February 2015

Mitsui O.S.K.Lines, Ltd

1. Supplemental explanation of FY2014 Q3 financial results

■ Overall view

Despite the favorable winds of a depreciating yen and lower bunker prices, we could not fully leverage these benefits, and regret to report that this quarter resulted in a downward revision of our earnings projection. However, this fiscal year brought many transient negative factors, and we expect recovery in the next year. We will outline our recovery scenario, and we realize that the only way to restore your trust is by achieving our targets.

The biggest transient negative factor was losses resulting from the settlement of bunker hedging transactions and we are sorry to say that we expect to post losses of around ¥14 billion in the full-year results. In addition, there is a time lag before the declining bunker price is actually reflected in our *consumption* price, due in part to "bunker inventory" which was already onboard our ships, while losses on bunker hedging are realized immediately at settlements based on the spot price. As a result, bunker hedging had a negative impact in the short term, even after factoring in the benefits of the actual bunker cost decrease.

We expect ¥11.2 billion in ordinary income for Q4 and, for the full year, ¥41 billion in ordinary income and ¥35 billion in net income. This is a decrease of ¥9.0 billion in ordinary income and ¥5 billion in net income from the previous announcement. The exchange rate in Q4 is assumed at ¥118/US$, and bunker prices will have almost no impact on profits due to the effects of "bunker inventory," but we are assuming a price of US$320/MT.

Looking at our forecasts by segment, ordinary income for bulkships increased by ¥1.5 billion for the full year compared to the previous one, while containerships showed a decline of ¥16 billion. Ordinary income in "adjustment" improved by ¥4 billion. This is because it includes a part of our foreign exchange profit that is not allocated to business segments. We record freight rates in the book at the rate for the relevant month set by the company – without including differences from the rate when we actually receive the payment – in the profit of the business segment, instead posting them under "adjustments."

■ **By segment: Containerships**

Stagnation of our containerships segment stands out in comparison with other companies. We cannot make excuses for our results, but we have to explain the most likely causes. First, considering the miscalculation in the recovery scenario we explained at the beginning of this fiscal year, we projected a recovery of ¥16.5 billion, from a deficit of ¥14.5 billion for the previous year to a surplus of ¥2 billion for this year. This was based mainly on the anticipated effects of larger vessels, improvement of cost competitiveness such as expansion of the routs covered by the G6 Alliance, enhancement of our container terminal business, and improvement of profits on North-South trades. Though the lag in the launching of large-size vessels generated double costs in the first half, we certainly saw system cost reductions thanks to the introduction of these ships. In addition, the effects of lower bunker prices were significantly offset by losses on bunker hedging, but we still saw an improvement of more than ¥10 billion. The deficits we faced in spite of those improvements means that adverse factors of about ¥40 billion occurred after the initial outlook.

Looking at the causes, first, all-route average net proceeds deteriorated by $48/TEU, a key factor in the decline of ¥23 billion. This was due to lower freight rates and an increase in cargo handling and on-carriage expenses.

Liftings decreased by 350,000 TEUs from the initial forecast, resulting in a deterioration of ¥8 billion. Liftings on the East-West trades were almost as planned, but we saw major reductions on the North-South trades including Asia and Oceania.

A further ¥3 billion deterioration resulted from congestions at ports in North America and Manila. We also expect a deterioration in ¥3 billion due to the carrying over of proceeds from 30,000 TEUs to the next term, as consequences of operational inefficiency due partly to the port congestion. As a result, we had adverse factors of over ¥40 billion in total including ¥4 billion from the delay in automation of our TraPac terminal on the North American West Coast.

In comparison with other companies, about half of that ¥40 billion is due to situations specific to our company. Particularly, our company was hit hard with deteriorated net proceeds and decreased liftings on the North-South trade and congestion at the port of Manila. The delay in full automation of the TraPac terminal was another MOL-specific issue. In addition to those factors, we could not take full advantage of favorable spot market conditions on the North America East Coast route. This was a major factor behind our downturn in comparison with other companies. Currently, the TraPac terminal is fully automated and running smoothly, and further drastic measures for the South America East Coast route are under consideration. And we are working to minimize the impact of congestion in Manila by shifting to

independent vessel allocation.

Looking ahead to the next fiscal year, we think the only way to recover your trust is by achieving our targets, and we already expect to see an improvement of ¥22.5 billion through factors specific to our company such as ¥ 6.5 billion from the rationalization of routes, a ¥1.5 billion reduction in vessel costs by returning chartered vessels at maturity, ¥1.0 billion in reduction of charter fees, which was already agreed on in specific terms, a ¥9.5 billion reduction in losses on bunker hedging, and a ¥4 billion improvement in TraPac profits. And we will see the impact of reduced fuel costs in addition to those improvements. Not only do we realize that we absolutely must achieve profitability, but we can see a clear path to success.

■ By segment: Bulkships

<Dry bulkers>

Speaking of the dry bulker market assumption on page 10, results of subsidiaries in Singapore are posted in our consolidated results three months later, so those for this fiscal year are already determined. Therefore, the market for Q4 has an impact on Capesize vessels, steaming coal carriers and wood chip carriers under short-term contracts operated in Japan. The Capesize market is assumed at US$10,000/day. It is currently lower than the assumption, and the gap of US$1,000/day from the assumption has an impact of about ¥150 million. For this year, the Panamax and smaller-sized ship types including our interests in Daiichi Chuo Kisen Kaisha will show deficits. The profits in overall dry bulkers segment will decrease by ¥7.5 billion from the previous forecast due in part to a deteriorating market, but we still anticipate maintaining over ¥20 billion in profits.

<Tankers>

Regarding the tanker market assumption on page 11, we project World Scale (WS) from January to March for VLCC will be 54, and almost the same as the current market assumption for other tankers, too. We don’t think this will be significantly lower. Looking at VLCCs, we see gradually growing demand for storage to do arbitrage trading in the contango situation facing crude oil prices. The tanker segment for this year is positioned to outperform our initial assumption, and will turn to black ink for the first time since the global financial crisis. We will work in the final quarter to achieve annual profits in the double-digit billions of yen.

<LNG Carriers/Offshore Business>

This segment had a rough ride due to temporary factors during the first half of the year, but got back on track for the second half. We already anticipated a bottoming-out this year even in the mid-term forecast, so we will see an upward trend starting next year.

<Car Carriers>

We decreased loading volume by 180,000 units from the previous forecast, but anticipate an increase in profits compared to that forecast thanks to the impact of the yen's depreciation and lower bunker prices. In this fiscal year, newly launched cross trades did not grow as we expected and faced heavy seas in the first half. But things have finally settled down, and we hope cargo movement will increase both in trade outbound from Japan and cross trade for next year.

Ordinary income forecasts for bulkships were increased by ¥1.5 billion from the previous ones by offsetting a decline of profits in the dry bulker segment with an increase for tankers and car carriers.

■ Dividends, other

We will maintain the previously forecast dividend payment unchanged, planning an interim payment of ¥3, and ¥3 at year end, for a total of ¥6 for the full year. The dividend payout ratio is 20% for the full year on our projected profits

At the same time, we continue to make aggressive investments in LNG carriers and offshore businesses to ensure stable mid- and long-term growth. On the other hand, one of our critical management issues is the reduction of interest-bearing debt, so with each project, we will work to attract partners to help reduce risk, shift to leases instead of investing in ships, and otherwise control our interest-bearing debts. Interest-bearing debt increased slightly in the third quarter period, but this was due to the impact of the exchange rate on dollar-based debts, not an accumulation of loans.

2. Questions and Answers

[Containerships]

Q1) Looking at the forecast for containerships' liftings in the second half, there is a decline in comparison with the previous forecast. Please explain the reasons for the

decline even though the overall trade is firm.

A1)

The biggest factor is the impact of congestion at ports on the North American West Coast. Since November 2014, vessels have been waiting off ports for long time, greatly reducing operating rates. We made a downward revision of our forecast on the assumption that this situation will not be swiftly resolved and operating rates will continue to be substantially deteriorated until March. Cargo trading on the South America East Coast route remains weak, so we are additionally cancelling some sailings on this route. We also made a slight downward revision of our forecast on the Oceanian route, but not on other routes.

Q2) Please tell us the forecasted containership rates in Q4.

A2)

The index of our average freight rate for all routes in Q4 is forecast to be the same as the actual Q3 figure, 78. The North America and Europe routes should be virtually the same in Q4 as they were in Q3. The market situation on the Intra-Asia route is stable. The Q3 results in the South America East Coast route were almost in line with our previous assumption, so forecasts for Q4 have not changed significantly from the previous forecast, although market conditions in the trade have not been stable.

Q3) Your containerships segment in Q4 is forecast to be improved by ¥4 billion from Q3, can you tell us what the reason for this gain is?

A3)

Mostly, it’s due to dropping bunker prices. Other than that, we’re looking for freight rates to remain at about the same as in Q3, and the vessel operating rate estimates are very conservative. Therefore, there should be no significant downturn, barring some factor beyond our control.

Q4) Of the ¥ 22.5 billion improvements in profits of the containerships segment for FY2015 as you explained, how much consists of high certainty factors?

A4)

First, about the bunker hedging. Concerning the next year, we have not executed a large portion of the hedge, and so, as I said a moment ago, our losses on bunker hedging should decrease by about ¥9.5 billion in FY2015. We are very certain of this, and it should not be a problem. As for our terminal business, our TraPac automated terminal finally went online in mid-November, and other terminals,

which now face a labor shortage, are congested, but the TraPac operation has become even more efficient in handling cargo, which means a ¥4 billion improvement in profitability for sure. As for reductions in system costs, in the past we referred to them as “reductions in slot cost per container.” The cost of vessel operation does not increase in proportion to the extent of increase in vessel size, so you can say that we are making more space available at no extra cost. The former definition of “reduction of system costs” included net proceeds from liftings on those additional slots. However, a ¥9 billion reduction in system costs, which I explained today, means a pure cost reduction without considering such additional liftings. Therefore, this too is a sure thing.

As I explained earlier, all together, this comes to more than ¥20 billion.

Q5) Please tell us how much impact of the port labor-management confrontation on the North America West Coast will have on your costs. And, after the matter is settled, how long will it take for operations to return to normal? Further, tell us if the impact continues into the next fiscal year and if it will have the impact on freight rates.

A5)

We project the direct impact in the second half to be somewhat more than ¥2 billion. Further, because we had to change the container flow, greater costs accrued, as they did from vessel delay, the total effect in a broader sense during this period is even greater. We see little progress in the labor negotiations, but even after the negotiations are completed, it will take two or three months to get back to normal. So we have assumed that considerable impact will remain in Q4.

Renegotiation of our annual contracts in North America gets into high gear about now, so we’ve yet to see what effect it will have on freight rates. Vessels have been full on the North America East Coast route since last summer, and on the West Coast, vessel turnaround has been slower, so the supply-demand situation is quite tight, also because here it is almost time for Chinese New Year. . Therefore, we think there will be no adverse effect on freight rates.

[Bulkships]

Q6) Currently the tanker market is strong, but can you tell us the background to that situation? Is it just that winter is the natural high-demand season, or is there some reason demand continues regardless of the season?

A6)

World oil demand grows almost 1% per year, but we project that seaborne trade volume in oil will remain about the same. Within that demand, the VLCC market is currently at WS70 levels, converted to charter rate, this is equivalent to a little more than US$70,000 per day, and that is against the background of a tightening in the supply-demand balance that began in 2014. Last year, newbuilding vessels worldwide numbered 24-25, and 12 vessels were decommissioned, so the increase

in bottoms was a total of 12. On the other hand, although ocean shipping volume is showing virtually no change, long-distance shipping has increased, thus increasing ton-miles by a significant amount. Tightening of the supply demand balance has also been supported by slow steaming becoming the norm. This year, 25 new vessels are expected to join the market, but 75 vessels amongst VLCCs worldwide are more than 15 years old, the normal economical service life, and can be removed from service. So we expect the supply-demand environment to continue in a favorable vein. Therefore, we expect the spot VLCC market, which averaged a little less US$30,000 per day in 2014, to climb up to nearly US$40,000 in 2015. Our observation is that the VLCC market, which has declined since 2011, has now bottomed out and is coming back.

Q7) With the tanker market remaining strong, you have reduced the number of vessels you hold under short-term contracts. Won't that keep you from taking full advantage of the rebound?

A7)

Under our current midterm management plan, we are moving toward "Downsize market exposure." Specifically, we are selling off high-cost vessels, or returning them early so our fleet has become much more cost competitive. Of course, fewer of our vessels are under short-term contracts now, but even if you say we could have met the rising demand if we had kept the vessels we decommissioned, that is not necessarily the case. Market conditions may currently be rising, but we must realize that the overall market is becoming rather volatile. We have built a fleet structure capable of coping with such market volatility by raising our vessels' cost competitiveness.

[Other]

Q8) Please give us forecasts of your sensitivity to bunker prices in FY2015.

A8)

Our sensitivity to bunker prices depends upon consumption volume, the percentage reflected in freight rates, hedged portion, and so on, which are scrutinized and calculated at the time of setting up the budget for the year, so at this point, we would prefer not to comment. Rather, we will fully explain these items when announcing our forecast for the year in April.