance sheet as vessels, long-term loans receivable and investments in and advances to unconsolidated subsidiaries and affiliated companies. The remainder is to be procured through long-term charter contracts, leases and other arrangements that do not appear on the balance sheet. Please refer to Note 9 of the notes to the consolidated financial statements for more information on leases.

MOL is planning capital expenditures of ¥214.0 billion during MOL STEP, well below projected cash flows of ¥291.0 billion during this three-year period. The difference of ¥77.0 billion is to be used to further reduce debt through the repayment of long-term and short-term loans and the redemption of bonds. The goal is to reduce debt to ¥420.0 billion by March 2007.





## Off-Balance-Sheet Transactions, Contractual Liabilities and Contingent Liabilities

Guarantees extended to joint venture companies that own LNG carriers represent the majority of the group's contingent liabilities as guarantor or co-guarantor of indebtedness of related and other companies.

The group's contractual liabilities consist mainly of long-term and short-term loans, bonds, commercial paper, and leases for vessels and equipments. Please refer to Notes 5, 6 and 9 of the notes to the consolidated financial statements for more information on contractual and contingent liabilities.

## Risk Management

In overseas shipping, the MOL Group's core business, the group is exposed to foreign exchange, bunker price, interest rate and a variety of other risks due to the nature of this business. The group manages these risks by using its own risk management framework and methodology.

## Exchange Rate Fluctuations

U.S. dollar-based overseas shipping revenue accounts for a large share of consolidated revenue. A large share of expenses as well are denominated in U.S. dollars and other foreign currencies. Since foreign currency revenue is greater than foreign currency expenses, an appreciation of the yen, especially relative to the U.S. dollar, has a detrimental effect on consolidated earnings. Accordingly, the group is working on increasing the share of U.S. dollar-denominated expenses while establishing currency hedges and taking other actions to minimize the negative effect of fluctuations in the value of the U.S. dollar. The group estimates that a change of one yen in the U.S. dollar-yen exchange rate raises or lowers consolidated ordinary income by approximately ¥1.3 billion based on current operations.

## Bunker Price Fluctuations

Procurement of fuel to operate vessels is vital to MOL's operations. Since the market price of bunker is generally linked to the price of crude oil, any increase in the price of crude oil can have a detrimental effect on earnings. All vessels

operated by the group consume almost 5 million tons of bunker each year. Approximately half of the risk involving price fluctuations is assumed by customers, charterers and other external parties. Therefore, an increase of US\$1 per metric ton in the average annual price of bunker would lower consolidated ordinary income by approximately ¥0.3 billion. Furthermore, the group uses fuel hedge transactions to even out and reduce the cost of procuring bunker.

## Interest Rate Fluctuations

MOL depends mainly on funds procured from external sources to meet working capital and capital expenditure requirements. Funds procured at variable interest rates may be affected by interest rate fluctuations. Consequently, MOL is limiting exposure to interest rate risk by procuring funds through fixed-rate loans and using interest rate swaps. As of March 31, 2004, yen-denominated and U.S. dollar-denominated interest-bearing liabilities totaled ¥491.7 billion, and approximately 70% of this amount had fixed interest rates for the principal amount. As a result, the impact of an increase of one percentage point in interest rates would impact annual consolidated ordinary income by between ¥1 billion and ¥2 billion.

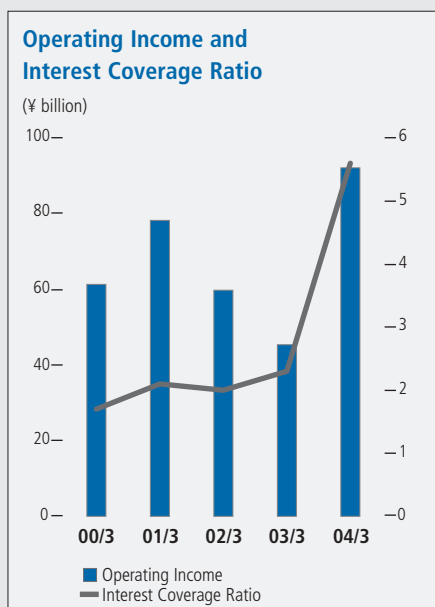
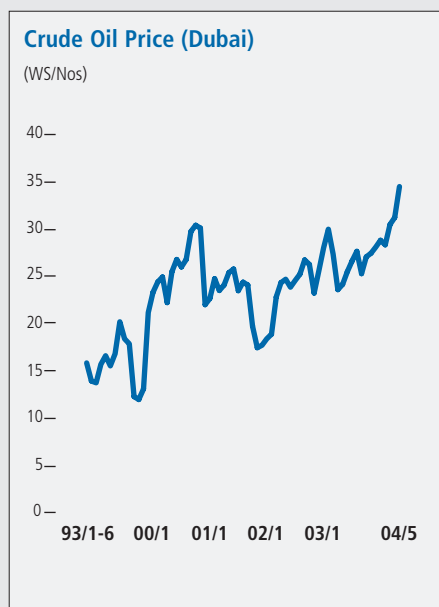
## Vessel Operations

With a fleet of more than 500 vessels in constant operation around the world, there is a risk of a marine accident. To prevent accidents, MOL, based on its Corporate Principle of "protecting the marine and global environment through safe navigation," has established its own safety management system, operates a comprehensive crew education and training system, and takes other steps to ensure safety. Furthermore, the group has adequate insurance coverage to prevent a material impact on operating results in the unlikely event that a collision, sinking, fire or other marine accident involving an MOL-operated vessel causes damages at MOL and a third party.

## Outlook for Fiscal 2004

In MOL STEP, the new medium-term management plan that was announced in March 2004, MOL has established the goal of ¥330.0 billion in operating income during the plan's three years. This is the total of ¥105.0 billion in fiscal 2004, ¥110.0 billion in fiscal 2005 and ¥115.0 billion in fiscal 2006. This goal is based on a U.S. dollar-yen exchange rate of ¥110 and a bunker price of US\$150/MT.

When fiscal 2003 results were released in May 2004, MOL announced consolidated forecasts of ¥115.0 billion for operating income and ¥62.0 billion for net income in fiscal 2004. This assumes a U.S. dollar-yen exchange rate of ¥110 and a bunker price of US\$180/MT. This forecast represents an increase of ¥22.9 billion over fiscal 2003 operating income, which was far above MOL's previous record for this earnings category. MOL aims to generate higher earnings in all new business segments in fiscal 2004, but higher earnings in dry bulk and containerships are expected to make the largest contributions to operating results.



## Consolidated Balance Sheets

Mitsui O.S.K. Lines, Ltd. March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	¥ 45,263	¥ 43,057	\$ 428,262
Marketable securities (Note 3) . . . . .	4,460	4,961	42,199
Trade receivables . . . . .	119,476	118,887	1,130,438
Allowance for doubtful accounts . . . . .	(2,097)	(2,474)	(19,841)
Fuel and supplies . . . . .	12,778	13,829	120,901
Deferred and prepaid expenses . . . . .	58,435	49,993	552,890
Deferred tax assets (Notes 2 (14) and 11) . . . . .	6,691	4,692	63,308
Other current assets . . . . .	54,538	56,700	516,018
<b>Total current assets . . . . .</b>	<b>299,544</b>	<b>289,645</b>	<b>2,834,175</b>
<b>Vessels, property and equipment, at cost (Note 5):</b>			
Vessels . . . . .	861,902	977,981	8,155,001
Buildings and structures . . . . .	65,438	67,172	619,150
Equipment, mainly containers . . . . .	48,632	47,999	460,138
Land . . . . .	60,150	60,811	569,117
Vessels and other property under construction . . . . .	34,475	39,020	326,190
	1,070,597	1,192,983	10,129,596
Accumulated depreciation . . . . .	(592,976)	(623,749)	(5,610,521)
	477,621	569,234	4,519,075
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 5) . . . . .	72,876	49,565	689,526
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 3) . . . . .	73,630	71,019	696,660
Long-term loan receivable . . . . .	12,012	8,247	113,653
Consolidation difference . . . . .	2,471	2,563	23,380
Intangible assets . . . . .	8,171	6,369	77,311
Deferred tax assets (Notes 2 (14) and 11) . . . . .	1,592	3,992	15,063
Other assets . . . . .	52,289	45,978	494,739
	223,041	187,733	2,110,332
	¥1,000,206	¥1,046,612	\$ 9,463,582

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current liabilities:</b>			
Short-term bank loans . . . . .	¥ 68,032	¥ 96,179	\$ 643,694
Short-term bonds . . . . .	7,966	6,885	75,371
Commercial paper . . . . .	29,000	33,000	274,387
Total short-term debt (Note 5) . . . . .	104,998	136,064	993,452
Long-term bank loans due within one year . . . . .	71,618	65,365	677,623
Bonds due within one year . . . . .	4,057	15,628	38,386
Total long-term debt due within one year (Note 5) . . . . .	75,675	80,993	716,009
Trade payables . . . . .	86,634	88,297	819,699
Advances received . . . . .	59,640	51,644	564,292
Accrued income taxes . . . . .	30,305	8,590	286,735
Deferred tax liabilities (Notes 2 (14) and 11) . . . . .	393	321	3,719
Other current liabilities . . . . .	40,446	57,929	382,685
Total current liabilities . . . . .	398,091	423,838	3,766,591
Long-term bank loans due after one year . . . . .	270,756	358,714	2,561,794
Bonds due after one year . . . . .	40,265	36,875	380,973
Total long-term debt due after one year (Note 5) . . . . .	311,021	395,589	2,942,767
Employees' severance and retirement benefits (Note 12) . . . . .	13,913	15,030	131,640
Directors' and corporate auditors' retirement benefits . . . . .	1,521	–	14,391
Deferred tax liabilities (Notes 2 (14) and 11) . . . . .	15,587	9,227	147,478
Other non-current liabilities . . . . .	31,371	30,446	296,821
Minority interests . . . . .	7,167	7,692	67,811
<b>Commitments and contingent liabilities (Note 6)</b>			
<b>Shareholders' equity (Note 7):</b>			
Common stock;			
Authorized – 3,154,000,000 shares			
Issued – 1,205,410,445 shares . . . . .	64,915	64,915	614,202
Capital surplus . . . . .	43,935	43,887	415,697
Retained earnings . . . . .	101,991	56,469	965,002
	210,841	165,271	1,994,901
Revaluation reserve for land, net of tax . . . . .	2,267	2,231	21,449
Unrealized holding gains on available-for-sale securities, net of tax (Note 2 (5)) . . . . .	25,435	7,036	240,656
Foreign currency translation adjustments . . . . .	(14,475)	(8,055)	(136,957)
Treasury stock, at cost (Note 2 (17)) . . . . .	(2,533)	(1,693)	(23,966)
Total shareholders' equity . . . . .	221,535	164,790	2,096,083
	¥1,000,206	¥1,046,612	\$9,463,582

## Consolidated Statements of Income

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Shipping and other revenues</b> (Note 10) .....	<b>¥997,260</b>	¥910,288	<b>\$9,435,708</b>
<b>Shipping and other expenses</b> (Note 10):			
Vessel depreciation .....	<b>48,547</b>	54,211	<b>459,334</b>
Other expenses .....	<b>776,355</b>	733,329	<b>7,345,586</b>
	<b>824,902</b>	787,540	<b>7,804,920</b>
	<b>172,358</b>	122,748	<b>1,630,788</b>
<b>General and administrative expenses:</b>			
Amortization of consolidation difference (Note 2 (1)) .....	<b>535</b>	446	<b>5,062</b>
Other general and administrative expenses .....	<b>79,697</b>	76,946	<b>754,064</b>
<b>Operating income</b> .....	<b>92,126</b>	45,356	<b>871,662</b>
Other income (expenses):			
Interest and dividend income .....	<b>2,996</b>	2,840	<b>28,347</b>
Interest expense .....	<b>(16,930)</b>	(21,103)	<b>(160,186)</b>
Equity in earnings of unconsolidated subsidiaries and affiliated companies .....	<b>6,613</b>	3,387	<b>62,570</b>
Others, net (Note 8) .....	<b>4,971</b>	(5,366)	<b>47,034</b>
	<b>(2,350)</b>	(20,242)	<b>(22,235)</b>
<b>Income before income taxes and minority interests</b> .....	<b>89,776</b>	25,114	<b>849,427</b>
<b>Income taxes</b> (Notes 2 (14) and 11):			
Current .....	<b>(35,346)</b>	(10,872)	<b>(334,431)</b>
Deferred .....	<b>2,152</b>	1,435	<b>20,361</b>
Minority interests .....	<b>(1,191)</b>	(967)	<b>(11,269)</b>
<b>Net income</b> .....	<b>¥ 55,391</b>	¥ 14,710	<b>\$ 524,088</b>
<b>Amounts per share of common stock:</b>			
Net income .....	<b>¥46.14</b>	¥12.16	<b>\$0.437</b>
Diluted net income .....	<b>¥46.00</b>	¥12.15	<b>\$0.435</b>
Cash dividends applicable to the year .....	<b>¥11.00</b>	¥ 5.00	<b>\$0.104</b>

See accompanying notes.



# Consolidated Statements of Shareholders' Equity

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2004 and 2003

	Millions of yen							
	Shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of tax	Unrealized holding gains on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	1,205,410	¥ 64,915	¥ 43,887	¥ 47,818	¥2,173	¥ 11,424	(2,609)	(638)
Due to change in consolidated subsidiaries	—	—	—	116	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	—	(30)	—	—	—	—
Net income	—	—	—	14,710	—	—	—	—
Revaluation reserve for land, net of tax	—	—	—	—	58	—	—	—
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	—	(4,388)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(5,466)	—
Treasury stock	—	—	—	—	—	—	—	(1,055)
Gains on disposal of treasury stock	—	—	0	—	—	—	—	—
Dividends paid	—	—	—	(6,017)	—	—	—	—
Bonuses to directors	—	—	—	(128)	—	—	—	—
<b>Balance at March 31, 2003</b>	<b>1,205,410</b>	<b>¥64,915</b>	<b>¥43,887</b>	<b>¥ 56,469</b>	<b>¥2,231</b>	<b>¥ 7,036</b>	<b>¥ (8,055)</b>	<b>¥(1,693)</b>
Due to change in consolidated subsidiaries	—	—	—	293	—	—	—	—
Due to change in affiliated companies accounted for by the equity method	—	—	—	764	—	—	—	—
Net income	—	—	—	55,391	—	—	—	—
Revaluation reserve for land, net of tax	—	—	—	—	36	—	—	—
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	—	18,399	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(6,420)	—
Treasury stock	—	—	—	—	—	—	—	(840)
Gains on disposal of treasury stock	—	—	48	—	—	—	—	—
Dividends paid	—	—	—	(10,802)	—	—	—	—
Bonuses to directors	—	—	—	(124)	—	—	—	—
<b>Balance at March 31, 2004</b>	<b>1,205,410</b>	<b>¥64,915</b>	<b>¥43,935</b>	<b>¥101,991</b>	<b>¥2,267</b>	<b>¥25,435</b>	<b>¥(14,475)</b>	<b>¥(2,533)</b>

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of tax	Unrealized holding gains on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2003	\$614,202	\$415,243	\$ 534,289	\$21,109	\$ 66,572	\$ (76,213)	\$(16,019)	
Due to change in consolidated subsidiaries	—	—	2,772	—	—	—	—	
Due to change in affiliated companies accounted for by the equity method	—	—	7,230	—	—	—	—	
Net income	—	—	524,088	—	—	—	—	
Revaluation reserve for land, net of tax	—	—	—	340	—	—	—	
Unrealized holding gains on available-for-sale securities, net of tax	—	—	—	—	174,084	—	—	
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(60,744)	—	
Treasury stock	—	0	—	—	—	—	(7,947)	
Gains on disposal of treasury stock	—	454	—	—	—	—	—	
Dividends paid	—	—	(102,204)	—	—	—	—	
Bonuses to directors	—	—	(1,173)	—	—	—	—	
<b>Balance at March 31, 2004</b>	<b>\$614,202</b>	<b>\$415,697</b>	<b>\$ 965,002</b>	<b>\$21,449</b>	<b>\$240,656</b>	<b>\$(136,957)</b>	<b>\$(23,966)</b>	

See accompanying notes.

# Consolidated Statements of Cash Flows

Mitsui O.S.K. Lines, Ltd. March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 89,776	¥ 25,114	\$ 849,427
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	55,334	60,711	523,550
Equity in earnings of affiliated companies, net	(6,613)	(3,387)	(62,570)
Loss on write-down of investment securities	401	6,124	3,794
Loss on write-down of securities issued by subsidiaries and affiliates	397	170	3,756
Various provisions (reversals)	215	(1,807)	2,034
Interest and dividend income	(2,996)	(2,840)	(28,347)
Interest expense	16,930	21,103	160,186
Loss (Gain) on sale of marketable securities	(19)	3	(180)
Loss (Gain) on sale of investment securities	(767)	1,474	(7,257)
Loss (Gain) on sale of securities issued by subsidiaries and affiliates	441	(65)	4,173
Gain on sale and disposal of tangible fixed assets	(1,473)	(3,436)	(13,937)
Exchange loss (gain)	(2,029)	1,113	(19,197)
Changes in operating assets and liabilities:			
Trade receivables	(1,401)	(21,662)	(13,255)
Fuel and supplies	953	(2,437)	9,017
Trade payables	(697)	678	(6,595)
Other, net	(6,533)	24,870	(61,813)
Sub total	141,919	105,726	1,342,786
Cash received for interest and dividend	4,915	4,262	46,504
Cash paid for interest	(18,612)	(22,874)	(176,100)
Cash paid for corporate income tax, resident tax, and enterprise tax	(13,631)	(4,239)	(128,972)
Net cash provided by operating activities	114,591	82,875	1,084,218
<b>Cash flows from investing activities:</b>			
Purchase of marketable securities	(1,603)	(2,715)	(15,167)
Purchase of investment securities	(3,287)	(4,649)	(31,100)
Proceeds from sale of marketable securities	3,385	1,408	32,028
Proceeds from sale of investment securities	5,724	3,640	54,158
Payments for vessels and other tangible fixed assets	(50,549)	(47,005)	(478,276)
Proceeds from sale of vessels and other tangible fixed assets	52,249	19,494	494,360
Disbursements for loans	(5,048)	(1,046)	(47,762)
Collections of loans receivable	1,915	8,955	18,119
Net increase in short-term loans receivable	(6,088)	—	(57,602)
Other	3,656	(28,795)	34,592
Net cash provided by (used in) investing activities	354	(50,713)	3,350
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans	(22,365)	14,892	(211,609)
Net increase (decrease) in commercial paper	(4,000)	10,000	(37,847)
Proceeds from long-term loans	22,864	59,325	216,331
Repayments of long-term loans	(89,217)	(88,984)	(844,139)
Proceeds from issuance of bonds	7,488	606	70,849
Redemption of bonds	(16,081)	(17,928)	(152,153)
Cash dividends paid by the company	(10,802)	(6,017)	(102,205)
Purchase of treasury stock	(867)	(641)	(8,203)
Cash dividends paid to minority interest	(1,237)	(471)	(11,704)
Other	3,357	1,953	31,763
Net cash used in financing activities	(110,860)	(27,265)	(1,048,917)
Effect of exchange rate changes on cash and cash equivalents	(2,329)	(1,691)	(22,036)
Net increase in cash and cash equivalents	1,756	3,206	16,615
Cash and cash equivalents at beginning of year	43,057	39,738	407,389
Net cash increase from new consolidation/de-consolidation of subsidiaries	450	113	4,258
Cash and cash equivalents at end of year	¥ 45,263	¥ 43,057	\$ 428,262

See accompanying notes.

# Notes to Consolidated Financial Statements

Mitsui O.S.K. Lines, Ltd. Years ended March 31, 2004 and 2003

## 1. Basis of presenting financial statements

Mitsui O.S.K. Lines, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from the International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### (1) Principles of consolidation

All companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

The consolidated financial statements include the accounts of the Company and 286 subsidiaries for the year ended March 31, 2004 (283 subsidiaries for the year ended March 31, 2003). All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method. Companies accounted for using the equity method include two unconsolidated subsidiaries for the year ended March 31, 2004 and three for the year ended March 31, 2003 and 37 affiliated companies for the year ended March 31, 2004 and 36 for the year ended March 31, 2003. Investments in other subsidiaries (108 in the year ended March 31, 2004 and 117 in the preceding year) and affiliated companies (81 and 86 in the respective years) were stated at costs since the Company's equity in net income and retained earnings in such companies were not material.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference of acquisition cost over net assets acquired is shown as the consolidation difference and amortized over 5 to 14 years.

Amortization of the consolidation difference is included in general and administrative expenses.

### (2) Translation of foreign currency

Revenues earned and expenses incurred in currencies other than Japanese yen of the Company and its subsidiaries keeping their books in Japanese yen are translated into Japanese yen either at a monthly exchange rate or at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than Japanese yen are translated into yen at the exchange rate prevailing at the balance sheet date, except for long-term debt covered with forward exchange contracts, which is translated at the forward contract rates. The gain or loss arising from the difference between the forward contract rate and the historical rate recognized in relation to long-term debt is booked in the balance sheets and amortized over the remaining period of the debt.

Subsidiaries keeping their books in a currency other than Japanese yen translate the revenues and expenses and assets and liabilities in foreign currencies into the currency used for financial reporting in accordance with accounting principles generally accepted in their respective countries.

All the items in financial statements of subsidiaries, which are stated in currencies other than Japanese yen, were translated into Japanese yen at the year-end exchange rate, except for shareholders' equity which is translated at historical rates. Translation differences arising from the application of more than one exchange rate are presented as foreign currency translation adjustments in the shareholders' equity section of the consolidated balance sheets.

### (3) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (4) Shipping revenues and related expenses

Shipping revenues and the related voyage expenses are recognized mainly by the completed-voyage method. Payments received for uncompleted voyages are included in "Advances received" and the related voyage expenses are included in "Deferred and prepaid expenses" in the balance sheets.

### (5) Securities

Securities are classified into (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "Held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as separate component of shareholders' equity. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (6) Fuel and supplies

Fuel and supplies are stated principally at cost determined by the moving-average method.

### (7) Depreciation of vessels, property and equipment

Depreciation of vessels and buildings is computed mainly by the straight-line method. Depreciation of other property and equipment is computed by the declining-balance method. Estimated useful lives are mainly as follows.

Vessels . . . . .	13 – 20 years
Containers . . . . .	7 years

### (8) Amortization of bond issue expense

Bond issue expense is charged to income as incurred.

### (9) Interest capitalization

In cases where a vessel's construction period is long and the amount of interest accruing during this period is significant, such interest expenses are capitalized as a part of the acquisition cost.

### (10) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of the Company's collection losses.

### (11) Employees' severance and retirement benefits

The Company has tax-qualified pension plans for employees engaged in shore and sea services. Employees engaged in sea service who retire prior to a certain age are also entitled to a lump-sum payment. Some subsidiaries have tax-qualified pension plans which cover all or a part of the retirement benefits and some other subsidiaries have established reserves for a lump-sum payment for retirement benefits.

Under the accounting standards for employees' severance and retirement benefits adopted on April 1, 2000, liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2004 and 2003 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period.

#### **(12) Directors' and corporate auditors' retirement benefits**

The Company and its consolidated subsidiaries recognize liabilities for retirement benefits for directors and corporate auditors at an amount required in accordance with the internal regulations had all directors and corporate auditors terminated as of the balance sheet date.

(Change in accounting method)

Previously, the Company recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. In addition, this change will reflect better the financial position of the Company with the allocation on an accrual basis of retirement benefit expenses throughout the terms of directors and corporate auditors.

As a result of this change, operating income increased by ¥308 million and income before income taxes and minority interests decreased by ¥599 million, in comparison with the results under the previous method of accounting.

#### **(13) Accounting for certain lease transactions**

Finance leases which do not transfer ownership to lessees are accounted for as operating leases under accounting principles generally accepted in Japan.

#### **(14) Income taxes**

The Company and its subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

#### **(15) Amounts per share of common stock**

Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during the year.

Fully diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year or at the date of issuance with an applicable adjustment for related interest expense.

Cash dividends per share shown in the 2004 column represent the amount payable to shareholders as of March 31, 2004.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of this new accounting standard is immaterial.

#### **(16) Derivatives and hedge accounting**

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
  - (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.



Also, if interest rate swap contracts are used as hedging and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Loans payable in foreign currencies	Foreign currency transactions
Forward foreign exchange contracts	Foreign currency transactions
Currency swap contracts	Foreign currency loans payable
Interest rate swap contracts	Interest on loans and bonds payable
Commodities futures	Fuel oil
Freight futures	Freight

The derivative transactions are executed and managed by the Company in accordance with the established policies in order to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange rate fluctuations.

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the cumulative changes in cash flows from or the changes in fair value of hedging instruments.

### (17) Treasury stock and reduction of statutory reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). Due to this change, profit or loss from disposal of treasury stock which were previously charged to income or expense are accounted for as a capital transaction.

The effect on net income of the adoption of this new accounting standard is immaterial.

### (18) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations or cash flows or shareholders' equity.

## 3. Securities

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>(a) Held-to-maturity debt securities:</b>			
There were no securities with available fair values exceeding book values as of March 31, 2004 and 2003.			
Securities with available fair values not exceeding book values			
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Book value	¥9	¥39	\$85
Fair value	9	39	85
Difference	-	-	-

(b) Available-for-sale securities:

Securities with book values exceeding acquisition costs at March 31, 2004

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥20,985	¥56,456	¥35,471
Bonds	10	10	0
Others	64	99	35
<b>Total</b>	<b>¥21,059</b>	<b>¥56,565</b>	<b>¥35,506</b>

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$198,552	\$534,166	\$335,614
Bonds	95	95	0
Others	605	936	331
<b>Total</b>	<b>\$199,252</b>	<b>\$535,197</b>	<b>\$335,945</b>

Securities with book values not exceeding acquisition costs at March 31, 2004

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥2,192	¥1,977	¥(215)
Bonds	—	—	—
Others	194	184	(10)
<b>Total</b>	<b>¥2,386</b>	<b>¥2,161</b>	<b>¥(225)</b>

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$20,740	\$18,706	\$(2,034)
Bonds	—	—	—
Others	1,836	1,741	(95)
<b>Total</b>	<b>\$22,576</b>	<b>\$20,447</b>	<b>\$(2,129)</b>

B. The following tables summarize book values of securities with no available fair value as of March 31, 2004 and 2003:

Type	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Available-for-sale securities:			
Book value			
Unlisted equity securities	¥13,370	¥13,076	\$126,502
Unlisted foreign bonds	4,416	4,721	41,783
Others	814	278	7,702
<b>Total</b>	<b>¥18,600</b>	<b>¥18,075</b>	<b>\$175,987</b>

C. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

For the year ended March 31, 2004:

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Securities:					
Governmental bonds	¥10	¥5	—	—	¥15
Corporate bonds	4	—	—	—	4
<b>Total</b>	<b>¥14</b>	<b>¥5</b>	<b>—</b>	<b>—</b>	<b>¥19</b>

For the year ended March 31, 2003:

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Securities:					
Governmental bonds	—	¥15	—	—	¥15
Corporate bonds	—	46	—	—	46
Others	¥200	—	—	—	200
<b>Total</b>	<b>¥200</b>	<b>¥61</b>	<b>—</b>	<b>—</b>	<b>¥261</b>

For the year ended March 31, 2004:

Type	Thousands of U.S. dollars				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
<b>Securities:</b>					
Governmental bonds	\$ 95	\$47	—	—	\$142
Corporate bonds	38	—	—	—	38
<b>Total</b>	<b>\$133</b>	<b>\$47</b>	<b>—</b>	<b>—</b>	<b>\$180</b>

D. There were no held-to-maturity debt securities sold in the year ended March 31, 2004 and 2003.

E. Total sales of available-for-sale securities sold in the years ended March 31, 2004 and 2003 and the related gains and losses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds from sales	¥4,855	¥3,519	\$45,936
Gross realized gains	920	615	8,705
Gross realized losses	152	2,089	1,438

#### 4. Derivative transactions

The Group enters into derivative transactions and forward currency exchange contracts to hedge the Group's exposure to interest rate increases, fuel oil increases, freight decreases, and currency exchange fluctuations, in accordance with the guidance determined by the management of the Company.

The following tables summarize the outstanding contract amounts and unrealized gains or losses of financial derivatives of the Group at March 31, 2004 and 2003, for which hedge accounting has not been applied.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>(1) Currency related:</b>			
Forward currency exchange contracts			
Sell (U.S. dollar):			
Contracts outstanding	¥ 329	¥ 1,196	\$ 3,113
Unrealized gain (loss)	13	(3)	123

The following table summarizes the outstanding contract amounts and unrealized losses of currency swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

Currency swaps			
Receive Yen, pay U.S. dollar:			
Contracts outstanding	¥28,590	¥25,890	\$270,508
Unrealized gain (loss)	1,497	(1,208)	14,164
Receive U.S. dollar, pay Yen:			
Contracts outstanding	¥ 700	¥ 100	\$ 6,623
Unrealized loss	(16)	(9)	(151)

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>(2) Interest related</b>			
Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding .....	¥2,584	¥7,617	\$24,449
Unrealized loss .....	(372)	(485)	(3,520)
Receive fixed, pay floating			
Contracts outstanding .....	¥1,712	¥7,181	\$16,198
Unrealized gain .....	342	427	3,236

The following table summarizes the outstanding contract amounts and unrealized losses of interest rate swaps of overseas consolidated subsidiaries in the countries where companies are not required either to state derivative financial instruments at fair value, or apply hedge accounting.

Interest rate swaps:			
Receive floating, pay fixed			
Contracts outstanding .....	¥ 847	¥2,931	\$ 8,014
Unrealized loss .....	(61)	(106)	(577)
Receive fixed, pay floating			
Contracts outstanding .....	¥1,900	¥4,600	\$17,977
Unrealized loss .....	(12)	(1)	(114)

- Notes: 1. In calculating market values in Japanese yen at the end of the fiscal year, forward exchange rates, prevailing at the end of the year, for the same values of the respective contracts are used.
2. Market values of interest swaps at the end of the fiscal year are calculated using prices of the contracts at the end of the year quoted by the financial institutions or trading houses with which the relevant transactions were closed.

## 5. Short-term debt and long-term debt

### (1) Short-term debt

Short-term debt amounting to ¥104,998 million (\$993,452 thousand) and ¥136,064 million at March 31, 2004 and 2003, respectively, were principally unsecured. The interest rates on short-term debt were mainly set on a floating rate basis.

### (2) Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Bonds:</b>			
2.750% yen bonds due 2004	¥ —	¥ 10,000	\$ —
3.025% yen bonds due 2006	10,000	10,000	94,616
3.075% yen bonds due 2007	10,000	10,000	94,616
3.250% yen bonds due 2009	10,000	10,000	94,616
Floating rate yen notes due 2008	1,000	—	9,462
Floating/fixed rate Euro medium term notes due 2003-2009	13,321	12,503	126,039
<b>Secured loans from:</b>			
Japan Development Bank due through 2016 at interest rates of 0.60% to 8.50%	70,783	82,703	669,723
Other financial institutions due through 2025 at interest rates of 0.26% to 6.80%	160,468	218,437	1,518,289
<b>Unsecured loans from:</b>			
Other financial institutions due through 2033 at interest rates of 0.21% to 7.78%	111,124	122,939	1,051,415
	<b>386,696</b>	476,582	<b>3,658,776</b>
Amount due within one year.	75,675	80,993	716,009
	<b>¥311,021</b>	¥395,589	<b>\$2,942,767</b>

At March 31, 2004, the aggregate annual maturity of long-term debt were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 75,675	\$ 716,009
2006	67,091	634,791
2007	76,535	724,146
2008	57,175	540,969
2009	40,643	384,549
2010 and thereafter	69,577	658,312
	<b>¥386,696</b>	<b>\$3,658,776</b>

At March 31, 2004, the following assets were pledged as collateral for short-term debt and long-term debt.

Assets pledged	Millions of yen	Thousands of U.S. dollars
Vessels	¥253,243	\$2,396,092
Buildings and structures	7,154	67,689
Land	6,813	64,462
Investment securities	36,957	349,673
Others	831	7,863
	<b>¥304,998</b>	<b>\$2,885,779</b>

Secured debt	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥ 110	\$ 1,041
Long-term debt due within one year.	45,281	428,433
Long-term debt	185,969	1,759,570
	<b>¥231,360</b>	<b>\$2,189,044</b>



## 6. Commitments and contingent liabilities

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable mainly as guarantors or co-guarantors of indebtedness of related and other companies in the aggregate amount of ¥101,043 million (\$956,032 thousand).

The BGT project is operated by subsidiaries, which have their own corporate bodies, legally independent of the Company. The assets of the BGT eight LNG carrier transportation project are held in several subsidiaries of the Company, which have their own creditors.

## 7. Shareholders' equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting. The legal earnings reserve is included in the retained earnings in the accompanying consolidated financial statements.

In accordance with the customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and directors' bonuses approved at the shareholders' meeting held on June 24, 2004. The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code. In addition, semi-annual interim dividend may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

## 8. Other income (expenses): others, net – Breakdown

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Others, net:</b>			
Gain (loss) on sale of marketable securities	¥ 19	¥ (3)	\$ 180
Exchange gain, net	2,095	2,080	19,822
Gain on sale of vessels, investment securities and others	10,821	4,797	102,384
Loss on cancellation of vessel charters	–	(421)	–
Loss on sale and disposal of vessels, investment securities and others	(7,024)	(2,771)	(66,458)
Loss arising from dissolution of subsidiaries and affiliated companies	(36)	(164)	(341)
Loss on write-down of securities and other investments	(798)	(6,294)	(7,550)
Provision for doubtful accounts	(1,605)	(545)	(15,186)
Special retirement	(1,018)	(1,864)	(9,632)
Provision for loss on the liquidation and integration of subsidiaries	(141)	–	(1,334)
Sundries	2,658	(181)	25,149
<b>Total</b>	<b>¥ 4,971</b>	<b>¥(5,366)</b>	<b>\$ 47,034</b>

## 9. Leases

As lessee:

### (A) Information on finance leases accounted for as operating leases:

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2004 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen			
	Vessels	Property and equipment	Other	Total
Acquisition cost	¥2,746	¥36,936	¥273	¥39,955
Accumulated depreciation	1,295	25,359	233	26,887
Net book value	¥1,451	¥11,577	¥ 40	¥13,068

	Thousands of U.S. dollars			
	Vessels	Property and equipment	Other	Total
Acquisition cost	\$25,982	\$349,475	\$2,583	\$378,040
Accumulated depreciation	12,253	239,937	2,205	254,395
Net book value	\$13,729	\$109,538	\$ 378	\$123,645

(2) Future lease payments inclusive of interest at March 31, 2004

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 3,758	\$ 35,557
Amount due after one year	15,055	142,445
Total	¥18,813	\$178,002

(3) Lease payments, Depreciation equivalent and Interest equivalent

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥4,514	¥4,913	\$42,710
Depreciation equivalent	3,813	3,897	36,077
Interest equivalent	476	607	4,504

(4) Calculation of depreciation equivalent

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(5) Calculation of interest equivalent

The excess of total lease payments over acquisition cost equivalents is regarded as amounts representing interest payable equivalents and is allocated to each period using the interest method.

### (B) Future lease payments under operating leases at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 36,509	\$ 345,435
Amount due after one year	277,221	2,622,963
Total	¥313,730	\$2,968,398

As lessor:

(A) Information on finance leases accounted for as operating leases:

(1) A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2004 of finance leases that do not transfer ownership to the lessee is as follows:

	Millions of yen		
	Property and equipment	Other	Total
Acquisition cost	¥57	¥492	¥549
Accumulated depreciation	42	449	491
Net book value	¥15	¥ 43	¥ 58

	Thousands of U.S. dollars		
	Property and equipment	Other	Total
Acquisition cost	\$539	\$4,655	\$5,194
Accumulated depreciation	397	4,248	4,645
Net book value	\$142	\$ 407	\$ 549

(2) Future lease income inclusive of interest at March 31, 2004

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 97	\$ 918
Amount due after one year	69	653
Total	¥166	\$1,571

(3) Lease income, Depreciation and Interest equivalent

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease income	¥110	¥119	\$1,041
Depreciation	59	93	558
Interest equivalent	13	17	123

(4) Calculation of interest equivalent

The excess of total lease income over acquisition costs equivalent is regarded as amounts representing interest receivable equivalents and is allocated to each period using the interest method.

(B) Future lease income under operating leases at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Amount due within one year	¥ 99	\$ 937
Amount due after one year	126	1,192
Total	¥225	\$2,129

## 10. Segment information

### (A) Business segment information:

Millions of yen							
For the year ended March 31, 2004:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥823,477	¥31,368	¥45,359	¥46,060	¥ 50,996	¥ –	¥ 997,260
(2) Inter-segment revenues . . . . .	6,730	4,068	39,331	921	21,125	(72,175)	–
Total revenues . . . . .	830,207	35,436	84,690	46,981	72,121	(72,175)	997,260
<b>2. Operating expenses</b> . . . . .	<b>747,122</b>	<b>34,179</b>	<b>79,338</b>	<b>46,759</b>	<b>69,231</b>	<b>(71,495)</b>	<b>905,134</b>
Operating income (loss) . . . . .	¥ 83,085	¥ 1,257	¥ 5,352	¥ 222	¥ 2,890	¥ (680)	¥ 92,126
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	¥856,792	¥33,454	¥57,975	¥25,476	¥191,088	¥(164,579)	¥1,000,206
(2) Depreciation . . . . .	48,182	1,884	2,984	562	1,722	0	55,334
(3) Capital expenditures . . . . .	40,964	3,566	2,262	1,378	2,379	–	50,549

Millions of yen							
For the year ended March 31, 2003:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥736,171	¥29,135	¥41,520	¥47,319	¥ 56,143	¥ –	¥ 910,288
(2) Inter-segment revenues . . . . .	6,800	4,320	37,335	1,061	18,678	(68,194)	–
Total revenues . . . . .	742,971	33,455	78,855	48,380	74,821	(68,194)	910,288
<b>2. Operating expenses</b> . . . . .	<b>705,514</b>	<b>32,807</b>	<b>76,549</b>	<b>48,434</b>	<b>70,842</b>	<b>(69,214)</b>	<b>864,932</b>
Operating income (loss) . . . . .	¥ 37,457	¥ 648	¥ 2,306	¥ (54)	¥ 3,979	¥ 1,020	¥ 45,356
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	¥870,673	¥30,652	¥53,375	¥26,660	¥186,661	¥(121,409)	¥1,046,612
(2) Depreciation . . . . .	53,672	1,908	2,860	616	1,655	–	60,711
(3) Capital expenditures . . . . .	42,733	1,290	3,934	481	1,056	–	49,494

Thousands of U.S. dollars							
For the year ended March 31, 2004:	Overseas shipping	Ferry/ domestic shipping	Shipping agent and harbor/ terminal operation	Cargo forwarding and warehousing	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$7,791,437	\$296,793	\$429,170	\$435,803	\$ 482,505	\$ –	\$9,435,708
(2) Inter-segment revenues . . . . .	63,677	38,490	372,135	8,714	199,877	(682,893)	–
Total revenues . . . . .	7,855,114	335,283	801,305	444,517	682,382	(682,893)	9,435,708
<b>2. Operating expenses</b> . . . . .	<b>7,068,994</b>	<b>323,389</b>	<b>750,667</b>	<b>442,417</b>	<b>655,038</b>	<b>(676,459)</b>	<b>8,564,046</b>
Operating income (loss) . . . . .	\$ 786,120	\$ 11,894	\$ 50,638	\$ 2,100	\$ 27,344	\$ (6,434)	\$ 871,662
<b>3. Assets, depreciation and Capital expenditures:</b>							
(1) Assets . . . . .	\$8,106,651	\$316,529	\$548,538	\$241,045	\$1,808,005	\$(1,557,186)	\$9,463,582
(2) Depreciation . . . . .	455,880	17,826	28,234	5,317	16,293	–	523,550
(3) Capital expenditures . . . . .	387,587	33,740	21,402	13,038	22,509	–	478,276

(Change in accounting method)

As mentioned in Note 2 (12) Directors' and corporate auditors' retirement benefits, the Company previously recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. Because of this change, operating expenses decreased by ¥308 million and operating income increased by ¥308 million in comparison with the results under previous method of accounting. The effect of this new accounting method over other segments is immaterial.

**(B) Geographical segment information:**

Each segment covers the following countries or regions;

North America:	U.S.A. and Canada
Europe:	U.K., The Netherlands and other European countries
Asia:	The Middle and Near East, South-West Asia, South-East Asia, East Asia
Others:	Central and South America, Africa, Australia and other countries

Revenues of a segment are revenues, wherever they may be earned, of companies registered in countries in the segment except for revenues earned by companies registered in such countries as Panama and Liberia (FOC companies) solely for the purpose of owning ships under charter to the Company and/or its subsidiaries in Japan. The FOC companies are deemed to be companies registered in Japan in this segment information for convenience.

Expenses of a segment are expenses wherever they may be incurred to earn revenues at companies registered in countries in the segment. Assets of a segment are assets possessed by companies registered in countries in the segment, except for assets including ships of FOC companies which are treated as Japanese companies.

Millions of yen							
For the year ended March 31, 2004:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥940,671	¥37,270	¥ 8,875	¥10,370	¥ 74	¥ –	¥ 997,260
(2) Inter-segment revenues . . . . .	1,001	7,576	4,936	13,308	1,519	(28,340)	–
Total revenues . . . . .	941,672	44,846	13,811	23,678	1,593	(28,340)	997,260
<b>2. Operating expenses</b> . . . . .	855,888	39,972	12,831	22,495	1,525	(27,577)	905,134
Operating income (loss) . . . . .	¥ 85,784	¥ 4,874	¥ 980	¥ 1,183	¥ 68	¥ (763)	¥ 92,126
<b>3. Assets</b> . . . . .	¥933,747	¥29,399	¥88,992	¥12,567	¥1,660	¥(66,159)	¥1,000,206

Millions of yen							
For the year ended March 31, 2003:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	¥851,026	¥39,747	¥ 8,150	¥11,331	¥ 34	¥ –	¥ 910,288
(2) Inter-segment revenues . . . . .	2,881	6,925	2,633	13,379	1,172	(26,990)	–
Total revenues . . . . .	853,907	46,672	10,783	24,710	1,206	(26,990)	910,288
<b>2. Operating expenses</b> . . . . .	812,144	43,202	10,339	24,124	1,270	(26,147)	864,932
Operating income (loss) . . . . .	¥ 41,763	¥ 3,470	¥ 444	¥ 586	¥ (64)	¥ (843)	¥ 45,356
<b>3. Assets</b> . . . . .	¥971,131	¥33,620	¥95,103	¥13,486	¥1,243	¥(67,971)	¥1,046,612

Thousands of U.S. dollars							
For the year ended March 31, 2004:	Japan	North America	Europe	Asia	Others	Elimination	Consolidated
<b>1. Revenues</b>							
(1) Revenues from customers, unconsolidated subsidiaries and affiliated companies . . . . .	\$8,900,284	\$352,635	\$ 83,972	\$ 98,117	\$ 700	\$ –	\$9,435,708
(2) Inter-segment revenues . . . . .	9,471	71,681	46,703	125,916	14,372	(268,143)	–
Total revenues . . . . .	8,909,755	424,316	130,675	224,033	15,072	(268,143)	9,435,708
<b>2. Operating expenses</b> . . . . .	8,098,098	378,200	121,402	212,840	14,429	(260,923)	8,564,046
Operating income (loss) . . . . .	\$ 811,657	\$ 46,116	\$ 9,273	\$ 11,193	\$ 643	\$(7,220)	\$ 871,662
<b>3. Assets</b> . . . . .	\$8,834,771	\$278,163	\$842,010	\$118,904	\$15,706	\$(625,972)	\$9,463,582

(Change in accounting method)

As mentioned in Note 2 (12) Directors' and corporate auditors' retirement benefits, the Company previously recognized the expenses of retirement benefits for directors and corporate auditors when those benefits were paid. Considering the current accounting practices in Japan, the Company changed its accounting policy to recognize liabilities for directors' and corporate auditors' retirement benefits based on the Company's internal regulations regarding the payment of retirement benefits to directors and corporate auditors. Because of this change, operating expenses decreased by ¥308 million and operating income increased by ¥308 million in comparison with the results under previous method of accounting. The effect of this new accounting method over other segments is immaterial.



(C) International business information:

For the year ended March 31, 2004:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	¥261,238	¥141,015	¥217,647	¥269,278	¥889,178
2. Consolidated revenue . . . . .	—	—	—	—	¥997,260
3. Ratio of international revenue to consolidated revenue . . . . .	26.2%	14.1%	21.8%	27.0%	89.2%

Segmentation is made from the perspective of geographical closeness and identity.

Geographical areas belonging to the segments are as follows:

- North America: U.S.A. and Canada
- Europe: U.K., the Netherlands and other European countries
- Asia: The Middle and Near East, South-West Asia, South-East Asia, East Asia
- Others: Central and South America, Africa, Australia and other countries

Revenues from international business mainly consist of ocean-going vessel and voyage revenues.

For the year ended March 31, 2003:	Millions of yen				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	¥230,970	¥117,057	¥192,984	¥225,812	¥766,823
2. Consolidated revenue . . . . .	—	—	—	—	¥910,288
3. Ratio of international revenue to consolidated revenue . . . . .	25.4%	12.9%	21.2%	24.8%	84.2%

For the year ended March 31, 2004:	Thousands of U.S. dollars				
	North America	Europe	Asia	Others	Total
1. International revenue . . . . .	\$2,471,738	\$1,334,232	\$2,059,296	\$2,547,810	\$8,413,076
2. Consolidated revenue . . . . .	—	—	—	—	\$9,435,708
3. Ratio of international revenue to consolidated revenue . . . . .	26.2%	14.1%	21.8%	27.0%	89.2%

## 11. Income taxes

The company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 38% for the years ended March 31, 2004 and 2003.

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2004 and 2003 is not shown because the difference between the statutory tax rate and the effective tax rate after application of deferred tax accounting was less than 5%.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Deferred tax assets:</b>			
Excess bad debt expenses . . . . .	¥ 2,726	¥ 2,237	\$ 25,792
Excess reserve for bonuses expenses . . . . .	1,672	1,365	15,820
Excess retirement benefits expenses . . . . .	5,184	4,615	49,049
Excess retirement allowances for officers . . . . .	593	292	5,611
Write-down of securities and other investments . . . . .	1,903	2,373	18,005
Operating loss carried forward . . . . .	1,006	806	9,518
Accrued business tax and business place tax . . . . .	498	305	4,712
Unrealized gain on sale of fixed assets . . . . .	407	542	3,851
Others . . . . .	73	602	691
<b>Total deferred tax assets . . . . .</b>	<b>14,062</b>	<b>13,137</b>	<b>133,049</b>
Valuation allowance . . . . .	(1,365)	(541)	(12,915)
<b>Net deferred tax assets . . . . .</b>	<b>12,697</b>	<b>12,596</b>	<b>120,134</b>
<b>Deferred tax liabilities:</b>			
Reserve deductible for tax purposes when appropriated for deferred gain on real properties . . . . .	(983)	(952)	(9,301)
Reserve deductible for tax purposes when appropriated for special depreciation . . . . .	(2,212)	(3,366)	(20,929)
Unrealized holding gains on available-for-sale securities . . . . .	(12,392)	(4,040)	(117,248)
Gain on securities contributed to employee retirement benefit trust . . . . .	(4,368)	(4,367)	(41,328)
Others . . . . .	(439)	(735)	(4,154)
<b>Total deferred tax liabilities . . . . .</b>	<b>(20,394)</b>	<b>(13,460)</b>	<b>(192,960)</b>
<b>Net deferred tax liabilities . . . . .</b>	<b>¥ (7,697)</b>	<b>¥ (864)</b>	<b>\$ (72,826)</b>

## 12. Employees' severance and pension benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation . . . . .	¥ 63,348	¥ 63,501	\$ 599,375
Unrecognized actuarial differences . . . . .	(5,003)	(14,196)	(47,337)
Prepaid pension expenses . . . . .	11,402	11,424	107,882
Less fair value of pension assets . . . . .	(55,833)	(45,699)	(528,271)
<b>Liability for severance and retirement benefits . . . . .</b>	<b>¥ 13,914</b>	<b>¥ 15,030</b>	<b>\$ 131,649</b>

Included in the consolidated statement of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses, which comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs—benefits earned during the year .....	¥3,326	¥4,001	\$31,469
Interest cost on projected benefit obligation .....	946	1,147	8,951
Expected return on plan assets .....	(26)	(745)	(246)
Amortization of actuarial differences .....	1,541	363	14,580
	¥5,787	¥4,766	\$54,754

The discount rate for the years ended March 31, 2004 and 2003 used by the Company is 2.0%. Also, the rate of expected return on plan assets for the years ended March 31, 2004 and 2003 is 0%.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method primarily over 10 years commencing with the following period.

### 13. Subsequent events

On June 24, 2004, the shareholders of the Company approved (1) payment of year-end cash dividends to shareholders of record as of March 31, 2004 of ¥7 (\$0.066) per share or a total of ¥8,392 million (\$79,402 thousand) and (2) bonuses to directors of ¥132 million (\$1,249 thousand).

### 14. Stock-Based Compensation Plans

The Company has a stock option plan. On June 27, 2000, the shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company according to Article 210-2 of the Code, which was subsequently revised in 2002. The number of shares to be transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 103,000 shares of common stock of the Company as of March 31, 2004 and 0 shares of common stock of the Company as of May 31, 2004. The issued stock options are exercisable from June 20, 2002, to June 26, 2004.

On June 27, 2001, the shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company in accordance with Article 210-2 of the Code, which was subsequently revised in 2002. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 628,000 shares of common stock of the Company as of March 31, 2004, and 465,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 28, 2003 to June 30, 2005.

On June 25, 2002, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 1,490,000 shares of common stock of the Company as of March 31, 2004, and 1,480,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 26, 2004 to June 25, 2012.

On June 25, 2003, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. The number of shares to be newly issued or transferred from treasury stock on the exercise of stock options issued pursuant to the aforesaid shareholders' approval was 1,590,000 shares of common stock of the Company as of March 31, 2004, and 1,580,000 shares of common stock of the Company as of May 31, 2004. The stock options are exercisable from June 26, 2005 to June 25, 2013.

On June 24, 2004, the shareholders of the Company approved the issuance of stock options to the directors, the executive officers, and the managing officers of the Company and the presidents of the Company's affiliates in accordance with Article 280-20 and 280-21 of the Code. Under this approval, the maximum number of shares to be newly issued or transferred from treasury stocks on the exercise of the stock options is 2,100,000 shares of common stock of the Company. The stock options are exercisable from June 20, 2005 to June 24, 2014 by the approval of the Company's board of directors.

## Independent Auditors' Report



To the shareholders and Board of Directors of  
Mitsui O.S.K. Lines, Ltd.:

We have audited the accompanying consolidated balance sheets of Mitsui O.S.K. Lines, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui O.S.K. Lines, Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 2 (12) to the consolidated financial statements, effective April 1, 2003, the Company changed its accounting policy for directors' and corporate auditors' retirement benefits from expensing them when payments are made to accruing an amount required in accordance with the internal regulations if all directors and corporate auditors had retired as of the balance sheet date.

The consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & CO.

Tokyo, Japan  
June 24, 2004



KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law, is the Japan member firm of KPMG International, a Swiss cooperative.

# The MOL Group

Mitsui O.S.K. Lines, Ltd. As of March 31, 2004

- Consolidated Subsidiaries
- Subsidiaries Accounted for by the Equity Method
- ▲ Affiliated Companies Accounted for by the Equity Method

			Registered Office	MOL's Ownership (%)*	Paid-in Capital (Thousands)		
<b>Overseas Shipping</b>	Ship Operation/ Chartering	■ BGT related 6 companies					
		■ International Energy Transport Co., Ltd.	Japan	61.45	¥1,224,000		
		■ International Marine Transport Co., Ltd.	Japan	75.56	¥500,000		
		■ Mitsui O.S.K. Kinkai, Ltd.	Japan	99.04	¥660,000		
		■ MCGC International Ltd.	Bahamas	80.10	US\$1		
		■ Mitsui Kinkai Kisen Co., Ltd.	Japan	79.94	¥350,000		
		■ Shipowner companies (175 companies) in Panama, Liberia, Cyprus, Malta, Hong Kong, Singapore					
		■ Tokyo Marine Co., Ltd.	Japan	71.74	¥617,500		
		■ Tokyo Marine Asia Pte. Ltd.	Singapore	100.00	S\$500		
		■ Unix Line Pte. Ltd.	Singapore	100.00	S\$500		
		▲ Act Maritime Co., Ltd.	Japan	49.00	¥90,000		
		▲ Aramo Shipping (Singapore) Pte. Ltd.	Singapore	50.00	US\$20,742		
		▲ Arun LNG Transport, Inc.	Japan	35.00	¥400,000		
		▲ Asahi Tanker Co., Ltd.	Japan	24.75	¥400,272		
		▲ Badak LNG Transport, Inc.	Japan	25.00	¥400,000		
		▲ Belo Maritime Transport S.A.	Panama	50.00	US\$2		
		▲ Daiichi Chuo Kisen Kaisha	Japan	20.97	¥13,258,410		
		▲ Faship Maritime Carriers Inc.	Panama	50.00	US\$1,200		
		▲ Gearbulk Holding Ltd.	Bermuda	40.00	US\$260,000		
		▲ Global Alliance K B.V.	Netherlands	25.00	DGL8,000		
		▲ Interasia Lines, Ltd.	Japan	43.75	¥400,000		
		▲ Liquimarine Gandria Chartering Co., Ltd.	Grand Cayman	50.00	US\$10,000		
		▲ Liquimarine Gandria Shipping A/S	Norway	50.00	NKR100		
		▲ Methane Carriers Ltd.	Bahamas	50.00	US\$500		
		▲ Monc Liberia, Inc.	Liberia	50.00	US\$3		
		▲ Monteriggioni Inc.	Liberia	50.00	US\$1		
		▲ Nissan Motor Car Carrier Co., Ltd.	Japan	40.00	¥640,000		
		▲ Osaka Shipping Co., Ltd.	Japan	30.12	¥498,000		
		▲ Powercoal Navigation Corp.	Panama	50.00	¥1,995,000		
		▲ Oasis LNG Carrier S.A. (Prestige Shipping Navigation)	Panama	20.00	US\$43,250		
		▲ Shanghai Ferry Co., Ltd.	Japan	31.98	¥2,389,950		
		▲ United Car Transport Corporation, S.A.	Panama	49.00	US\$602		
		Ship Management and Manning	Ship Management and Manning	■ Energy Maritime Service S.A.	Panama	100.00	US\$1
				■ International Tanker Service S.A.	Panama	100.00	US\$1
				■ M.O. Cableship Ltd.	Japan	100.00	¥10,000
				■ M.O. Ship Management Co., Ltd.	Japan	100.00	¥50,000
				■ Mitsui O.S.K. Manning Service S.A.	Panama	100.00	US\$135
				■ Tankship Venture S.A.	Panama	100.00	US\$2
				■ Other 2 companies			
		Cruising	Cruising	■ Mitsui O.S.K. Passenger Line, Ltd.	Japan	84.07	¥8,100,000
				▲ Nippon Charter Cruise, Ltd.	Japan	50.00	¥290,000
		<b>Ferry/Domestic Shipping</b>	Ferry/Domestic Shipping	■ Blue Highway Line Nishinohon Corp.	Japan	100.00	¥1,183,200
				■ Kyushu Kyuko Ferry Co., Ltd.	Japan	92.00	¥840,000
				■ Shosen Mitsui Naiko, Ltd.	Japan	98.99	¥650,000
				■ Shosen Mitsui Ferry Co., Ltd.	Japan	100.00	¥600,000
				■ The Diamond Ferry Co., Ltd.	Japan	93.73	¥900,000
				▲ Kyodo Kisen Kaisha, Ltd.	Japan	39.00	¥10,000
▲ Meimon Taiyo Ferry Co., Ltd.	Japan			35.07	¥880,000		
■ Green Kaiji Kaisha, Ltd.	Japan			66.67	¥95,400		
■ Nihon Tug-Boat Co., Ltd.	Japan			69.53	¥134,203		
■ Ube Port Service Co., Ltd.	Japan			54.18	¥14,950		
▲ South China Towing Co., Ltd.	Hong Kong			25.00	HK\$12,400		
<b>Shipping Agent and Harbor/Terminal Operation</b>	Shipping Agent			■ Chugoku Shipping Agencies Ltd.	Japan	100.00	¥10,000
				■ Green Shipping, Ltd.	Japan	100.00	¥172,000
		■ Kyushu Shipping Co., Ltd.	Japan	100.00	¥10,000		
		■ Mitsui O.S.K. Bulk Shipping (USA) Inc.	U.S.A.	100.00	US\$200		
		■ Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte. Ltd.	Singapore	100.00	S\$2,350		
		■ Mitsui O.S.K. Bulk Shipping (Europe) Ltd.	U.K.	100.00	US\$402		
		■ MOL (America) Inc.	U.S.A.	100.00	US\$6		
		■ MOL (Asia) Ltd.	Hong Kong	100.00	HK\$40,000		
		■ Mitsui O.S.K. Lines (Australia) Pty. Ltd.	Australia	100.00	A\$1,000		
		■ Mitsui O.S.K. Lines (Austria) GmbH	Austria	100.00	€36		
		■ MOL (Europe) GmbH	Germany	100.00	€256		
		■ MOL (Europe) B.V.	Netherlands	100.00	€454		
		■ MOL (Europe) Ltd.	U.K.	100.00	£1,500		
		■ Mitsui O.S.K. Lines (Japan) Ltd.	Japan	100.00	¥395,500		
		■ Mitsui O.S.K. Lines (SEA) Pte. Ltd.	Singapore	100.00	S\$200		
		■ MOL South Africa (Proprietary) Limited	South Africa	100.00	R3,000		
		■ MOL (Brasil) Ltda.	Brazil	100.00	R\$1,677		
		■ MOL (Chile) Ltd.	Chille	100.00	US\$100		
		■ MOL (Panama) Inc.	Panama	100.00	US\$100		
		■ Mitsui O.S.K. Lines De Mexico S.A. DE C.V.	Mexico	100.00	US\$100		
		■ Sanwa Marine Ltd.	Japan	100.00	¥475,000		
		■ Mitsui O.S.K. Lines (Singapore) Pte Ltd.	Singapore	100.00	S\$5,000		
		● MOL (West Africa) Ltd.	U.K.	51.00	£140		
		▲ Mitsui O.S.K. Lines (Thailand) Co., Ltd.	Thailand	47.00	BT20,000		



		Registered Office	MOL's Ownership (%)*	Paid-in Capital (Thousands)		
Harbor Operation and Customs Clearance	■ International Container Terminal Co., Ltd.	Japan	100.00	¥700,000		
	■ International Container Transport Co., Ltd.	Japan	48.00	¥100,000		
	■ Japan Express Co., Ltd. (Kobe)	Japan	86.27	¥102,000		
	■ Japan Express Co., Ltd. (Yokohama)	Japan	96.99	¥236,000		
	■ Kitanihon Soko Koun Co., Ltd.	Japan	95.41	¥179,544		
	■ Shosen Koun Co., Ltd.	Japan	79.99	¥300,000		
	■ Trans Pacific Container Service Corp.	U.S.A.	100.00	US\$3,000		
	● Tyne Logistics Co., Ltd.	U.K.	51.00	£40		
	▲ Seitetsu Unyu Co., Ltd.	Japan	19.86	¥2,000,000		
	▲ Shinyo Kaiun Corporation	Japan	36.00	¥100,000		
	▲ Utoc Corporation	Japan	22.48	¥1,455,300		
	<b>Cargo Forwarding and Warehousing</b>	Cargo Forwarding	■ AMT Freight, Inc.	U.S.A.	100.00	US\$9,490
			■ Bangpoo Intermodal Systems Co., Ltd.	Thailand	67.98	฿130,000
■ Blue Highway Express K.K.			Japan	100.00	¥54,600	
■ Diamond Line K.K.			Japan	100.00	¥20,000	
■ Sea-Road Express Corp. (Kitanihon Kosan K.K.)			Japan	100.00	¥320,000	
■ Miyako Shoji Co., Ltd.			Japan	100.00	¥10,000	
■ MOL Logistics (Japan) Co., Ltd.			Japan	58.13	¥756,250	
■ MOL Logistics (H.K.) Ltd.			Hong Kong	100.00	HK\$3,200	
■ MOL Logistics (Singapore) Pte. Ltd.			Singapore	100.00	S\$700	
■ MOL Logistics (UK) Ltd.			U.K.	100.00	£400	
■ MOL Logistics (USA) Inc.			U.S.A.	100.00	US\$7,314	
▲ J.F. Hillebrand Group Ag			Germany	50.00	€5,000	
▲ Shanghai Longfei international Logistics Co., Ltd.			China	22.05	US\$1,240	
▲ Union Services (Singapore) Pte. Ltd.		Singapore	24.00	S\$500		
Warehousing and Logistics Service		■ MOL Distribution (Deutschland) GmbH	Germany	100.00	€26	
		■ Euloc B.V.	Netherlands	100.00	€3,630	
		■ Hermex Distribution B.V.	Netherlands	100.00	€227	
		■ Hong Kong Logistics Co., Ltd.	Hong Kong	100.00	HK\$58,600	
		■ MOL Logistics Administration B.V.	Netherlands	100.00	€16	
		■ MOL Logistics (Europe) B.V.	Netherlands	100.00	€414	
	■ MOL Logistics (Netherlands) B.V.	Netherlands	100.00	€2,275		
▲ Cougar Holdings Pte Ltd.	Singapore	35.00	S\$9,330			
<b>Others</b>	Office Rental and Real Estate	■ Hokuso Kohatsu K.K.	Japan	100.00	¥50,000	
		■ Hu-Tech Service Co., Ltd.	Japan	100.00	¥20,000	
		■ Santo Tatemono Service Co., Ltd.	Japan	100.00	¥10,000	
		■ Mitsui O.S.K. Kosan Co., Ltd.	Japan	90.00	¥395,000	
		▲ Daibiru Corporation	Japan	27.60	¥12,227,847	
	Finance and Insurance	■ BIL Investments Ltd.	U.K.	100.00	£21	
		■ Citrus Navigation Corp.	Panama	100.00	¥1,042,500	
		■ Euromol B.V.	Netherlands	100.00	US\$10,652	
		■ International Transportation Inc.	U.S.A.	100.00	US\$23,063	
		■ Linkman Holdings Inc.	Liberia	100.00	US\$3	
■ Mitsui O.S.K. Finance PLC		U.K.	100.00	US\$6,568		
■ Mitsui O.S.K. Holdings (Benelux) B.V.		Netherlands	100.00	€17,244		
■ MOL FG, Inc.		U.S.A.	100.00	US\$20		
■ MOL SI, Inc.		U.S.A.	100.00	US\$100		
■ MOL-NIC Transport Ltd.		Liberia	75.00	US\$13,061		
■ M.O. Reinsurance S.A.	Luxembourg	100.00	US\$5,376			
▲ Greenfield Holding Company, Limited	Grand Cayman	50.00	US\$55,000			
Others	■ Blue Highway Service	Japan	100.00	¥30,000		
	■ Star-Net America, Inc.	U.S.A.	98.33	US\$3,000		
	■ Japan Express Packing & Transport Co., Ltd.	Japan	100.00	¥60,000		
	■ Japan Hydrographic Charts & Publications Co., Ltd.	Japan	54.62	¥32,000		
	■ Kitaichi Truck K.K.	Japan	100.00	¥20,000		
	■ Kusakabe Marine Engineering Co., Ltd.	Japan	80.63	¥200,000		
	■ MO Engineering Co., Ltd.	Japan	100.00	¥20,000		
	■ M.O. Ship Tech Inc.	Japan	100.00	¥50,000		
	■ M.O. Marine Consulting, Ltd.	Japan	100.00	¥100,000		
	■ M.O. Marine Construction, Ltd.	Japan	100.00	¥95,000		
	■ M.O. Tourist Co., Ltd.	Japan	100.00	¥250,000		
	■ Mitsui O.S.K. Techno-Trade, Ltd.	Japan	100.00	¥690,000		
	■ MOL Accounting Co., Ltd.	Japan	100.00	¥30,000		
	■ MOL Adjustment, Ltd.	Japan	100.00	¥10,000		
	■ MOL Information Systems, Ltd.	Japan	100.00	¥100,000		
	■ Mitsui O.S.K. Career Support, Ltd.	Japan	100.00	¥100,000		
	■ Orange P.R. Ltd.	Japan	100.00	¥10,000		
	■ White Night Investment Ltd.	Liberia	100.00	US\$120,000		
	▲ South Eastern Oil (S) Pte Ltd.	Singapore	50.00	US\$238		

\* MOL includes MOL and its subsidiaries

## Worldwide Offices

### Head Office

1-1, Toranomon 2-chome, Minato-ku,  
Tokyo 105-8688, Japan  
P.O. Box 5, Shiba, Tokyo  
Tel: 81-3-3587-6224 Fax: 81-3-3587-7734

#### Branch Offices

Sapporo, Yokohama, Nagoya, Osaka, Kobe, Hiroshima, Kyushu

### Japan

#### Mitsui O.S.K. Lines (Japan) Ltd.

Head Office (Tokyo): Tel: 81-3-3587-7684  
Fax: 81-3-3587-7730

Yokohama: Tel: 81-45-212-7700 Fax: 81-45-212-7734

Nagoya: Tel: 81-52-564-7000 Fax: 81-52-564-7047

Osaka: Tel: 81-6-6446-6501 Fax: 81-6-6446-6513

Kobe: Tel: 81-78-304-1100 Fax: 81-78-304-1104

### North America

#### MOL (America) Inc.

Head Office (Concord): Tel: 1-925-688-2600  
Fax: 1-925-688-2670

#### Main Branch Offices

Atlanta: Tel: 1-404-763-0111 Fax: 1-404-763-5667

Chicago: Tel: 1-630-592-7300 Fax: 1-630-592-7402

Long Beach: Tel: 1-562-983-6200 Fax: 1-562-983-6295

New Jersey: Tel: 1-732-512-5200 Fax: 1-732-512-5385

San Francisco: Tel: 1-415-836-3500 Fax: 1-415-836-3534

Seattle: Tel: 1-206-444-6900 Fax: 1-206-444-6903

#### Mitsui O.S.K. Bulk Shipping (USA) Inc.

Head Office (New Jersey): Tel: 1-201-395-5800 Fax: 1-201-395-5820

#### MOL Logistics (USA) Inc.

Head Office (New York): Tel: 1-516-621-5177 Fax: 1-516-626-6092

### Central and South America

#### MOL (Brasil) Ltda.

Head Office (Sao Paulo): Tel: 55-11-3145-3999 Fax: 55-11-3145-3940

#### MOL (Chile) Ltda.

Head Office (Santiago): Tel: 56-2-630-1950 Fax: 56-2-630-1953

#### Mitsui O.S.K. Lines de Mexico S.A. de C.V.

Head Office (Mexico City): Tel: 52-555-687-9979 Fax: 52-555-687-6556

#### Mitsui O.S.K. Bulk Shipping (USA) Inc.

Sao Paulo: Tel: 55-11-3145-3999 Fax: 55-11-3145-3940

### Europe

#### MOL (Europe) B.V.

Head Office (Rotterdam): Tel: 31-10-201-3200 Fax: 31-10-201-3109

#### MOL (Europe) GmbH

Head Office (Hamburg): Tel: 49-40-356110 Fax: 49-40-352506

#### Mitsui O.S.K. Lines (Austria) GmbH

Head Office (Vienna): Tel: 43-1-877-6971 Fax: 43-1-876-4725

#### MOL (Europe) Ltd.

Head Office (London): Tel: 44-20-7265-7500 Fax: 44-20-7265-7560

#### MOL (Europe) S.A.S.

Head Office (Le Havre): Tel: 33-2-32-74-24-00 Fax: 33-2-32-74-24-39

#### MOL (Europe) N.V.

Head Office (Antwerp): Tel: 32-3-202-4860 Fax: 32-3-202-4870

#### Mitsui O.S.K. Bulk Shipping (Europe) Ltd.

Head Office (London): Tel: 44-20-7265-7676 Fax: 44-20-7265-7698

Brussels: Tel: 32-2-305-4240 Fax: 32-2-305-4241

#### MOL Logistics (Netherlands) B.V.

Head Office (Rotterdam): Tel: 31-13-537-3373 Fax: 31-13-537-3375

#### MOL Logistics (U.K.) Ltd.

Head Office (Heathrow): Tel: 44-1895-458-715 Fax: 44-1895-449-600

### Africa

#### MOL SA Pty Ltd.

Head Office (Cape Town): Tel: 27-21-402-8900  
Fax: 27-21-421-1806

#### MOL (West Africa) Ltd.

Abidjan: Tel: 225-21-24-2240 Fax: 225-21-25-9829

Lagos: Tel: 234-1-587-1898 Fax: 234-1-587-4771

Tema: Tel: 233-22-212084 Fax: 233-22-210807

### Middle East

#### Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte. Ltd.

Doha: Tel: 974-4-836548 Fax: 974-4-836563

Dubai: Tel: 971-4-3933132 Fax: 971-4-3935401

#### MOL (Europe) Ltd.

Beirut: Tel: 961-1-567251 Fax: 961-1-567250

### Oceania

#### Mitsui O.S.K. Lines (Australia) Pty. Ltd.

Head Office (Sydney): Tel: 61-2-9320-1600  
Fax: 61-2-9320-1601

#### Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte., Ltd.

Melbourne: Tel: 61-3-8614-1061 Fax: 61-3-8614-1060

### Asia

#### MOL (Asia) Ltd.

Head Office (Hong Kong): Tel: 852-2823-6800 Fax: 852-2529-9989

Ho Chi Minh: Tel: 84-8-821-9115 Fax: 84-8-821-9118

Seoul: Tel: 82-2-538-1034 Fax: 82-2-566-6591

#### Mitsui O.S.K. Lines (India) Private Limited

Head Office (Mumbai): Tel: 91-22-5694-6300 Fax: 91-22-5694-6301

#### Mitsui O.S.K. Lines (SEA) Pte. Ltd.

Head Office (Singapore): Tel: 65-6225-2192 Fax: 65-6223-9557

#### MOL (Singapore) Pte., Ltd.

Head Office (Singapore): Tel: 65-6225-2811 Fax: 65-6225-6096

#### Mitsui O.S.K. Lines (Malaysia) Sdn., Bhd.

Head Office (Kuala Lumpur): Tel: 60-3-7957-9666 Fax: 60-3-7958-6763

#### P.T. Mitsui O.S.K. Lines Indonesia

Head Office (Jakarta): Tel: 62-21-521-1740 Fax: 62-21-521-1741

#### Mitsui O.S.K. Lines (Thailand) Co., Ltd.

Head Office (Bangkok): Tel: 66-2-234-6252 Fax: 66-2-237-1552

#### MOL Philippines, Inc.

Head Office (Manila): Tel: 63-2-528-1101 Fax: 63-2-528-0267

#### MOL (China) Co., Ltd.

Head Office (Shanghai): Tel: 86-21-5306-0088 Fax: 86-21-6384-6267

Tianjin: Tel: 86-22-2339-8349 Fax: 86-22-2311-4470

Shenzhen: Tel: 86-755-8246-2031 Fax: 86-755-2583-0747

#### MOL (Taiwan) Co., Ltd.

Head Office (Taipei): Tel: 886-2-2537-8000 Fax: 886-2-2523-2417

#### Mitsui O.S.K. Bulk Shipping (Asia, Oceania) Pte. Ltd.

Head Office (Singapore): Tel: 65-323-1303 Fax: 65-323-1305

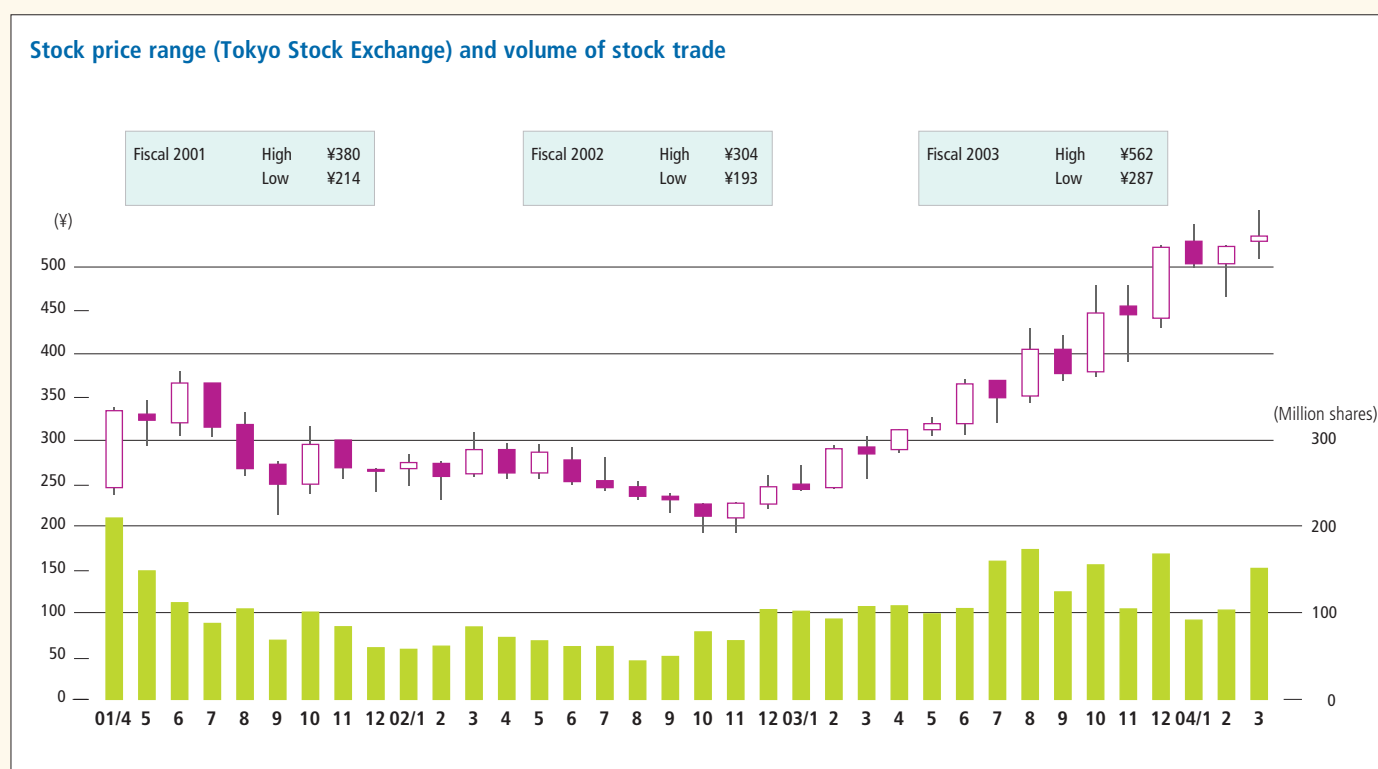
Bangkok: Tel: 66-2-634-0807 Fax: 66-2-634-0806

Kuala Lumpur: Tel: 60-3-7957-9666 Fax: 60-3-7958-5246

## Shareholder Information

<b>Capital:</b>	¥64,915,351,028
<b>Head office:</b>	1-1, Toranomon 2-chome, Minato-ku, Tokyo 105-8688, Japan
<b>Number of MOL employees:</b>	946
<b>Number of MOL Group employees: (The parent company and consolidated subsidiaries)</b>	7,033
<b>Total number of shares authorized:</b>	3,154,000,000
<b>Number of shares issued:</b>	1,205,410,445
<b>Number of shareholders:</b>	118,437
<b>Shares listed in:</b>	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Frankfurt
<b>Share transfer agent:</b>	UFJ Trust Bank Limited 4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
<b>Communications materials:</b>	Annual Reports (English/Japanese) News Releases (English/Japanese) Website (English/Japanese) Quarterly Newsletter Open Sea (English/Web site) Monthly Newsletter Unabara (Japanese) Environmental Report (English/Japanese)

As of March 31, 2004



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