July 31, 2019

Mitsui O.S.K. Lines, Ltd.

Explanation by the CFO and Major Q&A

1. Outline of FY2019 Q1 Financial Results

[Overall]

First, revenue decreased by ¥21.2 billion in a year-on-year comparison. This was due to the negation of revenue from containership services attributable to MOL's non-consolidated financial results, which still remained in the same period of the previous year. Excluding this factor, however, merit-based revenue increased.

Ordinary profit totaled ¥14.0 billion, and net income ¥12.0 billion, both of which represent significant increases in a year-on-year comparison. The Dry Bulk Business segment took a slight downturn due to a struggling market from February to April, but profit in the Energy Transport Business accumulated and the Product Transport Business turned positive because the joint containership company ONE finally achieved a surplus on a quarterly basis. These factors contributed to a significant improvement in the overall results.

[By Segment]

<Dry Bulk Business>

The Capesize spot market stagnated from February to April due to the impact of the collapse of a mining dam in Brazil in late January, and from late March to early April, charter rates dipped to the level of $3,000 per day. The market recovered gradually, reaching the $10,000 level in May, and resulted in an average of around $17,000 for the month of June. It appears that the market slump was not as prolonged as we initially expected.

Panamax and mid- and small-size bulkers were to some extent affected by the weak Capesize market, but gradually recovered thanks to firm trades such as exports of soybeans from South America. The average in Q1 was slightly less than $10,000, but remained almost at the same level as the same period of the previous year.

While the market faced the circumstances outlined above, we had already scaled down our market exposure to mitigate the impact of market fluctuations on our profit. On the basis of stable profit from medium- and long-term contracts for iron ore carriers, wood chip carriers and so on, the Dry Bulk Business steadily recorded a surplus.

<Energy Transport Business>

■ Tankers

The market was not always strong, but it at least improved in a year-on-year comparison for both crude oil and product tankers. Regarding product tankers, while a relatively high percentage of our fleet is exposed to the market, we had scaled down the fleet by the end of the previous year and also made efforts to boost the efficiency of ship allocation, for example, by focusing on niche trades, mainly between Japan and South Korea. As a result, ordinary profit improved.

Methanol tankers also recorded stable profit from medium- and long-term contracts, and as a result, ordinary profit for overall Tankers segment improved significantly in a year-on-year comparison.

■ LNG Carriers/Offshore Businesses

LNG carriers and FPSOs (floating production storage and offloading units) have been in steady operation, continuing to record steady profit.

<Product Transport Business>

■ Containerships

The containership business joint company ONE achieved profitability, albeit slight. The business environment was not always favorable. For example, cargo movement on Asia-Europe routes was relatively firm, but the demand and supply balance deteriorated due to the launch of large-size (over 20,000 TEU) containerships by some companies, resulting in a downward trend in the spot freight rate market. Asia-North America routes showed a slow start-up in the peak summer season and cargo movement was low key. Under this environment, we prevented a collapse of freight rates by reducing service frequencies (12 on Asia-North America routes and five on Asia-Europe routes). We also concluded renewal negotiations for long-term contracts on the Asia-North America routes at the level of the initial outlook. Thus, ONE posted a slight profit of $5 million. The biggest factor in achieving profitability was the ongoing effort to enhance yield management [Note]. In the previous year, when ONE had just commenced its services, yield management was not based on a unified policy as ONE, because they mainly transported cargoes collected by each of three parent companies before the integration.

(Note) Yield management is a management method to maximize profit per round (voyage) of a container.

In addition to taking 31% of ONE's profit as equity in earnings of affiliates, the Terminals and Logistics Businesses recorded stable profits. As such, the containership segment as a whole achieved profitability.

The Car Carriers, Ferries and Coastal RoRo Ships businesses recorded a surplus too.

As a result, all three businesses—Dry Bulk, Energy Transport, and Product Transport—recorded a profit.

2. Outline of FY2019 Forecast

[Overall]

We made an upward revision in our ordinary profit forecast for the first half of FY2019 by ¥2.0 billion from the previous announcement at the end April, but the full-year forecast is kept unchanged at ¥50.0 billion. We maintained the full-year forecast despite an upward revision for the first half, because of variable factors such as the U.S.-China trade dispute, conditions in the Strait of Hormuz, and the tightening of regulations on SOx emissions.

[By Segment]

<Dry Bulk Business>

The Capesize market soared in July, spurred by demand for transportation of spot cargoes in response to reports of resumed iron ore production after the collapse of a mining dam in Brazil. The rates went up due to a shortage of vessels in the area affected by the dam collapse. On July 22, the per-day rate marked nearly $33,000. It kept rising for about two weeks, longer than anticipated, but then settled to around $27,000 at present. However, our Capesize market exposure is not large, so we do not see a major impact because of this market's upswing.

Market exposure of our Panamax and mid- and small-size vessels are also small, therefore the impact is limited as well.

<Energy Transport Business>

- **Tankers**

As in the previous year, the crude oil tanker market normally shows an upward trend from October. In general, product tankers are more susceptible to seasonal impacts. Last year the rate moved upward around the end of November. This year, demand for additional transport of gas oil is anticipated due to the SOx regulations, which can further improve the market.

The prices of secondhand crude oil tankers are currently on the rise. It can be considered that this is taking expectations for the market rise into account. On the other hand, a larger number of vessels will be scrapped if the market improves. This year, 60 newbuilding VLCCs are to be delivered, while the number of vessels scrapped so far is limited to around five. Looking at this situation, we cannot yet say conditions are bullish. Therefore, we made a slight downward revision in our crude oil tanker market assumption.

■ **LNG Carriers/Offshore Businesses**

This segment will continue to record stable profit from long-term contracts, and ordinary profit is expected to be almost the same as the outlook.

Considering the above-mentioned factors, the full-year outlook for the overall Energy Transport Business is unchanged from three months ago.

<Product Transport Business>

■ **Containerships**

In the full-year forecasts, ONE anticipates that worldwide demand for cargo trade will grow by around 3% from the previous year in consideration of risks of a global economic downturn. They made a downward revision of the assumption for liftings on the Asia-North America, Asia-Europe, and Intra-Asia routes. On the other hand, they made a slight upward revision in the profit estimate for the first half based on the effects of cargo portfolio optimization and additional results of cost-cutting efforts such as reduced fuel expenditures. As the outlook is left unchanged for the second half, the full-year forecast projects a surplus of $90 million.

MOL's full-year forecast of ¥5.0 billion in ordinary profit for the Containerships segment is unchanged, with equity in earnings of affiliates from our share in ONE, subtraction of our non-consolidated overhead costs for containership segment, and expected stable profit from the Terminals and Logistics businesses.

■ **Car Carriers**

Trade from Europe to China has decreased, reportedly due to advanced adoption of stricter environmental regulations in China. However, if it is also impacted by other factors such as an economic slowdown, it may lead to a prolonged decline in the trade, which can be a concern. At present, we expect to achieve the same profit as in the initial outlook.

Overall, the full-year forecast of ordinary profit for the Product Transport Business is unchanged at ¥10 billion.

<Dividend>

The outlook for dividend payments remains unchanged from the previous announcement. We plan a full-year dividend payment of ¥65 per share, which includes the interim payment of ¥30.

<Compliance with SOx Regulations>

I will explain our progress from three months ago regarding compliance with SOx regulations which will take effect in January 2020. First, we have explained that in general we have gained almost full understanding of our customers of the need to share the burden of higher fuel costs due to use of compliant fuels. Up to the present, we have been in the process of incorporating a bunker surcharge reflecting increased fuel costs into our contracts with customers. In addition, as we now know more accurately the bunkering ports and the necessary volume of compliant fuels, we have already secured over 80% of the required volume for this fiscal year in Singapore and China. We also decided to install scrubbers within the next few years on about 60 vessels including newbuildings slated for delivery. Most of the vessels are for specific customers and will serve medium- and long-term contracts.

3. Questions and Answers

Q1) The Company projects ¥6.0 billion in ordinary profit in the Energy Transport Business for the first quarter, but ¥4.4 billion for the second quarter. Please explain the reason.

A1) We had specific factors in the Energy Transport Business that occurred only in the first quarter. Specifically, we could secure revenue in the LNG Carriers segment as a result of negotiations, which we did not include in the outlook. In addition, in the Tankers segment, the drydocking timing for some vessels was moved back. And since the profits of this segment are recorded on a voyage-completion basis, voyages that started before March, when the markets for Crude Oil Tankers and Product Tankers were still strong, and were completed after April had some effect in pushing up the Q1 results.

Q2) The Company forecasts a slight increase in ordinary profit for the Dry Bulk Business from the first quarter to the second quarter. In light of the current market conditions, I think it can increase by more. Can you explain in more detail, along with the latest number of free Capesize bulkers?

A2) If we convert the number of remaining free operation days for FY2019 as of the end of June into the number of vessels, it is about 17 for Capesize bulkers with the sensitivity of ¥0.5 billion or less per $ thousand, and three for Panamax bulkers.