July 29, 2022

Mitsui O.S.K. Lines, Ltd.

Major Questions & Answers
at the FY 2022 1st Quarter Financial Results Briefing (Online)

Q1) Is the latest forecast for the commencement of the adjustment phase of containership freight rates about three months later than the forecast announced on April 28th? Compared to the steady freight rates, the cargo movement has been weak. Is there any revision made to the shipment volume within the forecast?

A1)
As per your understanding, the latest full-year earnings forecast is based on the assumption that the timing of a decline in containership freight rates will be about three months later than the initial forecast made on April 28th. Although the shipment volume to Europe from April to May decreased slightly due to the Shanghai lockdown, we understand cargo movements as a whole are fairly steady at present. We expect that the Chinese National Day will be a turning point going forward, resulting in a slight decline in cargo movements as well as a decline in freight rates.

Q2) For containerships, the cargo movement seems to have decreased due to the Shanghai lockdown. How is the cargo movement after the lockdown was lifted?

A2) Shipments to Europe fell slightly between April and May but have recently recovered from the impact of the lockdown.

Q3) Recently, the crude oil tanker market index has risen slightly. How should we measure the sensitivity to the energy business? As the energy business is mainly based on a long-term contract, may I understand that there is no particular impact? Also, please tell us if the current tanker market has any positive or negative impact on the energy business profit plan set forth in your company's management plan “Rolling Plan 2022”.

A3) As per your understanding, the crude oil tanker market index has been slightly recovering. VLCCs are generally based on medium- to long-term contracts, but there is a slight impact on some contracts whose charter rates are linked to market conditions.

Q4) Despite the contribution of annual contracts, the profits of the containership business in the second quarter seem to fall significantly compared to the first quarter. Are you taking a hard look at the assumption of spot freight rates?

A4)

Although it appears as if profits would fall significantly from 1Q to 2Q, this is due to the impact of exchange rates, and the profit level is almost the same in US dollar terms.

Much of the decline in yen earnings is attributable to the incorporation of consolidated financial results of Ocean Network Express (ONE), an equity-method affiliate, in which our company holds a 31% stake. ONE's profit or loss is recorded as equity in earnings of affiliates at term-end exchange rates, which are recalculated quarterly to the respective term-end exchange rates. The term-end exchange rate at the end of June for 1Q is 136.68 yen, and the exchange rate assumption at the end of September for 2Q is set as 125.00 yen. When formulating the first half forecast, the portion of the profit for 1Q that corresponds to the difference in the exchange rate is deducted from the profit for 2Q.

Q5) The dividend payout ratio is 25.8%, rather than 25.0%, when calculating from the net income forecast and the dividend forecast. Is there any intention for this difference or is it a result of making the full year dividend forecast exactly 500 yen without a fraction?

A5) Our message is that we would like to maintain a dividend payout ratio of 25% as indicated in the announcement of financial results in FY2021. On top of that, the figures are concluded after considering the rounding up of the figures, etc.

Q6) Regarding the containership business, there are concerns that the global economy will slow down in the second half and beyond, which will lead to a decline in cargo demand. Is it possible to prepare for this?

A6) The first thing to consider is to thin out services that have multiple voyages per week in accordance with declined demand. Also, as the market is currently strong and there is a shortage of vessels, containership companies are now continuing to use old age vessels, but when cargo demand deteriorates, they may scrap them and adjust the tonnage supply volume. However, with regard to scrapping ships, we will analyze the supply and demand balance over a longer period of time rather than short-term market conditions.

Q7) ONE has ordered many new containerships. Do you think this is the right decision as a shareholder?

A7) ONE was in the red in its first year of operation in 2018 and has restrained investments in its fleet. Because of this, its investment in maintaining and expanding the fleet is lagging behind other container shipping companies. ONE is currently ordering new vessels to replace the chartered vessels that will be redelivered sequentially in due course, but the newly ordered vessel's capacity is not yet sufficient. Therefore, we believe that ONE is making the right decision.

Q8) What is the reason behind the strong performance of the car carrier business? There seem to be some containership cargo transported by car carriers, but if the supply-demand balance of containerships comes to a slack, will the supply-demand balance of car carriers follow the same?

A8) MOL does not transport containership cargo by car carriers. In response to a sharp drop in demand for car carrier cargoes around spring in 2020 due to the COVID-19 pandemic, shipping companies drastically reduced the number of car carriers. MOL also reduced its fleet by about 10 vessels. As a result, the current supply-demand balance for car carriers is generally tight. Automakers are planning to increase their production for cargoes mainly to North America and the supply-demand balance is expected to become even tighter going forward. Since the car carriers are transporting automobiles only, we expect that it will not be linked to the containership market.

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