Junichiro Ikeda *President & CEO*

We aim to successfully carry out Business Structural Reforms through our single-year management plan and swiftly return to a growth trajectory.

Progress Made in the First Two Years of the Midterm Management Plan

The three-year medium-term management plan "STEER FOR 2020" began in April 2014 and outlined "three innovations" MOL needs to advance: Innovation of Business Portfolio, Innovation of Business Model, and Innovation of Business Domain. Two years have since passed. In regard to the first two innovations, we were able to achieve major accomplishments as evidenced by the securing of long-term contracts in LNG carriers and offshore businesses. We have also made steady progress with Innovation of Business Domain, where we began various initiatives, including strengthening the logistics and terminal businesses. However, with significant shifts in trade and the global economy, it is essential that we accelerate these initiatives. Despite these shifts, our overall strategy remains sound and centers on successfully carrying out the three innovations outlined in "STEER FOR 2020." This alone, however, is no longer sufficient.

Historically low market conditions for dry bulkers and containerships have forced us to make large revisions to the profit and financial targets of the medium-term management plan. We are still headed in the right direction over the medium- to long-term, but short-term earnings for the period have diverged greatly from the plan's targets, making it virtually impossible to achieve the plan's final targets. This is the assessment we reached looking back on the first three quarters of fiscal 2015. Then in the fourth quarter of fiscal 2015, with the aim of improving earnings from fiscal 2016 onwards, we pressed ahead with the Business Structural Reforms, recording a total extraordinary loss of ¥179.3 billion: ¥117.4 billion related to dry bulkers and ¥61.9 billion related to containerships.

Business Structural Reforms in light of Global Shift from Resource-Driven Economies

The gap between vessel supply and vessel demand has given rise to the historic market stagnation facing dry bulkers and containerships. Behind this gap, however, lies a more profound shift from resource-driven economies. This can be seen in the deceleration of emerging economies due to falling crude oil, iron ore and other resource prices, as well as slowing growth in China. Realizing that these structural changes were not temporary, but actually marked an inflection point in the global economy, we knew the weakening business environment would not end in just one or two years. This was a major reason we carried out the Business Structural Reforms.

The end of resource-driven economies does not mean that needs for resources will disappear. It means that we can no longer expect the same dramatic growth as when China, a mega consumer and producer, was integrated into the global economy between the 1990s and the mid-2010s. Fleets expanded in the marine transport industry to meet that exponential growth. But now, with China largely integrated into the global economy, we cannot expect the same kind of extraordinary growth that marked most of the last two decades. Without another country to replace China as the dynamo of the global economy, we have determined it is necessary to adjust the management of marine transport operations in line with the prevailing stable or low growth environment.

In the current round of Business Structural Reforms, which is based on the abovementioned assumptions, we will significantly reduce our dry bulker fleet engaged in spot cargo transport by selling vessels or terminating charter-in contracts to withdraw from free vessel operations in markets unsupported by cargo demand. We are going to shrink our fleet in line with the number of cargo contracts we have been able to stably secure. And as for our remaining core fleet, we will lower vessel costs to a level in line with the current market. As for containerships, due mainly to the historic stagnant market conditions and the high number of outstanding orders for new deliveries, we cannot foresee a full-scale recovery for the time being. Because of this, we have recorded an impairment loss on fixed assets, mainly mid-size containerships, while selling and redelivering ships made unnecessary by the rationalization of unprofitable routes. We launched a single-year management plan to provide the time to fully implement the Business Structural Reforms and to prudently assess the business environment after completing these top priority reforms.

Launch of the Single-Year Management Plan

Foremost, what we aim for in this single-year plan is the successful implementation of the Business Structural Reforms. In regard to quickly redelivering surplus vessels, we will continue to negotiate and reach agreements with chartered vessel owners and other relevant parties. In the dry bulker business, we will greatly reduce the number of vessels vulnerable to the market exposure of free vessel operations while focusing management resources on business with long-term, stable customers and bringing about a shift toward sustainable businesses. In containerships, we will steadily reduce surplus vessels and further promote rationalization of unprofitable routes. In addition, we will revitalize the sales capabilities lost from past excessive cost reductions and fully reassess MOL's yield management, which controls the container imbalance in round-trip voyages.

In addition, to establish a platform promoting stronger Companywide sales capabilities, we implemented organizational reforms. At our head office, we moved dry bulkers, tankers, LNG carriers and offshore businesses, which are all included in bulkships, to a business unit system. The newly established Dry Bulk Business Unit is to optimize the dry bulker fleet portfolio, which includes a range of sizes from Capesize to Small Handy, and to promote more efficient use of management resources. Aiming to unify MOL's sales policy toward energy-related customers, we also established the Energy Transport Business Unit to precisely meet customer needs for procurement amid diversifying energy sources, including crude oil, LNG and steaming coal.

In terms of global organizational reforms, to strengthen partnerships in each region and unleash the Group's collective capabilities, from the latter half of 2015, we established a chief executive representative at three locations around the world and, under these general representatives, we established country representatives for select countries in Asia, the Middle East and Oceania. With this representative system, we concentrate the best of each sales department, in other words the competitive strengths that differentiate us, to precisely meet customer needs with just one contact point. In the end, when someone thinks logistics, we want MOL to be the first company that comes to mind.

In response to the environmental changes I've already touched on, we will accelerate Innovation of Business Domain while maintaining the marine transport industry as the core of our business.

Underlined words are explained in the Glossary on page 18.

Path Back to a Growth Trajectory

The world economy will undoubtedly continue to grow as will seaborne trade. However, we have to realize that this growth will be gradual. Looking at it in a positive light, you could say that it is stable. More pessimistically, however, this means there will be persistent low growth. In addition, we have to admit that it is currently difficult to predict which marine fields can expect strong growth. Under these conditions, I think it's important that MOL effectively manage its business portfolio.

Looking at global marine transport companies, it's safe to say that there are only a very small number of full-line marine transport groups like MOL. Looking back at the severe business environment of fiscal 2015, it's clear that managing our business portfolio as a full-line marine transport group dampened the negative impact.

Simply stated, the tanker business, which had been struggling for the past five or six years, was able to post results this fiscal year that offset the poor performance of dry bulkers and underpinned the profits of the whole Group. LNG carriers and offshore businesses produced firm profits, and we predict earnings for these businesses will really boom in the next two or three years. And while car carriers saw profit decline this fiscal year, they were still able to secure firm profits. MOL's diverse business fields, including Group companies MOL Ferry and Daibiru, contribute to consolidated earnings in various ways. In fiscal 2015, we recorded a net loss due to Business Structural Reforms but were in the black for operating income and ordinary income. This was also attributable to having a range of departments firmly augment the weaker ones by managing a range of businesses in our business portfolio. Of course, this does not mean that we should just operate all kinds of different businesses and wait for a growth field to spontaneously appear. In each business field, we need to clearly define the factors that differentiate us, reinforce our sales capabilities and then prepare for a new order going forward.

I think it's important that MOL effectively manage its business portfolio.

In the 2000s, our Capesize bulker fleet posted large profits and was perceived as MOL's star business. And in more recent years LNG carriers, for which it could be said MOL has relative superiority, were able to conclude many long-term contracts. While this shows that we had star businesses in each era, it could also suggest that we merely benefitted from the special circumstances arising from exceptional events, such as China's commodity import boom and the U.S. shale revolution. Reaching the end of resource-driven economies, it's now difficult to expect the emergence of another massive star business segment.

On the other hand, customers certainly do have various transport needs, and there are fields where stable growth is expected. For example, we can identify several promising niche business fields, including methanol and chemical tankers. MOL boasts high competitiveness in these fields, holding the No. 1 and No. 3 positions. I believe we still have potential for greater growth in these areas.

In addition, as for our domestic ferry business, the modal shift is fully underway due to the shortage of truck drivers and heightened environmental awareness of customers, and we expect this business to remain stable going forward.

Furthermore, we have been focusing on expanding the container terminal business, which we also expect to maintain comparatively firm earnings. We have actively expanded this business, including a strategic alliance with Brookfield Asset Management, a global asset manager with a remarkable track record in the infrastructure business; an automated terminal at the Port of Los Angeles; the start of operations of a large-scale automated terminal at Rotterdam Port; and the establishment of our independent terminal at Cai Mep Port, Vietnam. In fiscal 2018, another container terminal in Vietnam is slated to begin operations at Lach Huyen Port, steadily advancing the Innovation of Business Domain.

Opportunities abound. In fields expected to grow, MOL continues to invest resources to stimulate businesses where MOL is highly competitive. If we hold steady, I firmly believe we will be able to effectively adapt to the new global structure. For that reason, we need to carefully analyze a wide range of information while polishing our business intelligence.

Implementing the Business Structural Reforms has strengthened our foundation. Although the containership business needs more time to return to the black, we are discovering ways to ensure our highly stable profits. Going forward, I hope to further strengthen the long-term relationships of trust we have established over many years by accurately responding to our increasingly globalized customers and their increasingly complex and varied transport needs. We have already started to build the necessary framework for this under the single-year management plan and will continue to work to steadily enhance this framework.

In Closing

Our greatest duty in fiscal 2016 is to successfully implement the Business Structural Reforms through the single-year management plan and rebuild the foundation needed to outperform our global competition. Through its efforts and ingenuity, MOL has overcome many large undulations in the past. To this day, we have managed to keep growing. Going forward, each of us, executives and employees alike, will continue to work to swiftly return to a growth trajectory. And we will aim to fully meet the expectations of our stakeholders.