NYK Line

February 2016

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

Liner Trade

Q1. Please explain the spot freight rate situation currently faced by the company.

A1. Spot freight rates are being raised practically every month, but they tend to rise and fall repeatedly. They temporarily increased from the end of last year to the beginning of this year for both North America- and Europe-bound routes, but since then, Transpacific freight rates have been on a slight decline, while European rates are falling to about the same level as they were before they went up.

Bulk Shipping Business

Q1. What sort of restructuring was recently carried out in the dry bulk transport business, and how much will it affect income and expenditures in the next fiscal year?

A1. Since the beginning of this fiscal year, we have continuously carried out restructuring, which has mainly involved selling capesize bulk carriers or, in the case of chartered vessels, returning them before their due dates. As we explained in the presentation for the previous quarter, the NYK Group was operating 123 vessels of capsize bulk carriers as of April 1, 2015, but we reduced this number by nine as of September 30, 2015, for a total of 114 vessels. We intend to keep up the same pace of selling off vessels or returning them early, so we expect to reduce the fleet by about the same number by the end of this fiscal year. Furthermore, in the third quarter, NYK Line recorded impairment losses on almost 20 of the Group's vessels, which are comparatively new and no larger in size than Panamax ships. From the next fiscal year, the impact of restructuring as a whole on profits will amount to about ¥5.0 billion, which includes items other than impairment losses.

Q2. We would like to know about company plans for restructuring from the next fiscal year and how you intend to carry it out.

A2. One approach to restructuring that we could pursue would involve targeting a large number of vessels all at once, but, now that the market is extremely sluggish, we need to diversify risks. From that perspective, rather than selling ships or returning chartered vessels before their due dates all at once, we would prefer to diversify risks to some extent while monitoring the market as we proceed with restructuring.

Others

Q1. Given that the container and dry bulk shipping markets are stagnant, what measures will you take to achieve higher profits in the next fiscal year compared with this fiscal year, and what are the main factors related to profit growth?

A1. In the container shipping market, the price of fuel oil going forward is one factor. In the current fiscal year, profits have worsened because the drop in freight rates was unusually more pronounced than the decline in fuel oil prices. At present, freight rates in the market are already at a very low level, and spot freight rates for Europe-bound routes have already reached the lay-up point. If rates fall even further, losses generated from the operation of ships will also become larger, which is an unimaginable situation.

In the bulk shipping business, we expect an improvement in bottom line owing to the effects of restructuring, as long as market conditions in the next fiscal year are generally on par with the current fiscal year. We are now studying the market outlook for the next fiscal year as we decide on our upcoming budget, but if market conditions deteriorate, the restructuring will have a weaker effect on improving bottom line. Meanwhile, market conditions are already approaching the lay-up point. Indeed, companies have begun laying up ships and suspending services because of declining profits from shipping operations. During the week starting from January 18, about 40 capesize ships were laid up worldwide, including three NYK Group vessels. While these measures stimulate the market by reducing total shipping capacity, in the next fiscal year, we do not expect the situation to grow any worse than it has been this fiscal year.

Q2. Why are profits from businesses with stable freight rate expected to increase in the next fiscal year compared with the current fiscal year?

A2. There are a few reasons for this. VLCC market is picking up and looks more promising than previously expected, and new projects are scheduled to start in a number of these businesses.