October 31, 2017

Mitsui O.S.K. Lines, Ltd.

Explanation by the CEO and Major Q&A

[Overall]

Both ordinary profit for FY2017 Q2 and the outlook for the full year were almost the same level as in the previous announcement at the end of July. By segment, a slight downturn in the Energy Transport Business was offset by an upturn in the Dry Bulk Business and Product Transport Business for both Q2 and in the outlook for the full year, but the margins are slight, so all in all, we did not see significant changes from the previously assumed situation.

1. Outline of Q2 FY2017 Financial Results

[Overall]

Ordinary profit for the first half of FY2017 totaled ¥17.3 billion, ending at almost the same level as the previous outlook. Profits in both Dry Bulk Business and Containerships, in which markets recorded historically low levels in early last year, significantly increased in a year-on-year comparison.

Meanwhile, net income decreased from the previous year due to recorded gains in the same period of the previous year, amounting to about ¥19 billion from the sale of shares in the logistics company in Germany.

[By Segment]

<Dry Bulk Business>

The spot market for the first half of the fiscal year improved significantly in a year-on-year comparison and remained firm, particularly after August.

The Capesize market dropped to the $6,000 level in July, due in part to the prolonged effects of tropical cyclones in eastern Australia and a delay in the recovery of iron ore shipments from Brazil. But after that, the market rebounded, reaching $20,000 again in September, while carriers' sentiment improved overall.

Panamax and other mid- and small-size bulker markets were on an uptrend that began in late July due to firm trade of grain loaded on the East Coast of South America, and remained firm starting in mid-August as grain loaded on the U.S. Gulf Coast started coming on the market. Furthermore, an increase in China's coal imports supported the market's upturn.

Ordinary profit for the first half increased from the previous year thanks to stable profit based on long-term contracts mainly for Capesize vessels, while the spot market in the Dry Bulk Business remained firm overall after summer. The term also ended with a slight upturn in comparison to the previous outlook.

After the Business Structural Reforms executed in fiscal 2015, our Dry Bulk Business shifted to a business model that can record stable profits in any market environment. This segment will show a certain upturn or downturn as markets fluctuate in the future, but we think we can operate this business on a relatively stable basis.

<Energy Transport Business>

■ **Tankers**

The crude oil tanker market remained slow, on the demand side, due to the penetration of OPEC's production cut, and a seasonal drop-off since the beginning of spring, and from the supply aspect, strong pressure due to the delivery of over 40 newbuilding VLCCs from the beginning of the year through September. However, most of our crude oil tankers operate under mid- and long-term contracts, limiting their market exposure, so Q2 profits remained at the same level as the previous outlook.

The product tanker market still faces strong supply pressure from newbuilding vessels, and remains sluggish overall. The market rebounded due to an increase in demand for petroleum products in the U.S. resulting from a hurricane, but this was only temporary.

The market was generally slow in the tanker division. On the other hand, as a result of our efforts to push forward with improved vessel operational efficiency through pool operation, as well as stable performance of vessels on long-term contracts, the entire segment for the first half achieved a turnaround at almost the same level as the previous outlook, though it showed a significant decrease in a year-on-year comparison.

■ **LNG Carriers/Offshore Business**

In our LNG Carriers/Offshore Business, most of the fleet operates under long-term contracts, which generate stable profits. However, an LNG carrier (owned by a J/V formed with an overseas partner) was scrapped in Q2 and we included the loss from the sale of the vessel as an equity method investment loss, so this segment ended with a slight downturn from the previous outlook.

The LNG Carriers/Offshore Business is a key strategic field in MOL's current management plan, and we have steadily acquired new projects during the first half of this fiscal year. In the Russia Yamal Project, we acquired new contracts for four conventional LNG carriers in addition to those for three ice-class LNG carriers already secured. In addition, we acquired contracts for one FSRU and one FSU for the Swan Project, a major LNG importing project in India. This project was previously

announced in a press release, and it is important to note that unlike conventional projects based on the "own and operate" model, in the Swan Project, we are involved as a consultant in addition to a key player in operation and maintenance without ownership. This reflects a new approach to LNG projects. In Offshore Business-related developments, the *FSRU MOL Challenger,* the first FSRU built, owned, and operated by a Japanese shipping company, was delivered this month.

Ordinary profit for the LNG Carriers/Office Business in this fiscal year will remain at almost the same level as in last fiscal year, but we will increase profits next year, and the following year as long-term contracts go into effect.

<Product Transport Business>

■ **Containerships**

Starting with containerships, eastbound cargo trade on the Asia-North America routes for the six months from April to September showed a significant increase of 6% in a year-on-year comparison. In particular, during the summer peak season, it exceeded 1.5 million TEU in a single month (August) for the first time, and as trade accelerated further our utilization improved and we neared full cargo capacity. However, fleet supply pressure is strong, so the demand and supply balance could not be tightened despite the rising cargo volume. Some shipping companies were unable to fill their space, so as a result, efforts on raising rates during the peak season ended almost in a misfire.

Westbound cargo trade on the Asia-Europe routes remained strong, increasing by 6.3% from the previous year for the five months from April through August, maintaining high growth rates. Cargo volume is at a record high level, the same as on the Asia-North America routes. Our capacity increased significantly thanks in part to the delivery of 20,000TEU containerships after the start of the New Alliance in April, and consistently maintained full space except in September, when showed a slight weak tone. Meanwhile, five 20,000 TEU large-scale containerships have been delivered by October, with the remaining one slated for delivery in January 2018.

Next, let's look at trade on the Asia-East Coast of South America routes. Cargo trade, which rapidly decreased starting in late 2015, hit bottom in late 2016, and it is clear that it has embarked upon a firm recovery trend. The trade for five months from April to August increased by 14% from the previous year, and as a result, although we saw a situation in which spot rates softened slightly due to extra voyages by shipping companies, overall remained at high levels.

Meanwhile, speaking of backhaul trade from North America and Europe to Asia, on which cargo volume increased rapidly in early spring, freight rates remained higher than our outlook even in Q2, but the cargo trade itself had dropped back gradually to normal. Particularly, westbound trade from Asia to North America showed a weak note, due in part to the impact of China's new regulation on importing scrap, which came into effect in July.

To summarize the Q2 result in the containership business, freight rates for North America were

lower than our assumption, but our Containerships Business overall, the quarter ended at the same level as the previous outlook as rates on routes for West Asia and other inbound routes were firm, and we could maintain higher utilization rates, mainly on the outbound routes from Asia to North America and to Europe. The ordinary profit for three months of Q2 was ¥2.1 billion, turning to profitability for the first time since the fourth quarter of FY2010.

■ **Car Carriers**

Trade for the U.S. remained firm. On the other hand, speaking of the trade for resource-producing countries and emerging countries, which has been in a slump, trade for South America, East Africa and South Africa hit bottom, and shows a gradually trend toward recovery, but we still cannot see any sign of recovery for trade to the Middle East and West Africa.

We reduced the core fleet by four vessels during the last fiscal year to meet a significant change in trade patterns. Even in the first half of this fiscal year, we scrapped three vessels and returned two at the maturity of charter contracts. The loading volume increases regardless of the decrease in our core fleet. We think this is the result of our efforts to improve the efficiency of ship allocation. As a result, ordinary profit increased in a year-on-year comparison, ending at the same level as the previous outlook.

<Others>

Other, Ferries & Coastal RoRo Ships and Associated Businesses ended almost at the same level as the initial outlook, so I will omit explanations at this time.

2. Outline of the Full-year FY2017 Forecasts

[Overall]

Speaking of the full-year forecasts, we are leaving both ordinary profit and net income unchanged from the previously announced outlook. As an outline for the second half, stagnation of the tanker market is offset by an upturn in the Dry Bulk Business and Product Transport Business. Our exchange rate assumption is unchanged at ¥110/US$, but our bunker price assumption was changed from $330 previously to $350 for the second half.

[By Segment]

<Dry Bulk Business>

We made a slight upward revision reflecting the current recovery tone.

Sentiment among owners of all types of bulkers remains strong. We expect the market to remain

firm within this fiscal year since its falling margin before China’s national anniversary was limited and grain cargo trade will remain robust for the time being. On the other hand, our outlook in Jan-Mar 2018 anticipates a certain level of softening in the market due in part to the effect of Chinese New Year in 2018 and seasonal factors such as the start of the rainy season in Brazil.

<Energy Transport Business>

■ **Tankers**

The market, which continued its slowdown during the first half, showed a significant upturn starting in late September. In the background, it is conceivable that the fleet demand and supply balance was tightened due to an increase in ballast voyages from Asia to the Caribbean to load cargoes there, where the market has remained relatively favorable, and ship congestion at ports due to the effect of typhoons in the Far East in mid-September. We anticipate that the market level will rise to a certain level as we enter the high-demand winter season, in addition to the factors mentioned above.

We also anticipate that the product tanker market will show a moderate upturn in a similar fashion as crude oil tankers, since the market will enter the winter demand season with an increase in trade for cargoes such as heating oil, though it showed some weakness in October due to periodic repairs at oil refineries at the beginning of autumn.

However, we made a slight downward revision from the previous outlook for both crude oil tanker and product tanker market assumptions in consideration of a weakening tone during the first half. As a result, we also made a slight downward revision for the full-year outlook of the tanker division from the previous announcement. This is still a significant decrease in profit in comparison with the previous fiscal year, which was still influenced by the market boom in fiscal 2015, but we expect to secure profitability thanks to the contribution of stable profits from long-term contracts including crude oil tankers and methanol carriers.

■ **LNG Carriers/Offshore Business**

We expect profits for the second half to match our outlook at the beginning of the fiscal year. In this segment, new five LNG carriers, two FPSOs and one FSRU in the Offshore Business will start operation during this fiscal year. As I explained, ordinary profits in this fiscal year will remain at almost the same level as in the fiscal 2016, but we expect that as these projects start operation, they will steadily contribute to profitability starting in the next fiscal year.

<Product Transport Business>

■ **Containerships**

Next, let’s turn to containerships in the Product Transport Business. On the Asia-North America

routes, cargo trade from Asia is expected to remain strong backed by a strong U.S. domestic economy and favorable consumer spending. We think falling margins will be limited due to firm cargo trade, though freight rates will soften since the period from October to November is a slack season and the market faces continual fleet supply pressure.

Cargo trade from Asia on the Asia-Europe routes, which showed strength until August, showed a slight weakening tendency entering September, but the trade after China's national founding anniversary at the beginning of October shows a faster recovery than expected.

As a result, we expect that the ordinary profit for the second half in Containerships will be at the same level as the previous outlook by offsetting lowered freight rates with increased cargo loading. Nonetheless, the loss will increase from the first half to the second half, since we expect expenses for the joint containership business integration company Ocean Network Express Pte. Ltd. (ONE) to be included as equity in earnings of affiliates, mainly in the second half, as we have explained since the beginning of this fiscal year.

■ **Car Carriers**

The total number of completed vehicles exported from Japan in 2017 is forecasted at 4.45 million units, a 3% increase from the previous year. The trend—trade for the Middle East and other resource-dependent regions is sluggish but trade for North America and Europe is firm—is expected to continue even in the second half. MOL will continually strive to improve the efficiency of vessel allocation. We expect the full-year outlook to be almost the same as the previous outlook.

<Others>

We do not have any major changes in other businesses from the previous announcement.

[Dividend]

Speaking of the dividend payment, we are not changing the initial assumption. We completed the consolidation of shares on October 1, but the interim dividend is ¥1 per share on the pre-consolidation basis, and the same amount for the year-end, but this is after the consolidation of shares, so we plan to pay ¥10 per share. The dividend payout ratio for the full year due to the consolidation will be 20%.

3. Progression of Containership Business Integration

Finally, we have provided the information materials which explain the progression of the joint containership business integration company ONE, integrating the containership businesses of three

Japanese shipping companies. ONE was established in July of this year and service is slated to start next April.

Please refer to the materials for details on the progression. We understand that, toward the start of service in April, ONE has been preparing by surmounting significant hurdles step by step. In addition, our company itself must continue to provide reliable containership services through March of next year to make absolutely sure that we do not inconvenience our customers. While transferring personnel to ONE in sequential order, though this is also a difficult task, everyone is united in working toward the integration of the container shipping business.

4. Questions and Answers

[Dry Bulk Business]

Q1) Please explain about the impact on profit of the Dry Bulk Business for the next fiscal year in case mid- and long-term contracts are renewed.

A1) We are in position to move ahead steadily to renew contracts and prevent volatility in our profits. We engage in sales activities with the intention to carry forward renewal of contracts favorably in fiscal 2018.

Q2) Are there any changes in your policy of scaling down market exposure even under the current improved business environment in the dry bulker market?

A2) Our basic policy is to minimize our market exposure, and allocate vessels in tune with an increase in cargo transport contacts won by our sales efforts, which remains unchanged.

[Energy Transport Business]

Q1) Please explain about your plan to reduce the number of product tankers and the prospects for the period to complete such a scaling down. How much of a reduction are you planning?

A1) We have already scaled down the fleet from 43 vessels at the beginning of the fiscal year to 39 at present, and plan further reductions to 36 by the end of the fiscal year. We also plan to move ahead to reduce the number of vessels on spot contracts, which are not tied to mid- and long-term contracts, to 30.

Q2) Please explain about your progress in building up stable profits as well as in investments toward building up new businesses, which is stated in the new management plan “Rolling Plan 2017” for accumulating further “Highly Stable Profits”.

A2) To build up stable profits, during the first half of the year, we concluded contracts for four

conventional LNG carriers for the Yamal LNG project, and for one FSRU and one FSU for a project in India, which is slated to start operations in 2020. We are working on several projects with the goal of acquiring contracts in the LNG carrier, FPSO, and FSRU fields during the second half. Among them, we are highly confident that we will conclude contracts on two or three projects.

[Containerships]

Q1) Containership business profit margin improvement from Q1 through Q2 seems larger than those of other companies. Are there any specific factors behind that?

A1) Our analysis shows that the major factors for profit improvement are buoyant cargo trade in Q2, positive performance in freight rate movement, and increased overall operational efficiency especially due to firm backhaul cargo trade from North America and Europe to Asia, so there is not one specific factor.

Q2) As for containership freight rates, SCFI, a leading freight index, shows rather a downward trend on both the Asia-North America and Asia-Europe routes in Q2. Cargo trade on the Asia-East Coast of South America routes continued falling throughout the period, but your average rate on all routes increased. Do you think this is due to factors unique to your company?

A2) While SCFI shows spot rates only, our average rates partly include those for three-to-six month or one-year contracts. Conventionally, we have been securing a higher proportion of mid- and long-term contracts for Asia-North America routes. We followed a business strategy aimed at increasing mid- and long-term contracts on the Asia-Europe routes in this fiscal year as we launched large-scale containerships. Therefore, the percentage of spot rates for our cargoes is limited, allowing us to maintain higher average rates than general spot rate levels, thanks to our efforts on selected cargo trades. Trade on the East Coast of Asia-South America routes also grew while the supply of space was limited. We saw a phase in which spot rates dropped temporarily as shipping companies including MOL allocated extra voyages, but overall, freight rate levels remained stable.

Q3) Please tell us the outlook for average containership freight rates by route for the second half in comparison with the first half.

A3) We anticipate that average freight rates in Q4 for Asia-North America and Asia-Europe routes overall will be raised by an increase in cargo trade after the Chinese New Year, though upward mobility of the rates on routes to East Coast of North America and Mediterranean Sea is slightly limited.

Q4) Please tell us negative risks of integration of the containership business, if any.

A4) We needed to divide personnel during the transition of our containership business to the new integration company, so we are slightly concerned about risks of motivation as we shift from our current operations to sales/marketing activities. However, we will ensure our success and overcome this concern by tightening our organization. We don't anticipate any specific impact on profits at all.

[Business Performance for FY2018]

Q1) Please tell us the factors for fluctuations in business performance for the next fiscal year by segment.

A1) In the LNG carriers/Offshore business, we have already concluded contracts for some projects, and these will start operation this year and next year. These will contribute to profits. The Dry Bulk Business and Tankers are affected by markets at a certain level, but we see that the fleet demand and supply balance in the Dry Bulk Business will improve and the market will recover moderately. In particular, the market for coastal RoRo ships, which offer steel transport service, can be expected to boost profits if the current upswing continues. Speaking of Tankers, we do not expect the profit levels of VLCCs to fluctuate significantly, since they are mainly on mid- and long-term contracts. And we think the Product Tanker market is currently at the bottom. The Ferry Business is expected to contribute to profits as we move toward the Modal Shift due to a shortage of truck drivers, coupled with the effects of launching newbuilding ferries. In the Containership business, it all depends on a solid startup for ONE.

[END]