

**Briefing on Business Performance in Q1 FY2021  
(Online Presentation)**

**Summary**

In our Q1 FY2021 results, we achieved business profit of JPY 99.3 billion and ordinary profit of JPY 104.2 billion, posting large profit gains compared with the same quarter a year earlier when we were severely impacted by the spread of COVID-19 infection.

I will explain our full-year forecast again later in this presentation but we raised our ordinary profit forecast from JPY 220 billion, as announced in the timely disclosure on June 21, to JPY 350 billion. This reflects a significant upswing in the Containerships business due to greater-than-expected cargo movement and soaring freight rates, in addition to some upside in the Dry Bulk Business due to a robust market backed by overall strong demand for transportation. Ordinary profit is expected to reach an all-time high, exceeding the FY2007 record of JPY 302.2 billion.

**Outline of Q1 FY2021 Financial Results**

**[Overall]**

<Please look at the outline and explanations on pages 3 and 5 of the business performance results briefing material slides.>

Revenue increased by JPY 37.4 billion year on year. This was mainly due to the favorable dry bulk market and a recovery in the transport volume of car carriers and the cargo volume in terminal and logistics business, which had slumped due to COVID-19 the previous fiscal year.

Next, business profit, which is calculated by adding operating profit and equity in earnings of affiliates to show the Company's earning capability, and ordinary profit both rose sharply by JPY 95.8 billion and JPY 96.9 billion year on year respectively.

The main reason for the increase in profit was a significant improvement in the Product Transport Business, reflecting the growth in earnings at Ocean Network Express Pte. Ltd. (ONE), which is an equity-method affiliate, due to a rise in freight rates associated with brisk cargo transportation demand

for containerships, as well as improvement in the car carrier business resulting from a recovery in transport volume from the same period of the previous year. In addition, the improved dry bulk market contributed to profits, offsetting the effects from the deteriorated tanker market.

### **[By Segment]**

<I will now explain the financial results by segment. Please look at the explanation on page 4 and the middle of page 5 of the slides.>

#### **➤ Dry Bulk Business**

The Dry Bulk Business posted ordinary profit of JPY 6.5 billion, an increase of JPY 6.1 billion from the same period of the previous year, which was affected by COVID-19. I will explain the situation of each subsegment later but, for all vessel types, we achieved a year-on-year increase in profit or improvement in profitability.

Starting with the Iron Ore and Coal Carriers (Capesize bulkers), profit rose sharply year on year as a result of the continuing strong market backed by high transportation demand on raw materials for steel production in China. The average time charter rate for the three-month period between March and May, which affects first-quarter business performance, was USD 27,000 per day this fiscal year compared with USD 5,000 per day the previous fiscal year.

In April this year, we integrated the small- and medium-sized bulker business, the wood chip carrier business, Panamax bulker business, excluding services for steel manufacturers and domestic electric power companies to Mitsui O.S.K. Kinkai, Ltd. and started commercial activities as MOL Drybulk, Ltd. MOL Drybulk's small- and medium-sized bulker business achieved higher profit than the same period of the previous fiscal year, thanks to a favorable market driven by strong transportation demand, particularly for shipments of grain from North and South America to China. Since we have significantly reduced our market exposure in the small- and medium-sized bulker business in the past years, whilst the business benefited from a favorable market like the capesize bulker business as explained earlier, the impact on profitability was more limited. The wood chip carrier business also achieved profitability, reflecting a recovery in transportation demand for wood chips driven by shipments to China, in addition to generally favorable dry bulk market conditions.

For the open-hatch bulker business owned by Gearbulk Holding AG, an equity-method affiliate, profitability improved due to a recovery in cargo movements of paper pulp, the primary cargo on inbound voyages, and improvement in dry bulk market conditions in general for outbound voyages.

## ➤ **Energy and Offshore Business**

The Energy and Offshore Business posted ordinary profit of JPY 4.3 billion, falling JPY 4.0 billion year on year mainly due to the impact of a deterioration in tanker market conditions.

### ■ Tankers

Starting with crude oil tankers, in contrast to the same period of the previous fiscal year when the market surged, with daily rates exceeding USD 100,000 due to an upswing in demand for offshore storage associated with declining crude oil prices, the spot market was sluggish due to coordinated production cuts by oil producers and a decrease in oil demand associated with a slowdown in economic activity caused by COVID-19, resulting in daily VLCC charter rates falling negative. As a result, profit decreased year on year due to the deterioration of the spot market negatively impacting the profit secured from medium- and long-term contracts, under which the majority of the crude oil tanker fleet operates.

For LPG tankers and methanol carriers, which operate mainly under medium- and long-term contracts, continued to generate steady profit. On the other hand, profit in product tankers and chemical tankers deteriorated due to weak demand for transportation of petroleum products and chemical products.

### ■ LNG Carriers/Offshore Businesses

Next, LNG carriers secured stable profits under long-term contracts. In the offshore business, FPSOs and subsea support vessels operated smoothly and a new FSRU was delivered, but one FSRU (the MOL FSRU Challenger) finished the prior contract and entered the changeover period until the next long-term contract in Hongkong Offshore LNG terminal project, which include navigation and remodeling to prepare for the next project. Due to these reasons, profit fell year on year.

## ➤ **Product Transport Business**

The Product Transport Business reported ordinary profit of JPY 90.1 billion, which is an improvement of JPY 93.4 billion compared with the same period a year earlier, when the business posted a loss due to the effects of COVID-19.

### ■ Containerships

The Containerships business is divided into the business of ONE, our equity-method affiliate, and our terminal and logistics business. For details of ONE's business performance, please refer to page 3 of ONE's magenta-colored disclosure materials.

The market has been consistently strong since the second half of last fiscal year and ONE's first-quarter results improved considerably year on year, with ONE achieving profit of USD 2,559 million.

In terms of market conditions, 1) cargo transportation demand was so strong that global container trade volumes increased around 20% year on year; 2) the turmoil within the entire global supply chain continued, more specifically, there were supply constraints caused by ongoing port and terminal congestion; and 3) as a result, freight, especially short-term freight, remained at a much higher level than the same period of the previous year.

As shown in the waterfall chart at the bottom of the slide, ONE's profit growth is largely attributable to revenue growth as a result of increased liftings and higher freight. The increase in freight revenue is partly from a rise in long-term freight but mostly from a sharp increase in short-term freight. However, ONE also incurred higher operation costs and variable costs to maintain schedules and avoid congestion.

The turmoil within the supply chain created by COVID-19 is causing inconvenience to customers and ONE is implementing countermeasures described on page 5 of the materials to minimize this impact. There is partial congestion in inland railways and at some ports along the U.S. west coast and European ports. However, signs of a gradual return to pre-COVID-19 situation can be seen, with congestion at the ports of Los Angeles and Long Beach, which have been most badly affected since the beginning of the year, mostly easing. ONE will continue to do its utmost effort to support the social infrastructure.

Please return to page 6 of our blue-colored materials. Within the containership business results, profit in the terminal and logistics business increased due to a recovery in cargo volume compared with the same period a year ago, which was affected by COVID-19.

As a result, the Containerships business overall posted ordinary profit of JPY 90.6 billion, rising JPY 84.7 billion year on year.

#### ■ Car Carriers

In the car carrier business, transport volume rebounded strongly from the same period of the previous year, when the COVID-19 pandemic led to a substantial decline in the number of units transported. During the first half of the previous fiscal year, we returned or scrapped 12 car carriers, which equates to around 10% of our total fleet at that time. As a result of adjusting our fleet size, although there was some impact of decline in number of transport volumes due to the semiconductor shortage, the supply-demand balance for our car carriers remains balanced or tight. As a result, profitability improved considerably and the car carrier business moved into profit, albeit only slightly.

#### ■ Ferries and Coastal RoRo Ships

Although cargo transport demand was firm and we secured a higher cargo volume than in the same period of the previous year, profit deteriorated, reflecting a decrease in demand for passenger services resulting from the COVID-19 pandemic and a higher bunker price.

➤ **Associated Businesses**

The real estate business secured steady profit despite a decrease in revenue due to reconstruction of some buildings. Meanwhile, the cruise ship business continued to have a tough time, forced to cancel cruises due to the COVID-19 pandemic.

**Outline of the FY2021 earnings forecasts**

Next, I would like to explain our FY2021 forecast.

**[Overall]**

<Please refer to slide 7 and the Overall section of slide 9 in the briefing materials.>

Revenue is expected to amount to JPY 1.1 trillion. Our forecast at the end of April was JPY 1.06 trillion and our forecast at the time of timely disclosure on June 21 was JPY 1.08 trillion. However, reflecting some factors such as the strong market in the Dry Bulk Business and a change in our USD/JPY assumption from an initial assumption of 105.00 to 110.00, we have revised our forecasts.

Next, we raised our business profit and ordinary profit forecasts to JPY 335 billion and JPY 350 billion respectively.

As it was for the upward revision in Q1 business results, the revised forecast reflects the significant upswing in Containerships due to greater-than-expected cargo movement and soaring spot freight rates in addition to some upside in the Dry Bulk Business due to robust market backed by overall strong demand for transportation. While some businesses had a tougher time than the forecast announced on April 30 and expects the struggle to continue during the fiscal year, with weak market conditions for crude oil tankers and other tankers dragging on longer than anticipated and cruise ship business also having been impacted by COVID-19 for a long time, as a whole, upward revision far outweighed the downward revision.

**[By Segment]**

I will now explain the forecasts by segment. Please refer to slide 8 and slide 9 of the materials.

➤ **Dry Bulk Business**

The Dry Bulk Business is expected to post ordinary profit of JPY 25 billion, which represents an upward revision of JPY 12 billion from the forecast announced on April 30. Each subsegment is expected to report either a year-on-year increase in profit or an improvement in earnings, exceeding initial forecasts.

Starting with Iron Ore and Coal Carriers (Capesize bulkers), while we need to be wary of future decline in China's demand on raw materials for steel production, which has been consistently strong, increased shipments from iron ore producers such as Brazil are expected and we assume the market will remain firm for the time being. Thus, we have revised our market assumptions accordingly. Please refer to page 15 of the slides for more detailed information. Overall, we have revised our assumptions upwards, for example, we changed our assumption for July-September from USD 20,000 per day as of the end of April to USD 30,000 per day and for October-December from USD 18,000 per day as of the end of April to USD 25,000 per day. We still have 8 months left to the end of the fiscal year and there are still uncertainties such as the impact of COVID-19 on the world economy and the trend of crude steel production in China, but these are our revised assumptions in light of recent conditions. Due to the reasons above, in the Iron Ore and Coal Carriers (Capesize bulkers) business, we expect a year-on-year increase in profit, including stable profit from medium-to-long-term contracts as the profit foundation.

Moving on to MOL Drybulk, we anticipate a continued firm market for small- and medium-sized bulkers, backed by strong cargo movement such as grains and expect to generate more profit than initially anticipated. We expect wood chip carriers to return to profitability due to improvement in cargo movements and freight rates associated with recovery in demand for transportation to China.

For open hatch bulkers, we anticipate an improvement in profit, with demand for paper pulp transportation on inbound routes remaining strong and with a stronger general dry bulk market having a positive impact on outbound routes.

## ➤ **Energy and Offshore Business**

Next, the Energy and Offshore Business is expected to record ordinary profit of JPY 23 billion, which represents a downward revision of JPY 3 billion from the forecast announced on April 30. This downward revision reflects a weak tanker market despite stable profit generation by the segment as a whole with long-term contracts as the profit foundation.

### ■ Tankers

In the crude oil tankers subsegment, the market is likely to remain sluggish for the time being, due to factors such as the extension of coordinated production cuts by oil producers and delays in the recovery of oil demand associated with the effects of COVID-19. The tanker market is expected to recover gradually heading into the second half as a result of the global economic recovery in step with the progress of COVID-19 vaccinations, the tapering of coordinated production cuts and growing crude oil demand as the Northern hemisphere enters the winter. However, profit is likely to be down from the previous year, when soaring markets had a positive impact.

We expect profit to be mostly unchanged year on year for LPG tankers and methanol tankers, which mainly operate under medium- and long-term contracts. However, for product and chemical tankers, as for crude oil tankers, we expect transport demand to be sluggish and we forecast a decrease in profits on the assumption of less favorable market than initially anticipated.

#### ■ LNG Carriers/Offshore Businesses

Moving on to LNG carriers, new delivery is limited with a total of two vessels - one LNG carrier and one LNG bunkering vessel scheduled during this fiscal year -but these are expected to accumulate profits along with the five delivered during the previous fiscal year.

In the offshore business, we anticipate that profit level will be unchanged from the previous year, with stable profits generated through FPSO projects deployed in places such as offshore of Brazil offsetting the negative impact of one FSRU entering a changeover period before being deployed to the next long-term contract in Hong Kong.

#### ➤ **Product Transport Business**

I will now move on to explain our forecasts for the Product Transport Business.

The Product Transport Business as a whole is expected to record ordinary profit of JPY 298 billion, reflecting a significant upward revision of the Containerships business forecast plus improved profitability in the Car Carriers and Ferries and Coastal RoRo Ships.

#### ■ Containerships

The Containerships business is expected to post ordinary profit of JPY 294 billion, which represents a considerable upward revision of our forecast. As described on page 6 of ONE's disclosure materials, ONE's first-half earnings forecast is approximately USD 6 billion, reflecting the strong cargo movement and freight rates so far. Our 31% equity interest is factored into our first-half ordinary profit forecast as equity in earnings of affiliates. ONE's earnings forecast for the second half has yet to be determined because the economic environment will be vastly different depending on the impact of COVID-19 and other factors.

In our own forecast, while we expect cargo movements and freight rates to remain at the current high levels until around China's National Day, freight rate levels are expected to gradually weaken sometime during the second half as port and terminal congestion clears and transport demand dips due to seasonal factors, such as when transport demand for the Christmas shopping season falls away.

The terminal and logistics business is expected to post a year-on-year increase in profit which exceeds initial estimates, reflecting steady recovery in cargo volume from the previous fiscal year, which was affected by COVID-19.

#### ■ Car Carriers

Although there are concerns over the impact of the semiconductor shortage on production of completed cars, the number of units transported is expected to maintain recovery mainly for North America routes. This combined with the effects of the fleet reduction the previous fiscal year and improvements in operational efficiency, we continue to anticipate a return to profit this fiscal year.

#### ■ Ferries and Coastal RoRo Ships

We expect the Ferries and Coastal RoRo Ships subsegment to show a year-on-year improvement in profitability as, on top of firm cargo transport demand, we anticipate some degree of recovery in passenger travel in step with the progress of vaccinations, although there is also concern about the impact on earnings of further outbreaks of COVID-19.

#### ➤ **Associated Businesses**

Among the Associated Businesses, the real estate business will continue making steady contributions to profits, despite a drop in revenue mainly as a result of the reconstruction of certain buildings. Meanwhile, we lowered our forecast for the cruise ship business to reflect resurgences of COVID-19 to date, although there is scope for improvement through progress with vaccinations. As a result, our ordinary profit forecast for the Associated Businesses segment as a whole is JPY 8 billion, which is down JPY 2 billion from our previous announcement.

#### **[Dividends]**

In connection with the upward revisions of our earnings forecasts, we reviewed our dividend plan and we raised our interim dividend forecast from JPY 70 announced on April 30 to JPY 300 and our year-end dividend forecast from JPY 80 to JPY 250, increasing the annual total dividend plan from JPY 150 to JPY 550 per share. For the fiscal year under review, we will continue adhering to a policy of maintaining dividend payout ratio of 20%.

#### **Explanation of References by Presenter**

Before moving on to the Q&A session, I will explain the three reference slides. Page 11 of the slides sums up key initiatives announced since April under the heading "Actions to Achieve Further Competitiveness." The actions in bold letters indicate the general direction we are moving in, for example, our corporate mission, management plan and environmental vision. The slide uses different colored backgrounds for different types of actions, using a green background for environment-related actions, a pink background for society-related actions and a blue background for governance-related actions. If there are any topics which are of interest to you, please follow the link to the related disclosure.



The slides "Reference 2" and "Reference 3" on pages 13 and 14 relate to the incident off Mauritius that occurred last summer and give an update on progress made with preventive measures and contribution activities to the local environment and communities, centering on the establishment of a relief fund.

## **Questions and Answers**

Q1) Please provide the first-quarter results and your outlook from the second quarter for the shares of long-term contracts and spot contracts in ONE's Asia-North America trade and Asia-Europe trade. Also, do you have any further information on ONE's policy on ordering new containerships?

A1) Analyzing the data separately for the first and second quarters is difficult but overall long-term contracts account for around 65% of all contracts in Asia-North America trade and around 50% in Asia-Europe trade. By "long-term contracts," we mean not only one-year contracts but also three-month and six-month contracts.

As for ONE's plans to order new containerships, ONE is currently considering this matter internally and we will explain the details once it is reportable.

Q2) You have significantly increased your dividend forecast. How will you fund these dividend payments? What assumptions are you making regarding shareholder returns from ONE?

A2) For the most part, we plan to use dividends from ONE to fund our dividend payments. ONE and its three shareholders are currently discussing the amount of dividends from ONE. ONE is currently formulating its medium-term management plan and will need a certain amount of funds to order new containerships and meet environmental requirements, but its three shareholders are requesting ONE to pay a reasonable amount of dividends. ONE's dividend payout ratio is yet to be determined, but we are hoping to secure a payout ratio that exceeds the parent company's payout ratio commitment to its shareholders.

Q3) You said that you expect the containership market to weaken after China's National Day and yet some overseas shipping companies seem to be taking a more bullish view. What is your view on the upside and downside risks?

Also, there seems to be a large drop between your first-half ordinary profit forecast for the Containership business of JPY 204 billion and your second-half forecast of JPY 90 billion. Are you assuming some kind of risk factor?

A3) ONE has not announced its earnings forecast for the second half but, in our forecast, we have, if anything, been conservative in our assessment of the second half and assumed that the market will

weaken after China's National Day. That said, the market remains very strong and if disruption at ports and to inland logistics networks persist in the future, the possibility that second-half results will be better than the forecast cannot be excluded at this point. Currently there is no obvious reason for a significant fall in transport demand or freight rate levels and even if they did fall in the future, we suspect that they would fall gradually rather than falling dramatically.

Q4) According to some reports, freight rates for containerships on Asia-North America routes have risen to USD 15,000 - 20,000. What is the logic behind these rates? Is ONE also charging similar rates?

A4) It is difficult to mention individual contracts here, but we have not heard of rates being raised to that extent. Since market indicators do not show rates rising to that level either, this information needs to be investigated thoroughly.

Q5) Presumably, the upward revision to the operating profit forecast is mainly attributable to improvement in your market assumption for the dry bulk business. Is the big revision to the second-half forecast also attributable to the same reason?

A5) Yes, your understanding is correct. Contracts for the first half had been worked out to some extent and there were fewer unfixed days left in the first half than in the second. Consequently, improvement in the market assumption resulted in a bigger upward revision to the second-half forecast than to the first-half forecast.

Q6) In your view, what is the likely impact of the Biden administration's Executive Order to promote competition in the containership business? Are there any differences between this order and the issues identified by the Chinese and US authorities in September last year?

A6) The Executive Order mentions container box charges (demurrage and detention charges) rather than freight rates and port congestion. Since such charges are determined in contracts through negotiations with respective customers, we do not consider this to be a major problem at present. However, we recognize the need to continue monitoring the situation moving forward.

[End]