Mitsui O.S.K. Lines, Ltd.
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Financial Results Briefing for Q3 of FY2020
(Online Presentation)

Summary

In the three-month period of Q3 of FY2020, ordinary profit totaled JPY 40.2 billion and net income totaled JPY 34.1 billion, both exceeding first-half results, due mainly to stronger container cargo movements than the previous fiscal year and high container freight rates in the containership business, and a sharp recovery in shipments in the car carrier business.

As a result, for the first nine months of FY2020, we achieved ordinary profit of JPY 72.9 billion and net income of JPY 64.4 billion. Our full-year earnings forecasts, which will be discussed later, are ordinary profit of JPY 95.0 billion and net income of JPY 60.0 billion.

This fiscal year we had initially forecast losses, however, in addition to sharp recovery in the containership business and the car carrier business since the summer, cargo movements have also been generally stronger than anticipated in the Dry Bulk Business and the Energy Transport Business and, as a result, we are now able to announce profit results and forecasts which are higher than the previous fiscal year.

Outline of Q3 FY2020 Financial Results

[Overall]

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

Revenue decreased by JPY 135.5 billion year on year. This was due mainly to a decrease in transport volume by car carriers during the first half of the fiscal year and a market deterioration for dry bulkers from the previous year.

Ordinary profit increased by JPY 23.7 billion year on year. The Dry Bulk Business remained profitable but posted lower profit. In the Energy Transport Business, profit increased due to a favorable tanker market in early spring and accumulated gains from long-term LNG carrier contracts. Substantially higher profit in the containership business significantly lifted not only profit in the Product Transport Business segment but our profit overall. Whilst some segments operated at a loss in the first half, in the third quarter, all our four segments, that is the Dry Bulk Business, Energy Transport Business, Product Transport Business and Associated businesses, all posted profits.

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

Dry Bulk Business

The Capesize bulker market generally remained sluggish, despite some upward phases such as from late June to mid July and from late September to early October when the daily charter rate exceeded USD 20,000 due to continued strong demand for iron ore in China combined with a rebound in demand in other markets such as Japan, South Korea and Europe. If we look at the market environment in the period from February to October, which affects our Q1-Q3 financial results, the average daily charter rate was USD 13,300 compared to USD 17,600 in 2019, representing a decrease of over USD 4,000 year on year. As a result, the Dry Bulk Business posted lower ordinary profit from a year earlier due to short-term contracts being affected by the decline in market and cargo movements, despite maintaining a stable profit base through medium-and long-term contracts.

The small- and medium-sized bulker market was weaker year on year, although it remained steady from the summer, underpinned by demand for the transport of grain mainly to China. Looking at our performance, profit decreased by only a small margin year on year because we have significantly reduced market exposure and the impact of market fluctuation on profit and loss is limited.

As for specialized bulkers, open hatch bulkers operated by Gearbulk Holding AG, an equity-method affiliate, saw year-on-year deterioration in profit, reflecting depressed dry bulk market conditions in their return voyages despite comparatively firm shipments of paper pulp bound for China, as explained at the time of the second-quarter results announcement. Wood chip carriers under short-term contracts also saw a year-on-year deterioration in profit despite recovery in demand for transport to China and fewer voyages where wood chip carriers had to be used for other cargos.

As a result, the Dry Bulk Business overall posted year-on-year profit decline of JPY 9.5 billion.

Energy Transport Business

■Tankers

The very large crude oil carrier (VLCC) market experienced a shift from high charter rates associated with increased tanker demand for floating storage in face of falling oil prices in the spring, to low rates from the summer, reflecting the end of storage demand and the continuation of agreed output cuts. The monthly average daily charter rate fell below USD 20,000 from August, sometimes falling below USD 10,000. Our success in securing several favorable short-term contracts for crude oil tankers during this surging market contributed to profitability especially in the first half, and as a result, overall profit for the first three quarters increased significantly year on year.

The product tanker market also saw improvement in profit, positively impacted by the strong crude oil tanker market.

Profit for LPG tankers and chemical tankers similarly improved due to the strong market. Methanol tankers continued to earn stable profits through medium-and long-term contracts.

As a result of the foregoing, the tanker division posted significant year-on-year improvement in ordinary profit.

■LNG Carriers/Offshore Businesses

LNG carriers steadily accumulated stable profits mainly through eight LNG carriers delivered the previous fiscal year, with three LNG carriers delivered during the period under review, including an LNG bunker vessel delivered in April, also contributing. The offshore business division reported lower profit mainly because one FSRU operating in Turkey was switched to a short-term contract with a lower charter rate than before during the period.

Overall, the Energy Transport Business posted year-on-year profit growth of JPY 6.0 billion, bolstered by strong tanker market conditions in general, in addition to stable profits accumulated by LNG carriers and other factors.

Product Transport Business

■Containerships

Let me start by giving a general overview of container cargo movements. Asia-North America cargo volume increased 3.9% year on year in 2020 and, in absolute terms, approximately 18.3 million TEUs were transported. However, a breakdown by month shows that cargo volumes fell year on year for six consecutive months from January to June and that, in May, which saw the sharpest decline, cargo volumes fell 19% year on year. In July, cargo volumes at last began increasing year on year, and since August sharp double-digit growth over the previous year has continued, with particularly strong growth rates of approximately 28% in November and December. In absolute terms, a record high of 1.8 million TEUs were transported in August, and the October to December average also reached almost 1.8 million TEUs. More detailed analysis shows that shipments of furniture associated with stay-at-home consumption and automotive parts associated with recovery of production at automakers have grown in particular.

Considering that, on a full-year basis, cargo movements increased 3.9% and supply of containerships also increased around 3.0%, under normal conditions shipping space would not be tight. However, because cargo movements were concentrated in the months from August and because COVID-19 caused issues such as delays picking up containers at ports and slower land transportation, space shortages and container shortages occurred.

Under such conditions, Ocean Network Express Pte. Ltd. (ONE), the Company's equity-method affiliate put all containerships available into operation and made maximum use of vessels at its disposal. However, issues such as service delays were inevitable. ONE has taken action to resolve the situation such as ordering new containers and putting on additional sailings to recover empty containers and endeavored to reduce the inconvenience to customers.

I will now explain ONE's performance based on materials prepared by ONE. Please turn to page 3.

As stated in "Key Points", ONE's performance was much improved compared with the same period a year earlier due to higher spot rates as a result of a dramatic rebound in demand and ONE reported after-tax profit for the third quarter of USD 944 million. You can see in the table on page 7 of the ONE materials that the total liftings of ONE in the first half and the third quarter hardly increased compared to the same period last year. However, the sudden increase in demand driven by Asia-North America routes from August onward outpaced supply growth, leading to a rise in freight rates.

Actual liftings and freight rates on Asia-North America routes and Asia-Europe routes, which are ONE's main routes, are shown on page 7 of ONE's materials for you to refer to later.

As a result of the above, our share of profits at ONE accounted for using the equity method were USD 504 million or JPY 52.1 billion, which is the amount equivalent to our 31% stake.

Returning to page 6 of our materials, the terminal and logistics business, which belongs to the containership subsegment, reported a slight drop in profit, reflecting a year-on-year decrease in cargo volume handled during the first three quarters both in the terminal business and the logistics business in Japan and overseas.

As a result, the Containerships business overall posted year-on-year profit growth of JPY 47.3 billion.

■Car Carriers

Transportation volume of completed cars bottomed out in April and May and recovered to levels comparable with a year earlier from September. The car carrier subsegment returned to profit in the third quarter due to cost-cutting efforts during the first half, such as reducing the fleet by 12 carriers through re-delivery and sale, as well as tighter vessel demand. However, profitability deteriorated significantly year on year due to large losses in the first half especially the first quarter.

■Ferries and Coastal RoRo Ships

The ferries and coastal RoRo ships business remained resilient in terms of cargo transport, although there was a slight decrease in transport volume. Meanwhile, the number of ferry passengers recovered temporarily thanks to the government's Go To travel campaign, but then inevitably fell again due to a resurgence in cases of COVID-19 infection. As a result, the subsegment moved back into profit in the third quarter but reported a slight loss for the first three quarters, with profitability deteriorating year on year.

The Product Transport Business as a whole posted year-on-year profit growth of JPY 30.2 billion, with higher profit in the Containerships business outweighing the deterioration in profitability of the Car Carriers and Ferries and Coastal RoRo ships businesses.

■Associated Businesses

Among associated businesses the real estate business continued to report stable profits. The cruise ship business resumed services in November but the COVID-19 pandemic prevented a return to full-scale operation and the travel business also continued to experience a sharp fall in business travel. As a result, Associated Businesses posted year-on-year profit decline of JPY 2.5 billion.

Outline of the FY2020 full-year earnings forecasts

<Please turn to our forecasts starting from page 7 in the slides. >

[Overall]

As mentioned at the start, our full-year earnings forecasts are ordinary profit of JPY 95.0 billion and net income of JPY 60.0 billion. The ordinary profit forecast has been raised JPY 55.0 billion from the forecast of JPY 40.0 billion previously announced on October 30. At the start of the fiscal year, we forecasted an ordinary loss of between JPY 10 billion and JPY 40 billion and this is now the third upward revision, following a forecast of ± 0 billion yen in timely disclosure on June 17, and our last forecast on October 30.

Whilst the substantial profit growth of the containership business is a major reason for the revision, our forecasts for the Dry Bulk Business, Energy Transport Business and car carrier business are now also better.

The reason there is a gap between our ordinary profit forecast of JPY 95.0 billion and net income of JPY 60.0 billion is that, as mentioned before, the net income forecast factors in measures which will lead to improvement in profitability from next fiscal year.

[Market assumptions and exchange rate and bunker price assumptions]

We have revised our market assumptions for the remaining fourth quarter in the Dry Bulk Business from USD 9,000 to USD 15,000 for the Capesize bulker market and from USD 8,000 to USD 10,000 for the Panamax bulker market. However, we revised our assumption for the very large crude oil carrier (VLCC) market downward from USD20,000 to USD 10,000 in light of recent weak market conditions even during the winter demand period.

We also changed our JPY/USD exchange rate assumption from JPY105 to JPY100 per USD and bunker price (VLSFO) assumption from USD 380 to USD 410 per MT.

[By Segment]

We will now explain our forecasts by segment.

Dry Bulk Business

The Capesize bulker market usually slumps in the winter but this fiscal year the rate exceeded USD 20,000 in January, reflecting comparatively strong cargo movements as well as port congestion in China mainly as a result of bad weather. As explained previously, when revising our performance forecasts, we also raised our market forecasts. However, since revenue will be recognized at voyage completion, the improvement in our results for the current fiscal period will be limited and, since market conditions have deteriorated year on year on a full year basis, profit is expected to be lower compared to the previous year.

On the medium- and small-sized bulker market, movements of cargos such as grain are steady despite the COVID-19 crisis and we have also slightly revised our market assumptions. We have been working to reduce our market exposure for some time and therefore expect to maintain a solid performance.

As for specialized bulkers, our profit forecast for both wood chip carriers and open hatch bulkers is slightly improved from our previous announcement in October given the upward trend in shipments of paper pulp and woodchips used to make paper bound for China. However, as explained previously, we expect to see a significant year-on-year deterioration in profits amid a slump in shipments and market conditions, due to the lack of versatility of these carriers and the difficulty making space adjustments in line with fluctuations in cargo movements.

As a whole, we have raised our full-year profit forecast for the Dry Bulk Business by JPY 2.0 billion from the loss of JPY 1.0 billion announced at the end of October, and we forecast ordinary profit of JPY 1.0 billion.

Energy Transport Business

■Tankers

As mentioned earlier, we lowered our assumption for the very large crude oil carrier (VLCC) market in the fourth quarter to USD 10,000 per day. Normally, the fourth quarter corresponds to the winter demand period. However, the market decline this year can be attributed to factors such as a drop in transport demand as offshore stocks accumulated when oil prices fell in early spring are used up and the continuation of agreed oil output cuts (last week [the week beginning January 18] saw negative charter rates). However, we are generating profit through several favorable short-term contracts secured during the surging market in early spring and this combined with stable profits from medium- and long-term contracts will result in a year-on-year increase in profit on a full-year basis.

The product tanker market has remained weak after the surge in early spring but, like the crude oil tankers, we forecast a year-on-year increase in profit on a full-year basis, partly thanks to the profit boost during the market surge.

Chemical tankers are expected to show year-on-year improvement in profitability as the benefits of strategic investments start to become apparent, as seen in higher profit in the Atlantic Ocean region. Methanol tankers are also expected to continue earning stable profits under long-term contracts.

■LNG Carriers/Offshore Businesses

The LNG carriers are projected to continue generating stable profit, with all carriers operating under long-term charter contracts, including five carriers that are to be delivered this fiscal year contributing to profit accumulation. In addition, several expense items ended up being less than estimated and this will also push up profit.

The Offshore Businesses are likely to report a year-on-year deterioration in profit mainly because one FSRU switched to a short-term contract.

As a result, we have raised our full-year forecast for the Energy Transport Business overall by JPY 3.0 billion from our previous announcement, and forecast ordinary profit of JPY 28.0 billion.

<u>Product Transport Business</u>

■Containerships

In the Containerships business, spot freight rates are currently still at historically high levels for all routes. Although there is concern that cargo movements will decline after China's lunar new year holidays, we anticipate overall cargo movement to remain firm through to the end of the fiscal year. Buoyed by strong cargo movements and rates, ONE's full-year profit forecast is USD 2,526 million, which is 2.7 times the level a year earlier, as shown on page 4 of ONE's materials.

Diverging from the forecasts slightly, I would like you to look at page 6 of ONE's materials. Initiatives in FY2020 include six very large 24,000TEU containership newbuilds. These are all time charters (long-term charters), meaning that ONE's investment related cash outflows will not increase significantly. ONE is also currently considering increasing the number of smaller sized ships.

Our containership subsegment includes not only ONE's containership business but also our own terminal business and logistics business, and these latter businesses are expected to post lower profits due to the lingering effects of decreased cargo volumes due to COVID-19.

Accordingly, on a full-year basis, the Containerships business is expected to report ordinary profit of 75.0 billion yen, which represents an increase of JPY 45.0 billion from the previous announcement.

■Car Carriers

The number of cars carried by car carriers has been mostly unchanged year on year since September and is expected to remain comparatively steady through to the end of the fiscal year. However, the number of cars transported during the fourth quarter will be lower than in the third quarter because the fourth quarter is usually a period when car manufacturers have more downtime on the production side with New Year's holidays and suchlike, causing profitability to trend down. However, this fiscal year, second-half profitability is predicted to be much better than in the first half, reflecting the effect of reducing the fleet by 12 ships during the first half.

Additionally, a decrease in car production due to a shortage of semiconductors could also affect the number of cars carried from February and this risk needs to be monitored. However, the impact on this fiscal year's performance is likely to be limited because revenue is recognized at voyage completion.

■Ferries and Coastal RoRo Ships

The Ferries and Coastal RoRo Ships business is expected to be more profitable than anticipated at the time of the previous announcement due to a temporary rebound in demand spurred by the Go To Travel campaign. However, a downturn in the event of protraction of the recent COVID-19 outbreak is feared.

In the Product Transport Business overall, we forecast ordinary profit of JPY 62.0 billion, an improvement of JPY 49.0 billion from the previous announcement.

■Associated Businesses, Others and Adjustment

We expect to continue recording steady profits in the real estate business. Meanwhile, the cruise ship business and the travel business are likely to face severe conditions in light of the resurgence of COVID-19.

Dividend

We plan to pay a year-end dividend of ¥85, which combined with the interim dividend of ¥15 already paid, will bring the annual total dividend of ¥100 per share. Our basic policy is still to aim for a dividend payout ratio of 20%, as explained previously.

[Comparison of Mega Trend Forecasts in the Rolling Plan 2020 with Our Latest Forecasts]

<Next, please look at page 11 of the slides.>

As in the Q2 Financial Results Briefing materials, this slide shows our Mega Trend Forecasts, which are our cargo movement forecasts for main cargoes indicated at the time of announcement of our Rolling Plan 2020 management plan in June and our recently revised annual cargo movement forecasts. You can see from this that cargo movements of resources and energy such as iron ore, grains and LNG and product transport shipments such as container shipments have been exceeding our original mega trend forecasts. I think you can understand from this slide that these higher-than-anticipated figures are why our first-nine-month results and our full-year forecasts beat our initial expectations.

[WAKASHIO Accident]

<Please look at page 12 of the slides.>

This gives updated information about our initiatives to address the WAKASHIO oil spill accident off the coast of Mauritius.

Our basic stance on this matter is, as outlined at the previous briefing at the end of October, that, as a charterer and a stakeholder who was using the vessel, we are deeply aware of the great impact that the accident had on the lives of local people and the precious natural environment, and will fulfill our social responsibilities by restoring the natural environment of Mauritius and contributing to the local community. We have now added further information about recurrence prevention measures which we announced on December 18.

We estimate that the impact of these measures on this fiscal year's performance will be around JPY 100 million to JPY 200 million in total, in line with our previous explanation. Our initiatives include continuing to send employees and experts to Mauritius and contributing to environmental recovery and local communities, and we have also made a start on recurrence prevention measures as described at item 7 in the slide. This includes efforts to enhance crew education, stronger involvement with shipowners, support from land, and hardware improvement. We will keep you informed about our future initiatives to address this matter through our website and other means.

[Cash Flows]

<Please look at page 17 of the slides.>

This slide shows a graph of our cash flow forecasts for FY2020, FY2021 and FY2022. Our actual cash flows at the moment are slightly better than this forecast. This is partly because we are implementing a strategy of having a third-party owner own a vessel and chartering the vessel from them.

Questions and Answers

Q1)

I would like to clarify the containership annual contract trend. What degree of increase in the average annual contract freight rate would you like to see to ensure the same level of profit or higher profit in the containership business next fiscal year?

A1）

I am afraid I am unable to give any clear figures. That said, I think the profit level in the containership business this fiscal year was special and so I doubt our profit plan will assume a similar scale of profit next fiscal year. Annual contracts tend to be for a one-year period commencing from January in Europe and commencing from May in North America. Our contracts for Europe are starting to take shape and recent rates seem to be somehow reflected in these contracts. In North America, we have some customers saying they would like to conclude a contract for around three months and see how things stand. We expect to be able to reflect the current rates to some extent in contracts for North America as well. However, to repeat what I said earlier, contracts for North America commence from May and so we need to keep an eye on the situation for a while.

Q2)
Give details of any factors which are not affected by the market and will push up profit next fiscal year, for example, the anticipated effect of structural reforms, the absence of one-time expenses, or the contribution of new contracts, and also give an idea of their impact.

A2)
I have no details to give you as we have yet to do a profit analysis for next fiscal year. However, as mentioned earlier, we plan to deliver a number of LNG carriers each year and a profit contribution from their full operation can be expected. Moreover, we expect that woodchip carriers, which performed badly this fiscal year, will not perform any worse moving forward due to measures such as the disposal of carriers and the establishment of a new company in the Dry Bulk Business. We suspect that tankers, on the other hand, may not perform as well given that market conditions during the first half of the current fiscal year was so good, leading to expectation that the market will not recover until next winter arrives. At present, I am unable to give any specific figures on the overall impact of these factors.

Q3)
Regarding the forecasted increase in CFs from operating activities on page 17 of the materials, what factors will enable this increase over the coming fiscal years? Taking into consideration the absence of exceptionally good market in some segments next fiscal year, which business operations do you expect to generate higher cash flows?

A3)
The businesses which have the biggest effect on CFs from operating activities are the dry bulk business and the car carrier business, in other words, businesses where an equity-method affiliate is not the main source of earnings. The car carrier business saw deterioration in the first half of this fiscal year but it is now back to being profitable. We believe that, compared with the current fiscal year, the car carrier business may contribute most to the increased CFs from operating activities. In addition, we can also expect dividends from ONE and so cash flows will

increase accordingly.

Q4)
Regarding your fourth-quarter forecasts, what is the reason for the increase in MOL's loss in the Containerships business? Also, it appears that the forecasts for some businesses such as the Dry Bulk Business and associated businesses are conservative. Why is this?

A4)
Starting with the associated businesses, in the cruise ship business, we had thought we would be able to return to full operation with half the passenger capacity but unfortunately we were forced under these circumstances to cancel voyages and this will result in lower profit. As for the Dry Bulk Business, market conditions from January to March are normally not good for seasonal reasons and, on a fourth quarter basis only, performance will be poor. As for our Containerships business, we intend to implement measures for the coming fiscal year and beyond and the figure takes these measures into consideration.

Q5)
For how long do you think container freight rates will remain at their current level?

A5)
We expect that the current rates will last until Chinese New Year, but are unsure what will happen after that. Based on previous experience, container rates rarely fall gradually, rather, once they start to fall, they drop quickly. Consequently, we fear that once stay-at-home consumption comes to an end after the Chinese New Year in February, rates may fall fairly dramatically. However, we think that there will not be that much of an impact between now and the end of March, which is the period included in the profit calculation for the current fiscal year.

Q6)
Please give details of your freight rate assumptions for the containership business for the fourth quarter of the current fiscal year, taking into consideration factors such as the risk of adjustment after Chinese New Year and the timing of an end to supply chain disruption.

A6)
I cannot give details as freight rate assumptions are not disclosed, however, we believe that the current market conditions will continue through February, as said earlier. As the timing of an end to supply chain disruption, we checked with those who have been involved in the containership business for many years and was told that, based on past experience, when

container shortages arise, disruption is not resolved straight away and takes around half a year to resolve.

Q7)
Please explain the supply-demand balance in the containership market in FY2021.

A7)
Regarding the containership supply-demand balance, we estimate that capacity increased by approximately 3% in 2020. For 2021, Alphaliner has forecasted an increase of 3.7%.
As for cargo movements, we have analyzed the information of various research companies and, as a result, we estimate an increase of around 20% year on year in January-March 2021 and an increase of around 15% in April-June as well. However, these estimates are a reflection of the dire situation in January-June 2020 rather than an indication of growth.
We believe that cargos will not increase so much from July 2021 onwards and our estimates for 2021 on a full year basis are no change for North America and annual growth of around 4.3% on Asia-Europe routes. Bear in mind that Asia-Europe routes saw cargos shrink 5% year on year in 2020 up until November.

Q8)
Looking at the full-year forecasts, the increase in net income is small compared with the upward revision of ordinary profit. Are you allowing more scope for extraordinary losses than at the time of your previous announcement?

A8)
With regard to extraordinary losses, you are correct. However, we have implemented two rounds of major structural reforms in the past and feel we have rooted out almost all potential losses in the past. As of the end of December, our extraordinary losses still do not amount to that much.