The WAKASHIO Accident

In my capacity as the chief financial officer, I apologize sincerely for the considerable concern and inconvenience caused to our shareholders, investors, and financial institutions by a recent accident in which WAKASHIO, a Capesize bulker chartered by MOL, ran aground off Mauritius and spilled oil. We will consider this accident as an opportunity to examine carefully where we were deficient from the viewpoints of environmental, social, and governance requirements and then endeavor to become a more valued company.

Looking Back at the Rolling Plans: Fiscal 2017–Fiscal 2019

We introduced rolling management plans in fiscal 2017. Over the three fiscal years since then, MOL's structure has changed significantly. Just before the three-year period, in fiscal 2016 we implemented large-scale structural reform focused on the dry bulk business. Furthermore, fiscal 2018 saw the beginning of operations at Ocean Network Express Pte. Ltd. (ONE), a company formed through the integration of three Japanese shipping companies' containership businesses. During the three fiscal years, ordinary profit increased steadily, rising from ¥31.4 billion in fiscal 2017 to ¥38.5 billion in fiscal 2018 and ¥55.0 billion in fiscal 2019, and return on equity (ROE) improved to 6.3%. Moreover, by the end of fiscal 2019 all business segments were in the black. Although we are still on the way toward realization of our projected medium-term profit levels, namely, ordinary profit between ¥80.0 billion and ¥100.0 billion with ROE between 8% and 12%, we made a certain amount of progress in concentrating management resources on businesses where we can realize advantages—which has been a strategy since the introduction of the Rolling Plan 2017.

As for financial matters, although in the three-year period we invested proactively in priority fields—such as LNG carriers, offshore businesses, the ferry business, and the chemical tanker business—we employed a range of measures to ensure that the absolute amount of interest-bearing debt did not increase. However, we did not achieve a gearing ratio of 2.0 times or less, which was a medium-term goal. Furthermore, it took our best efforts to keep free cash flows in equilibrium, excluding extraordinary factors related to the integration of containership businesses. We will remain fully aware of the aforementioned points as important issues.

Rolling Plan 2020 Financial Strategy

The worldwide spread of COVID-19 since its sudden appearance at the beginning of 2020 is having a huge impact on the marine transport industry. In response to changes in the operating environment, we decided to return to the drawing board with respect to the fiscal 2020 management plan, which was almost complete at the end of March. After redrafting not only strategies and measures but also the plan's worldview and premises, we announced Rolling Plan 2020 to coincide with the Ordinary General Meeting of Shareholders in June.

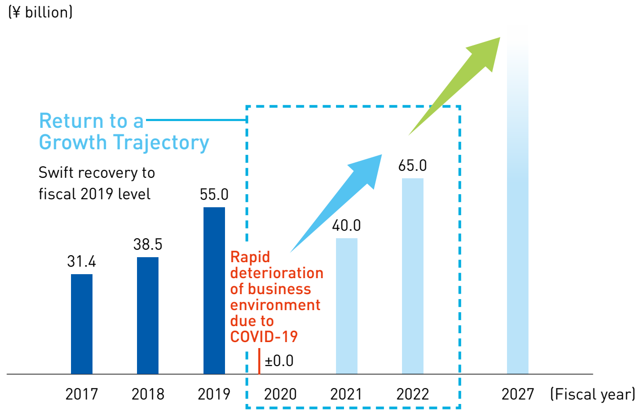
In the process of redrafting the plan, we formed a Companywide project team comprising experts from various fields and rigorously analyzed the mega-trend forecast based on the macroeconomy and main cargo movements. Following deliberations by senior executives in light of the team's findings, it was decided to give priority to defensive measures for profits in the current fiscal year with the aim of returning to a growth trajectory and surpassing fiscal 2019 results in fiscal 2022 (See graph 1).

Regarding the plan's financial component, as we cannot predict when the COVID-19 pandemic will be contained, our first priority is to maintain smooth funding. To this end, we will bring forward fund procurement for planned capital investment, undertake careful management of working capital so that as far as possible commitment lines remain unused, and make an all-out effort to secure funds through such means as the disposal of shares held for strategic reasons and other non-business assets and proactive liquidation focused on vessels.

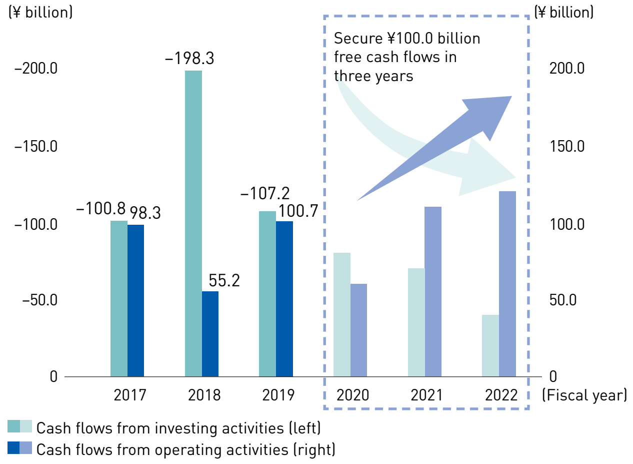
In addition to measures for the current emergency, Rolling Plan 2020 includes plans for improving our financial position over the medium term. Over the next three fiscal years, we will reduce new-investment cash flows from the initially planned ¥200.0 billion to ¥100.0 billion. We also set a new target for the achievement of positive free cash flows, which calls for the accumulation of ¥100.0 billion over the next three fiscal years (See graph 2). Until now, we have by no means made light of free cash flows. However, that we conducted financial management with an emphasis on growth and gave precedence to investments is undeniable. With the investments accumulated so far beginning to generate cash flows in line with our expectations, we decided to improve our financial position, which had been gradually deteriorating, by including our first clear target for positive free cash flows in Rolling Plan 2020.

Going forward, there will continue to be a host of competing candidate projects in growth fields, mainly in offshore businesses and environmental and emission-free businesses. At the same time as tackling such projects, however, we will take crisis-response measures, implement required investment, and improve our medium-term financial position.

Graph 1 Ordinary Profit: Results and Forecasts



Graph 2 Cash Flows: Results and Forecasts



Shareholder Returns

We view increasing corporate value and returning profits through dividends as important management policies. With a consolidated dividend payout ratio of 20% as a near-term guideline, we pay dividends that reflect consolidated performance.

Since fiscal 2017, we have been able to raise annual dividends steadily in step with increasing profit levels, paying annual dividends of ¥20 per share in fiscal 2017, ¥45 in fiscal 2018, and ¥65 in fiscal 2019. Nonetheless, we believe that increasing the consolidated dividend payout ratio itself is also an important medium- to long-term task. While our near-term priority is to restore the equity ratio and other financial indicators that deteriorated in the 2010s, we will also be working on increasing the consolidated dividend payout ratio based on long-term perspectives.

In closing, I would like to ask our shareholders, investors, and financial institutions for their continued support.