October 31, 2024

Mitsui O.S.K. Lines, Ltd.

Major Question and Answers at the Q2 FY 2024 Financial Results Briefing (Online)

Respondents: CEO Takeshi Hashimoto and CFO Kazuya Hamazaki

Q1)

Please advise on the concept of cash allocation. We understand that the increase in operating cash flow will be used for share repurchase this time, not for investing. Is this because the investments have been satisfied? Is it correct to assume that any further increase in operating cash flow will be allocated to shareholder returns rather than investments?

A1)(Hashimoto)

Regarding the shareholder return policy, we have been communicating with our stakeholders that we will consider additional shareholder returns if our business results are improved, while maintaining the current dividend payout ratio of 30%. On this background, the decision to proceed with a share repurchase was made as it became more certain that the financial results for FY 2024 would significantly exceed the initial expectations. We intend to use the acquired treasury shares of ¥100 billion for M&A projects in Japan and overseas, as well as for stock compensation for our group's executives and employees.

We have not made any significant changes to our policy of prioritizing investments. We intend to continue investments to advance business portfolio reforms and regional strategies.

Q2)

How do you think about the future shareholder return policy, including dividend payout ratio increase and share buyback?

A2)(Hashimoto)

We have aimed to build up a steady level of equity capital, and we are getting to a stage that it is no longer necessary to always allocate 30% to dividends and the remaining 70% to equity capital. We would like to decide when to revise our shareholder return policy after careful consideration from various points of view.

Q3)

Please advise what kind of agreement was reached between ONE and the other two shareholders to decide on ONE’s dividend.

A3)(Hamazaki)

The basic policy for ONE's dividend payout ratio is minimum 30%. This time, we raised the dividend payout ratio to 50% because ONE's business performance was higher than expected.

Q4)

ONE's profit forecast for the second half is lower than the previous forecast. What assumptions underpin this outlook?

A4)(Hamazaki)

ONE's forecast for the second half reflects a larger-than-expected decline in freight rates from mid-September. In anticipation of supply chain disruptions, some cargoes were shipped ahead of schedule in the first half of the fiscal year, resulting in improvement in the first half results. However, freight rates are currently falling due to a decrease in cargoes that were originally scheduled to be loaded in September and October. The timing of the resumption of the Red Sea transit has been pushed to continue detouring for the rest of this fiscal year, but this impact will be exceeded by massive vessel deliveries. The forecast is based on the assumption that the freight rates will not increase for this reason.

Q5)

We understand that the 100 billion yen share repurchase in Phase1 (FY 2023 to FY 2025) may be kept as treasury stocks. Please tell us if there is a possibility of holding treasury stock in case additional share buyback is implemented in Phase2 (FY 2026 to FY 2030).

A5)(Hashimoto)

This share repurchase is intended to utilize our stocks for M&A projects in Japan and overseas by acquiring our stocks while it is still valuated at a low price compared to other companies in the industry. We also intend to use this as an incentive for stock compensation for our group’s executives and employees. As for the share buyback in Phase2 onwards, we will carefully consider the possibility considering the total amount of M&A and stock compensation.
On the other hand, our principle for shareholder returns is togradually increase the dividend payout

ratio, and after a certain amount of capital equity is accumulated, we would like to work on it.

Q6)

How do you forecast the car carrier business in the second half of this fiscal year and next fiscal year?

A6) (Hamazaki)

The outlook for the car carrier business has not changed from the previous forecast. Although the current vessel supply and demand balance is tight, we expect that there will be significant number of new vessel deliveries from the second half of this fiscal year, which will likely lead to a decline in spot freight rates. On the other hand, we have secured many medium- to long-term contracts, which should reduce the impact of the decline in spot freight rates.

Q7)

What are the criteria for conducting a share buyback? Will you consider share buybacks in light of the cash flow and equity ratio (Shareholder's Equity / Total Assets)?

A7) (Hashimoto)

We intend to maintain an equity ratio of about 50%, including off-balance-leased assets, and consider share buybacks to use cash when it rises. We have decided this time's share buyback considering the current low stock price. On the other hand, if the stock price is not low, we would like to consider paying dividends rather than repurchasing our shares. However, this does not necessarily apply in all cases.

Q8)

If the impact of rerouting from the Red Sea continues for the next fiscal year, what is the expected balance of supply and demand for containerships?

A8) (Hamazaki)

Deliveries of the new vessels are expected to peak in FY2024 and decline slightly in FY 2025. Also, we believe there may be a move to balance vessel supply and demand by scrapping old vessels still in use in response to the hike in the containership freight market over the past few years.

Q9)

What is the reason for the decline in profit in the energy business in the second half compared to the previous forecast?

A9) (Hamazaki)

Small factors, such as an increase in operating expenses, have piled up, resulting in a slight decrease in profit, but we believe the forecast aligns with our expectations.

Q10)

Please tell us in detail about the current supply-demand situation for containerships, which you have mentioned is less favorable than expected.

A10) (Hamazaki)

Due to the delivery of new vessels and the early shipment of cargoes that were supposed to be loaded in September, the current spot freight rates are lower than expected. In contrast, the economy in North America remains strong, resulting in brisk cargo volumes. When we compare the decline in spot freight rates in North America and Europe after the Chinese National Day in October, it becomes clear that the decreases in North America are relatively smaller.

Q11)

Can you explain how you intend to visualize sustainable growth in businesses other than containerships and what efforts you have made to engage in dialogue?

A11) (Hashimoto)

We have clearly outlined our strategy to expand our portfolio of stable revenue and non-shipping businesses. However, we acknowledge that it will take some time for these initiatives to start contributing to our profits. We believe it is important to provide transparency regarding the outcomes of these investments. We recognize that our disclosures to investors may have been insufficient because of us prioritizing customer relationships and taking prudent approach not to disclose sensitive information. We will address this issue moving forward.

Q12)

Please provide an update on whether you will revise Environmental Vision 2.2 during this fiscal year.

A12) (Hashimoto)

We will reassess our environmental strategy to reflect changes in the situation. In alignment with international treaties and the overall direction of the international shipping industry, we would like to refine our new environmental strategy in FY2026, which will mark the beginning of Phase 2.