April 28, 2017

Mitsui O.S.K. Lines, Ltd

Explanation by the CEO and Major Q&A

1. Outline of FY2016 Financial Results

[Overall]

Though ordinary profit for FY2016 was ¥25.4 billion, a decrease of ¥10.8 billion from FY2015, it ended with a significant upturn from the previous outlook, ¥8.0 billion, announced at the end of January. This was due mainly to, in the containership business, strong cargo liftings on the Asia-North America and Asia-Europe routes and higher utilization than our assumption, and firmer markets for all types of dry bulkers compared with that assumption.

On the other hand, net income/loss remained on an upswing, showing an increase of ¥5.0 billion from the “zero income/loss” outlook at the end of January. This was due to an increase in expenses related to dry bulker Business Structural Reforms, resulting from a review and revision of applicable foreign exchange rate from the rate as of September 30, 2016 to the one as of December 31, 2016, as well as the settled amount of impairment loss related to our owned containerships. We already made a timely disclosure regarding this matter at the end of March.

[By segment]

<Bulkships>

- **Dry bulkers**

The Capesize market declined from mid-January due to seasonal factors related to the Chinese New Year holidays, but iron ore trade from Australia and Brazil increased soon afterwards, backed by firm demand, and turned upward again from late February, particularly due to an overall upturn in market sentiment. The mid- and small-size bulker markets remained at an even higher level as they gathered momentum after the Chinese New Year holidays, backed by increased shipments of grain loaded on the South America East Coast, and robust demand for coal transport. Ordinary profit ended with a significant upswing from the internal assumption at the end of January. The dry bulker division showed a deficit in the last fiscal year, but recovered to firmly support our business performance, due specifically to the effects of the Business Structural Reforms.

- **Tankers**

The VLCC market, which temporarily marked a high of around $60,000 at end of last year, gradually weakened after the new year. We think that the demand and supply balance loosened, due mainly to limited progress in withdrawals of aged vessels and slow trade of cargoes loaded in the Middle East resulting from OPEC's production cuts on the one hand, and on the other hand, delivery of 18 newbuilding vessels from January to March in addition to the end of the winter peak demand season.

The product tanker market was sluggish due to slow long-distance trades in addition to the end of the winter season.

- **LNG carriers / Offshore businesses**

This division recorded stable profits due to long-term contracts, which were almost as projected.

- **Car carriers**

The situation facing the car carrier business has not changed, as we already explained several times during the fiscal year. In short, trade to resource-producing countries such as the Middle East and West Africa remains sluggish due to the impact of low resource prices, while trade to the U.S. and Europe remains firm. In response to changes in trade patterns, we began swiftly reducing the size of the fleet, and at the same time worked to improve operational efficiency by avoiding increases in ballast voyages, using chartered vessels on one-way routes to accommodate increased cargo volume to North America. The full-year ordinary profit for the car carrier division, where we expected a slight deficit at the end of January, eventually ended with a slight surplus. In any event, it was a significant deterioration in ordinary profit from the previous year.

To summarize the Bulkship business, dry bulker division improved significantly from a deficit recorded in the previous year. On the other hand, the tanker division showed a softening after its favorable performance in the previous year and profits dropped significantly. The car carrier division also declined substantially. Accordingly, the total ordinary profit for the Bulkship business was ¥39.0 billion, a significant decrease of ¥15.8 billion from the previous year. However, each division exceeded the internal assumption in the previous announcement to some extent. As a result, total ordinary profit showed a significant upswing in the end.

<Containerships>

The freight rate market did not crash like last year in the off-period following the Chinese New Year holidays, and we waited for a recovery in cargo volume as rates remained low. Overall, the freight rate market for January through March remained at a level close to the assumption in the previous outlook.

Strong liftings were the main factor behind the full-year performance of the containership business, which ended with a significant upswing. Cargo volume on the outbound leg of the Asia-North America routes has maintained a record-high pace. Vessels on the outbound leg of the Asia-Europe routes have higher liftings than the previous year, continually performing at full capacity for the last few months. In particular, liftings on the inbound leg of the Asia-North America routes are strong too, and this helps reduce costs for positioning empty containers by reducing the inbound/outbound imbalance. Looking at reductions in cargo handling costs, the yield management measures we have taken are having an even greater impact than we forecast, and we see ¥9.5 billion in profit improvement for the full-year of FY2016.

As a result, the full-year ordinary loss in the containership business was ¥32.8 billion, which was still significant, but the fiscal year ended with a large upswing from a deficit in ¥40.0 billion in the previous outlook.

Looking at other businesses, there were no particularly notable differences from the internal assumption in the previous outlook, so I will omit those explanations today. Turning to dividend payments, we paid an interim dividend of ¥2 per share since the net income for the first half of the fiscal year showed a surplus of ¥16.0 billion, but we decided to omit the year-end dividend because of the net loss for the second half.

2. Outline of FY2017 Full-year Forecast

[Overall]

We forecast full-year ordinary profit of ¥22.0 billion for this fiscal year, a slight decrease from the previous year. In the containership business, we expect a certain improvement due to currently firm liftings and freight rates. Overall, however, our business performance has not recovered to a point where we can expect higher profits than the previous year, because of a larger decrease in profit in the tanker business, in which we forecast another slight weakness again this fiscal year, and the impact of higher bunker prices.

Net income for FY2017 is projected at ¥10.0 billion. We plan to pay a dividend of ¥2 per share for the full year — ¥1 per share for the interim dividend and ¥1 for the year-end, since we are maintaining a dividend payout ratio of around 20% as the guideline for the time being.

[By segment]

Starting this fiscal year, we changed segments used to disclose our business performance. We already established the Dry Bulk Business Unit and Energy Transport Business Unit at the beginning of the last fiscal year with goal of meeting diversified customer needs, while we have pressed ahead with reforms of our business model for dry bulkers. We also established the new Product Transport Business Unit at the beginning of this fiscal year, and this approach allows us to formulate an organizational structure with three business units and develop a cross-sectional system to promote business as “One MOL.” We changed business segment disclosure to reflect the new organizational structure. However, we will separately disclose the performance of the containership business as a part of the Product Transport Business Unit, as we recognize the necessity to continue disclosing such information because of the planned business integration, which we expect to result in substantially improved profits.

<Dry Bulk Business>

The overall market is on a path to recovery after hitting bottom in the first half of the previous fiscal year, so we think the demand and supply balance will continue to show a trend toward improvement, since the supply of newbuilding vessels will not be large in the next several years. But we think it will still take some time to solve the current gap in demand and supply. We believe the market will rebound from the last year’s level, but are not anticipating a full-fledged recovery.

On the other hand, we expect to steadily record stable profits from long-term contracts, overall, projecting ¥13.0 billion in ordinary profit, a slight increase from the previous year.

<Energy Transport Business>

In the tanker business, we forecast a further substantial decrease in profits from the previous year, when it still had a positive impact of the market’s steep rise two years ago. The VLCC and product tanker markets still face strong pressure from the addition of newbuilding vessels, creating a situation that offers little hope of an improvement in the demand and supply balance. Meanwhile, profits in the chemical tanker business, which we position as one of the strategic fields in the new management plan I will explain later, will be decreased by the same factors affecting the product tanker market, but they will contribute to consolidated ordinary profit, as chemical tankers transport 70% of their cargoes under contracts of affreightment with a duration of one year or more.

In our case, long-term contracts are for the norm for LNG carriers, offshore businesses, and steaming coal carriers, so we anticipate continuing post of stable profits.

Accordingly, we expect to secure ¥16.0 billion in total ordinary profit for the energy transport business, despite a significant decrease in comparison with the previous year.

<Product Transport Businesses>

We do not expect the main factor behind deteriorating profits in the car carrier division – slow trade to resource-producing countries – to improve during this fiscal year. We have already reduced our core fleet by four vessels to cope with this situation, but we will press forward to further decrease the number of vessels this year, and strive to improve operational efficiency.

Speaking of the containership business, overall, cargo volume remains on a trend toward improvement compared to our assumption at the beginning of the year. We also see movement among the third-party market research organizations to make an upward revision of the cargo volume outlook for 2017. In fact, our current liftings and utilization on the Asia-North America and Asia-Europe routes are very firm. If this favorable situation continues a bit longer, spot rate levels will not collapse before the summer peak season, and are expected to rise even higher when we enter that peak season. Therefore, we don't think our outlook for the first half of the year is overly optimistic. Renewal of annual contracts on the Asia-Europe routes ended with a substantial rise, and an increase of rates on the Asia-North America routes is almost certain when those contracts are renewed in May, which will also contribute to higher profits.

The Asia-South America East Coast route, on which we made a drastic rationalization in February of the last year, has already turned into the black in FY2016, and we anticipate firm profits in this fiscal year, too. We also expect steady improvement resulting from our measures to enhance yield management.

Accordingly, the containership business is expected to show substantial improvement in comparison with the previous year, though large deficits will continue. One anxiety is the direction of bunker prices, but at present, we are assuming those bunker prices more conservatively than the current prices.

3. Questions and Answers

[Containerships]

Q1) Regarding the containership business, your outlook for FY2017 is a loss of ¥21.5 billion, despite a return to profitability on the Asia-South America East Coast routes in FY2016. Please explain why there is still so much difference between MOL and other Japanese companies in their outlooks for the containership business.

A1) It depends on each company's assumption for setting the outlook. In case of our assumption, trends in freight rates and cargo trade on our main routes, i.e. the Asia-North America route and the Asia-Europe route, are currently firm, but when we look at them throughout FY2017, we do not expect a large improvement. So we issued a somewhat conservative outlook. In addition, we set our assumption of bunker prices higher than those in the previous year.

Q2) Please tell us whether income and expenditures related to the integrated container shipping company, which will be established in July, are included in your outlook for FY2017.

A2) We estimated the expenses related to the establishment of the integrated company to be accounted in FY2017 and included those expenses in our outlook.

[Outlook for tanker market]

Q1) I understand that in FY2017 the tanker business will deteriorate from the previous year as previous mid- and long-term contracts with higher profitability mature. But please tell us whether you see the market itself deteriorating compared to the previous year, including product tankers and chemical tankers.

A1) The tanker market differs by type of vessel, but overall, it declined in FY2016 from the peak in FY2015, and at present, we do not see a sign of recovery even in FY2017. Therefore, we made a very conservative assumption of the markets and profits for each vessel type. We think the market will continue its slower growth for the time being, from the viewpoint of the fleet demand and supply balance. So in the tanker business, while we emphasize VLCCs, where we can expect long-term contracts mainly with Japanese oil companies, and methanol carriers and chemical tankers, which we have higher competitiveness, we plan to continually scale down the number of vessels in small steps for product tankers and crude oil tankers other than VLCCs.

[END]