

Major Questions & Answers
at the FY 2022 2nd Quarter Financial Results Briefing (Online)

Q1) How did you revise your previous forecast announced in July for containership freight rates? Is a review of term contracts actually taking place?

A1) As of the end of July, our forecast for containership freight rates was that spot freight rates will decline from the second half of the year onward and, depending on the route, freight rates may return to pre-pandemic levels in the fourth quarter. There is no significant change from that outlook. As for the cargo volume, we thought it would be strong until before the Chinese National Day when we announced our first quarter results, but we have the impression that it peaked out a little earlier than expected. However, since we have been able to maintain the level of freight rates for term contracts, we expect that our full-year forecast will not change significantly from what we expected at the end of July.

There have been concerns that a shift from term contracts to spot contracts may occur when freight rates decline, but in the past two years or so, shippers have taken higher priority in stably securing their transportation space, and we have received reports that they are complying with the existing term contract rates.

Q2) Please advise the status of GRI (General Rate Increase) and term contract freight for containerships.

A2) Usually, a certain freight increase can be realized during the peak summer season, but because spot freights have been on a downward trend this year, we continue to negotiate with shippers in light of this situation. The current status of the term contract freight rate is just the same as I explained earlier. As for the forecast for the next term, I would like to refrain from making comments as negotiations are yet to take place.

Q3) To the extent that you can comment at this time, please tell us how you intend to return profits to shareholders in the next fiscal year.

A3) It is still too early to talk about the next term, but there have been no major changes in the thinking I have mentioned so far. We believe that the dividend payout ratio of 25% we are applying this fiscal year is still somewhat low compared to the average of the Tokyo Stock Exchange Prime Market. On the other hand, the shipping industry will need to make significant and long-term environmental investments going forward, and to reduce the volatility of business performance, it is also necessary to make active investments in non-marine transport fields, such as offshore, real estate, and logistics businesses, other than the traditional marine transport. In the new medium- to long-term management plan to be disclosed next spring, we intend to set forth a policy for shareholder returns that is consistent with our medium- to long-term investment policy.

Q4) I think there was a comment from the CEO before about ONE that said, "We have a strong sense of expectation to ONE that they constantly generate a profit of about \$2 billion ~ 3 billion for the full year". I understand that this is not a precise estimate, but please advise what kind of situation you had in mind that led to the expectation described above.

A4) ONE has accumulated profits due to a significant improvement in the containership market since the middle of 2020. Although about half of that amount is distributed to the parent companies, the company currently holds capital of over \$20 billion due to the need to retain substantial capital for environmental investments, fleet development, M&As, etc. While the containership business is assumed to experience boom-bust cycles in response to market fluctuations in the future as it is a highly volatile segment of the shipping industry, we believe an ROE of about 10% should be its target, at least based on industry standards, if we are to leave more than \$20 billion of capital in ONE. Taking that into consideration, there is a strong sense of expectation that a profit of about \$2 billion needs to and should come out.

In the past, the three parent companies of ONE did not make such high profits in the container shipping business, but at the time we were in weak financial condition with huge debts and paid expensive hires. Compared to that time, ONE has enjoyed economies of scale, improved its cost management techniques using DX, and improved its financial position beyond comparison. From this perspective, we believe that if ONE maintains this level of business scale, they should be able to generate a profit of about \$2 billion to \$3 billion over the medium to long term, and we would like to create a management system that can actually generate such profit.

Q5) In the case of containerships, I believe that the service frequency has been adjusted in line with the winter operating schedule. How do you see the impact on supply and demand? Also, please share with us your view of the risk of strikes on U.S. railroads and ports of USWC.

A5) As in previous years, ONE has already started to adjust the service frequency due to seasonal factors leading to a drop in transportation demand through the fourth quarter. The impact of this adjustment on supply and demand is unclear at this moment, but as a shipping company, we will continue to operate with profitability so that we can carry as much cargo as possible while minimizing costs. Regarding the strikes on U.S. railroads and ports of USWC, we hear that strike on U.S. railroads is almost over. On the other hand, we understand that labor-management negotiations are still continuing on the ports of USWC. I understand that the U.S. government is also calling for a way that will not result in a strike, but considering the risk, some customers are changing their shipping route to the East Coast instead of the West Coast.

Q6) I understand that you were originally viewing the full-year forecast of containership conservatively, but do you still view it in a same way? If cargo shifts from term contracts to spot contracts, is there a possibility of a downward revision of the forecast?

A6) It is very difficult to say at the moment, but the current situation is that cargo has not shifted to spot contracts from term contracts than we had expected, so the figures announced this time remains to be somewhat conservative.

Q7) Given the news of share transfer of ITI, is there a possibility that any other subsidiary of this size to be sold in the future?

A7) Today's announcement of share transfer of ITI, which is the holding company of TraPac, LLC., a terminal we own in the USWC, is based on the basic policy established at the time of ONE's establishment that the three parent companies of ONE will gradually withdraw from overseas container terminals. Therefore, this share transfer is what we had planned for quite some time ago. We are not currently thinking about selling any subsidiaries of this size at the moment.

Q8) I believe this is currently taken into consideration in the new medium-term management plan going forward, but are there any changes or updates about the use and policies of financial leverage? May I understand that investment and shareholder returns will continue to be the direction of enhancement?

A8) As we consider our future growth strategy, we remain committed to shifting the focus of our investment from business centered on Japan to expanding our business with more overseas customers, and from the sector to offshore wind power-related businesses and overseas real estate investments rather than traditional marine transport businesses. We will not only build up our investments one by one, but also aim to expand our business at a stretch through M&As in terms of buying time. In order to achieve this, I believe it will also be necessary to consolidate large deals by increasing leverage to some extent. To do that, we would like to retain a certain amount of capital, and generally speaking, it is possible that we will require a large amount of funding.

We maintain the policy of strengthening shareholder return. We are aware that the current stock price is quite skewed and the PBR is extremely low at the moment. Although it may be difficult to maintain the annual profit level at 700 billion or 800 billion yen, in order to overcome this situation, I think it is necessary to balance the business portfolio in a direction that reduces the volatility of performance. To achieve this, I strongly feel that we must develop several business sectors that can grow steadily.

Q9) Does DAIBIRU have a strong rent and vacancy rate excluding reconstruction factors? I believe active investment was expected to make up for the decline in sales during the reconstruction period. Is the recent partial acquisition of Otemachi First Square proceeding smoothly?

A9) The vacancy rate and rent for Daibiru are both solid. Although the profit decline in the Real Property Business appears to be significant, this is due to the increase in the allocation of general and administrative expenses associated with the launch of the Real Property Business department, in addition to a partial decrease in rent due to reconstruction. We will continue to invest aggressively, as exemplified by the recently announced acquisition of a partial interest in Otemachi First Square.

Q10) Regarding the sale of the terminal business, I remember that when ONE was founded, the overseas terminal business of each of the shipping companies was planned to be sold to ONE. Please tell me why the buyer was not ONE this time.

A10) TraPac, LLC. was 51% owned by our company and 49% owned by another investment fund. This time, we purchased the 49% held by this investment fund, made it a 100% stake, and after searching for a buyer again, we sold the 49% portion to a different investment fund. We're still in the middle of a deal, so we'll disclose further details once the deal is fully closed.

Q11) Please give us once again a review of the key points of the upward revision of the profit plan for this fiscal year in the energy business and the product transportation business (except for container ships).

A11) Oil tankers are doing well in the energy business. The VLCC market is improving, and product and chemical tankers are also showing significant upside. In the product transportation business other than container ships, car carriers are doing well. In both cases, profitability and profits increased due to tight tonnage supply and demand balance by low backlog of new shipbuilding orders.

Regarding crude oil tankers, we believe that the tight supply and demand is partly due to the emergence of players using tankers as storage in the situation of volatile commodity prices. In terms of car carriers, we recognize that EV exports out of China are increasing at a significant rate and that they are taking up a considerable amount of global transportation space.

Q12) There was a comment that spot freight rates for containerships may temporarily drop considerably. How will MOL and ONE respond to such a case? Is it inevitable that some routes will turn red for the time being?

A12) Basically, we will try to reduce costs and maintain profitability. Depending on the situation, we will also consider consolidating some of the many loop services for the USWC and other areas to maintain the utilization ratio.

Q13) Total ordinary profit for segments excluding containerships is planned to be 165 billion yen, but how do you see its permanence beyond the next fiscal year?

A13) We were able to make a total profit of about 100 billion yen in the first half of the year in segments other than the containership business. The forecast for the second half is 65 billion yen, but there is room for upside revision depending on future developments. At present, chemical tankers and some dry bulkers are taking cargo that overflowed from containerships. With that in mind, we may be doing a little too well this year, but after many years of painstaking structural reforms, the expensive charter contracts of the past have disappeared, and our cost competitiveness has recovered considerably. Therefore, we are getting more confident that even if the tailwind of the booming container business factor somewhat comes off, we can still make a profit. In addition to this, if ONE can stabilize its earnings level at the \$2 billion to \$3 billion level annually, we have high hopes that our company will be able to achieve its medium- to long-term goal of maintaining a profit in the 200 billion yen range with considerable certainty, and we are eager to see that happen.

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