April 26, 2019

Mitsui O.S.K. Lines, Ltd.

Explanation by the CEO and Major Q&A

[Overview]

Ordinary profit for FY2018 totaled ¥38.5 billion, a ¥7.1 billion increase from the previous year. We recorded a loss from the equity in earnings of affiliates because the containership business joint company ONE posted a deficit. But the markets in the dry bulk and energy transport businesses relatively remained firm. This is the main reason for the increase.

The profit attributable to owners of the parent totaled ¥26.8 billion, up from a significant deficit posted in the previous year due to provision for losses related to containership charters. As a result, we achieved over 5% in ROE.

[By Segment]

<Dry Bulk Business>

The Capesize market remained firm until around last fall, but the derailment of an iron ore train that occurred in Australia in early November and the collapse of mining dam in Brazil in late January had a large impact on market sentiment and the market has been soft despite a slight rebound. However, the impact on our profit performance for the fiscal year was limited because most of our fleet were already contracted for the remaining FY2018 as of the end of January when the collapse occurred in Brazil.

Similarly, the markets for mid- and small-size bulkers remained firm overall from the first half into the third quarter, but softened starting in January. Because our market exposure is small, fluctuations in the spot market had limited impact on our business performance. Some ships which were cargo long [(note)] steadily contributed to profits, as we could charter in vessels at lower rates under the falling market conditions.

The segment was backed by stable profit from mid- and long-term contracts for iron ore carriers, wood chip carriers, and other vessels, and overall, ordinary profit totaled ¥21.9 billion, a ¥6.5 billion increase from the previous year.

(Note) Cargo long: When the contracted transport cargo volume exceeds the transport capacities of operated vessels

<Energy Transport Businesses>

■ Tankers

Following ongoing weakness in the first half, the crude oil tanker market rose sharply during the second half and remained high, due to increased exports of West African and U.S. crude oil as alternative to Iranian oil, which showed declining shipment volumes on the back of U.S. sanctions.

The product tanker market was sluggish in the first half, but revived in the second half, significantly improving in December, as it trailed the rising crude oil market. On the other hand, we took steps to scale down our market exposure, by further reducing our product tanker fleet from 39 vessels at the beginning of the fiscal year to 21 at the close. In addition, methanol carriers secured stable profits, and shuttle tankers temporary recorded profits by change in tax effect accounting for our Norwegian affiliate, while securing stable profits. These are the main factors behind the significant increase in profit compared to the previous outlook.

■ LNG Carriers/Offshore Businesses

Turning to the LNG carrier Business, seven LNG carriers, including the second ice-breakers that serve the Yamal LNG Project in Russia, were newly delivered during the fiscal year, and one FPSO started operations in the offshore businesses. We accumulated stable profits as these vessels were delivered and went into service. In addition, operation rates for FPSO and subsea support vessel projects were higher than estimated. Thanks to these factors, ordinary profit increased from the previous year.

Overall, the Energy Transport Business including coal carriers which earned stable profits, totaled ¥21.1 billion, a ¥7.5 billion increase from the previous year.

<**Product Transport Business**>

■ Containerships

The financial results for the previous year of the containership business joint company ONE, which is our equity-method company, improved slightly from the outlook announced at the end of January, ending with a deficit of US$586 million.

The company has already recovered from the teething problems at the commencement of its operations. In the second half, ONE achieved profitability in some weeks as both liftings and utilization recovered and the synergistic effects of the integration took hold. On the other hand, we made more progress than expected in collecting our own contracted detention and demurrage fees for cargos we transported as MOL before the integration, and transitional costs were lower than the forecast. Thus, overall ordinary profit in the Containership Business exceeded the previous outlook by ¥3.7 billion, but showed a decrease of ¥3.6 billion from the previous year.

■ Car Carriers

Import and cross trade declined due to the impact of China-U.S. trade friction and the new Worldwide harmonized Light vehicles Test Procedure (WLTP) in Europe, in addition to the quarantine issue on the New Zealand route, which occurred in March. Torrential rains in Western Japan led to a decrease in the nation's car export trade. Ordinary profit deteriorated from the previous year, although we worked to scale down the fleet and improve operational efficiency.

■ Ferries and Coastal RoRo Ships

Despite the tailwind of a favorable business environment, ordinary profit decreased slightly from the previous year, due to typhoons, docking associated with defects on some ferries, and higher bunker prices.

As a result, ordinary loss for overall Product Transport Business totaled ¥12.2 billion, a ¥5.9 billion decrease from the previous year.

Finally, Associated Businesses contributed steadily to stable profits.

<Dividend>

We will revise the year-end dividend payment to ¥25 per share in combination with the previously paid interim dividend, because of an increase in net income, under our policy of maintaining a 20% dividend payout ratio, thus, plan to pay the full-year dividend of ¥45 per share.

2. Outline of FY2019 Forecast

[Overall]

Ordinary profit for FY2019 is projected at ¥50 billion, a ¥11.4 billion increase from the previous year. We expect profit for the Dry Bulk Business to deteriorate, while that for the Product Transport Business, mainly the Containerships Business, will show a significant improvement.
The profit attributable to owners of parent is projected at ¥40 billion.

[By Segment]

<Dry Bulk Business>

The impact of the collapse of a mining dam in Brazil, which occurred in end January, is a concern in the Capesize bulker trade. However, we expect the market to recover because so far, we have not seen a large decline in steelmakers' demand for iron ore, and we can still expect some trade from alternative sources, and the demand and supply balance will tighten as more vessels require docking for installation of scrubbers to comply with stricter SOx emission standards that will take effect in the second half. We expect to see the same level of demand for mid- and small-size vessels to serve the coal and grain trades, so we anticipate that the market will be at the same level as the previous year.

Overall, ordinary profit is projected to decrease from the previous year to ¥10.5 billion because of a decrease in the revenue from freight rates due to the renewal of long-term contracts and weakness in some markets in addition to the previous year's one-time upturn in profit.

<**Energy Transport Business**>

In the LNG Carrier and offshore businesses, newbuilding vessels are slated for delivery during this fiscal year, so we expect continued stable profits.

Speaking of VLCCs, from the viewpoint of fleet supply, newbuilding vessels will be continuously delivered, but we forecast that overage vessels will be scrapped due to stricter environmental regulations. As in the previous year, the market is expected to remain firm in the second half.

We explained that the product tanker market has improved since last December. It still remains relatively firm now. In addition, we expect the market to turn favorably by an increase in gas oil trade due to SOx regulations in the second half. Because we have scaled downed the product tanker fleet, our profit will not see a major boost even if the market improves dramatically. But we can expect improved profits for our chemical tankers, which are affected by the product tanker market.

Overall, ordinary profit for the Energy Transport Business is projected at ¥19.5 billion, a slight decrease from the previous year, as a result of specific factors such as eliminating the effect of change in tax effect accounting in the equity-method company, which was recorded in the previous year, while we anticipate stable profits based on mid- and long-term contracts and the relatively firm market.

<Product Transport Business>

The integrated containership business company ONE is expected to turn profitable during this fiscal year, which will be the second year as ONE, mainly due to an anticipated decrease in cost per container as a result of reviewing the cargo portfolio and restructuring routes, in addition to the synergistic effects of the integration, which exceeded 80% of our target in the first year. The terminals and logistics businesses will also steadily record profits.

Trade for North America in the car carrier business will remain firm, but trade for emerging nations in the Middle East and Africa, import trade, and cross trade are expected to decrease from the previous year. However, we anticipate improved earnings based on restored freight rates and improving operational efficiency.
The ferry and coastal RoRo ships business is positioned as a core field in our management plan, and we expect an increase from the previous year due to the delivery of a newbuilding RoRo ship in this fiscal year.

As a result, ordinary profit for the Product Transport Business is expected to turn from a ¥12.2 billion loss in the previous year to ¥10.0 billion in surplus.

That's all for the forecast by segment. Now I would like to touch on our efforts to comply with stricter SOx regulations that will take effect in January 2020, because I know this is a major concern for you. The main measure in compliance with SOx regulations is the use of compliant fuel oils. Our business divisions have moved ahead to earnestly negotiate with our customers about bearing for the increased costs of compliant fuel oil, based on the idea that society as a whole must share the financial burden of environmental measures, and so far we have gained the understanding of many customers. Therefore, in our business performance forecast, we included a small cost impact related to compliance with the new regulations, on the assumption that customers will share the burden in the form of higher freight rates.

<Dividend>
We plan to pay ¥65 per share for the full-year dividend — ¥30 per share for the interim dividend and ¥35 for the year-end, based on the policy of a 20% dividend payout ratio.

3. Outline of 'Rolling Plan 2019'
[Review of 'Rolling Plan 2018']
In fiscal year 2018, ordinary profit totaled ¥38.5 billion, and ROE was 5.2%. Looking at our performance by segment, Containership Business regrettably resulted in a deficit of ¥14.3 billion. On the other hand, ordinary profit generated from other businesses excluding containerships was ¥52.8 billion, reflecting steady progress in efforts to develop a strong corporate structure that can produce stable profits in spite of market fluctuations.

[Management Policy of 'Rolling Plan 2019']
This year, which marks the third year since we launched the rolling-type management plan, we reviewed and re-organized the concepts of our long-term targets. We used to set "a group of business

units with No.1 competitiveness in respective areas" as one of the three core pillars to realize the vision for the MOL Group. But this time, after reconsideration, we made this the goal itself to aim at, and then determined what we must do to achieve that goal. As a result, we set the new three pillars to achieve the goal—"concentrated investment of management resources in the business fields where MOL has strengths, which will mainly be offshore businesses," "provision of 'stress-free services,' which MOL will offer from the customer's perspective," and "promotion of environmental strategies and development of the emission-free business into a core business." Building upon these pillars, we will aim at "becoming a group of business units with No.1 competitiveness in respective areas."

When developing Rolling Plan 2019, we started with a re-examination of the external environment surrounding the ocean shipping industry. We recognized changes in the external environment as explained in the materials, and confirmed once more that it is difficult to continually gain returns that will satisfy our investors or shareholders through the conventional ocean shipping business alone.

That is why we included a specific business, the offshore businesses, in the first of the three pillars. Meanwhile, fields where MOL has strength are not limited to the offshore businesses, but any fields where we can produce solid returns through our competitive advantages by leveraging our accumulated knowledge and technologies. The second and third pillars, "provision of 'stress-free services,' which MOL will offer from customer's perspective," and "promotion of environmental strategies and development of the emission-free business into a core business," have remained from the last year, but we added the phrases "which MOL will offer from the customer's perspective" to the former and "promotion of environmental strategies" to the latter. We made these additions to clarify the meaning of each pillar. I personally believe that seeing from the customer's perspective is extremely important for business strategies. Stress-free services are meaningless if they are not for the customers.
Specific actions to support these pillars are the "priorities and focus areas".

[Main Initiatives for FY2019, Supporting Management Policy]
As the priority areas, we will continue to work on the same areas as the previous fiscal year: "marine technical skills," "ICT," "technological development," "environmental and emission-free business," and "workstyle reforms." We also have two new focus areas for this year based on changes in the business environment and the demands of the times. First is "development of Groupwide safety and quality management," to regain the trust of our customers and prevent a reoccurrence of incidents like the wharf collision involving the *Nippon Maru,* which occurred at the end of last year, and

another is “strategic actions for compliance with SOx regulations,” as I explained.

[Roadmap to Improving Profit] (Update from RP2018)
I will explain now about our earnings structure in terms of “highly stable profits” and “other variable profits.” When we say “stable profits,” we are referring to profits from mid- and long-term contracts for dry bulkers, tankers, LNG carriers, and offshore businesses, plus those from associated businesses such as real estate.

The others are the variable profits. These include profits from other businesses that can earn relatively stable profits, although not from mid- and long-term contracts, such as the terminal and logistics business, ferries and coastal RoRo ships, and chemical tankers. The containership business accounts for a large portion of “other variable profits.” It is essential that the containership business will earn solid profits for the other variable profits to turn profitable. Then, the “other variable profits” will contribute to our profits in the form of “stable profits + α,” and enable us to achieve the “ordinary profit levels we envision in the medium and long term.”

[Medium- and Long-term Profit Levels, Financial Indicator, Shareholder Returns (continued from RP2018)]
Profit levels and financial indicators we envision in the medium and long term are unchanged. We set the same 20% dividend payout ratio.

[Business Portfolio and Strategic Fields for Resource Allocation] (Updated from RP2018)]
This map shows our business portfolio and strategic fields for management resource allocation. The upper right square indicates fields where MOL has the greatest strength in the pillar of “concentrated investment of management resources in the business fields where MOL has strengths, which will mainly be the offshore businesses.”

In the offshore businesses, there are absolute needs for energy centered in emerging countries. We can make the use of our knowledge and technology accumulated in energy transport for this field. Various new projects are brought to us because of our unique background—we are the leading player in LNG carrier operations, we have proactively established businesses with customers not only in Japan but also overseas, and we are the only FSRU owner-operator in Asia. We think our offshore businesses will continue to grow as we select projects in which we can gain solid returns and make the best use of our strengths. We will also differentiate our LNG carrier business with our track record such as operation of ice-breakers and supervising shipbuilding in China, and expect to develop new business in high-value-added projects. We will also focus resource investment in the chemical transport field, where we aim to become a total chemical logistics provider by entering tank containers business, tank terminals business, and so on, and in Ferries and RoRo ships, which enjoy the tailwind of the modal shift on the back of a shortage of truck drivers and growing environmental awareness.

[Investment Cash Flows (Updated from RP2018)]

The charts show FY2018 results and FY2019 outlook related to investment cash flows. We will continue to focus management resources on fields where we can leverage our strengths, as I explained. We also aim to move into FSRU projects and new fields such as the LNG powership through a joint venture with a Turkish company, as we recently announced. We will strictly select investment projects in a financially disciplined manner. We also plan to work to improve asset efficiency, including the sale of cross-shareholdings. Although the investment cash flow will remain at a high level, we will push forward these initiatives while maintaining our financial strength.

[Business Strategies by Segment (Updated from RP2018)]

This chart shows the list of specific achievements, realized based on the Rolling Plan 2018, by business.

I will not get into the details due to our limited time today, but I would like to mention that texts in red applies to “development of emission-free business into a core business,” and you can see how we have been achieving specific results.

[Fleet (updated from RP2018)]

We aim to reach a balanced fleet structure by scaling our fleet up or down depending on the type of ship, to control market exposure and respond to changes in trade patterns.

[Initiatives on ESG/SDGs—Promoted through Rolling Plan]

The most important issue in materiality, which goes without saying, is adding value through the ocean shipping business and contributing to the growth of the world economy. MOL recognizes anew that the most important matter among SDGs for MOL is contribution to growth of the world economy and making a positive contribution to alleviating poverty through businesses.

Other material issues are also important, of course, and we understand such issues could have a negative impact on our businesses activities if not tackle appropriately.

Finally, let me add one point. We have many businesses that have various strengths, as I explained.

However, to use a baseball analogy, we had been facing a situation in which we could not see what you might call the cleanup hitter. This time, we daringly set a specific business called the offshore businesses in our management plan. We had various internal discussions to reach this point because there are many other businesses that we have, and finally we put the offshore businesses forward as a candidate for our cleanup hitter in light of the track records and projects we have accumulated and its future possibilities.

4. Questions and Answers

Q1) The FY2019 forecast for ordinary profit in the Dry Bulk Business is reduced by half from the last fiscal year. Is this because the mid- and long-term contracts you concluded in the past will be terminated, or current market conditions—which will have the bigger impact?

A1) We included the same degree of each impact due to a decline in the spot market, which marked $3,500/day for Capesize bulkers at the beginning of April and the termination of mid- and long-term contracts.
In addition, ordinary profit in FY2018 pushed up from the outlook due to the completion of highly profitable voyages during FY2018, so this is another factor behind the large difference from FY2019 forecast.

Q2) FY2019 ordinary profit in Energy Transport Business is also forecasted to decrease from the previous year. Is this because you will not have the one-time positive factors that occurred in FY2018?

A2) First, in FY2018, we had one-time factors that increased profits, which we had not forecasted initially, in the LNG carrier and offshore businesses. Specifically, it turned up the profit by around ¥1.5 billion due in part to changes in tax effect accounting.
Excluding such one-off factors, we expect an increase in profit by ¥3.0 billion to 4.0 billion as newbuilding vessels are delivered and start operations.
In FY2018, ordinary profit ended with an upturn from the initial outlook, due to factors including a performance bonus generated by higher operational rates. Our FY2019 forecast does not include such factors, but we think it may show an upturn of ¥1.0 billion to 2.0 billion from the present outlook, if we can achieve the same level of performance.

Q3) The forecast for stable profits for FY2019 is decreased. Is this due to factor(s) you have not considered before?

A3) The main factors are an increase in allocation of corporate costs to business divisions that record stable profits and a larger-than-anticipated increase in operational costs. This does not mean the past assumptions were changed.

Q4) On the assumption for bunker prices in FY2019, how do you see compliant oil prices associated with the reinforcement of SOx regulations? And please explain why the prices are projected to decline from the first half to the second half.

A4) Consensus in market prices is gradually taking shape, indicating differences in compliant oil prices from Heavy Fuel Oil (HFO) to be around +US$150/MT. We make various forecasts based on such trends in market prices.

Bunker prices, which we disclosed in the materials, are for HFO that we have conventionally used. We assume HFO prices will go down in the second half , because the demand will decline before the SOx regulations take effect.