Explanation by the CFO and Major Q&A

[Overview]
Starting with an overview, in FY2018 Q3 all three business segments exceeded their outlooks to some degree — in general, markets for the Dry Bulk Business and Energy Transport Business remained firm, and the containership business joint company, ONE in the Product Transport Business also posted improved profits. On the other hand, ONE took a conservative approach in assessing uncertainties in the external environment, such as China-U.S. trade friction. Although the advantages of falling bunker prices will emerge, ONE is maintaining almost the same outlook for profits in Q4. As a result, we made an upward revision in the full-year consolidated outlook reflecting almost exact upward amount we saw in Q3.

1. Outline of FY2018 Q3 Financial Results

[Overall]
Ordinary profit totaled ¥24.6 billion, a decrease in a year-on-year comparison. This is a result of deteriorating profits in the containership business in the Product Transport Business, although profits in the Dry Bulk Business and Energy Transport Business increased in a year-on-year comparison. For background, this is also because the containership business performed relatively well in the same period of the previous fiscal year.

[By Segment]

Dry Bulk Business
The Capesize market declined temporarily in Q3 due to the effects of an iron ore train derailment in Australia in November. But it recovered afterward thanks to strong spot demand. The market generally remained around the $16,000 level in December, although it fell due to seasonal factors before the Christmas holidays. Despite the weakness in the market, our business ended with a slight increase in profit compared to the previous outlook, due to the impact of earnings solidified by forward freight agreements (FFAs) during high market conditions and the impact of the deferment of costs to later periods. The mid- and small-size vessel markets saw changes in soybean exports as traffic from South America increased to cover a decline in the transport from North America to China. As a result, markets turned up until mid-October. After that, it has softened slightly, due in part to China's limits on coal imports. Some of our woodchip carriers in the spot market, which are mid- and small-size vessels, also enjoyed benefits of the favorable market.

Energy Transport Business

■ Tankers
The crude oil tanker market showed a rapid rise starting in October. As a result, the VLCC market, which had been faltering at around $10,000 in H1 reached an average of $46,000 in Q3, remaining significantly higher than the outlook. A possible factor behind this is that the number of newbuilding vessels completed and the number of vessels scrapped were almost in balance, and exports from West Africa and the U.S. increased as alternatives to Iranian crude oil, resulting in increase of ton-miles.
The product tanker market remained firm because of the strong crude oil tanker market's positive impact, particularly on larger size vessels.
In general, the tanker market in Q3 showed strength, but most of that will be reflected in Q4 profit. Ordinary profit in the Tanker Division for the cumulative nine months through Q3 showed a slight deterioration in a year-on-year comparison due to the stagnant market in H1.

■ LNG Carriers/Offshore Businesses
This segment recorded stable profits from long-term contracts.

Product Transport Business

■ Containerships

Trade on Asia-North America Eastbound routes remained strong—although to some degree this reflected front-loaded demand related to China-U.S. trade friction—showing a 7.8% increase (source: PIERS) for the cumulative total of FY2018 in a year-on-year comparison, marking a record high. In particular, trade in the month of December alone showed a sharp increase of 22% in a year-on-year comparison. Fueled by this increase, freight rates on the Asia-North America trades remained higher than ONE's outlook.

On the other hand, trade on Asia-Europe routes increased by a cumulative total of 2.1% for January to October in 2018 in a year-on-year comparison, which is lower than 4.5% in the previous year. On backhaul trades, those on Asia-North America Westbound routes increased by a cumulative 1.5% until October in a year-on-year comparison, and decreased by a cumulative 2.5% on Asia-Europe Eastbound until November. So it has been stagnant.

Despite these circumstances, ONE's teething problems after commencement of its services were already stabilized, and as a result of their efforts focusing on improvement of liftings and utilization,, utilization in Q3 for Asia-North America trades has recovered to 95% and for Asia-Europe trades to 92%, while backhaul trades on the Asia-Europe routes improved to 62%. Each has recovered to where it was before the integration of the three Japanese parent companies. Speaking of the Asia-North America routes overall, the growth of trade for North America is large while the growth of trade from North America is small, so the imbalance is getting worse, and therefore we think liftings on the backhaul trades are deteriorating not only for ONE but also for other companies.

Please refer to ONE's Q3 profit and loss and its analysis in comparison with previous forecasts on page 26 of the briefing materials. Q3 forecast assumed a loss of $218 million, but actually ended with an upturn, and a much smaller loss of $179 million. This was due largely to enhanced detention and demurrage collection in addition to steadily firm freight rates on the Asia-North America fronthaul trades. In addition, in Q3, it recorded -$32 million as correction for exchange gain that was expected to be recorded in H1. Without this one-time correction, the actual result for the three months of Q3 would have been around ¥$150 million loss, an improvement from the previous outlook.

Meanwhile, bunker prices, which dropped sharply from late November, will bring a positive impact in Q4.

■ Car Carriers

Trade volume of automobiles from North America and Europe to Asia has decreased. Trade of completed cars from the U.S. to China decreased due to a decline in China's domestic sales, in addition to the effects of China-U.S. trade friction. Shipments by some European automakers also declined because of the Worldwide harmonized Light vehicles Test Procedure (WLTP), and the trade showed poor performance. In addition, trade from Japan to North America slowed down. In such unfavorable business environment, we already finished scaling down our fleet, and have made efforts to improve operational efficiency, including the use of other shipping companies' vessels to minimize deterioration in profits.

Next, I will provide an outline of the full-year FY2018 forecasts.

2. Outline of the Full-year FY2018 Forecasts

[Overall]

We made an upward revision of full-year ordinary profit from ¥22.0 billion in the previous outlook to ¥28.0 billion, reflecting the upturn in Q3 results.

Ordinary profits for the cumulative three quarters already reached ¥24.6 billion, but is expected to deteriorate significantly in Q4 as a result of the current fall in the VLCC market as well as a decline in the Dry Bulk Business in Q4 due to seasonal factors.

The largest revision to the outlook for Q4 (three months) is ONE's business performance. ONE conservatively estimated the outlook because of uncertainties of the trade after the Chinese New Year, despite the benefits of fall in bunker prices.

Meanwhile, we did not revise our Q4 assumption for foreign exchange of ¥110-US$1 from the previous outlook, but did adjust our assumption for bunker prices to $425 in consideration of current conditions.

[By segment]

Dry Bulk Business

The Capesize market enters an off-season every year from January to March, and we see the market fall to some degree during this time, but we are especially concerned about the long-term impact of the recent mine dam collapse in Brazil. On the other hand, the remaining exposure of our Capesize vessels in this term is only five vessels, so the impact of spot market fluctuations is quite limited. The mid- and small-size bulker markets are also weak, but we have almost no exposure in these markets, so we expect little impact on our outlook for profits this year.

As a result, we made a slight upward revision from the previous outlook in the Dry Bulk Business.

Energy Transport Business

■ Tanker

The current market for crude oil tankers has shown a gradual softening after the steep rise at the end of last year, but our crude oil tankers have almost no exposure to market fluctuations in the remaining fiscal year, so we do not anticipate a large impact on profits. Product tanker markets tend to be very volatile and our market exposure is relatively large, so the profit may deteriorate if the market falls off, but we think our current outlook is conservative.

■ LNG Carriers/Offshore Businesses

When comparing Q3 and Q4, the latter seems lower, but this is due to timing of the recording of dry docking costs and so on. Looking at the H2 as a whole, it will be almost the same level as H1.

Product Transport Business

■ Containerships

There are uncertainties regarding the recovery of trade after the Chinese New Year. Every year, the number of services are reduced because of sluggish trades after the Chinese New Year. But in case the trade decline is larger than projected, ONE has a plan to additionally reduce services. ONE conservatively included the possibility of such significant decrease in trades in the outlook for Q4, and kept its previous full-year outlook despite an upturn in Q3 from the previous outlook.

■ Car Carriers

Although we have already carried forward the scale-down of the fleet and increased the efficiency of ship allocation, this division has been impacted by the quarantine issue that occurred in Q1 not only directly but also indirectly from having to change ships allocation, for example, by allocating vessels separately for new cars and used cars. We anticipate a slight deterioration in full-year profits compared to the previous year.

Associated Businesses, Others, Adjustment

Let me explain Associated Business and other businesses briefly since there are factors leading to a deterioration from Q3 to Q4. First of all, in the real estate business, we had already expected a deterioration in profit from Q3 to Q4 in the previous outlook, because of Daibiru Corporation's receipt of dividends for equity holdings in Q3 as well as posting significant repair costs in Q4.

In addition, in “Others”, the profit will be scaled down in Q4 from Q3 due to the receipt of dividends for cross-shareholdings in Q3.

As I explained, ordinary profits in almost all segments are expected to deteriorate in Q4 from the previous quarter due to various factors, so in total, we expect a significant fall from Q3 to Q4. It may seem a little imbalanced, but as you see in the comparison with the previous business-by-business outlook on page 9 of the briefing materials, looking at H2 overall, it is an update reflecting the upturns in the Dry Bulk Business, Tankers, and Containerships.

<u>Dividends</u>

Speaking of dividends, we have not changed the previously announced outlook. We already paid ¥20 per share as an interim dividend, and plan to pay ¥20 per share for the year end, totaling ¥40 for the full year.

<u>Questions and Answers</u>

[Containerships]

Q1) ONE’s business performance has shown an upturn from the plan since Q3. At which quarter in fiscal year 2019 can we expect a profitability? And please explain what it will take to become profitable.

A1) Though it is difficult to determine exactly when, from FY2019, we expect that ONE can reduce product costs by substantially restructuring routes. In addition, in FY2018 there were inefficiencies by transporting cargoes that each of the three Japanese shipping companies fixed separately. The cargo portfolio is expected to improve because next negotiations will go on under ONE’s strategy. We think that in FY2019, the effects of such improvement will emerge and move toward profitability.
Although there are various factors for turning into profitability, cost reduction is indispensable and we believe the keys will be thorough yield management and optimization of the cargo portfolio.

Q2) You have been making downward revisions in the outlook for transitional costs of the containership business every quarter. May it possibly be carried over to FY2019?

A2) The initial estimate of transitional costs was slightly conservative, that is why we made revisions. We do not expect to record it in the next fiscal year.

[Other]

Q1) My impression is that ordinary profit for Q3 in the Dry Bulk Business of ¥8.5 billion was a significant upturn. Is this due only to the fixtures under a favorable Capesize market conditions?
In addition, I understand that looking at profit quarter by quarter, the profit of Dry Bulk Business is usually around ¥3.0 billion to ¥4.0 billion. Do you expect an upturn of this scale in the future?

A1) Speaking of the Dry Bulk Business, one of the factors is that some unprofitable voyages completed in H1 and did not affect H2, not only for Capesize but also formid- and small-size bulkers. In addition, Panamax and smaller-size vessel markets remained firm in comparison to the previous year, and woodchip carriers enjoyed the benefits of such rising market.
The degree of fluctuation in quarter-by-quarter profit depends on the timing of completion of spot vessels’ voyages. Sometimes the fluctuation can become larger. The degree of such fluctuation can vary depending on market conditions for each ship type.

Q2) How much impact will the acquisition of all Nordic Tankers shares, which was announced in January of this year, have on your profit? And will this cause burden in terms of accounting?

A2) When simply totaling the current profit of Nordic Tankers, the impact on our business performance is still small. However, the company offers regular services on Atlantic Ocean

routes that MOL Chemical Tankers does not cover yet. So we expect to eventually accumulate profits through the synergy of Nordic Tankers and MOL Chemical Tankers.
Amortization of Nordic Tankers' goodwill will not be a concern.