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Mitsui O.S.K. Lines, Ltd.

1. Supplementary Explanation of FY2015 Q1 Financial Results

[Overall]

Ordinary income for the first quarter (Q1) was ¥10.8 billion, marking 37% progress toward the target of ¥29.0 billion set in our first-half outlook announced on April 30, nearly in line with our initial income forecast.

However, it varied significantly by segment and business division. While the containership segment turned down due to lower-than-anticipated freight rates and cargo liftings, this was offset by tankers, which enjoyed a continued favorable market. The dry bulker marked varied only slightly from our initial outlook.

On the other hand, the consolidated ordinary income increased by ¥3.3 billion in a year-on-year comparison. This was a result of the yen's depreciation, lower bunker prices and an improving tanker market, which served as a favorable tailwind, despite a stagnant dry bunker market, and lower freight rates and cargo liftings for containerships.

[By segment]

<Bulkships>

■Dry bulkers

Ordinary income decreased significantly in a year-on-year comparison, and showed a slight downturn from the initial outlook. The markets from April to June for all ship types remained lower than the outlook, but most of mid- and small-size vessels, Panamax or smaller, on spot markets are operated by a subsidiary in Singapore, for which the fiscal year ends in December. So, since the Q1 results reflect the market from January to March, the impact of the market fluctuations from April to June is limited only to vessels on sport markets operated by MOL Tokyo —that means, some Capesize bulkers, and some coal carriers and wood chip carriers. Thus, the shortfall from our initial income outlook was limited.

Looking at the iron ore trade behind the sluggish market, iron ore shipments from Western Australia remained strong because of the production capacity expansion, but shipment of Brazilian ore, which involves a longer distance, remained slack. Coal trade slowed down due to a decrease in coal import volume as China's economic growth decelerated and stricter environmental regulations took effect. These factors kept the market at very low levels.

On the other hand, the market slowdown has accelerated the scrapping of aged vessels. A total of 68 Capesize vessels were scrapped, while 46 newbuildings were delivered from January through the end of June 2015, decreasing the number of vessels in service and starting to shift the demand and supply balance. Looking at other ship types, we think the market hit bottom by May of this year, though we expect it will be some time before the fleet oversupply improves significantly.

■ Tankers

In contrast to the Dry Bulker segment, spot markets for all types of tankers, including product tankers and LPG carriers, remained on an upward trend, both in a year-on-year comparison and in comparison with the initial outlook.

The market for very large crude carriers (VLCCs) was underpinned by growth of actual demand due to lower crude oil prices, in addition to increasing strategic reserves. Cargo traffic from West Africa to China and India remained brisk. In addition, port congestion in the Middle East and China helped tighten the demand and supply balance at a higher level than our outlook.

The Product Tanker market remained firm due to more active trades resulting from improved refinery margins, thanks to lower crude oil prices.

LPG carriers are operated by another subsidiary in Singapore, so the profits of this vessel type from January to March are reflected in the Q1 results. Though the segment showed temporary weakness at the beginning of the year, the picture improved thanks to the start of operation of a new export terminal in the U.S. and higher demand in India, and the market remained consistently high from February to June.

■ LNG carriers/Offshore business

Basically, the LNG carrier and offshore business continued to post stable profits from long-term contracts, and Q1 results were in line with the initial forecast. In a year-on-year comparison, income increased because FY2014 Q1 results reflected temporary costs such as dry docking.

■ Car carriers

Seaborne trade of cars destined to resource exporting regions such as Russia and West Africa slowed down due to the impact of lower crude oil prices, but cargo trade from Japan, particularly to North America, remained firm. Although the increase in trade from Japan and the negative factors were almost within range of our initial outlook, the car carrier business overall showed a slight downturn.

Overall Q1 results of these four divisions showed ordinary income of ¥10.8 billion, the same as in FY2014 Q1, and slightly below our initial outlook.

<Containerships>

The Containership segment improved slightly in a year-on-year comparison, but results fell short of our initial outlook. The forecast assumed continued deficits until Q1 but in fact the deficits increased.

The biggest factor was a decrease in cargo trade on Asia-Europe routes, and the accompanying decline in freight rates. We did not see the usual recovery in cargo trade in March after the Chinese New Year, and it remained sluggish until now. Cargo trade from Asia to Europe grew by 7.5% from January to December 2014, in comparison with 2013, but the cumulative total from January to May of this year decreased by 3.2% from the previous year. On the other hand, the fleet supply on the route increased greatly due to the delivery of a succession of new large-size vessels, which led to a drastic decline in space utilization.

Factors behind the drop in cargo trade include a decline of purchasing power due to the depreciation of the euro, a rapid decrease in cargo trade for Russia due to economic sanctions, and inventory adjustments after last year's strong cargo traffic.

As a result of a deteriorating demand and supply balance and lower capacity utilization, freight rates fell dramatically, and the spot rate on the Asia-Europe route at one point reached an all-time low of $200/TEU.

Speaking of other routes, cargo trade on the Asia-North America route was generally firm, but both freight rates and cargo trade on the North-South route were stagnant, similar to the Asia-Europe route. And cargo trade on the Intra-Asia route remained at last year's level, but utilization deteriorated as large newbuilding vessels came into service. On all routes, as shown on page 13 of the attached materials, utilization decreased by 11 points in a year-on-year comparison, and the freight rate index decreased by 4.8 points or 6%.

<Others>

■Ferry & Domestic Transport, Associate Businesses, and Others

Results for businesses other than ocean shipping were generally in line with our outlook. It is important to note that while our ferry business had faced a severe situation for long time, this year we anticipate ¥6.0 billion in ordinary income for the full year by realizing today's modal shift program. This is the type of business our company can take advantage of.

2. Supplementary explanation of FY2015 first half and full-year forecasts

[Overall]

We are not changing the full-year forecast, which was announced on April 30, 2015, for both ordinary income and profit attributable to owners of the parent. Freight rates and cargo liftings of containerships are considerably lower than our assumption, but we anticipate that those negative factors will continue to be offset by a favorable tanker market and the positive impacts of a depreciating yen and lower bunker prices. In a comparison with the previous year, ordinary income will increase by 17%, and profit attributable to owners of the parent by 2%. By segment, we made an upward revision in the bulkships segment by ¥17.0 billion from the previous forecast, while making a downward revision in the containership segment by ¥18.5 billion, basically offsetting each other.

When we announced these targets in our forecast at the end of April, we described them as "on the conservative side." The background includes the following three key points:
(1) In containerships, some positive factors were not included in the forecasts.
(2) We conservatively calculated dry bulkers' earnings (particularly in the second half).
(3) We were rather confident of our assumptions regarding the tanker market.

Now that three months have passed, we have not changed our forecasts of ordinary income and profit attributable to owners of the parent upon including all the elements we mentioned above. Therefore, please understand that these forecasts are not conservative, but fair targets at the present.

[By segment]

<Bulkships>

■ Dry bulkers

We have not made major changes to our previous outlook for the dry bulkers. Many of our vessels on spot markets are operated by subsidiaries in Singapore, for which the fiscal year ends in December, so the April-June period, which is recorded as Q2 in our fiscal year, is already settled, and more than half of Q3 is also settled. Therefore, we don't think the results will be significantly different from the outlook.

For the Capesize bulker market, we estimate an increase to $18,000/day in October-December period.
In step with falling ore prices, inquiries on spot-purchasing are intensifying, while China's port inventories of iron ore are currently declining with less than a month's supply on hand. We expect a full-fledged recovery of shipments toward the end of the year due to seasonal factors. Scrapping has also had an impact on adjustment of the fleet supply balance. However, we anticipate another drop in the market due to annual seasonal factors starting

in January with the rainy season in Brazil and the Chinese New Year.

■ **Tankers**

Turning to our assumptions for the tanker market on page 11, we project that the World Scale (WS) for VLCCs will be WS63 in the first half and WS60 in the second half, for a full-year average of WS61. The actual demand will continue to grow, backed by lower crude oil prices. Looking at fleet supply, a limited number of new vessels (20 to 30) will be delivered this year. So we expect the market to remain firm at least for this year, as the demand and supply balance will not loosen suddenly.

Speaking of product tankers and LPG carriers, we included the impact of an increase in the number of newbuilding vessels during the second half of the year in our market assumption.

■ **LNG carriers/offshore business**

We expect our LNG carriers/offshore business to remain firm, due mainly to stable profits from long-term contracts. In the first half, a temporary dry docking cost, which is already assumed, will occur, but four LNG carriers and one FPSO (the third unit for MOL) will start operation during this year, which will contribute to this division's profits.

■ **Car carriers**

As in Q1, we expect trade from Japan to North America to remain generally firm. Automobile manufacturers are making more requests for additional vessels, so we anticipate improved profits. On the other hand, in back haul trades and cross trades, we anticipate that the severe situation will continue although we plan to carry out more efficient allocation of vessels in these trades. At the same time, we are committed to acquiring new contracts, which will contribute to higher profits.

<Containerships>

In the containership segment, achievement of profitability in the full year was set as the most critical task, but we seriously regret to say that we expect the segment to show deficits once again. We projected ¥5.0 billion in profits for the full year in our previous announcement. But as we explained today, freight rates and cargo liftings, mainly on the Asia-Europe routes, are deteriorating to a much greater extent than the forecasts. So we project that ordinary income will decrease by ¥18.5 billion from the initially announced outlook, to loss of ¥13.5 billion in the full year.

Even in the previous outlook, we assumed that freight rates would decline by 3% from FY2014, but we now project a drop of 7% from the previous year. Similarly, we revised our projection for cargo liftings from an increase of 2% from the previous year to decrease of 3%.

Each alliance is taking steps to address declining cargo volume on Asia-Europe routes by canceling some sailings. Four major alliances reduced their capacity by 6.9% in total from April to June, and we expect a reduction of 8.6% from July to September. We will leverage any sign of recovering cargo trade toward the high-demand summer season, striving to recover freight rates and boost profitability.

However, in our assumption for this revised outlook, we took into account a drop in spot freight rates during the slow-demand period at the same time, placing the assumption for the second half at the same level as the first half.

When we explained our outlook for containership business performance at the previous announcement, we explained the path to return to profitability after an ordinary loss of ¥24.1 billion for FY2014. Looking at our progress toward this goal first, we reduced the loss incurred in bunker price hedges, which was a temporary factor for FY2014, and launched the automated operation of our Los Angeles terminal (TraPac) in line with our initial plan.

In the previous fiscal year, we concluded one-year contracts for a relatively high portion of North America routes, so we could not take advantage of steep rises in spot freight rates, particularly for U.S. East Coast service, but this year we had expected spot rates to fall, and elected to maintain our focus on one-year contracts. Spot rates fell as we anticipated, and rates for one-year contracts improved slightly, so we believe our approach is correct.

Besides, as part of our system cost reduction initiatives, we plan to take new measures (additional route rationalization, withdrawal from mid-size vessel charter contracts, etc.) in addition to the route rationalization plan included in the initial outlook, and return of mid-size chartered vessels.

(Rationalization of routes planned in the initial outlook)

Asia - South America East Coast (restructured)

North America East Cast - South America East Coast (suspended)

(Additional rationalization)

Europe - West Africa (suspend)

East Asia - Thailand/Philippines (restructure)

Thus, we have steadily carried out improvements to address the factors explained above, but net proceeds (NPs, gross profit margins) have declined by another ¥20 billion due to reduced freight rates and liftings. This is the major factor behind our downward revision of -¥18.5 billion.

[Investment plans/Cash flows]
As shown on page 16, we expect that cash flows from investing activities will be covered by cash flows from operating activities in FY2015. However, this is not the result of our review of the investment plan in the growth strategies of the midterm management plan. This is because during this fiscal year, we are paying less to shipyards in our current projects. Also, project finance loans will be granted for our new FPSO operations, and the shareholder loan used for JV will be returned. We will continue to invest in stable business in the future as planned in STEER FOR 2020.

[Dividends]
Finally, speaking of dividends, since we have no change in our full-year forecast of ordinary income, we plan to pay ¥7 per share for the full year including an interim payment of ¥3.5 and a year-end payment of ¥3.5, which is the same as the previous announcement.

3. Questions and Answers

[Containerships]
Q1) Please explain details of your downward revision of -¥18.5 billion in the containership segment for the full-year forecast.

A1) Despite cost reduction due to a US$30/MT decline in bunker prices compared to our initial assumption, we expect net proceeds (NPs) to decline by more than ¥18 billion. By route, we anticipate an overall deterioration on routes except Asia-North America. The Asia-North America route is generally firm, but looking at falling spot rates, we cannot say with absolute certainty that it will recover.

Q2) What measures you can think of to return containerships to profitability?

A2) We are planning to take additional measures to rationalize routes. We are not satisfied with the efforts to improve our sales activity. We will continue trying to accomplish those measures. We are feeling ashamed to say this, but we must admit that, as for this fiscal year, returning to profitability in this scenario is very difficult, given our assumption for deteriorating freight rates.

Q3) I suppose the G6 Alliance is considering cancellation of sailings on the Asia-Europe route. Please tell us what negotiations are under way.

A3) We agreed to reduce frequencies in summer, and will carry out reductions in August and September as announced. We are thinking of ways to appropriately manage the supply side because we also expect cargo trade to decline slightly during the anniversary of China's founding in October. But this is not the time or place to announce it. All G6 members currently share a sense of crisis, and the prevailing opinion is that we are in for a continued oversupply.

[Bulkships]

Q1) You made an upward revision of ¥13 billion in your forecast for bulkships for the second half, compared to the previous outlook. Most of this revision relate to tankers, but please explain details.

A1) The major factor is the improvement of the tanker market. On the other hand, looking at the improvement from the first half to the second half, it is a combined approach of bringing the strong tanker market in the first half into the second half, while also looking to improve the picture for dry bulkers in early autumn.

Q2) Supply and demand of tankers seem to be stable in this fiscal year. What does the supply-demand balance look like for next year and beyond?

A2) This fiscal year, there are specific factors such as lower crude oil prices and strategic reserves. It is very difficult to forecast whether this situation will continue next year. But supply pressure is not really strong, so we don't think the VLCC market, in particular, will deteriorate rapidly. However, considering the possibility for retreat of specific situations in this year, we won't be surprised to see the supply-demand will be a little loose in the coming year.

Q3) Please tell us the current percentages of spot dry bulkers and tankers exposed to market volatility.

A3) Capesize bulkers is 20%, Panamax and other mid- and small-size vessels 50%, VLCCs 20%, and MR 70%. However, it will be much less if we take into consideration that some voyages have already been fixed for the remainder of this fiscal year.

Q4) In the fleet composition on page 14, the dry bulker fleet totals 385 vessels as of March

2016. But you said it was 398 vessels in the initial outlook, a difference of 13 vessels. I would like to confirm whether this difference is due to the return of vessels on short-term charters, or because you have returned long-term contracted vessels ahead of schedule.

A4) Please understand that it is due to the return of some vessels on spot charters.

[END]