A Message from the CFO

We will simultaneously improve our financial position and implement the investment needed for growth and environmental initiatives.

Hisashi Umemura

Executive Officer
Chief Financial Officer (CFO)

Fiscal 2020 Review

I am Hisashi Umemura, and I was appointed as MOL's chief financial officer (CFO) in April 2021. In fiscal 2020, ended March 31, 2021, we initially expected to record a deficit due to the uncertain business environment produced by the COVID-19 pandemic. Ultimately, however, we posted our highest profit since fiscal 2010 thanks to a favorable performance by the containership business, which reflected growing "stay-at-home demand" and housing-related investment mainly in North America. At the same time, with respect to the Rolling Plan 2020 target of creating free cash flow of ¥100.0 billion over three fiscal years, we were able to achieve positive cash flow of ¥44.2 billion in the first year. Although an extraordinary business environment helped, I am relieved that we have made a good start in improving our financial position.

The Financial Strategies of Rolling Plan 2021

In the 2000s, together with the explosive economic development of emerging countries, we expanded our business mainly in relation to dry bulkers and tankers, and rapidly became one of the world's largest shipping companies. In the 2010s, however, we struggled due to an oversupply of vessels, which forced us to go through significant business structural reforms several times. To become more steady in business performance over the long term, we reduced our market exposure—particularly in relation to dry bulkers—and implemented large-scale investments in LNG carriers and offshore businesses, which offered the prospect of highly stable profits based on long-term contracts. As a result, we made steady progress in restructuring our business portfolio. In the containership business, which was another business segment to be improved, Ocean Network Express Pte. Ltd. (ONE) achieved significant profits in fiscal 2020, its third year of operations. Looking at the balance sheet, meanwhile, at the end of fiscal 2020, the equity ratio and the gearing ratio remained at the levels of 27.6% and 1.78 times, respectively. We still need to rebuild our financial position to realize stable management of the Company going forward. Continuing the strategy of fiscal 2020, Rolling Plan 2021 calls on the Company to secure free cash flow of ¥100.0 billion over the next three fiscal years. Under the plan, we have also set new targets for improving the net gearing ratio, which was 1.63 times at the end of fiscal 2020. Specifically, we aim to improve the ratio to 1.25 times by the end of fiscal 2023 and 1.0 time by the end of fiscal 2027. Although accurately forecasting the results of the containership business is difficult, profits from the long-term contracts of the dry bulk business and the energy and offshore businesses can be planned with quite a high degree of certainty. Therefore, particularly in the three years from fiscal 2021 to fiscal 2023, I believe that we will be able to advance steadily toward realization of both our profit and financial targets.

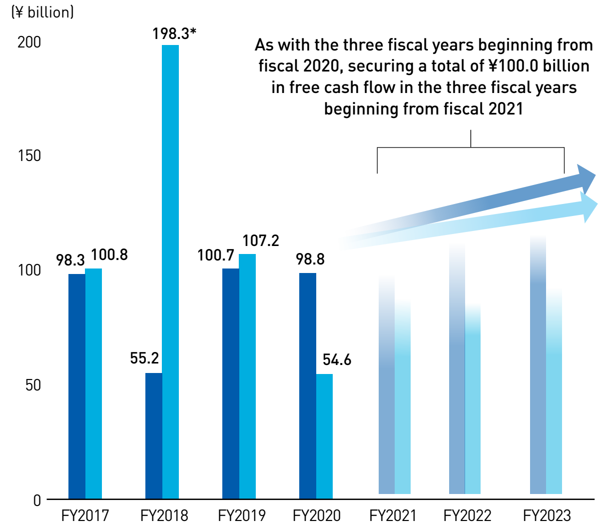
While improving our financial position, we must also continue to implement necessary investments. Marine transport is currently in a period of transformation. The increased focus on climate change countermeasures and decarbonization presents shipping companies with two issues: calls for reductions in the GHG emissions of existing vessels, most of which are fueled by heavy oil, and declining demand for the transport of fossil fuels, which are our mainstay cargo. On the other hand, increased environmental awareness offers us a significant opportunity to differentiate ourselves from other companies by visualizing and reducing GHG emissions in transport and by expanding low-carbon and decarbonization businesses. We plan to invest approximately ¥450.0 billion over the three years from fiscal 2021 to fiscal 2023. Of this amount, we have earmarked roughly ¥200.0 billion for investment in low-carbon and decarbonization projects. During these three fiscal years, we expect cash flows from operating activities of ¥350.0 billion in total. This amount together with cash of ¥200.0 billion raised from the disposal or liquidation of vessels and other assets will create free cash flow of ¥100.0 billion in total. For environment-related capital expenditures, we will continue actively to raise funds by utilizing green bonds and loans and consider the use of transition finance that enables us to remain responsible to society and meet the needs of lenders who support environmentally friendly businesses. We will proactively provide readily understandable information to our investors and shareholders about our ESG and sustainability initiatives.

Profit and Financial Targets for Fiscal 2027 (As of April 30, 2021)

(¥ billion)

	FY2020 (Results)	FY2021 (Forecast)	FY2022 (Forecast)	FY2023 (Forecast)	FY2027 (Targets)
Profit targets					
Ordinary profit	133.6	100.0	80.0	90.0	130.0
ROE (%)	16.5	15	10	10	10–12
Cash flows			FY2021–2023 cumulative total		FY2021–2026 cumulative total
Cash flows from operating activities (1)	98.8		350.0		800.0
Cash flows from investing activities (2)	-54.6		-250.0		-600.0
Of which, investment	—		-450.0		-1,000.0
Asset disposal and liquidation	—		200.0		400.0
Free cash flow ((1) + (2))	44.2		100.0		200.0
Financial target (Fiscal year-end)					
Net gearing ratio (Times)	1.63	—	—	1.25	1.00

Financial Target (Cash Flow Forecast) (As of April 30, 2021)



Cash flows from operating activities / Net cash used in investing activities

* Includes investment in establishment of ONE

Shareholder Returns

As well as continuing to improve our financial position and implement forward-looking investments, increasing shareholder returns is also a major task. We have been pursuing a dividend policy based on a target payout ratio of 20% partly because we had to spend a large amount on business structural reforms and investments focused on LNG carriers in the 2010s, as I mentioned earlier. We do not view this as a sufficient level of compensation for shareholders. Our aim is to provide a level of shareholder returns that is at least in line with the average level for companies listed on the Tokyo Stock Exchange. We have made efforts to improve our financial position, and these efforts are likely to take several more years. However, we will consider raising the dividend payout ratio when the probability of achieving a net gearing ratio of 1.0 time, which is our target set at the end of fiscal 2027, is increased.

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