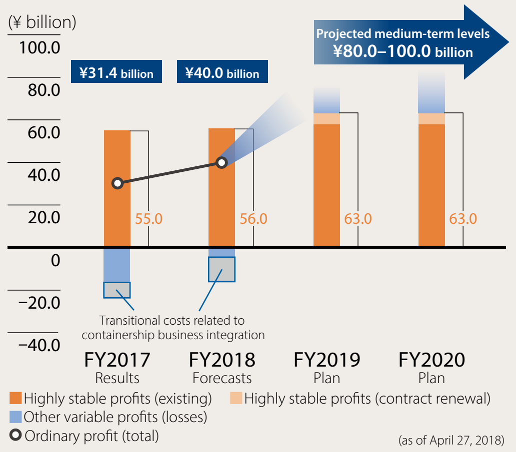
# Message from the CFO

Takashi Maruyama
Senior Managing
Executive Officer

## Roadmap to Improving Profit (Ordinary Profit)

**Highly Stable Profits + Other Variable Profits (Losses) = Ordinary Profit**

**Highly stable profits:** Dry bulkers/Tankers (medium- to long-term contracts), LNG carriers/Offshore businesses, and Associated businesses
**Other variable profits (losses):** Dry bulkers/Tankers (spot operations), Car carriers, Containerships, Terminals & Logistics, and Ferries/Coastal RoRo ships




| | |
|---|---|
| 1. | **Improving other variable profits (losses)**<br>Improve/restore profitability in the containership business |
| 2. | **Accumulating highly stable profits**<br>Start operations of existing projects (LNG carriers/Offshore businesses)/Acquire new mid- and long-term contracts (Dry bulkers, Tankers, Offshore businesses) |
| 3. | **Improving other variable profits**<br>Expand and enhance businesses in which MOL has competitive advantages (chemical tankers, ferries, etc.) |
| In the medium term | **Improving other variable profits**<br>Expect recovery of dry bulker and tanker markets to some extent |

### Review of Fiscal 2017 and Recording of Loss Related to Business Restructuring

In fiscal 2017, MOL achieved consolidated ordinary profit of ¥31.4 billion, up ¥6.0 billion year on year and ¥6.4 billion higher than the initial forecast. The increase reflects steady recording of highly stable profits from mid- and long-term contracts, in addition to which, expenses associated with the establishment of the integrated containership business venture were lower than expected, and the dry bulker market performed stronger than we had anticipated. On the other hand, as we recorded an extraordinary loss (loss related to business restructuring) of ¥73.4 billion associated with the integration of the containership business, we recorded a loss attributable to owners of parent of ¥47.3 billion.

Over 80% of the loss related to business restructuring was incurred by chartering out containerships to the integrated containership business venture Ocean Network Express (ONE), which started service in April 2018. Specifically, we recorded provisions in a lump sum for the losses reasonably expected in the future from the negative difference between charter rates to be paid by the Company for vessels procured in the past (which under current market conditions unfortunately means a comparatively high level) and the charter-out rates to be received from ONE reflecting prevailing market conditions. After several discussions with our independent auditor, the management decided to purge the negative legacy of the containership business, seizing this timing when the integrated venture started its operations. At the same time, the course toward improved business performance from fiscal 2018 onwards is now much clearer, and we have therefore paid a year-end dividend of ¥10 per share as originally intended.

### Roadmap to Improved Business Performance

By recording the extraordinary loss, we have finally resolved the structural issues in the dry bulker and containership businesses, two major segments that had caused the Company's performance to worsen significantly since fiscal 2012, and we believe this has increased the certainty of improved profitability going forward. Namely, in dry bulkers, we completed our business model transformation by means of Business Structural Reforms executed in fiscal 2015, and the business has been reinvented with a structure that can stably deliver profits without being too heavily influenced by market fluctuations. In the containership business, we purged unrealized losses and adopted a structure that directly incorporates the profits ONE is expected to produce going forward through integration synergies.

In addition, the initiative is also expected to greatly improve "other variable profits (losses)," which had been a hindrance to earnings in the recent years, by expanding and strengthening the strategic priority business fields, such as chemical tanker and ferry business where MOL has its competitive edge. Furthermore, in fiscal 2019, we will fully deploy LNG vessels and offshore units under long-term charter contracts that have been acquired over the past few years. The start of operations for these vessels and units had been delayed a little from the original schedule, but now their expected contribution to profits is another reason to feel confident of improved business performance from fiscal 2018 onwards.

### Financial Foundation and Cash Flows

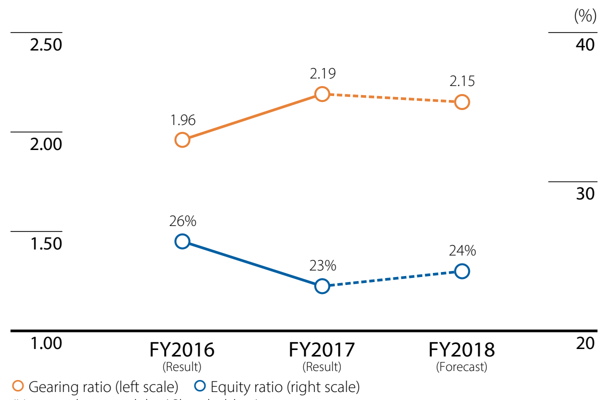
Although the roadmap to improved business performance is clearer going forward, as mentioned above, in fiscal 2017, the Company ultimately recorded a loss, causing the equity ratio to worsen to 23% and the gearing ratio to 2.19 times at the fiscal year-end.

However, with the improvement in "other variable profits (losses)," ordinary profit of ¥80–100 billion and ROE of 8–12% envisaged for the medium term seem well within reach. If these are achieved, then the accumulation of profits will restore shareholders' equity in due course. With regard to the gearing ratio, a rapid improvement seems likely to take time, with forecasts for negative free cash flow in fiscal 2018 also due mainly to the cost of withdrawal from MOL's own containership services. However, we will strive for improvement by continuing to pursue a business model of controlling

#### Medium-Term Profit Levels and Key Financial Indicators

| | Projected medium-term levels |
|---|---|
| Ordinary profit | ¥80.0–100.0 billion |
| ROE | 8–12% |
| Gearing ratio | 2.0 or less |

#### Gearing Ratio* / Equity Ratio




* Interest-bearing debt / Shareholders' equity

Underlined words are explained in the Glossary on page 5.

cash outflows, for example by utilizing charter-in and second-hand vessels, in addition to selling off assets, including cross-shareholdings.

We initially projected free cash flow as significantly negative for fiscal 2017. However, strict selection of investments and proceeds from sales of overseas real estate could minimize the negative amount almost to zero.

Over the three years starting from fiscal 2018 to fiscal 2020, we are expecting cash flows from investing activities totaling net outflow of ¥350 billion (excluding investments in ONE). We plan to capture new contracts in the offshore businesses and LNG carriers stipulated for strategic resource allocation under the management plan, scale up the fleet of chemical tankers and methanol tankers and concentrate investments on such areas as M&A in the logistics business. In particular, we plan to strengthen investment in the offshore businesses, which we expect to differentiate us from other shipping companies and to provide a higher return, for example as the first Asian shipping company to own and operate Floating Storage and Regasification Units (FSRUs).

Although we are still in adverse conditions, to this end, we will invest in rigorously selected projects whose future cash flow creation is assured, and we aim for positive free cash flow from fiscal 2019 onwards from improved operating cash flows.

## Fund Procurement

We don't anticipate any issues with borrowings from financial institutions. We have established good relationships with financial institutions and our investments over the next three years will be mainly in projects where we invest in accumulation of highly stable profits through mid- to long-term contracts with customers who have excellent credit ratings. Moreover, we plan to invest in responding to environmental regulations and in the environment and emission-free businesses, which are expected to become a core business in the future. For this, we have the promising option of procuring funds through Green Bonds, which are intended for funding such investments.

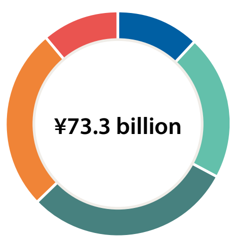
## Status of Credit Ratings

The Company has maintained a rating of "Stable" from Japanese ratings agencies, with downward pressure relaxing temporarily. The posting of a loss related to business restructuring for fiscal 2017 has also been understood by the agencies. We will continue as before to carefully explain to ratings agencies about the Company's path to recovering its business performance. At the same time, we will also strive to increase our rating by improving our profitability.

### FY2018–2020 Investment Cash Flows Forecast (Three-Year Total)

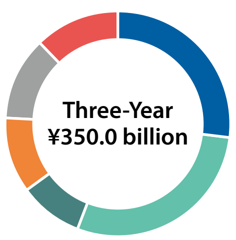
Excluding invest in the containership joint venture

Fiscal 2017



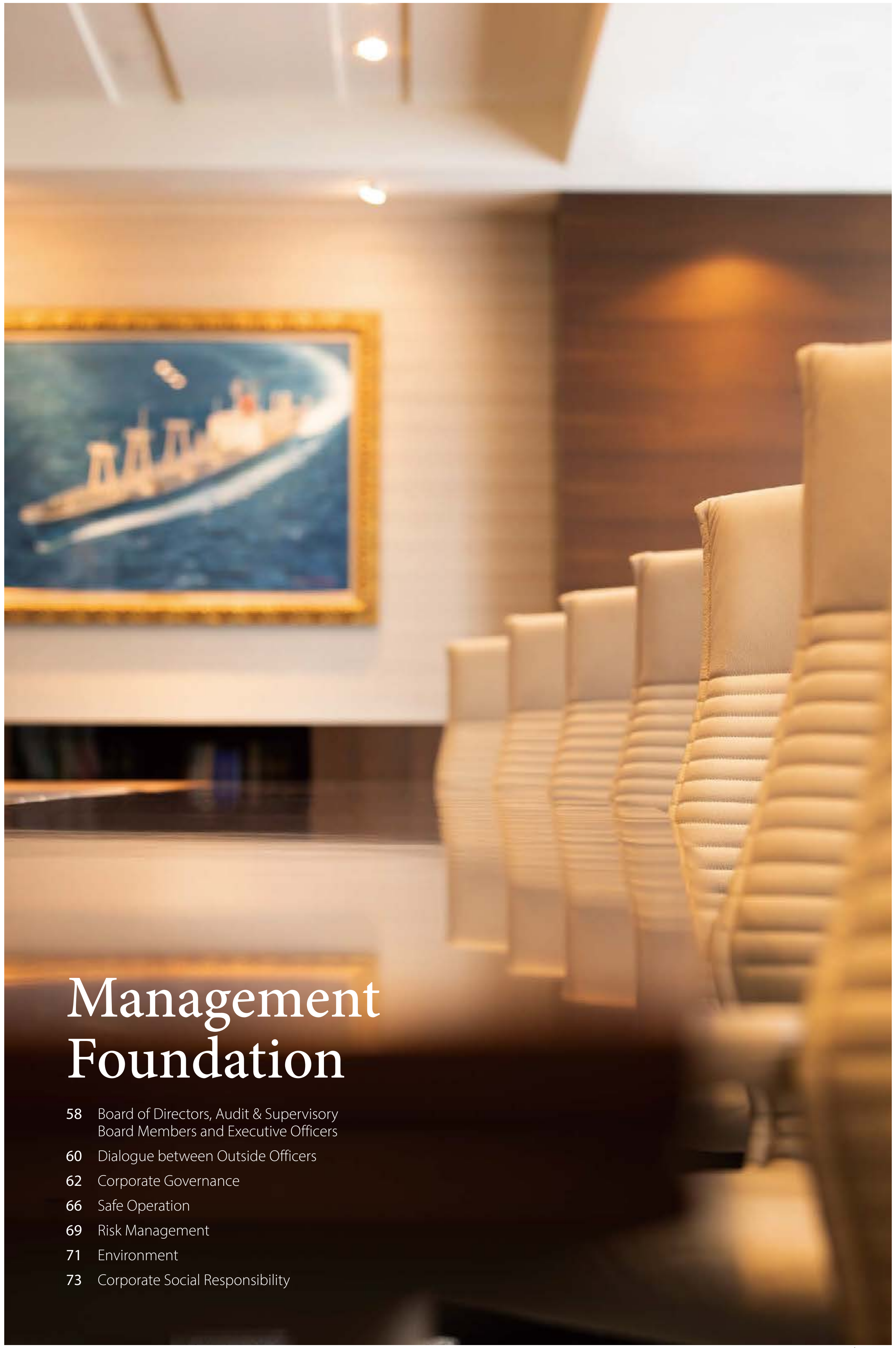

| | |
|---|---|
| LNG Carriers | 12% |
| Offshore Businesses | 21% |
| Chemical/Methanol Tankers | 30% |
| Ferries/Associated Businesses/ Terminals/Logistics | 26% |
| Environment/IT/Others | 11% |

Total




| | |
|---|---|
| LNG Carriers | 27% |
| Offshore Businesses | 29% |
| Chemical/Methanol Tankers | 9% |
| Ferries/Associated Businesses/ Terminals/Logistics | 11% |
| Other Vessels | 12% |
| Environment/IT | 12% |

Environment/IT/Others includes Other Vessels only in fiscal 2017



# Management Foundation





Underlined words are explained in the Glossary on page 5.