January 31, 2023

Mitsui O.S.K. Lines, Ltd.

Major Questions & Answers at the FY 2022 3rd Quarter Financial Results Briefing (Online)

Q1) Please advise your feelings so far and expectations about term contract negotiation for containerships, and your thoughts on the risk of a possible profit loss in the containerships business in the first or second quarter of the next fiscal year.

In addition, the external environment for the containerships business has become more difficult compared to three months ago due to the appreciation of the yen, a decline in cargo movements and freight rates. I am concerned that this situation may lead MOL to reconsider its intention to increase stakeholder returns (payout ratio aligned with the average of Tokyo Stock Exchange Prime Market figures etc.) under the new medium-term management plan.

A1) Some of the term contracts of Asia-Europe trade are renewed in January. The negotiation for those contracts is currently ongoing, but the renewal is being pushed back later than usual in general. It can be said that the renewal during January and February for both Asia-Europe and Asia-North America trades is limited compared to previous years. Although the renewal level cannot be said at this time and the situation will vary depending on the route, we are negotiating not to undercut current spot freight rates. Regarding the possibility of making loss as ONE in the next fiscal year, we need to monitor cargo movements closely, but for now, we do not expect it to happen at the current spot freight level.

Since the overseas shipping business is basically conducted in US dollars, the impact of the strong yen is significant. There is certainly a decline in containerships cargo movements at the moment but depending on the degree of recovery in the global economy, there is a possibility that cargo movements will recover, so we cannot say for sure that cargo movements will decline for the next fiscal year and beyond. In addition, the energy business and the car carrier business will continue to perform relatively well in the next fiscal year and beyond. With regard to shareholder returns, we are currently engaged in various discussions while formulating a new management plan and will explain the details at the time of the announcement.

Q2) ONE's fourth quarter net profit forecast is set for a sharp decline of 82% year on year. How can such a significant drop be expected in profits when many of the term contracts are not yet renewed? Also, is it possible that containerships business will fall into the red next fiscal year?

A2) The big difference is that the spot freight rate is significantly lower from last year. The fact that the term contract has not been renewed means that the customers are using spot contracts to transport their cargo, and this situation can be seen especially on Asia-Europe trade. It depends on the global economy and the cargo movements, but at the current spot freight rate level, we do not expect the containerships business to be in the red next fiscal year. We do not currently anticipate a further significant drop from the current spot freight rate level. In fact, spot freight rates have been on a downward trend since last summer, but have almost stopped declining this year. In addition, there is even a move to raise freight rates for some routes, so we will monitor carefully when considering the outlook for the next fiscal year.

Q3) Please advise the assumptions of the containerships business for the January-March period, freight level of spot and term contract in particular.

A3) In terms of the freight assumptions, we basically expect the spot freight rate to be around the current rate. For term contracts, negotiations for renewal are still underway, and the proportion of term contracts is lower than usual at present, with the proportion of spot contracts increasing especially on Asia-Europe trade. We will continue to negotiate with our customers, and endeavor to conclude at the level that does not undercut the current spot freight rate. Some customers take more priority in securing stable space, so we would like to negotiate thoroughly.

Q4) Let me ask three questions regarding ONE.
① Looking at the ONE disclosure materials, the year-over-year decline in the Q3 freight index for Asia-Europe trade appears to be more than a drop in spot rates. Has the switching of contracts from term to spot become more apparent than expected? In addition, I was expecting the freight index for Asia-North America trade to remain positive supported by term contracts, but in the third quarter results, it turned to a year-on-year decline.
In addition, please advise freight rate assumptions for the fourth quarter, term contracts on Asia-Europe trade in particular.

② How did the third quarter results stack up against company plans? Please include both upside and downside factors.

③ Is the profit expected in the fourth quarter based on the assumptions of a loss on spot contracts and a profit on term contracts?

A4)

① Since we are already in the second half of the year, it may be reflecting the case that the percentage of spot increases as a result of already meeting the minimum volume commitment of term contracts.

We expect the current level of spot freight rate to continue in the fourth quarter.

Term contract negotiations on Asia-Europe trade have been pushed back than usual. As a result, the ratio of term contract is currently decreasing.

② The third quarter results for the containerships business were slightly better than planned. It means that there were fewer transfers from term contracts to spot contracts than expected.

③ It depends on the route, but with the current freight rate , we do not expect to be in the red even for spot contracts in general.

Q5)

① Regarding the fourth quarter plan for containerships, I think spot freight rates are in a difficult situation in terms of profitability, but can you please tell us the reason why you are maintaining an EBIT margin expectation of about 20%? Should we expect profitability to change significantly when term contracts are renewed?

② Please advise ONE's cost reduction plans going forward.

A5)

① Negotiations for term contract is currently underway. It is difficult to determine exactly how the profitability will be, but the current term contract was decided last year when the market including spot contracts was good. Based on the current spot freight rate, we have no choice but to decide below the previous year's level, so profitability will go downward as the contract is renewed.

② There are many ways, but ONE have already taken steps to reduce operating costs, such as slow steaming and passing through the Cape of Good Hope instead of through the Suez Canal, which requires passage fees.

Q6) The profit plan for the car carrier business has been revised upward this time. Is there any change in the situation now compared to the previous two quarters? What are the latest trends, including transportation demand for used cars, demand for EVs from China, and supply and demand for car carriers?

A6) Compared to the second quarter, the percentage of cargo from Japan is gradually returning. On the other hand, demand for EVs from China continues to be strong. Since the ordered new vessels will be delivered from the second half of 2024, the supply and demand remain tight due to the return of cargo shipped from Japan while the supply of ships has not increased.

Q7) Utilization rate for ONE's Asia-North America trade in the third quarter was as low as 80%. Has the company been able to reduce supply in response to the declining demand? Also, please comment on the termination of 2M's partnership.

A7) 80% is a little low, but we have taken various measures to cope with such decline in cargo movements, such as speed reduction, and the current utilization rate has been improving.
We are still analyzing the impact of the termination of the Maersk/MSC partnership, so I have nothing to comment on today. ONE will continue to strive for efficient operations to meet the needs of its customers.

Q8) Even if there is a significant profit decline in the next fiscal year, in light of the fact that the balance sheet has improved significantly, are you thinking of raising the dividend payout ratio from the previous level and keeping the dividend level high?

A8) Regarding the dividends MOL pays to its shareholders, the level of dividends for the next fiscal year is under discussion in the new management plan we are formulating. Please wait until the announcement this spring.

Q9) Could you give us some background on the strong performance of car carriers and it's the spot market?

A9) At the beginning of the COVID-19 pandemic in the first half of 2020, our car carrier business made a significant loss in profit as the cargo movement stopped. For this reason, we reduced about 10 relatively aged vessels from our fleet out of around 100 or so vessels in operation in order to save costs. Although the number of reduced vessels varies by company, other car carrier companies took the same action back then. In addition to the recovery of transportation demand in general, with the transportation demand for EV car shipments from China, which the demand is at the level we have never seen before, has made the supply and demand extremely tight as the delivery of new vessels is expected only after 2024. This is the reason of the current strong market for car carriers. For example, if you want to charter a car carrier from the market today, it would cost more than $100,000 per day, which is a pretty bullish market. Since the market for car carriers is small, there are few vessels available.

Q10) As the supply of containerships increase, what measures are needed to conclude contracts higher than the market spot freight rate?

A10) The most important thing is to provide a stable transportation service. In addition, the environmental issue has been receiving worldwide attention, and how much of the CO2 emissions related to maritime transportation can be reduced will become a key point for customers going forward. In this regard, as announced last year, ONE would like to meet this need by taking various environmental initiatives, including increasing the number of environmentally friendly vessels. The strategy for Mitsui O.S.K. Lines' containership business, which goes the same with ONE, is to secure market + alpha freight rates by being competitive against other shipping companies.

End