July 31, 2017

Mitsui O.S.K. Lines, Ltd.

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

[Overall]

Ordinary profit for FY2017 Q1 ended higher than our initial internal assumption, due mainly to strong cargo trades in the containership business. We made an upward revision of the outlook both for the first half and for the full year from the previous announcement, on the assumption that a higher improvement margin in the containership business will exceed a decline in the dry bulker and tanker markets, while the decline was already fully included.

1. Outline of the Q1 FY2017 Financial Results

[Overall]

Ordinary profit totaled ¥5.8 billion, an increase in a year-on-year comparison. It ended with a slight upturn from the internal assumption at the end of April, but we saw spillover effects by some business divisions.

[By Segment]

<Dry Bulk Business>

The spot market improved in a year-on-year comparison, but the pace of recovery is still slow. The Capesize market temporarily reached $20,000 at the end of March, but then fell down to the $7,000 level in June due to prolonged impact of cyclones in East Australia, and the Q1 average was around $12,000.

Panamax and other mid- and small-size bulkers' markets remained firm overall in April due to strong shipments of grain from the East Coast of South America, increase in demurrage at ports due to the impact of adverse weather, and other factors, but were weak in May and June. Strong demand for coal and grain transport underpinned the market from mid-June, but Q1 ended at the level of $7,000 to $8,000 on average. However, the markets are currently rebounding to nearly $9,000, backed by an increase in China's coal imports and an increase in shipments of grain from Gulf of Mexico ports.

Overall, the dry bulker market remained slightly lower than the initial internal assumption, but we steadily secured profitability due to stable profits, mainly from Capesize bulkers under mid- and long term contracts, in addition to the limited impact of the market fluctuations as a result of our scale-down of the mid- and small-size bulkers' market exposure in the Business Structural Reforms. As a result, ordinary profit increased in a year-on-year comparison. It ended at the same level as the initial internal assumption despite the downturn in the market due partly to the impact of completion of more profitable voyages in Q1 ahead of schedule.

<Energy Transport Business>

■ **Tankers**

The crude oil tanker market remained lower than our initial assumption because OPEC's production cut had their intended effects and the anticipation of a stronger transport market faded. In addition, few vessels are being taken out of service for scrapping, newbuilding vessel supply pressure was strong, and the market entered a period of weak demand at the beginning of spring. However, the market exposure of crude oil tankers was limited, so ordinary profit nearly reached our initial assumption. Speaking of product tankers, many newbuilding vessels were coming in to service, and with the confluence of seasonal periodic repairs at oil refineries, a slowdown in demand for arbitrage trading between East and West, and other factors, the market showed a downturn. Chemical tankers also faced some hard times, due in part to the impact of the slow product tanker market.

As a result, the overall market remained stagnant, and ordinary profit in the Tanker Division declined significantly overall in a year-on-year comparison, also ending with a downturn from the initial assumption. On the other hand, methanol carriers and shuttle tankers recorded stable profits, and VLCCs have higher ratio of long- and mid-term contracts, allowing them to post some level of profitability.

■ **LNG Carriers/Offshore Business**

This segment showed stable results due to long-term contracts, remaining at almost same level as the assumption.

<Product Transport Business>

■ **Containerships**

Eastbound cargo trade on the Asia-North America routes showed a significant increase by 6% in a year-on-year comparison, reaching a record high, and liftings also far surpassed our assumption. On the other hand, the demand and supply balance could not be tightened appreciably due to impacts of considerable increase in the fleet supply, mainly by cascading resulting from the launch of large-sized newbuilding containerships deployed on the Asia-Europe routes. As a result, spot freight rates could not be stabilized at high levels. Westbound cargo trade on the Asia-Europe routes relatively remained firm. Overall trade for April and May increased by 4.5% from the previous year, continually maintaining a steady pace of growth from January through March, when the trade increased by 5.2%. This was a record high, which is the same as on the Asia-North America routes. We have significantly increased capacity on the Asia-Europe routes, and have consistently operated with full loads since the beginning of this year after seizing a solid volume of cargo at the renewal of annual contracts. Under this situation, spot freight rates for Europe remained at a relatively high plateau. It is also worth noting that freight rates, particularly on the eastbound trade on the Asia-Europe routes, rose well beyond our assumption, contributing to improved profitability.

Spot rates on the eastbound trade on routes from Asia to the East Coast of South America, which have been positive since last year, remain high, and show steady profits.

As a result, the ordinary loss in overall containership business was ¥6.2 billion, which was still a large loss, but it was reduced by half in a year-on-year comparison, and ended higher than our initial internal assumption.

■ Car Carriers

While trade for the U.S. remained firm, those for resource-producing and emerging countries are still slow. To meet a significant change in trade patterns, we reduced our core fleet by three vessels during the last fiscal year, and are striving to increase efficiency in vessel allocation by cutting three more vessels in Q1 of this year. Due to increased operational efficiency in addition to lower fuel prices, ordinary profit for Q1 showed a slight upturn both in a year-on-year comparison and in comparison with the initial internal assumption.

<Others>

Ferries & Coastal RoRo Ships and Associated Businesses ended almost at the same level as the initial assumption. Daibiru Corporation, the core company in the Associated Businesses field, continues to post solid results.

2. Outline of the Full-year FY2017 Forecasts

[Overall]

We made upward revisions of our forecasts for both the first half and the full year from the previous announcement. However, we made a slight downward revision for the second half. Overall, the revision reflects an expectation of greater improvement of the containership business, which will exceed ongoing sluggishness in dry bulker and tanker markets. The assumption of foreign exchange is unchanged at ¥110, but we changed the bunker price assumption to $330 for Q2 and 2H from

$350 initially.

[By Segment]

<Dry Bulk Business>

Since the beginning, we used a conservative outlook in our market assumption for this fiscal year: “The market, which hit bottom last year, will recover moderately over the medium term, but its recovery pace is a gentle curve.” In Q1, however, the market remained lower than that and currently shows little strength, so we made a downward revision of the future market assumption for all bulker types. Through the end of the year, we expect an upturn only for Capesize bulkers due to seasonal factors.

On the other hand, mid- and small-size bulker market exposure in particular was reduced significantly by our Business Structural Reforms, therefore we made only a slight downward revision of our ordinary profit forecast for the full year, from ¥13.0 billion to ¥11.5 billion.

<Energy Transport Business>

■ **Tankers**

The market for crude oil tankers will enter in the winter demand season in late October, so we expect some level of recovery. However, we made a downward revision of our market assumption from the initial assumption in consideration of the current market. We also made a partial downward revision for the product tanker market assumption for Q2 also by referring to the current market level, but expect a recovery of the market to some extent in the second half, due to high demand for heating oil in the winter, and so on.

Overall, we made a downward revision of the full-year outlook for the Tanker Division, and expect a significant decrease in ordinary profit in comparison with the previous year, which saw reverberations from the favorable market in FY2015.

■ **LNG Carriers/Offshore Business**

We expect these businesses to continually record stable profits from long-term contracts, securing profits as in the initial assumption.

<Product Transport Business>

■ **Containerships**

We expect the near-term cargo trade on the Asia-North America routes to remain firm, though we need to look closely at U.S. economic trends. The Asia-Europe routes are also showing a clear trend toward recovery in cargo trade since stagnating in 2015. In particular, its growth pace has accelerated since late 2016. We expect the European economy will continue to expand, albeit moderately in the near future, and anticipate brisk cargo trade. We expect a rise in spot freight rates in the busy season from July to September on all outbound trades from Asia, and then assume the rates will soften toward the year end.

Meanwhile, on the assumption of future freight rates and liftings, we expect an increase in freight rates on eastbound trade on the Asia-Europe routes, particularly in Q2, but did not make a substantial upward revision for outbound trade from Asia either on Asia-North America or Asia-Europe routes. On the other hand, the effects of improved yield management and significant reductions in cargo expenses such as feeder costs resulting from the start of the new alliance are expected to exceed our initial assumption, and our forecast will reflect that. Our downward assumption for bunker prices is another factor in this improved picture.

Speaking of increasing costs, expected expenses for the integration of the containership business will be included as equity in earnings of affiliates. We already expected a certain amount in the initial outlook, but included a slightly larger amount in this outlook.

As a result, we made upward revision of our ordinary profit forecast compared to the initial assumption—plus ¥5.0 billion for the first half, plus ¥1.0 billion for the second half, and plus ¥6.0 billion for the full year. Meanwhile, speaking of Q2 only, the containership division is expected to reach profitability, for the first time in a long while.

■ Car Carriers

We will continually strive for improvement in vessel allocation while scaling down the fleet. We reduced our core fleet by three vessels last year, and another three in Q1, but plan to cut three more vessels during this fiscal year. Trade volumes for East Africa, South Africa, Central and South America, and so on has bottomed out, and we are expecting a moderate recovery. We made an upward revision of the full-year outlook from the previous assumption.

<Others>

We did not make major revisions in our forecast for other businesses from the previous announcement.

[Dividend]

Our position on dividends remains unchanged from the previous announcement at this stage — ¥1 for the interim, ¥1 for the year end, and ¥2 for the full year. (Meanwhile, we plan to consolidate shares in October, but the proposed dividend amount is based on pre-consolidation shares.)

3. Questions and Answers

[Containership Business]

Q1) You point out an increase in expected costs related to the integration as a reason that the business will show deficits for the second half, even after it turned to profitability in Q2. Please explain the reasoning behind such an increase.

A1) There are no particularly new conditions behind the increase in costs for the integration. They increased as a result of carefully adding up the costs of the initial estimate.

Q2) You mentioned an increase in freight rates on the eastbound legs of the Asia-Europe routes. How long do you expect this increase to continue?

A2) An increase in freight rates on the Asia-Europe eastbound routes contributed greatly to our Q1 financial results. We assumed that about half of the effects in Q1 will remain in Q2.

Q3) You didn’t make a large upward revision of the freight rates on outbound trade from Asia either on the Asia-North America or the Asia-Europe routes in Q2 and 2H. Please tell us what you expect in terms of freight rate increases or decreases in Q2 and 2H.

A3) In comparison with the previous announcement, we made an upward revision of freight rates on the Asia-Europe eastbound routes for Q2, but we did not make a large upward revision of both the inbound and outbound trades on the main routes, i.e. on the Asia-North America and Asia-Europe routes for the second half of the period. Speaking of freight rates in Q2 and 2H, we expect a slight increase in the high-demand season, July-September, on both Asia-North America and Asia-Europe routes, but assume the rates will start declining after September as we approach the end of the year.

[END]