

## 1. Supplemental explanation of FY2014 Q2 financial results

[Overall view]

During the first half (H1) (April-September) of FY2014, we saw the yen's depreciation driving up revenue and income on a year-on-year comparison. On the other hand, there is no change in the trend of automobile manufacturers transferring production overseas despite the yen's depreciation, resulting in faltering profitability of the car carrier segment. We also saw declining freight rates in the containership segment. As a result, ordinary income declined broadly in a year-on-year comparison.

In comparison to the outlook at the time we announced our first quarter (Q1) (April-June) financial results, the yen's depreciation and low bunker prices worked in our favor, although declining freight rates and sluggish cargo volume had an adverse impact on profitability on some containership routes. Exchange gains for Q2 totaled more than twice what we projected in our outlook, at ¥4.9 billion. This was one of the main factors that limited the decline in ordinary income compared to operating income. Looking at other factors, reduced "interest expenses" and "equity in losses of affiliated companies (net)" were improved compared to our projection.

[By segment: Bulkships]

<Dry bulkers>

In this division, the business results of Mitsui O.S.K. Lines, Ltd. and its group companies in Japan are ordinarily reflected in financial results for H1 from April to September, but for our overseas group companies, the period covers January through June.

Except for Capesize vessels, the market was below the same period of FY2013 during and after Q1 (April-June), but the market for January through March, which improved in a year-on-year comparison, is reflected in overseas group companies' performance. Thus, the market had a positive impact on income in H1, on average. Comparing the results to our outlook, bulker markets except for Handymax showed a year-on-year downturn for July through September. However, this negative impact is carried over into the second half in overseas group companies, so the effects were generally minor.

Under these circumstances, we continued our efforts to promote slow steaming and efficient vessel allocation while recording stable profits based on long-term contracts, and ordinary income in the dry bulker division increased not only on a year-on-year comparison, but also in comparison with the outlook issued when we announced our Q1 results.

<Tankers>

The very large crude oil carrier (VLCC) market moved upward from mid-June after the completion of periodic repairs at oil refineries in Asia, and the average for the second quarter (Q2) (July-September) was higher in a year-on-year comparison with the same period of FY2013. However, it did not exceed the break-even point, due in part to a weakening in the market after

mid-August. Efforts to downsize our market exposure since 2013 have succeeded in improving VLCC results and pushing them into the black. Improvements in the VLCC sector were also underpinned by mid-to-long-term contracts. In the product tanker sector, market improvements varied according to ship type. So we regret to report continuing losses in this sector. LPG carriers enjoyed a strong market thanks to an increase in demand for transport from the U.S.

As a result, ordinary income in the tanker division showed a year-on-year increase, turning into the black, showing a slight improvement in comparison with the outlook at Q1.

Meanwhile, as announced in the press release in September, we established a joint company with Viken Shipping (Norway) and moved into the shuttle tanker business. Five shuttle tankers owned through this joint company are now sailing under long-term contracts for Petrobras Group, Brazil's national oil company. This foray into new business will help us generate stable profits in the tanker division, which follows the projects of normal VLCC and of methanol carriers, which we are proud to say have achieved the top share.

#### <LNG Carriers/offshore business>

Normally, this division records stable profits from long-term contracts. But ordinary income declined sharply in Q2, resulting in a deficit. This was due mainly to higher expenditures for dry-docking and a decrease in the rate of operation, as well as increased outlays for seafarer training, which we anticipated in the initial outlook. However, it will return to profitability as normal conditions return in and after the second half (H2).

Looking at our efforts during Q2 to win new long-term vessel contracts, which is one of the top priorities in the midterm management plan "STEER FOR 2020," we signed deals for three ships to serve Russia's Yamal LNG project in July and two for the U.S. Cameron project in September.

#### <Car Carriers>

As assumed in the initial outlook, while we started new services in response to automakers' moves to disperse their production plants worldwide and are forging ahead to improve operational efficiency, ordinary income decreased significantly from FY2013, which was the most favorable year in recent history, until these efforts get on track.

Overall in the bulkship segment, consisting of these four business divisions, decreases in LNG carriers and car carriers were higher than increases in dry bulkers and tankers, and ordinary income for H1 was ¥16.5 billion, a decrease of ¥7.4 billion in a year-on-year comparison.

However, it was ¥1.5 billion higher than the outlook at Q1 due to solid business operation, which emphasizes market tolerability and operational efficiency in the dry bulker and tanker businesses, backed by the yen's depreciation and low bunker prices.

[By segment: Containerships]

In the containership segment, deficits increased year on year and results fell below the Q1 forecast.

In terms of lifting, both Asia-North America and Asia-Europe trades maintained very high utilization rates on outbound trades. However, as a result of limited liftings for unprofitable inbound trade in a situation where inbound trade from Asia does not grow in concert with the outbound, the imbalance of the inbound and outbound expanded. On Intra-Asia routes, as loading/unloading efficiency dropped due to vessel congestion at ports, we limited liftings to maintain schedules as much as possible while continuing slow steaming. Average utilization of all trades for Q2 was lower than the outlook at Q1. In addition, freight rates also deteriorated in a year-on-year comparison and from the outlook at Q1.

On the other hand, looking at the efforts under way this fiscal year to enhance cost competitiveness — a key to the recovery of the containership business — we have moved ahead with several measures as planned, such as taking delivery of large-scale vessels, disposing of underperforming mid-size vessels, expanding alliances, and increasing the adoption of slow steaming.

Unfortunately, we were forced to make another downward revision due to the business environment declining to a greater degree than improvement of cost competitiveness, especially in the North-South trade, where we have a strong presence, among other factors. But we continue working to improve cost competitiveness, including rationalization in the North-South trade, and in turn enhance profitability.

[By segment: others]

Ordinary income in the ferry and domestic transport segment increased in a year-on-year comparison due to an accelerating modal shift and a strong market for steel transport. Looking at associated business, the office leasing market was on track to recovery, mainly in the Tokyo metropolitan area, the real estate business showed a slight recovery as well as the passenger boat business. Other businesses, including tugboat operations, generally remained strong. As a result, ordinary income increased in a year-on-year comparison.

[Cost reduction]

We achieved cost reductions of ¥13.5 billion in H1, representing 45% of our full-year target of ¥30 billion, which we set at the beginning of the fiscal year. We are making group-wide efforts to achieve the target during the year.

## 2. Supplemental explanation of FY2014 Full-year Forecast

[Overall view]

We did not make a revision to the full-year forecast announced in July: ¥50 billion in ordinary income and ¥40 billion in net income. This means the outlook for the second half is almost the same because the financial results for H1 were almost the same as the outlook issued when we announced our Q1 results. However, the breakdown changed significantly, as currency exchange and bunker prices offset deteriorated markets. We assumed an exchange rate of ¥107 to the U.S. dollar and a bunker price of \$500/MT. Bunker future trading rates for the period are slightly lower than the assumption. In addition, we actually calculated the outlook by adding prices already fixed by bunker swaps, bunker already purchased as storage fuel, and others.

Given our revised assumptions for the exchange rate and bunker prices, we would expect a recovery under normal conditions. However, we regret to report that we could not make use of the tailwind, and as for the containership business, we missed the targets in our outlook and made a downward revision by -¥5.5 billion in the full year forecast for this segment. That means the decrease in revenue of freight rates and liftings was higher than the positive impact of shifts in currency exchange and falling bunker prices. An increase in costs to transport empty containers due to a higher imbalance of inbound and outbound trade was another factor behind the decrease in ordinary income. We regret to report this disappointing result, but we will strive toward achieving the targets set in this downward revision.

[By segment: Bulkships]

<Dry bulkers>

We expected a rally in the market starting at the beginning of fall, but things didn't go our way. The Capesize market, which is beginning to rally right now, is not likely to reach the level assumed in our previously announced outlook. Thus we had no choice but to make a downward revision in our market assumption. However, the bottom line has improved thanks to the positive impact of currency exchange and bunker prices.

It is becoming much more difficult to read the dry bulker market. This year in particular, it has been called a "conundrum," and does not match our projection even when based on actual physical fleet supply and demand. Looking at demand in the Capesize market, for example, China's imports accounted for a 70% share of the iron ore trade saw an increase of 17% from last year. And the fleet supply increased by 4% net because the volume of new vessel deliveries remained manageable. So it seems the demand/supply balance has tightened, but the actual market conditions have not improved. People in the industry say, "China's coal import volume decreased," "The contract style partly changed from FOB to CIF, making vessel allocation more orderly, and reducing demurrage at loading ports," "Unloading efficiency at ports in China has been improved," "Valemax absorbed some spot cargoes," and so on. But none of these is a persuasive or decisive factor.

As a conceivable major factor, futures trading (FFA), which is in the first place supposed to be formulated based on the outlook for actual demand under normal conditions, had a considerable adverse impact on the Capesize market, against the backdrop of the recent global financial situation. The dry bulker market, which should rally at the beginning of fall, was battered by news of falling stock prices and the Ebola outbreak at the same time and the consequent flight of speculative money that temporarily fueled risk-off sentiments. This generated movement — the ocean shipping future trade weakened and falling prices generated further falling. In addition, changes in bunker prices basically should not have an impact on charter rates, but decline in freight rates for voyage charters due to lower bunker prices is said to have put downward pressure on time charter rates. The current rally was not the result of actual changes in cargo trade. The futures market hit a cyclical bottom and reversed, and the situation turned as buying generates more buying. Then we saw growth in actual demand, which underpins the market. We anticipate growth in the market within this year, albeit with repeated ups and downs.

Panamax and smaller-size vessels are not so much affected by the futures market as are Capesize ships, but we expect the market to show solid within this year due to China's grain shipments, which currently shows rapid growth, India's demand for coal, and other factors. That being said, we set relatively conservative assumptions.

#### <Tankers>

As the season starts, the VLCC market is moving toward a level higher than WS57. With crude prices falling, VLCCs are being used to fill storage fuel demands, and there is increased demand for shipments from West Africa to India and China, which translate into large ton-mile cargos. Fewer newbuilding tankers are coming on the market and we conclude that if the current trend continues, the freight rate will continue at WS50 levels through March. Product (petroleum products) tanker markets currently show relatively favorable conditions for MR, LR1, and LR2.

The tanker division was in the doldrums for five years following the Lehman Shock, but now will finally be able to clamber back into the black this year, and we expect it to contribute to raising our profits for the year.

#### <Car Carriers>

Concerning car carriers, our estimate on total automobile exports from Japan of 3.9 million units has not changed, though our lifting to the Red Sea-Middle East is increasing. The new cross trade, which downturned in H1, is showing gradual growth, and we are enhancing our services, such as by deploying larger vessels for the Mexico-NAFTA route. A Mexico-Europe service commenced in October. Next year, manufacturers that fell behind in developing their production facilities in Mexico should have their factories on line, producing more cars, which should result in increased profit in our car carrier business.

[By segment: Containerships]

Despite buoyancy from lower bunker prices and the yen's depreciation, we made a downward revision. Where other companies are moving into the black and have revised upward, we can understand that some people may be wondering "Why?" Part of the reason is the relatively large number of mid-sized high-cost vessels, and another part is the comparatively large operation we have in the North-South route, which has pulled us down because of its instability. Yet another part of the reason is the timing of fuel hedging. All of these factors worked to push our estimated results down. Looking at freight rates and lifting, there is not much difference between MOL and other shipping companies on routes except for the North America route, where our annual contract ratio is larger than that of other companies. Still, we expect to see the full effect of the larger vessels in the 10,000TEU class during H2. We foresee an improvement of ¥10.6 billion in the containership segment in the second period compared to the first, but we think that improvement comes from the effect of larger vessels, the yen's depreciation, lower fuel costs, and the rationalization moves already under way on South Africa and West Africa routes. Turning to freight rates on North America routes, major portion of which were fixed by annual contracts, we were unable to reflect rising spot rates in H1. On the other hand, the impact of the H2 period's traditional slack season should be ameliorated by those same annual contracts.

[Dividends, other]

Looking at dividends, 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 31% for the interim and 18% for the full year on our projected profits

We are now making aggressive investments in both LNG carrier and offshore businesses, but one of our important 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 squeeze our interest-bearing debts.

### 3. Questions and Answers

[Bulkships]

Q1) Concerning market exposure, could you tell us if there is any change in the market exposure reduction policy built into your midterm management plan?

A1) We maintain our policy of reducing market exposure. Nevertheless, there are two ways of reducing such exposure. One is to return chartered ships to their owners when the charter periods terminate. The other is to grow the number of mid- to long-term charters. Of course, we will continue to return vessels, but we aim for a way to increase the number of mid- to long-term shipping contracts, which will result in reduced market exposure.

Q2) Please tell us your plan for business resulting from entry into the shuttle tanker market via the joint venture you formed with Viken.

A2) The joint venture we formed with Viken, a Norwegian company, currently operates five shuttle tankers. With our 50% share of that company, we were able to enter the shuttle tanker market. We position this acquisition as one of the actions taken to achieve the goal of stable long-term profits in our midterm management plan “STEER FOR 2020.”

Our cooperation with Viken is not limited to the shuttle tanker business, but is built upon a policy of pursuing stable long-term profits through a synergy of both company’s knowledge and expertise.

Q3) Recently, there has been a focus on the risks involved in the development of shale gas. Where MOL is concerned, is there no change in your viewpoint of “stable long-term profit,” even when engaging in the shale gas business with LNG carriers?

A3) As you know from recent news reports, there seems to be various business risks associated with the upstream end of gas and LNG businesses overall. Still, if you consider only LNG transport, which we are involved in, we are able to sign long-term, 20-25-year contracts with our customers, which is part of our business model for stable, long-term profits. Therefore, we see low unequivocal risk and the business should bring stable, long-term profits.

As the number of LNG projects grow, we cannot merely say that none of them will be slow getting off the ground, or that none of them will come to a standstill. This is a risk that has always been present, but until now, but heretofore LNG projects have been instigated by U.S. and European oil majors or national oil companies, in other words, reliable operators, and in fact, projects have so far proceeded with minimal problems, as they were able to bear the tremendous amounts of time and money needed for project development. From now on, as other business entities enter the market, we cannot say there is zero risk in the business. That means that MOL must investigate every business thoroughly, understand the risk profile, and make sure our contracts give us protection so that we can progress toward our goal of stable, long-term profits.

[Containerships]

Q4) You said one of the reasons for the tough going in the containership segment is “limiting lifting of cargoes with little return on inbound trades,” but can you tell us how much that has affected the business?

A4) In our downward revision due to decreases in cargo trades and lower freight rates throughout

the year, “the amount of the impact on a decrease on inbound trades” did not have that much impact, in fact, lower freight rates had much more impact on profits

Further, “congestion in Asian ports,” Hong Kong and Singapore in particular, brought an impact on cargo trade. For instance, that congestion caused ships that were scheduled to be loaded in late September to actually receive their cargos in early October, which was one of the factors behind the downturn in Q2. Nevertheless, port congestion is gradually being remedied.

Q5) The H2 ordinary income/loss of the containership business is forecast at an increase of ¥10.6 billion from H1, but how much negative impact of the winter slow season and falling freight rates are you factoring in?

A5) We have slightly lowered the forecast for liftings. We also see freight rates as the same as Q2 on average in all trades. This forecast takes into account that rates fell in July on the South America East Coast trade have been recovering, and Asia-North American trades show little seasonal variance, among other factors. Therefore, we do not believe that our forecast is especially high.

The main factors behind the forecast of a ¥10.6 billion increase in 2H are effective reduction of system costs and reduced bunker prices. In addition, we anticipate improved profitability due to rationalization on West African and South African routes implemented in June and October respectively, rather than relying on increasing freight rates.

[Others]

Q6) The cash flow from investment activities for FY2014 is forecast at ¥155 billion, down from the ¥220 billion forecast in the previous outlook. Further, your fleet scale as of March 2014 was 938 vessels, and 922 vessels as of the end of September, a considerable reduction. Are you putting off investment in new vessels because of a downturn in business results?

A6) The reduction in LNG carriers is a natural one as old vessels are taken out of service. At the same time, we have achieved basically the number of new long-term LNG carrier contracts we planned for

About the cash flow from investment activities, the amount forecast at the beginning of the period was ¥220 billion, which was the result of estimating our investment in each individual project a little higher than actuality, and the forecast was a total of those estimates. Actually, as each project progressed, we invited in partners, changed our percentage of investment, and so on, which resulted in a total on balance sheet that is less than the original forecast.



Q7) The stable profit estimate for this fiscal year is ¥50 billion, and the ordinary income/loss forecast is also ¥50 billion. The containership business, on the other hand, shows a loss of ¥11 billion, which means vessels with short-term market rate contracts are expected to show about the same figure in the black. Could you explain the background of those figures, please?

A7) The car carrier business does not meet our definition of stable profits (although in the overall situation, they have returned steady profits), so this business income is not included in the “stable” sector. Therefore, those profits are included in profits from short-term market rate contracts.

Dry bulkers in the spot market are operated mainly by our Singapore subsidiaries, which showed a profit this fiscal year thanks to the successful execution of the Business Structural Reforms in late FY2012.