October 31, 2019
Mitsui O.S.K. Lines, Ltd.

Explanation by the CEO and Major Q&A

[Overall]
Ordinary profit for the first half of FY2019 was slightly below the forecast announced at the end of July, as ordinary profit fell short of expectations in the Dry Bulk Business and the Product Transport Business, although ordinary profit in the Energy Transport Business exceeded the forecast slightly in the second quarter.
The full-year forecasts for ordinary profit and net income are ¥50.0 billion and ¥40.0 billion, respectively, remaining unchanged from the forecasts announced at the end of July.

1. Outline of Q2 FY2019 Financial Results

[Overall]
Revenue decreased by ¥45.0 billion in a year-on-year comparison. This was chiefly due to the negation of revenue from containership services attributable to MOL's non-consolidated financial results, which remained in the same period of the previous year.
Ordinary profit totaled ¥28.1 billion, and net income totaled ¥25.6 billion, both of which represent significant increases in a year-on-year comparison. The Dry Bulk Business took a slight downturn, but profit in the Energy Transport Business accumulated. In addition, profit in the Product Transport Business improved significantly, because profit in the joint containership company ONE, which was in negative territory in the same period of the previous year, moved into positive territory, contributing to a significant increase in overall results.

[By Segment]
<Dry Bulk Business>
The charter rates of Capesize bulkers, which declined sharply from February to April due to a fall in shipments following the collapse of a mining dam in Brazil in January, recovered to the level of $10,000 per day in May and June, after the resumption of shipments from Brazil, and then to the level of $20,000 per day in July. In certain periods of the latter half of July and the period from late August to mid-September, the charter rates exceeded $30,000 per day. The average charter rate in July through September was $29,000 per day.
In this environment, we concluded certain short-term contracts for charter rates that are higher than the budget. However, the advantage in terms of profit and loss will be reflected mainly in the second half of the fiscal year due to the timing of the completion of voyages.

The mid- and small-size bulker market was slightly soft until June, affected by the Capesize market, but recovered on the back of the Capesize market and remained firm until September. Since we have significantly scaled down our exposure to the mid- and small-size bulker market, the impact of changes in the spot market on our profit is modest. In the first half under review, however, the vessels chartered early in the period, when the market was soft, boosted profit to a certain extent when the market recovered later in the period.

As a result, ordinary profit in the Dry Bulk Business declined year on year. Nevertheless, stable profit from medium- and long-term contracts continued to contribute to ordinary profit in this segment.

<Energy Transport Business>

■ **Tankers**

The crude oil tanker market rose suddenly due to the effect of the situation in the Straits of Hormuz, among other factors, but overall the market remained in an adjustment phase in the first half of the fiscal year, partly because the period was in a low cargo demand season. However, the market improved in a year-on-year comparison.
The product tanker market also struggled to rise but improved in a year-on-year comparison. Accordingly, ordinary profit improved in a year-on-year comparison, reflecting progress in the reduction of the fleet and an improvement in operational efficiency due to pool operation.
Methanol tankers recorded steady profit from medium- and long-term contracts. As a result, ordinary profit for the overall Tankers segment improved in a year-on-year comparison.

■ **LNG Carriers/Offshore Businesses**

Five LNG carriers were newly delivered in the first half, including an icebreaking LNG carrier for the Yamal Project in Russia and LNG carriers for transporting shale gas from U.S. The LNG Carriers segment and the Offshore Businesses segment, where FPSOs (floating production storage and offloading units) are in steady operation, continued to record steady profit from long-term contracts.

Ordinary profit in the Energy Transport Business increased in a year-on-year comparison, reflecting stable profit from the LNG Carriers/Offshore Businesses and Coal Carriers with the addition of an improvement in profit from Tankers.

<Product Transport Business>

■ **Containerships**

As you know, the containership business joint company ONE moved into the black in the first quarter. Positive profit was added in the second quarter and ordinary profit in the first half stood

at US$126 million, a significant improvement from the considerable loss in the same period of the previous year.
Substantial improvement in ordinary profit in the second year of the ONE service was the result of an improvement in gross profit and a reduction in cost through a review of the cargo portfolio (cargo mix on round-trip routes) and the optimization of products (services provided), in addition to an increase in revenue due to a significant increase in liftings owing to the stabilization of service and the renewal of yearly contracts on the Transpacific routes at a higher level than the year-ago level.
Looking at the market, cargo movement was below the initial outlook on both the Transpacific routes and Asia-Europe routes, but ONE achieved the initial ordinary profit forecast by reducing service frequencies in a timely manner, thereby minimizing a decline in utilization rates (space utilization rates on containerships), and reducing fuel expenditures. In the previous fiscal year, ONE caused an inconvenience, but results in the first half met our expectations.

As a result, ordinary profit in the Containerships, including the Terminals and Logistics businesses, improved significantly and remained in the black for the second consecutive quarter.

■ **Car Carriers**

The effects of cost cutting through the reduction of the fleet and the rationalized ship allocation were more than offset by a decline in trade from Europe to China, which was attributable to advanced adoption of emission regulations in China, and a contraction of intra-Europe trade, which was greater than anticipated in our previous announcement. As a result, ordinary profit regrettably declined in a year-on-year comparison.

■ **Ferries and Coastal RoRo Ships**

Cargo movement on certain routes (the transporting volume of steel frames and building materials from Kyushu to Kanto) was less than expected. However, ordinary profit increased year on year on the back of firm cargo movement through continued modal shift and an increase in the number of passengers chiefly due to the commencement of the service of newbuilding ferries.

As a result, ordinary profit in the Product Transport Business improved significantly, largely due to the Containerships business, which moved into the black.

■ **Associated Businesses and Others**

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

2. FY2019 Forecast

[Overall]

As mentioned at the beginning of this presentation, 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 assumption of foreign exchange in the second half remains ¥108 against the dollar. We assume a bunker price of $415/MT, which is about the same as the previous forecast. We assume that the price of VLSFO (very low sulphur fuel oil), which complies with tightened SOx regulations, will be $580/MT.

[By Segment]

<Dry Bulk Business>

The Capesize market exceeded $30,000 per day in certain periods from July to September, but currently the market is in the mid-$20,000 range. We expect that the market will be on a downward trend as we enter the low demand season in winter. However, we have revised our previous assumption of the market upward slightly because cargo movement is firm, and unlike the usual years, some Capesize bulkers are not expected to be in operation due to drydocking to install scrubbers.

As for the mid- and small-size vessels, the market for Panamax and Handymax vessels is relatively firm, but we are concerned about a downward trend in winter and the impact of the U.S.-China trade dispute. We have thus revised our assumptions of the market only slightly.

We have taken into consideration our assumption of the market and the effect of the recovery of the Capesize market in the first half, which will emerge in the second half, and have revised our ordinary profit forecast in the Dry Bulk Business in the second half to ¥6.7 billion, up ¥1.7 billion from the previous forecast. Our full-year forecast is ¥12.0 billion, up from the previously announced forecast of ¥11.0 billion.

<Energy Transport Business>

■ Tankers

We expect the crude oil market will be firm, considering an anticipated increase in fleet downtime resulting from the installation of scrubbers and an expected increase in ton-miles due to progress in long-distance procurement, including shale oil from the U.S., against the backdrop of the continued reduction of production by OPEC. Considering the above and the rising market, we have revised the market assumption upward.

As for product tankers, demand for the transport of gas oil is expected due to SOx regulations, which was already assumed from the previous announcement. We anticipate that this demand will

help to increase profit in the second half.

Considering the market environment, we have revised our Tankers segment profit forecast upward for the second half.

■ **LNG Carriers/Offshore Businesses**

Three new LNG carriers are planned to be completed in the second half. We expect that the LNG Carriers segment and Offshore Businesses segment will continue to record stable profit from long-term contracts and will achieve the profit previously forecast.

Considering the above-mentioned factors, we have revised the full-year outlook for the overall Energy Transport Business upward, including the Coal Carriers, to ¥22.0 billion from ¥19.5 billion in the previous announcement.

<Product Transport Business>

■ **Containerships**

In the second half forecasts, ONE revised its assumptions for the spot freight rate and its forecast for liftings on Intra-Asia and Transpacific routes, in consideration of concern over a global economic downturn. Meanwhile, ONE is seeking to secure liftings by commencing new services and to enhance competitiveness by continuing to optimize the cargo portfolio and cost reduction. The full-year forecast in ordinary profit at ONE, which was previously announced to be US$90 million, has been revised downward to US$60 million.

MOL's full-year ordinary profit forecast for the Containerships including the Terminals and Logistics has been revised downward from ¥5.0 billion in the previous announcement to ¥4.0 billion.

■ **Car Carriers**

Trade from Europe to China and within Europe is expected to recover to a certain degree in the second half. We expect that the level of the initial ordinary profit forecast will be achieved in the second half through the reduction of the fleet and the rationalized ship allocation, which have been continuing since the previous fiscal year.

■ **Ferries and Coastal RoRo Ships**

Despite the effect of the reduction of voyages due to typhoons in autumn, we expect that we will achieve the level of the initial profit forecast by taking advantage of firm trade overall and tapping into passenger demand.

We have revised the full-year ordinary profit forecast for the overall Product Transport Business downward from ¥10.0 billion in the previous announcement to ¥7.0 billion, considering a shortfall mainly in the Car Carriers segment in the first half and an expected downturn in Containerships segment in the second half.

<Dividend>

We will pay an interim dividend of ¥30 and plan to pay a year-end dividend of ¥35 as announced previously. The full-year dividend will be ¥65 per share.

<Compliance with SOx regulations>

We have three options regarding compliance with tightened SOx regulations: (i) use of compliant fuels; (ii) installation of SOx scrubbers; and (iii) use of LNG or other alternative fuels.

With regard to securing compliant fuels, our main approach, we announced three months ago that we have already secured over 80% of the required volume for this fiscal year (until March 2020) in Singapore and China, where negotiations with suppliers made progress faster. Subsequently, negotiations with suppliers also made progress in other supply areas, such as Japan, and now we secured most of the amount we expect to need in this fiscal year, or until the end of March next year.

Based on the thought that society as a whole must share the cost for environmental conservation, we have obtained the understanding of almost all customers about the increase in fuel cost related to the use of compliant fuels and a revision to the BAF (bunker surcharge) provision or a fuel surcharge burden from January next year.

In the previous announcement, we said that we plan to install scrubbers in the next two years on about 60 vessels, including newbuildings slated for delivery. We now plan to install scrubbers on about 100 vessels by 2022.

Let me explain the use of LNG or other alternative fuels, although it is not described in the disclosure material. The design of MOL's 20,000 TEU containerships completed in 2017 and 2018 allows conversion to use LNG fuel. In February this year, an LNG-fueled tugboat was completed that will operate in Osaka Bay. We are considering equipping new ferries and bulk carries with LNG engines in the near future and are promoting the LNG fuel supply business.

3. Questions and Answers

Q1) Results in the second quarter and the full-year forecast in the Car Carriers declined. Were

there any special factors? The decline is expected to be mitigated in the second half compared with the second quarter. Is the situation really expected to improve?

A1) The negative factors are concentrated on cargo movement on routes to China and Intra-Europe routes. First, the cargo movement from Europe to China was adversely affected by the advanced adoption of emission regulations in China, which we did not expect. Moreover, exports from the U.S. to China declined due to a hike in tariffs associated with the trade friction. For those reasons, transportation volume was less than we expected.
As for business in Europe, unit sales of automobiles fell slightly, reflecting a sense of caution over Brexit, and transportation volume was low.
Meanwhile, cargo movement from Asia is steady. We think that we will be able to restore profitability by mainly adjusting the fleet allocation, taking advantage of firm cargo movement from Asia.

Q2) Due to sanctions imposed by the U.S. on Chinese carriers, the VLCC market rose sharply. What is the current market condition? How long do you expect the market condition to last?

A2) The Chinese carriers that are subject to the sanctions of the U.S. have a complex corporate structure. Although approximately 30 tankers are subject to the sanctions and cannot be used in the market, there was confusion at the beginning of the sanctions, and information was disseminated that vessels operated by affiliated companies were also subject to the sanctions. As a result, the market soared temporarily. The vessels that are not subject to the sanctions have been identified, and the market is calming down.
Nevertheless, the sanctions took place in winter, when the tanker market usually rises, and the market remains high. Considering the supply and demand environment, we expect that the market will remain relatively strong at $50,000 to $70,000 for some time to come. We are capitalizing on unexpectedly favorable winds. However, because our contracts are mostly long-term and our exposure to the market is limited, the impact of the market on our earnings is positive but not very large.

Q3) You said that weak performance in the Car Carriers segment in the second quarter was not caused by special factors. Have you not changed your outlook for cargo movement?

A3) Cargo movement on cross trade routes and in backhaul voyages (routes excluding routes from Asia) in July through September was less than the previous forecast. Because we had allocated the fleet based on the forecast for those routes, the lesser cargo movement had a negative impact on our earnings. We will adjust the fleet allocation and expand slow-steaming operations to cut costs in the second half. We will shift our focus to routes from Asia and will allocate the fleet to

those routes to meet demand to turn around profits. Because there is not great fleet supply pressure in the car carrier market, supply and demand are expected to be stable if cargo movement is as expected.

Q4) Are you not purchasing fuel oil at high unit prices under advance procurement agreements?

A4) We procure a relatively small amount of fuel oil through hedging transactions. We increase the volume of hedging transactions little by little, taking advantage of market dips, which is a primitive method. Therefore, procurement through the hedging transactions is not a factor for falls in profit. Since the fuel oil market is volatile, we will increase the volume of hedging transactions little by little when the market price falls far below the budget.

Q5) You said that scrubbers will be installed on about 100 vessels by 2022 in response to the tightening of SOx regulations. Does that include the number of newbuildings? Can you describe the impact of the investment in scrubbers on profit?

A5) Both the number of newbuildings and the number of vessels to be retrofitted are included. In many cases, scrubbers will be installed on vessels dedicated to specific customers. We will discuss expenses with customers to whom we provide dedicated vessels, and a variety of patterns are possible. Anyway, we will not make an investment that we will not be able to recover.

Q6) You assume that the price of VLSFO will be $580/MT in the second half. How do you evaluate the price compared with the assumption of ONE?

A6) ONE's assumption of fuel oil prices in the second half, $508/MT, as stated on page 5 of ONE's disclosure material, is the weighted average of the prices of HSFO and VLSFO. There is no significant difference between ONE's assumption and our assumption.

Q7) The scale of your fleet of car carriers has not changed from the end of March 2019. Has the optimization of the fleet scale ended?

A7) We will maintain the fleet scale as long as we have cargo and can justify its profitability. However, if the market changes unexpectedly or if profitability falls significantly, we should consider reducing the fleet scale. Our fleet of car carriers includes chartered vessels for which the contracts will expire soon and our own vessels for which most of the depreciation periods have passed. We can reduce the fleet scale about 10% if needed, by disposing of those vessels in three to nine months.