## 1. Supplemental Explanation of Business Performance in FY2013-3rd Quarter

[Overall view]

First, let's look at the overall view. Profits for the first nine months improved significantly year-on-year, and we returned to the black.

Today, we will focus on situations during the third quarter (October – December), and compare them to our forecast. But, here again we must tell you that, all in all, we would not have been able to achieve the current return to profitability without the "Business Structural Reforms (BSRs)" we executed during the fourth quarter of the last fiscal year, and enhancement of fleet cost competitiveness through those BSRs.

Now, how have our businesses progressed since we announced the second quarter results on October 31 of last year, compared to our forecast? As explained in the "Outline of FY2013 3Q Financial Results," Bulkships, Ferry and Domestic Transport, and Associated Businesses have shown steady progress as anticipated. The Containership Business experienced difficulties such as freight rates that did not reach the assumed levels.

[By segment: Bulkships]

<Dry bulkers>

The markets, from October to December, were bumpy as they declined once in November, but when looking at the average, they were close to what we projected, or slightly higher than our forecast, as shown in the chart. While the trade was robust, the fleet demand-supply balance has moved toward improvement by reduced launches of newbuilding vessels particularly Capesize bulkers. As a result, the market reached a much higher level in a year-on-year comparison.

For example, China's iron ore imports in calendar year 2013 increased by 10% year-on-year. The accumulated volume until June increased by 5%, but the pace of growth accelerated during the second half of the year. Looking at the supply aspect, we anticipated 120 to 130 Capesize bulkers would be launched, but actually 102 went into service. This marked a significant decrease from three consecutive years of more than 200 vessels being launched in 2010, 2011, and 2012.

Meanwhile, as shown in the chart, Handymax and Small Handy markets were slightly higher than our assumption, but we need to be aware that mid-sized and small free vessels were transferred to subsidiaries in Singapore as a part of the BSRs. The accounting term of the subsidiaries in Singapore is closed in December, so the accounting term from January to December for those companies will be consolidated into our accounting term from April to March. Therefore, their business performance for October – December will be recorded with our 4Q consolidated financial results as indicated by the asterisk.

In addition, about a half of our free Capesize and most of our free Panamax bulkers are operated by subsidiaries in Singapore. So our business performance in the best season in terms of market conditions—October through December—will be recorded in our 4Q consolidated financial results.

We think it's important to call your attention to this point when you check our 4Q (3 months) forecast or when you compare our performance and projections as of 3Q with those of competitors. In our company's case, mostly favorable market conditions from October through December and a slight upturn, more than our assumptions, will be reflected in the 4Q figures.

<Tankers>

We assumed the world scale (WS) of the market for very large crude oil carriers at 38 for October through December, but it was actually much higher, at 53, as the demand in the winter season showed a big upsurge.

On the other hand, the market for product tankers, which transport petroleum products, fell below our assumption because rising demand during the winter season could not lead to an upturn for the overall market, due to a worsening of the demand-supply balance in Singapore and surrounding areas.

Chemical tankers and LPG carriers showed strong performance, as projected.

The entire segment slightly outperformed our projection. The first nine months showed a deficit, but we saw a slight profit for the third quarter, following profitability in the first quarter.

<LNG Carriers> <Car Carriers>

Those two segments showed ongoing profitability almost as projected.

[By segment: Containerships]

We regret to say that this segment showed a ¥2 billion to ¥3 billion downturn from the projection made when we announced the financial results for the second quarter. We saw a deficit of ¥7.2 billion for the third quarter as shown in the results by segment on Slide 3. This is almost the same as the deficit of ¥7.4 billion for the same period of the previous year.

The major factor in the downturn is the decline in freight rates. The freight index is shown at the bottom of Slide 13. It was 79 for third quarter (3Q) of fiscal year 2013, which is 3 points lower than the second quarter (2Q). This was two points lower than our assumption. Other factors including utilization were included in the results, but it is clear that this downturn in freight rates was the cause of the lower-than-projected profitability.

While the supply of large-scale vessels continued to put pressure on profitability, we took measures to restore fright rates on east-west routes such as Europe and North America and routes in Asia and the Middle East, but we could not maintain the rate levels after the recovery.

For your information, the freight index for FY2012 3Q was 87. Profitability stayed at the same level even though the freight rate standard declined from 87 to 79. So we have no doubt that we could more efficiently allocate vessels by expanding the alliance and maintaining our efforts on cost reduction including slow steaming, in parallel with the weakening yen and falling bunker prices. But as it turns out, we regret to say, we could not improve profitability.

[By segment: non-shipping segments]

Segments other than the ocean shipping businesses remained as anticipated, with a trend toward improving profits, as you see in the written report.

[Cost reductions, other]

Speaking of cost reduction efforts, we have focused on our efforts more than ever on reducing fuel expenditures by continuing to promote slow steaming, reducing containership cargo costs, and other measures. During the third quarter, we saw steady progress on this front, reducing costs by ¥25 billion for the first nine months, which represents an 80% achievement of the full-year target of ¥31.5 billion.

Finally, we will give you some supplemental explanation about the increase-decrease relationship between operating income and ordinary income, and an increase-decrease relationship between ordinary income and net income.

In a year-on-year comparison, while operating income increased by ¥41 billion, ordinary income increased by ¥52.7 billion. This is mainly because we benefited from the weakening yen with a gain on foreign currency translation. As we explained when we announced our financial results for the second quarter, part of an improvement of ¥2 billion per year with every ¥1 decline against the dollar is recorded as a gain on foreign currency in non-operating income. Other positive factors included improved net income of equity method affiliates.

In addition, while ordinary income increased by ¥52.7 billion, net income rose by ¥88.2 billion. This was due mainly to recording the reversal of deferred tax assets of ¥28.6 billion in deferred income taxes during the same period of the previous year.

## 2. Supplemental Explanation of FY2013 Full-year Forecast

We have a high degree of certainty that we will achieve our full-year ordinary income target for fiscal year 2013, with two months left.

We don't anticipate a rapid appreciation of the yen, though we have anxieties about U.S. monetary easing and emerging economies. We project ¥18 billion in ordinary income for the fourth quarter on the assumption that bunker prices will relatively be stable at around $620/MT. And we envisage ordinary income for the full year at ¥55 billion. This is ¥5 billion lower than the ¥60 billion forecast as of October 31. We left our ordinary income forecast in the Bulkships segment unchanged at ¥55 billion and changed the ordinary loss forecast in the Containerships from ¥7 billion to ¥12.5 billion, meaning the loss increased by ¥5.5 billion, but we anticipate an increase of ¥0.5 billion in the Ferry and Other Businesses segments.

Looking at the containership segment, the main factor behind the ¥5.5 billion in additional losses can be explained as follows. In 3Q, recovery in freight rates fell short by 2% against our assumption, meaning that the starting level of freight rates got lower than our assumption. Thus, the freight rates recovery in 4Q will be short by 2% compared to our previous projection, although we are scheduled to implement the freight rate increase campaign in 4Q as previously planned. From the viewpoint of cargo lifting, it fell and will fall short of the previous assumptions by 2% in both 3Q and 4Q. Those are the reasons we anticipate the decline of ¥5.5 billion in ordinary income despite measures to further reduce costs and the effect of a weaker yen.

The overall business performance of the Bulkships segment is stabilizing, but the Dry Bulkers segment showed an increase of several hundreds of millions of yen. And the Tankers, LNG Carriers, and Car Carriers segments each showed a slight downturn.

Looking more closely at Dry Bulkers, the market assumption for Capesize bulkers from January to March was raised slightly from $12,000/day to $14,000/day, but the number of free days left for spot vessels was only 150, which means this does not have a big impact to the latest profit projection. The medium- and small-size free dry bulkers were transferred to Singapore through the BSRs, so profits in the market from October to December will be reflected in the 4Q results. Therefore, we can say that profits of the Dry Bulkers segment are almost secured. Meanwhile, we expect Daiichi Chuo Kisen Kaisha to have only a minor impact on its profits because their vessels are mainly mid- and small-size vessels with low volatility in the market.

In the Tankers segment, the current VLCC market is WS44, which is slightly lower than the assumption of WS47, but we have only about 10 free vessels and expect an impact of only several hundreds of millions of yen. Aframax tankers are operated by a subsidiary in Singapore, so their profit and loss is already fixed. Our assumptions for product carriers such as MR, LR-1, and LR-2 are conservative, so we see little risk of a downturn.

We forecast the LNG Carriers segment for 4Q as anticipated.

Turning to the issue of extraordinary profit and loss, during 4Q, we will sell a 49% stake in ITI, the holding company of our U.S. subsidiary TraPac which operates container terminals there. The buyer, Brookfield, has extensive know-how in long-term infrastructure investments related to harbors, ports, railways, and expressways. Through this tie-up, they will become an important partner in our future investments in harbor and port facilities. We plan to record a gain of ¥21 billion on the sale of ITI shares in 4Q. At the same time, we expect an extraordinary loss due to the costs of our structural reforms going forward. So, we plan to record the balance of ¥15 billion as an extraordinary profit in our net results.

Let's look at a breakdown of the ¥6.8 billion increase from ¥11.2 billion for 3Q to ¥18 billion for 4Q. More than ¥3.5 billion is secured by the profit increase during October-December created by the dry bulker subsidiaries in Singapore for which the accounting year calendar runs from January through December. In addition, the Containerships segment, which showed a slowdown in 3Q, will recover in 4Q, and other business segments' profits are expected to improve. All in all, we can expect profits of segments other than Bulkships to improve by ¥3.3 billion.

We plan to pay a dividend of ¥3 per share for the second half and ¥5 for the full year. At present, we believe it is imperative to move swiftly to raise shareholders' equity, which was severely weakened by the cost of the BSRs, back to a normal level. Also, we view it as indispensable to make investments in LNG carriers and offshore business in the future. So, we would like to remain grateful for your understanding on this issue. The dividend payout ratio for this fiscal year remains at 10.5%, but we expect to return to 20% in the near future and will aim at 30% in the long term.

We plan to announce a new midterm management plan at the end of March.

## 3. Questions and Answers

[Bulkships]

Q1) I understand that your company plans to continually reduce the number of free vessels in the Dry Bulkers segment even after the next fiscal year. Please tell me if you plan to keep this policy.

A1) In 2014, we see that the demand and supply balance will be tighter in comparison with the previous year. Many people expect the number of newbuilding Capesize bulkers launched may be the same level as 2013 or lower. Looking at cargo trade, the shipper side's motivation is to increase production of iron ore, coal and so on, and this has been building steam since the second half of last year. This year, too, shows a trend toward increasing production.

Under such circumstances, anticipation of higher market prices has gradually strengthened. We will seek primarily mid- and long-term contracts, which will lead to a reduction in the free-vessel portion. I'd like to add that our subsidiaries in Singapore have already adopted this policy in their business. Specifically, where anticipation of higher prices is strong, we see the possibility of acquiring more advantageous mid- and long-term contracts than ever before. We aren't changing the policy of expanding stable profits while gradually reducing the portion of free vessels.

Q2) You anticipate that the dry bulker fleet as of March 31, 2014 will be plus (+)13 overall, compared to the previous forecast (at the announcement of 2Q financial results). On the contrary, the free vessels are at minus (-)9. While other companies made upward revisions of the dry bulkers business as a result of the market upturn in and after early autumn, your company is maintaining the same forecast. Does this mean you did not revise the forecast because you did not take advantage of the market upturn by reducing the number of free vessels? In addition, will stable profits increase in and after next fiscal year by switching free vessels to mid- and long-term contract vessels? Please explain.

A2) For example, we have actually returned some free vessels when their charter contracts expired. Naturally, this means the number of free vessels has been reduced. Therefore, we don't think a decrease in free vessels won't always have an adverse impact on profits.

Vessels with mid- and long-term contacts generate stable profits for the entire company, and as matters stand now, we have smoothly renewed those contracts. We also recognize that the profits from free vessels are helping the bottom line of profits by partly replacing spot contracts with slightly longer term COAs, though we do not count them as stable profits.

Q3) Looking at the Tankers segment, the current VLCC and Aframax markets seem robust, but how do you view their sustainability? And please explain the forecast in and after next fiscal year.

A3) The VLCC and Aframax markets started their upturn during the high-demand winter season at the end of last year. We also had a situation in which the VLCC World Scale (WS) was temporarily 60 or over 70. However, the WS dropped to a little over 40, which reflected the volatility of the market. We saw the same movement in the Aframax market. It was hovering near the bottom, with the rate lower than $10,000/day in charter rate equivalent last year. It entered in the winter demand season during the year-end and new year. The market in western Suez, in particular, saw rates topping $100,000/day. But now it is down to about $25,000/day.

The overall demand and supply balance has tended to improve after the Lehman Shock. The number of ordered vessels remaining—both VLCC and Aframax—has decreased, showing improvement in terms of the demand and supply balance. On the other hand, demand for ocean transport, which has been reduced by increased production of shale oil in the U.S., is covered by increases in trade bound for India and China.

The VLCC market shows an increase from a ton-mile standpoint because of an increase in transport volume from West Africa, etc. to the Far East, but basically the demand volume increased slightly. While saying the demand and supply balance is trending toward improvement, we recognize it has still not fully recovered yet.

The Aframax vessels are operated by a subsidiary in Singapore, and actually their term for FY2013 has finished, and we will see how they perform in FY 2014. We expect the severe environment to continue, but feel that we are on the way to recovery and think the demand and supply balance, which tightened last year, will continue to do so this year.

Q4) In taking measures to address high-priced vessels as “measures for the future,” which ship type(s) will you target, and how much impact do you think these measures will have on improving profits? Will this provide an opportunity for you to execute similar business reforms, which you did for dry bulkers, for tankers, etc.? Please explain.

A4) We talked about the possibility of measures for the future to take in 4Q. We increased our competitiveness by reviewing the cost components of mainly dry bulkers through last year's BSRs. We executed reforms on some of the tanker segment, but there is still room for improvement. We will target some vessels for measures to enhance competitiveness. We have two more months to go, so we plan to study the necessary measures to boost profits after fiscal 2014 by increasing competitiveness.

[Containerships]

Q1) Please talk about your 4Q forecasts of containership freight rates in comparison with the 3Q results.

A1) In comparison with the 3Q results, freight rates increased by about 6% as of this January. We set it as an average 5% increase in 4Q on the assumption it will decline slightly from now. The February rate has almost been settled, so it might be somewhat in flux depending on the March rate, but we see it conservatively in our own way.

Q2) Why is MOL's Containerships business performance for this fiscal year lagging behind other Japanese shipping companies? And, do you have a plan to address that problem? Please explain.

A2) We think the difference in route portfolios has an impact. Particularly on the South America East Coast route, where we have an advantage, the freight rates in 3Q increased as anticipated, but the timing for raise was later than we had anticipated. This had a big impact on profits. In addition, in the Intra-Asia routes, routes where we have a high share, showed a relatively downward trend.

However that may be in comparison with other companies, we have a definitive plan to turn into profitability in our next fiscal year. A ¥12.5 billion loss in the full-year forecast for this year is almost the same level as last fiscal year excluding specific factors such as an incident involving a containership. Considering only freight rates, those accounted for about ¥33 billion in deteriorated profits from the last year. On the other hand, the weaker yen and lower bunker prices had an impact of about ¥10 billion, and cost reductions boosted profits by about ¥16 billion. In addition, we saw the effects of yield management, and utilization improved slightly. As a result, we anticipated that we would be able to offset the amount of the decline in freight rates and to return to the same level as last year if the incident had not occurred.

Most of our cost reductions are from "structure." That means, costs are being reduced as large-scale vessels are launched one after another in the next fiscal year from this fiscal year. So, we project that we can break away from deficits by changing our cost structures even on the assumption that freight rates do not move up.

In addition, fiscal year 2013 is a special year for our terminal-related business. Currently, work to automate the loading/unloading system is under way at the Port of Los Angeles in the U.S., which means the lifting volume has decreased sharply. Therefore, profits have dropped to a certain degree, but we anticipate that the volume will increase and profits will show a strong increase when the work is completed.

We see these measures as the way toward profitability.

Q3) You expect an impact of ¥16 billion from cost reduction efforts for this year. How much do you expect from cost reduction for next fiscal year? Please explain

A3) We believe next year's cost reductions will be enough to offset this year's deficits (-¥12.5 billion) with a profit increase in the terminal business.

Q4) What merits can you expect from the terminal business alliance with Brookfield? Can you give us a detailed explanation?

A4) We basically conduct terminal business at ports where our vessels call, but we have not yet entered countries and regions such as South America, where we must consider country risks. Brookfield, with which we formed an alliance, has experience and know-how in long-term infrastructure investment in various regions. We see great advantages in the alliance between our company — which has expertise in container terminal operations and shipping routes, and Brookfield—which has investment know-how in regions where we have not been active.