January 31, 2020
Mitsui O.S.K. Lines, Ltd.

1. Overall

Overall results in the first nine months under review exceeded the initial forecast. This is because we were able to reflect the benefits of higher markets in August and September, particularly in the dry bulker market, chiefly in the third quarter. However, we believe that in the fourth quarter we will face difficult conditions, such as the new coronavirus outbreak, which is stoking public fears. Considering the situation, the full-year forecasts for ordinary profit and net income remain unchanged at ¥50.0 billion and ¥40.0 billion, respectively.

2. Outline of Q3 FY2019 Financial Results

[Overall]
Revenue in the first nine months decreased by ¥74.9 billion in a year-on-year comparison. This was due to the negation of some revenue from containership services attributable to MOL's non-consolidated financial results which remained in the same period of the previous year, and on top of that, a decrease in revenue mainly resulting from lower liftings for Car Carriers.
Ordinary profit totaled ¥49.2 billion, and net income totaled ¥48.4 billion, both of which represent significant increases in a year-on-year comparison. While profit in the Dry Bulk Business declined because, as previously explained, the expiration of highly profitable long-term contracts is concentrated this year, profit in the Energy Transport Business increased due to a rise in the crude oil tanker market and a significant improvement in earnings at ONE in the Product Transport Business.

[By Segment]
<Dry Bulk Business>
The Capesize bulker market rose to exceed $30,000 in a certain period in the latter part of July and from late August to mid-September. We post profits and losses at the time of the completion of voyages and were able to reflect the advantage resulting from the stronger market in the third quarter results. However, the market turned soft and continued to fall from mid-September and did not give an additional positive impact to profits in the quarter.

Like the Capesize bulker market, the medium- and small-size bulker market recovered and remained firm until September. Subsequently, the market remained above $10,000, but fell from mid-October. Since we have significantly scaled down our exposure to the medium- and small-size bulker market, the impact of changes in the spot market on our profit is modest, and we achieved the expected profit.

As a result of the above and stable profit from woodchip carriers, profit in the entire Dry Bulk Business exceeded ¥10.0 billion.

<Energy Transport Business>

■ **Tankers**

Of the developments in the Middle East from summer, the sanctions imposed by the U.S. on a certain carrier had the biggest impact on the VLCC market. The carrier operates just over 20 vessels, but at the beginning of the sanctions, there was information that vessels operated by affiliated companies were also subject to the sanctions. Speculation that fleet supply would decrease caused the market to soar temporarily. There was a report that a contract was concluded at $300,000 per day, which later turned out to have been cancelled. Regardless, the market remained high, higher than $100,000 per day, until December.

The product tanker market was affected positively by the stronger market for crude oil tankers. Some larger tankers, LR2 and LR1 tankers, which usually carried petroleum products switched to crude oil transportation. Consequently, supply of the product tankers became tight, and the market recovered starting with the larger sizes gradually affecting smaller ones.

As a result, ordinary profit for the overall Tankers segment improved in a year-on-year comparison.

■ **LNG Carriers/Offshore Businesses**

In the first nine months, no new vessels were delivered in the Offshore Businesses, but seven new LNG carriers were delivered. Thanks to those new carriers and the carriers delivered last year and the year before last, this segment continued to record steady profit.

Ordinary profit in the Energy Transport Business exceeded ¥20.0 billion.

<Product Transport Business>

■ **Containerships**

In the previous announcement of results, the forecast for liftings at ONE was revised downward on the assumption that trade would be unfavorable after China’s National Day in October. The volume of shipments from China was actually less than expected, and liftings at ONE decreased. However, ONE was able to post a net profit of $5 million due to factors such as the opening of new Middle East/India-Africa routes and lower-than-expected fuel oil

(HSFO) prices. Ordinary profit in Containerships, including the Terminals and Logistics businesses, improved significantly in a year-on-year comparison, and the improvement in net profit at ONE accounted for most of such improvement. The share of profits at ONE accounted for using the equity method increased ¥22.3 billion year-on-year (a loss of ¥18.0 billion in the first nine months of FY2018 vs. a profit of ¥4.3 billion in the first nine months of FY2019). This increase alone accounts for almost all the improvement in the consolidated results.

We would like to praise ONE for recording a profit, albeit only $5 million, in a challenging environment. According to published statistics for January to December, 2019, container cargo movement on Asia-North America routes in the entire market fell 1.3% year on year. That was the first decrease in a decade. Looking at statistics for January through September, cargo movement rose 2.6% in a year-on-year comparison. This means that compared with last year, cargo movement declined sharply in the third quarter. Minus 1.3% in cargo movement is equivalent to minus 0.23 million TEUs. Cargo movement from China and Hong Kong alone declined 1.17 million TEUs. Meanwhile, cargo movement from ASEAN countries, South Korea and Taiwan, and South Asia, mainly India rose 0.72 million TEUs, 0.12 million TEUs, and 0.12 million TEUs. However, those increases did not fully offset the decrease in cargo movement from China and Hong Kong. Cargo movement from Vietnam, an alternative export source to China, expanded a significant 34.5% (0.41 million TEUs) in a year-on-year comparison. Despite the unfavorable business environment described above, ONE did not move into negative territory.

■ **Car Carriers**

Ordinary profit declined, particularly in the first half of the fiscal year. However, we took measures and moved into the black in the third quarter.

■ **Ferries and Coastal RoRo Ships**

Ordinary profit rose in a year-on-year comparison, reflecting the continued modal shift and an increase in the number of passengers.

■ **Associated Businesses and Others**

Associated businesses and other businesses were on a par with the same period in the previous year. Company-wide adjustment improved in a year-on-year comparison, chiefly due to changes in foreign exchange gain or loss.

As a result of the above, in the first nine months of the fiscal year under review, ordinary profit stood at ¥49.2 billion, and net income came to ¥48.2 billion.

3. Outline of FY2019 Forecast

[Overall]

In the first nine months, we continued to make a profit, but we expect challenges in the fourth quarter. We have not changed the full-year ordinary profit forecast and net income forecast announced previously, that is, ¥50.0 billion and ¥40.0 billion, respectively.

Our foreign exchange assumption remains ¥108 against the dollar. We assume that the price of VLSFO (very low sulphur fuel oil), a bunker oil that complies with tightened SO_x regulations, will be $610/MT, $30 higher than the price announced previously.

[By Segment]

<Dry Bulk Business>

As the Chinese New Year holidays have begun, a period when cargo movement slows, a small number of contracts are being concluded. The indicative charter rate in the Capesize bulker market is around $2,000 per day, but we do not think such low rates will persist. We expect the market will be around $10,000 on average in the fourth quarter. There are uncertainties, however, including the question how long the effects of the new coronavirus will continue. Regardless, we think we will be able to achieve the level of profit we previously forecast because it is already towards the end of January, and the number of days when our spot vessels are free of a contract within the fiscal year is limited. The situation is the same for medium- and small-size vessels.

Considering the above-mentioned factors, we leave our full-year forecast for the Dry Bulk Business unchanged: an ordinary profit of ¥12.0 billion as announced previously.

<Energy Transport Business>

■ **Tankers**

The VLCC market, which exceeded $100,000 per day, has fallen to around $40,000 per day. However, the market is generally considered not bad if it exceeds $30,000. In addition, our exposure to the market is limited and the number of days when our spot vessels are free of a contract is also small. Therefore, the impact of the market on ordinary profit is limited. The same is true of the product tanker market.

■ **LNG Carriers/Offshore Businesses**

The new carriers that were planned to be completed this fiscal year, including the one that was delivered in January, are contributing to stable profit as planned.

As a result, the full-year outlook for the overall Energy Transport Business, including Coal Carriers, remains unchanged at ¥22.0 billion, as in the previous announcement.

<Product Transport Business>

■ **Containerships**

Three months prior, the outlook was that ONE would struggle in the third quarter and would recover in the fourth quarter. In this announcement, that outlook is changed and now we assume that the recovery in cargo movement after the Chinese New Year holiday will be weaker than expected. ONE will respond to the situation by actively reducing the frequency of their services, but the outlook for liftings are revised down and unfortunately it is expected that ONE will fall into negative territory in the fourth quarter.

The unique factor in the fourth quarter is the possibility of a temporary inefficiency in the ship allocation because of the major reorganization of service routes planned in relation to HMM (Hyundai Merchant Marine)'s participation in the alliance. ONE has posted a profit until the third quarter by reducing costs through operating efficiency. In the fourth quarter, costs may increase slightly due to this special factor.

Nevertheless, we have revised MOL's full-year ordinary profit forecast for the Containerships including the Terminals and Logistics upward from ¥4.0 billion in the previous announcement to ¥5.0 billion, considering ONE's firm results up to the third quarter.

■ **Car Carriers**

As described earlier, this segment was in the black in the third quarter. Unfortunately, however, we expect that cargo movement will be weak in the fourth quarter. We are affected particularly by the movement of German vehicles from Europe to China and the movement of Japanese vehicles from Japan to North America. Those movements are expected to be lower than expected previously, and we have revised the profit forecast downward.

■ **Ferries and Costal RoRo Ships**

The fiscal year-end of certain Group companies in the Ferries business is December, and the effect of a reduction in service frequencies due to typhoons in October will be reflected in the results in the fourth quarter. We have revised the profit forecast downward slightly.

As a result, the full year ordinary profit forecast in the entire Product Transport Business, including the Containerships business, remains unchanged at ¥7.0 billion, as in the previous announcement.

<Dividend>

As announced previously, we plan to pay a year-end dividend of ¥35. Combined with an interim dividend of ¥30, which we have already paid, the full-year dividend will be ¥65 per share.

<Compliance with SO_x regulations>

Switching to compliant fuels has been completed without any big problems. The cost of the change is within the expected range. We have secured compliant fuels required for this fiscal year and are examining a plan for the next fiscal year. We plan to install scrubbers on 100 vessels by 2022 and have already installed on 32 vessels.

Customers pay fuel surcharges to cover increased fuel costs due to the use of compliant fuels. Although there is variation in the timing of settlement and formulas, basically all customers bear the increase in costs.

<Effects of the new coronavirus>

The effects of the new coronavirus have been changing in the past several days. When we prepared our results forecast, we did not include the effect of the new coronavirus. We therefore made small adjustments in the end and made our forecast a full-year ordinary profit of ¥50.0 billion and full-year net income of ¥40.0 billion yen.
Qualitatively, the new coronavirus will likely have no good effects, because if the Chinese New Year holiday is extended, cargo movement will slow. If we were to dare to identify positive effects, they might be that the new coronavirus could curb vessel supply because it may make it difficult for workers to gather in Chinese dockyards, possibly delaying vessels in such dockyards (there are currently a number of vessels in repair yards in China for the installation of scrubbers) to return to the market, and also because vessels in Chinese ports may have to wait for more days due to slower cargo handling if the situation becomes more serious.
Overall, however, we have to say that the situation is negative for the transportation industry.

4. Questions and Answers

Q1) In the Energy Transport Business, ordinary profit in the third quarter improved approximately ¥3.0 billion year-on-year. Was that because of the market or stable profit mainly from LNG carriers?

A1) The LNG carriers that were delivered in the previous fiscal year are fully operational and contributing to profits this fiscal year. The seven LNG carriers completed this fiscal year are also contributing to profits, although the amount is not very large. Therefore, we would not say the market alone accounts for the increase in profit. However, we would say that the tankers made large contributions thanks to a rise in the market.

Additional Q) What is the ratio? Is it about 80% from the market rise and 20% from the increase in stable profit?

A) Broadly speaking, yes.

Q2) I also would like to ask about the Energy Transport Business. I feel the fall in the profit level from the third quarter to the fourth quarter is too large even if I take the present market condition into consideration. Is your forecast on the conservative side?

A2) In the fourth quarter, we will have special factors. We will have some vessel cost adjustments with the consolidated shipowning subsidiaries. In addition, certain vessels that were planned to be put into docks in 2019 are going to enter docks in 2020 instead, which will cause charter rates to rise from January to March, 2020. For example, if tankers, which in most cases are owned by the Company's shipowning subsidiaries, that were planned to enter docks in 2019 are going to enter them in 2020 instead, charter rates that we should pay to the company that owns the vessels fall in the third quarter. On the other hand, charter rates we will pay in the fourth quarter will increase, as the higher cost incurred on a 2020 calendar year basis will be reflected. As a result, quarterly performance may appear to be distorted.

Q3) Please describe the effects of the new coronavirus. Wuhan, the source of the outbreak, is a center of the auto industry. What effects will the new coronavirus have on automobile logistics?

A3) Wuhan does not have a significant impact on our transportation of completed vehicles. In most cases, we ship completed vehicles from coastal areas, including Guangdong, and the coronavirus will likely not directly affect the profit of our Car Carriers segment. If cargo movement to China, especially from Germany, declines, we will be concerned about the effect.

Q4) There is a big difference in price between HSFO and compliant fuels (VLSFO). How will your profit be affected by using lower-priced HSFO for vessels with scrubbers? How will you share the effect with your customers?

A4) As you have just said, there is a difference in price between HSFO and VLSFO, and the difference temporarily exceeded $300/MT. It has fallen to around $240/MT. It is difficult to estimate the effect on profit in terms of the amount of money, but I would say that out of all our vessels with scrubbers, for half of them the benefit of the price difference goes to the customers. For vessels that are chartered out to customers, the customers arrange fuel oil. Therefore, if scrubbers are installed on such vessels, the customers enjoy the benefit of the price difference. We receive hire that reflects the expense of scrubber installation. For the remaining half of the vessels with scrubbers, we enjoy the benefit of the price difference or share the benefit with customers.