January 31, 2018

Mitsui O.S.K. Lines, Ltd.

Explanation by the Officer in Charge of Investor Relations and Major Q&A

[Overall]

Overall, the business environment for FY2017 Q3 did not deviate significantly from the previous internal outlook. Ordinary profit for FY2017 Q3 ended with an upturn from the previous internal assumption, due to solid performance in the containership business, as well as the large impact of the results that went over the anticipated period of Q3 in other business segments. Concerning the full-year outlook, ordinary profit for Q4 is expected to show a deficit due to several factors unrelated to market conditions as a reaction to Q3 results, which were higher than the internal outlook, so our ordinary profit forecast for the full year is unchanged from the previous outlook at ¥25.0 billion.

1. Outline of FY2017 Q3 Financial Results

[Overall]

Ordinary profit for FY2017 Q3 totaled ¥34.5 billion, a significant increase in a year-on-year comparison. The tanker market deteriorated significantly from the previous year, but improvement of the containership business significantly exceeded the negative effects.

[By segment]

<Dry Bulk Business>

The spot market for Q3 improved in a year-on-year comparison and markets for each type of bulker remained firm, recording the highest rates for the first time in four years in the middle of December. The market had only a limited downturn ahead of the Anniversary of the Founding of the People’s Republic of China, and reached $30,000 per day in the middle of December against the backdrop of strong chartering activities by steel mills in Japan and South Korea as well as shippers in West Australia, along with the recovery in Brazilian iron ore prices.

Markets for Panamax and other mid- and small-size bulkers had a temporary setback due to a slowdown in coal imports to China around the time of the National Congress of the Communist Party of China, but remained on an upward trend since November, due in part to higher demand for heating fuel in the winter season.

The overall dry bulker market for Q3 remained slightly higher than the internal outlook, but the impact of the market changes was limited as a result of scaling down the market exposure of mid- and small-size bulkers in the Business Structural Reforms. As a result, ordinary profit for this business segment ended almost in line with the previous internal outlook.

<Energy Transport Business>

■ **Tankers**

The crude oil tanker market showed an upward trend from September, and in the mid-October, topped WS70 as a result of robust cargo volumes. However, starting in the middle of November, positive factors such as demurrage at discharging ports due to typhoons diminished gradually. In addition, loading cargo volumes slackened in December. So the demand and supply balance deteriorated, and the market remained at a low level despite the peak winter season.

In the same manner, the product tanker market showed a temporary upturn due to stormy weather and rising demand in the winter season, but its momentum was weak.

As a result of the overall market hovering at a low level, ordinary profit for the entire tanker division decreased significantly in a year-on-year comparison. However, crude oil tankers operate mainly on mid- and long-term contracts, and methanol carriers and shuttle tankers record stable profits, so this segment was able to secure profits as previously projected.

■ **LNG Carriers/Offshore Business**

The LNG Carriers/Offshore Business records stable profits based on long-term contracts, and ended with an upturn from the previous internal outlook due to the impact of the results that went over the anticipated period of Q3 such as costs for dry docking originally scheduled for Q3 that have been delayed until Q4.

<Product Transport Business>

■ **Containerships**

Eastbound cargo trade on the Asia-North America routes was relatively firm, showing an increase of 3.4% for three months from October to December, in a year-on-year comparison. In calendar year 2017, cargo trade increased by 5.4%, marking a record high, but it was evident that the fleet supply increased at almost the same level. So the demand and supply balance could not be tightened. Westbound cargo trade on the Asia-Europe routes decreased slightly in a year-on-year comparison for two month from October to November, but showed a cumulative 4.3% increase for the calendar year until November, marking a record high, the same as the Asia-North America routes. Cargo trades both on routes from Asia to North America and to Europe remained robust in December, so the demand and supply balance is being improved.

Speaking of inbound cargo trade to Asia, which drew attention in 2017, the Asia-North America routes continued a declining trend from the previous year after a record high increase from January to March, but from October to November, it showed a reversal for the first time in about 10 months, showing an increase of about 4%, so we think the impact of China's restrictions on scrap imports has calmed down. Westbound trade on the Asia-Europe routes increased by 2.2% from October to November, and recorded a 5% cumulative increase for the calendar year until November, showing continuously favorable conditions.

Overall, both freight rates and liftings are showing progress almost in line with the previous internal outlook. Our 20,000 TEU containerships and other large-size vessels operated by other shipping companies were launched on the Asia-Europe routes, but overall space did not significantly increase due in part to cascading—shifting existing vessels from the Asia-Europe routes to other routes. On the other hand, the fleet supply increased on the Asia-North America routes due to the impact of cascading. As a result, the freight rate level on the Asia-Europe routes improved, reflecting an increase in cargo trade, but freight rates on the Asia-North America did not rise. In addition, ordinary profit for the overall containership business in Q3 ended with an upturn from the previous internal outlook as ONE-related expenditures in Q3 were smaller than the initial estimate and gains on adjustments of rebates from terminals, etc. were incurred. As a result, ordinary profit increased by ¥3.7 billion, continuously recording profitability following Q2.

■ **Car Carriers**

Trade for the Middle East and West Africa remains stagnant. On the other hand, we reduced the core fleet by three vessels in the previous fiscal year to meet a large change in trade patterns, and continually strive to improve vessel allocation by cutting three more since the beginning of this year. As a result, ordinary profit for this business segment showed some black ink in Q3.

2. Outline of the Full-year FY2017 Forecasts

[Overall]

As I mentioned, the full-year outlook for ordinary profit is unchanged from ¥25.0 billion. Ordinary profit for the first nine months of the fiscal year already reached ¥34.5 billion. However, the overall ordinary profit for the three months of Q4 will turn to red and significantly deteriorate from Q3, as we expected, due to special factors in the containership business and results that went over the anticipated period of Q3 in other business segments. We expected a certain level of deterioration from Q3 to Q4 even in the previous outlook. However, while Q3 was actually higher than the previous outlook, factors for deterioration in Q4 soared, and the difference is becoming larger. I will explain these factors by segment.

Meanwhile, our exchange rate assumption for Q4 is unchanged at ¥110/US$ from the previous outlook, but our bunker price assumption was revised to $380 in consideration of current conditions.

[By Segment]

<Dry Bulk Business>

January through March is usually a slow season for Capesize bulkers and the market declined somewhat, but we expect it to remain firm compared to the previous year due to stable trends in the demand and supply balance. As shipments of grain from South America are expected to start from February through March in the mid- and small-size bulker market, we think it will show an upward trend after the Chinese New Year.

On the other hand, as we have already concluded contracts for most of our vessels until the end of this fiscal year, we have only a few free vessels. In addition, we have scaled down our market exposure through the Business Structural Reforms. Thus, the full-year business performance will be almost at the same level as the previous outlook.

<Energy Transport Business>

■ **Tankers**

Speaking of crude oil tankers, we see a fleet reduction to 10-15 vessels as VLCC scrapping accelerates due to the impact of the flagging market. However, we don’t anticipate that the market will move upward significantly, since newbuilding vessels continue to come into service. On the other hand, in the same way as in dry bulkers, the market exposure has been mostly eliminated during this fiscal year, so we expect to secure a certain level of profit for the full year, without a significant change in profit.

■ **LNG Carriers/Offshore Business**

This business segment continually records stable profits based on long-term contracts, and ordinary profit for H2 will nearly match the previous outlook. However, profit for Q4 is expected to decrease from Q3 due to recording dry dock costs, etc.

<Product Transport Businesses>

■ **Containerships**

Both the Asia-North America and Asia-Europe routes remain strong overall. We expect that both liftings and freight rates will remain firm toward the rush of demand before Chinese New

Year in mid-February, but we need to carefully watch the market movement beginning in the second half of February.

Ordinary profit of the containership business will decline significantly in Q4, and we are projecting a deficit of ¥13.1 billion. One major factor is the cost related to the formation of ONE, which will peak during Q4. We have already seen such factors, but we expect the cost to exceed the previous outlook, while it was lower than the outlook in Q3. In addition, we anticipate that utilization will deteriorate slightly as we expect some negative impacts on our business activities and yield management as a result of shifting more personnel to ONE in line with its start of bookings in February and rising bunker prices. In addition, gains on adjustments of rebates from terminals will differ more significantly between Q3 and Q4, and thus the target value is as shown in the materials distributed.

On the other hand, we expect ordinary profit for the full year to improve slightly.

■ **Car Carriers**

We anticipate that the trade for the Middle East and West Africa will remain weak and plan to step up our efforts to boost the efficiency of vessel allocation, while withdrawing vessels as necessary. On the other hand, our cargo volume from Japan to North America has been in a slowdown since around the end of November 2017, so we anticipate that ordinary profit for three months of Q4 will deteriorate significantly from Q3.

As a result, we assume that ordinary profit for the full year will fall below the previous outlook, while securing a certain level of profitability.

<Associated Businesses, Other Business, Adjustment (Corporate/Elimination)>

There are factors for deterioration from Q3 to Q4 in each of our Associated Businesses and Other Businesses, so I will explain briefly. First, in the real estate business, we already forecasted that ordinary profit for Q4 will deteriorate from Q3 in the previous internal outlook, since we already plan to record large repair costs in Q4.

In Other Businesses and Adjustment (Corporate/Elimination), we also assume that ordinary profit for each of these segments will deteriorate in Q4. We anticipate that a foreign exchange loss will be recorded in Q4, although a non-consolidated foreign exchange gain was recorded in Q3 and we received dividend payments from cross-shareholdings in Q3 (Other Business).

Thus, as I explained, ordinary profits for Q4 will deteriorate from Q3 in almost all disclosure segments due to these factors explained above, so we forecast that overall profit will decline significantly from Q3 to Q4. When you look at that point, it may seem irregular, but we can say the entire H2 shows progress in line with the previously announced outlook. Our forecast of both operating profit and ordinary profit for the full year is ¥25.0 billion in each category. The primary factor is the inclusion of 31% of ONE’s net loss as equity in earnings of affiliates. In addition, items that were conventionally recognized as non-operating income were changed to operating income.

[Dividend]

We have not changed our planned dividend payment from the previously announced outlook. We already paid the interim dividend per share of ¥1 based on figures before consolidation of shares, and plan to pay ¥10 at year-end based on figures after consolidation of shares.

3. Progress Status of New Integrated Containership Business

Finally, turning to the progress status of the new integrated containership business, we already announced this month that the new company received approval from South Africa, which was a pending issue, and all necessary approvals for compliance with local competition laws needed for launch of new services have been completed. The new company started bookings in February, showing smooth progress toward the launch of actual services on April 1. Currently, the new company is formulating a business plan for the next fiscal year, and will be able to explain it at the appropriate stage.

4. Questions and Answers

[Containerships]

Q1) Please tell us the factors behind the significant improvement in profit for the containership business in Q3.

A1) Though freight rates and liftings did not improve significantly, ordinary profit improved because we were able to reduce per-container costs through enhanced yield management.

Q2) I understand that speaking of “by route,” the containership business improved significantly due to the impact of the Asia-Europe routes, where large-size vessels were launched. Please tell us about the conditions on other routes.

A2) In a year-on-year comparison by route, the Asia-Europe routes improved, the Asia-North America routes deteriorated slightly, and the North-South routes including serving the East Coast/West Coast of South America and Africa improved significantly.

Q3) Were the integration costs, which are included in the full-year outlook, also included at the time of the financial results for the first half of the year? And in case they were included, did the amount change?

A3) Our definition of the term “the integration costs” may differ from those of other companies. We don’t like to use the term “integration costs,” because it carries an image of extraordinary loss, which temporarily and independently occurs in our company due to closing agencies and paying premium severance payments. We explained the part we included in our investment ratio – 31% of ONE’s net loss – which will occur in FY2017 before its commencement, as equity in earnings of affiliates. We included this part when we announced the financial results for H1, but the amount for the full-year outlook increased from the previous announcement, and costs that will occur in Q4, will be larger than those occurring in Q3.

Q4) Costs that will occur in the new containership business joint venture are still undetermined, so as a result of conservative view in Q4, the full-year outlook for ordinary profit was unchanged at ¥25.0 billion, the same as the previous outlook. Is my understanding correct?

A4) We included in Q4 not only integration-related costs that will occur in Q4 larger than those in Q3, but also a rise in bunker prices and some negative impacts on cargo booking and cost control from February onwards caused by shifting many personnel to the new integrated company.

[Other]

Q1) Please explain the specific amount regarding “the results that went over the anticipated period of Q3 to Q4.”

A1) This occurred for all vessel types except containerships. The ordinary income increased by about ¥3.5 billion in Q3, and will decrease by about ¥3.5 billion in Q4.

Q2) Ordinary profit in the dry bulker business decreased in a year-on-year comparison in Q2 and Q3. Please explain the main causes.

A2) We don’t have a detailed analysis for year-on-year comparison in Q2 and Q3, respectively, but we don’t think there were major factors for the decrease in profit, because it improved from the previous year in the full-year outlook.

Q3) You said cargo volume from Japan to North America in the car carrier business has slowed down. Do you expect this trend to continue?

A3) Cargo volume started to slow down around the end of November, and we do not see it improving significantly by March of this year.

[END]