April 28, 2022

Mitsui O.S.K. Lines, Ltd.

Major Questions & Answers at the Briefing on Business Performance in FY2021 and the Management Plan "Rolling Plan 2022" (Online)

Q1) What is the reason for the dividend payout ratio of 25% in FY2022? What is the most important factor in further raising the dividend payout ratio?

A1) Over the past 10 years or so, our financial indicators has deteriorated as a result of a combination of structural reforms and investments to strengthen our management stability. We have been rebuilding our financial position to a certain level with understanding of our shareholders of dividend at 20% payout ratio, which is lower than the market average. From FY2022, we will begin improving the return to our shareholders as our financial condition improved dramatically with strong results in FY2020 and FY2021. As a start, we would like to raise the dividend payout ratio from 20% to 25% in FY 2022 and see how it goes for a year.
For fiscal 2022, if we are able to record a profit exceeding 500 billion yen, which is currently disclosed as a forecast, our financial condition will improve further. Based on this, we will consider whether we can further increase the dividend payout ratio over the next 1 year.

Q2) Expanding logistics business is conceivable in order to complement the role of container division in past to maintain the global network. Are there any plans for M&A?

A2) To expand new businesses, we will need to create a network to compete in the global market. It's not necessarily limited to logistics, but we consider methodology such as M&A is one of the viable options. Growing sectors include offshore wind power generation, other offshore businesses, real estate businesses and logistics businesses, and we are eager to expand these businesses especially in emerging countries. In order to achieve these goals efficiently in a short period of time, we would like to consider M & A centered overseas, and even in Japan, we would like to consider acquisitions and alliances with companies that have strengths in their industries or regions.

Q3) What are the details of the containerships profit plan, and the assumptions of spot freight rate and annual contract freight rate?

A3) We will not provide specific figures for the annual contract rates but are updated by reflecting the increase in spot market from the previous fiscal year to a certain extent. As for the spot freight market, the current level or a similar is expected to continue until around June to July this year, and after that the market is expected to gradually soften. This trend may change depending on the situation, but we have taken into account the change that the freight market would gradually decline in about half a year. We estimate the second half will be weaker than the first half, it comes from the difference in market assumption. As there is considerable uncertainty in the second half of the fiscal year, the liftings especially from the end of the year to the beginning of the next year is forecasted at a relatively weak level.

Q4) What will be the concept of fund allocation if the generation of operating cash flow exceeds the expectation in the next few years?

A4) While making active investments, we also intend to allocate funds to return profits to shareholders. In Rolling Plan 2022, we have set a target of 9 ~ 10% ROE in FY 2027, and we would like to achieve up-side figure if possible. We will thoroughly consider such factors, and present the mid-term cash allocation in the new management plan which will start from the next fiscal year.

At present, we are actively building a fleet that uses alternative fuels. We have been working on new ships that utilize LNG fuel in a variety of vessel types, including bulk carriers, ferries, and car carriers. The number of existing or contracted LNG-fueled and other alternative fueled vessels is still small, therefore the cost of design and development per vessel is still very high, so we are struggling with expensive vessel prices. However, given our GHG reduction target, we, as a leading company in the industry, want to create a trend of low carbonation and will continue invest bravely. For the time being, we will bear such expenditure, so if excess operating cash flow is generated, it will be very helpful. In addition, we have a dream of creating a zero-emission transportation mode as soon as possible. To achieve this, we need to develop ships that run on ammonia, hydrogen, etc. However, because of the high cost of development, we need to share the cost between shipyards and shipping companies in some way.

Q5) What freight levels are included as an assumption in the profit plan for the product transportation business in fiscal 2023 and 2024? It will be highly appreciated if you could give us an idea referring to CCFI or comparing with the rate before COVID-19 pandemic or just explain in the way that approximately XX % of the current rate.

A5) We consider freight level of just before the COVID-19 pandemic or 1 ~ 2 months after the pandemic became serious would be a reasonable assumption, not overly optimistic, nor overly pessimistic. Therefore, we assume that the freight level in fiscal year 2023 and 2024, when the disruption in the logistics chain is expected to be resolved, will be the level of the beginning to the middle of 2020.

Q6) With regard to the containership business, spot freight rates are falling, and fuel prices are rising. What is the view of earnings for each quarter of FY2022? Please include the comparison from January to March 2022.

A6) The forecast for containership business in FY 2022 announced today is 300 billion yen for the first half and 140 billion yen for the second half. As for each quarter, the profit is expected to decrease from the first quarter to the fourth quarter. In comparison with January to March 2022, the profit in 1Q of FY2022 is smaller.

Q7) If the profit of this FY exceeds the plan, will you maintain payout ratio of 25%?

A7) We intend to hold a dividend payout ratio of 25% even if earnings for the current fiscal year exceed our plan. On the other hand, in order to avoid an excessive decrease in dividend per share, it may be possible to maintain the dividend per share to a reasonable extent without being overly attached to the dividend payout ratio in case the profit is considerably below the plan,

The question of how to return profits to shareholders in fiscal 2023 and beyond is a major issue for us. We are currently formulating a medium- to long-term management plan. Looking ahead to the next decade, via back-casting method, we will draw up a picture of the future of our company with a concrete financial plan including the amount of investment and required capital, and will formulate a policy of shareholder return and dividend payout ratio, and propose that to related investors. If we consider the trend in the Japanese capital market, we do not think the current level of shareholder returns of our company is sufficient, so we would like to make it a little better. To what extent improvements can be made, we will present a consistent approach after we thoroughly complete our long-term management plan.

End