

A Message from the CEO



We are steadily holding course on our management vision to “Become a Group of Business Units with No. 1 Competitiveness in Respective Areas.” While minimizing the impact of unfavorable market conditions, we are making preparations to turn around businesses and take aggressive measures during and after the COVID-19 pandemic.

Junichiro Ikeda
President & CEO

An Oil Spill off Mauritius Caused by a Vessel Chartered by MOL

Please allow me to begin by saying with respect to the oil spill that resulted after the WAKASHIO, a Capesize bulker chartered by MOL, ran aground off Mauritius, I am painfully aware of the magnitude of our social responsibility given the serious effect of this accident on the natural environment as well as on the lives of the residents of the tourism-oriented country. I would like to offer my deepest apologies for the considerable concern and inconvenience caused to our customers,

shareholders, and all other stakeholders. Our immediate response to the accident has included dispatching personnel to the site and providing equipment to remove the spilled oil. Going forward, we intend to cooperate and coordinate with the governments of Mauritius and Japan, related agencies, and the ship owner for an extended period of time to restore the natural environment and contribute to the local community.

Our Responses to the COVID-19 Pandemic and Other Changes in the Near-Term Business Environment

In fiscal 2019 ended March 31, 2020, the Dry Bulk, Energy Transport, and Product Transport business units were all in the black, and MOL posted ordinary profit of ¥55.0 billion. Originally, this result was to be a stepping stone in fiscal 2020 on the way to moving very close to our “projected medium-term profit levels,” namely, ordinary profit around ¥80.0 billion to ¥100.0 billion. Unfortunately, we have been forced to revise time frames in light of the dramatic changes in the business environment stemming from the current COVID-19 pandemic. Under the leadership of the Rolling Plan Special Committee, which is chaired by an executive vice president and primarily comprises members of the Executive

Committee, we have mobilized all of our in-house experts to appropriately assess the status of the global economy—as far as is possible amid continuing uncertainty. Based on the committee’s assessment, we are taking steps both to minimize losses and to expedite our return to a growth trajectory during and after the pandemic. Our Rolling Plan 2020, announced in June, was created in this way—based on the deliberations and mega-trend forecasts made by the committee. Going forward, we will continue to closely monitor ever-changing situations and revise strategies in a timely manner while giving clear explanations to our stakeholders with total transparency.

An Overview of Fiscal 2019

Before explaining our measures and strategies during and after the COVID-19 pandemic, I would like to review our performance in fiscal 2019. The most noteworthy achievement was realizing a profit in the Product Transport Business Unit's containership business, in its second year after integration. While there is still a gap to be filled in reaching the expected profit level, we were able to prove that integration was the right decision. Even within MOL's long, 130-year history, I believe that this accomplishment marked an extremely important turning point.

The Dry Bulk Business Unit, despite generally lackluster market conditions, was able to firmly post stable earnings thanks to its long-term contracts. Although stricter restrictions on sulfur oxide (SOx) emissions were imposed from January 2020, we successfully acquired new contracts by offering timely propositions to meet customer needs, such as installing SOx scrubbers on vessels, which helps lower fuel costs.

Meanwhile, the Energy Transport Business Unit accumulated new contracts for LNG carriers and performed existing long-term contracts as planned. Furthermore, a range of initiatives were steadily advanced. For example, in the chemical tanker business—a field in which MOL has particular

competence—we have gained confidence by our moves toward becoming a one-stop solutions provider. In offshore businesses, our potential key growth areas, we concluded a long-term FSRU contract for Hong Kong and agreed to take part in a new service operation vessel project for offshore wind power farms off Taiwan.

In environmental and emission-free businesses, which are also positioned as key growth areas, the long-running Wind Challenger Project* has moved to a more concrete phase of exploring the installation on an actual coal carrier. Furthermore, our initiatives for the utilization of LNG to reduce environmental impact made considerable progress, including placing orders for LNG-fueled ferries and coal carriers and taking part in an LNG-to-Powership business.

The aforementioned initiatives are representative examples of how we steadily advanced toward quantitative and qualitative medium-term goals and invested in potential key growth areas. We view fiscal 2019 as an extremely productive year for the MOL Group.

* The Wind Challenger Project is a joint industry-academia research project that aims to significantly reduce fuel consumption by fully using wind power through the utilization of massive sail panels on vessels. MOL has been taking part in and promoting the Wind Challenger Project since it started in 2009. For details, please see page 35.

An Analysis of the Business Environment

Due to the COVID-19 pandemic, however, MOL's business environment has changed dramatically compared with that of fiscal 2019. The Product Transport Business Unit, which carries finished goods, has seen a huge drop in cargo movements. In particular, the short-term performance of the car carrier business has been significantly impacted. On the other hand, the effect on

the Dry Bulk and Energy Transport business units has been relatively limited as they are supported by long-term contracts. Nonetheless, the Group's near-term business environment is expected to remain adverse for a while. The aforementioned mobilization of in-house business intelligence to predict macroeconomic conditions as well as mega-trends in transport demand for our main cargoes has led us to conclude that cargo movements in most business fields are unlikely to return to 2019 levels until around 2022.

However, looking at the world during and after the pandemic from a medium- to long-term point of view, I believe that rather than a sudden complete change in society, we are more likely to experience a strengthening of existing trends or an acceleration of changes. Particularly, I am focusing on three themes.

The first theme concerns the extent of impacts on globalization and supply chain restructuring. The spread of COVID-19 underscored the risk inherent in concentrating production bases in a single region, an issue the business world was mulling over even before

the pandemic. It is conceivable that production bases over dependent on China could be reviewed and in turn dispersed to other regions. However, China's presence as a market and as a production base will remain enormous. While a global economy without China is highly improbable, we will need to continuously assess how commodity flows could change going forward.

The second theme is acceleration of digital transformation, including factory automation. If social distancing takes a firm hold due to the COVID-19 pandemic, further automation is likely. Technology is also closely linked to the potential supply chain restructuring mentioned earlier. The repatriation of production bases to developed nations comes with challenges such as increased labor costs and shortage of labor force, but technology could provide a solution to these challenges. In marine transport operations, digital transformation is certain to advance as companies introduce a range of technologies that enable them to check vessels and cargo situations remotely and to provide customers with status reports.

Lastly, I am focusing on environmental issues. As a consequence of having faced a major crisis in the form of the potentially fatal COVID-19, which has affected the whole of society, people may become more concerned about environmental issues because, in a similar way to a pandemic, they could easily have a severe worldwide impact. Some say that the world's preoccupation with infectious disease countermeasures will result in environmental issues taking a back seat, but I do not believe it will be a matter of one set of issues taking priority over the other.

In fiscal 2020, the divergence between the near-term issues that we face and the medium- to long-term issues that we must also consider is much greater than in a normal fiscal year. For this reason, we have shown the way forward in our Rolling Plan 2020 both in terms of countermeasures for the current emergency and strategies based on the medium- to long-term changes that are likely during and after the COVID-19 pandemic.

The Strategies of Rolling Plan 2020 and Fiscal 2020 Priority Strategies

In fiscal 2020, the MOL Group's most important objective will be to return to a growth trajectory. Accordingly, while focusing efforts on near-term business continuity and minimization of the impact from unfavorable market conditions, we will take measures to get back on a growth track as soon as possible worldwide during and after the COVID-19 pandemic. However, I want to emphasize that even amid the current changes in operating conditions, our management vision, "Become a Group of Business Units with No. 1 Competitiveness in Respective Areas," and the three core strategies that will help realize this vision have not wavered. These are Portfolio Strategies: "Concentrated investment of management resources in the business fields where MOL has strengths, which will mainly be offshore businesses"; Business Strategies: "Provision of 'stress-free services,' which MOL will offer from the customer's perspective"; and Environmental Strategies: "Promotion of environmental strategies and development of the emission-free business into a core business."

In the fiscal 2019 integrated report, MOL REPORT 2019, I explained the particular meaning and importance that achieving "No. 1 Competitiveness in Respective Areas" has for me. In just the type of challenging environment we are currently facing, the strengths and weaknesses of each business will come to light. When

the environment undergoes seismic change, businesses suffering greater-than-expected damage are the ones with hidden weaknesses, while businesses achieving firm results have unheralded strengths. It could be said that fiscal 2020 has given us an opportunity to rigorously reassess the strengths and weaknesses of each business and to revise our business portfolio's priority fields accordingly. For example, the Group's offshore businesses span many different fields, such as businesses related to oil, LNG, and offshore wind power. If we consider the energy mix going forward together with our weaknesses and strengths, the fields we should expand will become evident. This process will further advance our efforts to "Become a Group of Business Units with No. 1 Competitiveness in Respective Areas."

In fiscal 2020, we will concentrate on the following measures. Initially, with the aim of adapting to changes in the present business environment and minimizing losses, we will make an all-out effort to implement defensive measures. MOL's resilience to market conditions has been heightened to a considerable degree by very painful structural reforms implemented over the past 10 years. However, in light of the ongoing changes in transport demand, we will take thorough measures to reduce our market exposure even further. We will also revise our investment plans by narrowing down the number of new



projects. Concurrent with these efforts, the MOL Group will implement offensive strategies aimed at strengthening competitiveness by (1) developing new businesses, (2) reducing cost, and (3) reforming business models, depending on the characteristics of each business. In particular, during and after the COVID-19 pandemic we intend to focus even more strongly on qualitative growth. By “qualitative growth” I mean transforming the entire organization into a leaner, more profitable business entity and increasing our presence in fields where we can realize

clear competitive advantages or where we can provide high-value-added services. With respect to business models, if there are fields in which the MOL Group is able to enhance customers’ value chains by offering stress-free services, we will actively consider shifting our business domains, even upstream or downstream from the fields we are currently engaged in. Offshore businesses have taken the lead in adopting this approach, but I believe similar opportunities do exist for other businesses.

senior management team and all employees as a consequence of the accident. In light of past experiences, we have concentrated our efforts on safe operation. However, the Mauritius accident has made us very much aware of the shortcomings that remain. We consider the accident as a turning point at which we will reform the tangible and intangible components of our vessel operation management so that, in retrospect, MOL earns a reputation for having transformed itself into a safer, more reliable entity.

strategies of our current Rolling Plan 2020, we announced MOL Group Environmental Vision 2.0 in June 2020. Aiming to move steadily toward the greenhouse gas reduction targets of the Paris Agreement and the International Maritime Organization (IMO), we completely redrafted our previous MOL Group Environmental Vision 2030, setting more ambitious specific targets and announced our commitment to them.

Among the impacts that our businesses have on society, negative effects on the environment rank alongside accidents as phenomena that must be minimized. In particular, we must step up climate change countermeasures. To this end, in accordance with the environmental strategy that is one of the three core

Under the leadership of the chief environment and sustainability officer (CESO), a position newly established in April 2020, we will continue advancing both initiatives that maximize the positive effects we have on society and initiatives that mitigate the negative effects such as environmental impact, thereby realizing sustainable improvement of the social value and economic value that we provide.

Strengthening Management Foundations for Sustainable Growth

With the aim of laying foundations to further accelerate measures to realize our vision, in fiscal 2020 we added “Enhancement of organizational strength” as a new management strategy. In order to expand into fields beyond traditional marine transport and seek qualitative growth, this is an appropriate time to conduct an overall assessment of whether our utilization of human resources, work styles, and organizational structure are optimized and contributing directly to the realization of our strategic goals. With this in mind, I have assigned the executive vice president who presides over the corporate divisions with revamping our organization. Furthermore, the Work-Style Reforms Committee, which I chair, and the executive officer responsible for the Human Resources Division are working together to consolidate and mobilize expertise and resources scattered across the MOL Group and enhance productivity. I am using the word “productivity” here in a broad sense. I view the meaning of productivity as not only doing the same work with fewer people but also enabling our

current personnel to engage in a more diverse range of tasks, or being able to change systems and personnel deployment extremely flexibly in line with projects and priorities. There may also be room for improvement in relationships between the Head Office and subsidiaries and work allocation among Group companies. Over the coming three years, we aim to increase productivity by 15%, redeploying the freed-up personnel to growing business fields.

In addition, with the COVID-19 pandemic expected to continue, we must take rigorous measures to prevent infection among business partners and our employees in order to fulfill our social mission. In addition to the existing business continuity plan (BCP), in February 2020 we launched the COVID-19 Countermeasures Taskforce, which establishes infection prevention and business continuity measures. Fortunately, no impediments to our business continuity have arisen to date. However, we will continue to carefully monitor the situation of the pandemic and implement appropriate countermeasures when required.

Worldwide, lockdowns of cities and restrictions on international travel in response to the current COVID-19 pandemic are still limiting freedom of movement. However, as long as day-to-day life continues, energy and daily commodities will be essential. This fundamental demand has given me a strong appreciation of the fact that our social mission as a company engaged in international marine transport is to deliver supplies to those who need them at all times—even in emergencies. Further, the running aground of the WAKASHIO has made me acutely aware of the enormity of the social ramifications accompanying an accident. The MOL Group will return to the fundamentals of safe, reliable transport and ensure that the Group fulfills its role as part of society’s infrastructure.

In Conclusion

and meet the expectations of stakeholders, we cannot confine ourselves to traditional marine transport. With this in mind, we will achieve growth by reassessing the sources of our competitive strengths and by venturing undauntedly into new fields where we can take full advantage of these strengths. Due to the particular characteristics of the marine transport business, some of the fields in which we are currently conducting proactive investment may take some years to bear fruit in the form of returns. For this reason, through MOL reports and other means, we will redouble our efforts to increase and improve our explanations so that stakeholders feel confident about trusting MOL as a growing company with competitive advantages.

Meanwhile, as I have explained in the past, if we are to sustainably enhance corporate value going forward

As we move forward, I would like to ask our shareholders and stakeholders for their continued understanding and support.

Our Approach to Sustainability

In 2019, during the in-house discussions on formulating MOL’s Sustainability Issues (Materiality), we reconfirmed that contributions to the solution of such social issues as those set out by the Sustainable Development Goals (SDGs) are in fact the existing value of our business and directly connected to our medium- to long-term growth. Positioned as the central Sustainability Issue of our Materiality, “Value-added transport services” conforms with the first of the MOL Group Corporate Principles, which calls on the Group to “Actively contribute to global economic growth and development.”

It is extremely regrettable that, rather than providing added value, we have created many difficulties for local

residents as a result of the recent accident off Mauritius. Moreover, the accident violates not only the commitments represented in our Sustainability Issues but also one of the MOL Group Corporate Principles, namely, the commitment to “Nurture and protect the natural environment by maintaining the highest standards of operational safety and navigation.” We use an extremely large fleet of massive vessels to transport huge volumes of cargo worldwide. By realizing the positive aspect of our businesses, we can enrich the world. By actualizing their negative potential, we could cause harm instead. These self-evident truths have been indelibly engraved upon the minds of members of the

A tough business environment provides a real test of a company’s competitiveness in respective areas. For this reason, we must keep on improving ourselves.

