NYK Line

November 2015

**Summary of Q&A Session at Briefing on Financial Results**
**for the 2nd Quarter of the Fiscal Year Ending March 31, 2016**

**Liner Trade**

Q1. Please explain supply and demand conditions in Asia-Europe trade.

A1. Overall demand last year grew 7%–8%, so at the beginning of the current fiscal year, we expected demand would grow by least 4%. Up to now, although Trans Pacific route has been firm, Asia-Europe route has experienced negative growth (nearly -5%). At the same time, supply has increased about 10% compared to last fiscal year, which we think is related to the decline in freight rates. We do not think next fiscal year will be as bad, at least we do not expect negative growth. Moreover, regarding NYK's second half earnings announcement assumptions, we expect demand to decline 7% compared to the first half, while at the same time we will reduce space provision 13%–14% and raise the utilization rate to achieve effects from rationalization.

Q2. How confident are you of achieving these second half freight rate assumptions?

A2. We think supply will bottom out next year, and from now we will begin to negotiate freight rate contracts for next fiscal year, so we think freight rates have stopped falling. At present, shipping companies are taking steps toward full-scale vessel reductions. As this is a trend we see in Asia-Europe route as well as in Trans Pacific route, we think rates will tighten up.

Q3. Given these challenging freight rate market conditions, what factors will contribute to second half profitability in the Liner business?

A3. One factor involves variable cost reductions and other self-supporting efforts aimed at enhancing cost reductions, which we think will lead to profitability.

Q4. What progress has been made in terms of vessel rationalization?

A4. We are about to pause services on North-South American route and Asia-South Africa route. We are also revising Australian routes, and plan to suspend services in the spring of next year. We will also revise Inter-Asia routes, integrating Japan-Thailand routes and vessels bound for the Philippines. We will move forward resolutely while being mindful of business stability.

**Bulk Shipping Business**

Q1. How do you see second half P/L and market conditions next fiscal year in the Liquid Division?

A1. In the first half, market conditions for all vessels were favourable, but in the second half we expect lightly softer conditions. In the second half, construction of new LPG carriers and product tankers will be completed, so we think market conditions will decline slightly compared to the first half. In terms of VLCC market conditions; although repeated ups and downs make it difficult to read trends, we will revise the terms of long-term contracts with unfavourable conditions to achieve solid Liquid Division profitability in the second half. In terms of the outlook for the next fiscal year and beyond, construction will be completed of 17-18 new VLCC vessels this fiscal year, and another 40 new vessels are planned for construction next fiscal year, but the majority of those will be completed in the second half, thus we expect market conditions to remain positive through the first half of next fiscal year. Regarding LPG and product vessels, new construction is currently on the rise, making it difficult to forecast, so while it is hard to expect conditions to improve as they did this year, we do have some positive expectations about next year.

Q2. What is the status of dry bulker and tanker spot vessels?

A2. In terms of dry bulkers, in line with our basic policy, we are steadily decreasing the number of vessels in operation. However, unfortunately the number of vessels affected by market prices has fallen little. This situation is due to the fact that, reflecting the extremely low market conditions at present, for the foreseeable future some of the customer contracts being renewed will not include a fixed rate portion. In terms of tankers, originally only a limited number of vessels was impacted, thus there has been no change up to now.

**Others**

Q1.Regarding profitability in the next fiscal year, are there any factors that may result in increased profits compared to the current fiscal year?

A1. We think the dry bulk business will improve. There are many reasons for this: current market sentiments are overly negative; IMF economic forecasts for next fiscal year call for the global GDP growth rate to improve over the current fiscal year; and the reaction to the economic slowdown in China has been a bit excessive, so we expect conditions to improve. Furthermore, we will commence contracts next fiscal year in the stable freight rate LNG and Offshore businesses, so we expect profitability to improve.