



# Financial Results for FY 19/3 3<sup>rd</sup> Quarter and Forecast for FY 19/3

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January 31, 2019

# Contents

- 1. Financial Highlights for FY19/3 3Q** ————— **p.3-6**
  - 2. Forecast for FY19/3** ————— **p.7-10**
  - 3. Overview of Each Industrial Segment** ————— **p.11-16**
- ★Progress Report**
    - **Med-Term Management Plan**
    - **ONE**
    - **NCA**
    - **Governance**
  - ★(Attachment) Ocean Network Express  
Financial Results for FY2018 3Q**

# Overview of FY 19/3 3<sup>rd</sup> Quarter Results



## <Review of YTD (Apr-Dec) results>

### ▶ Revenue

Revenue decreased vs. same period last year as ONE began service as an equity method affiliate and Liner revenue is no longer recorded.

### ▶ Recurring profit / loss

Recorded a recurring loss. Logistics and Bulk Shipping profit increased. However, Liner and Air Cargo profit significantly decreased vs. same period last year.

### ▶ Extraordinary income / losses

Recorded an impairment loss on aircraft and spare engines and loss on cancellation of chartered vessels. Recorded extraordinary income from sale of assets, e.g. investment securities, which offset the extraordinary losses.

## <Review of 3Q (Oct-Dec) results>

Returned to black at each stage of PL. ONE and NCA's business operations returning to normal.

- ▶ Liner Confusions during ONE's start-up period solved. Volume/utilization recovering.
- ▶ Air Cargo Six B747-8Fs NCA operates returned to service by the end of December and business loss is steadily reducing.
- ▶ Logistics Profit increased vs. same period last year. Forwarding and Contract Logistics business improved, taking in some special transportation demands in 3Q.
- ▶ Bulk Shipping Dry Bulk and Liquid improved on the back of market recovery. Optimized Car Carrier vessel operations contributing to profitability.



► Reduced profit at each stage of PL vs. same period last year.

(In billion yen)	FY18/3						FY19/3				Year-on-year
	1Q	2Q	3Q	1-3Q	4Q	Full-Year	1Q	2Q	3Q	1-3Q	
Revenues	521.7	542.5	566.3	1,630.6	552.5	2,183.2	464.8	450.7	468.9	1,384.6	-245.9
Operating Income	3.5	9.1	12.0	24.8	3.0	27.8	-8.1	3.9	8.7	4.5	-20.2
Recurring Profit	10.2	11.7	13.5	35.6	-7.5	28.0	-6.6	-2.4	5.6	-3.3	-38.9
Net Income Attributable of owners of the Parent Company	5.3	0.8	10.5	16.8	3.3	20.1	-4.5	-5.2	1.0	-8.7	-25.5
Exchange rate	¥ 111.48	¥ 110.92	¥ 112.65	¥ 111.68	¥ 109.72	¥ 111.19	¥ 108.10	¥ 110.87	¥ 113.43	¥ 110.80	+ ¥ 0.88
Bunker Oil Prices	\$326.72	\$316.32	\$339.76	\$327.60	\$382.84	\$341.41	\$395.94	\$443.36	\$478.90	\$439.40	+\$111.80

# 3<sup>rd</sup> quarter comparison by Industrial SEGs

## 3Q Result



**NYK LINE**  
NIPPON YUSEN KAISHA

- Liner: NYK's business termination cost (mainly 1Q) and ONE's underperformance resulted in a significant decrease in profit
- Air Cargo: Recorded a loss due to NCA's decline in earnings resulting from the suspension of aircraft
- Bulk Shipping: Increased profit mainly in Dry Bulk and Liquid

Industrial Segment (In Billion Yen)	FY18/3						FY19/3				Year-on-year	
	1Q	2Q	3Q	1-3Q	4Q	Full-year	1Q	2Q	3Q	1-3Q		
Global Logistics	Liner	171.5	179.0	176.8	527.3	164.0	691.4	80.1	70.0	67.9	218.1	-309.2
		5.7	7.6	3.8	17.2	-6.3	10.8	-16.6	-2.2	-5.8	-24.7	-42.0
	Air Cargo	23.3	23.7	25.8	72.9	24.8	97.8	21.7	7.4	13.1	42.2	-30.7
		0.7	-0.8	0.8	0.7	1.0	1.8	-1.6	-6.2	-4.2	-12.2	-13.0
Logistics		118.9	127.7	135.6	382.3	129.9	512.3	130.4	135.3	137.3	403.0	20.7
		-0.0	1.3	1.0	2.2	0.0	2.3	1.3	1.9	3.8	7.1	4.8
(Total)		313.9	330.5	338.2	982.7	318.8	1,301.5	232.3	212.7	218.3	663.4	-319.2
		6.3	8.1	5.8	20.3	-5.2	15.0	-16.9	-6.5	-6.3	-29.9	-50.2
Bulk Shipping	Bulk Shipping	188.9	192.2	205.5	586.7	208.8	795.6	206.5	208.1	218.4	633.1	46.3
		2.7	2.2	6.5	11.5	-1.9	9.6	10.4	5.4	10.6	26.5	14.9
Others	Real Estates	1.9	1.9	1.9	5.8	2.0	7.9	1.8	1.9	1.8	5.7	-0.1
		0.6	0.8	0.6	2.1	0.5	2.6	0.7	0.7	0.6	2.0	-0.0
	Other	39.0	40.0	46.6	125.7	46.5	172.3	43.5	46.6	50.1	140.3	14.5
		1.1	0.9	1.0	3.1	0.0	3.1	0.9	-0.3	1.9	2.5	-0.5
Elimination/Un allocation		-22.2	-22.1	-26.1	-70.5	-23.6	-94.2	-19.4	-18.6	-19.9	-58.0	12.5
		-0.6	-0.4	-0.5	-1.6	-0.9	-2.5	-1.7	-1.6	-1.2	-4.6	-3.0
Consolidated		521.7	542.5	566.3	1,630.6	552.5	2,183.2	464.8	450.7	468.9	1,384.6	-245.9
		10.2	11.7	13.5	35.6	-7.5	28.0	-6.6	-2.4	5.6	-3.3	-38.9

※ (Upper) Revenues (Lower) Recurring Profit

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# Analysis of Change in Recurring Profit between FY 18/3 3<sup>rd</sup> and FY 19/3 3<sup>rd</sup>

3Q Result



**NYK** LINE  
NIPPON YUSEN KAISHA

(billion yen)

<b>Yen Appreciation</b>	<b>-0.1</b>	¥110.80/\$ , Appreciated by ¥0.88
<b>Higher Bunker Oil Prices</b>	<b>-12.0</b>	\$439.40/MT, Increased by \$111.80
<b>Market Effects, etc.</b>	<b>1.0</b>	(Liner (incl. ONE) -13.5, Bulk Shipping +14.5)
<b>Foreign Exchange Profit/Loss</b>	<b>0.7</b>	
<b>Others</b>	<b>-28.5</b>	(NCA -13.0) (NYK Liner business termination cost -16.0)
<b>Total</b>	<b>-38.9</b>	



- ▶ Increased revenue and operating income, reduced recurring loss and net loss vs. previous forecast.

### (Recurring profit / loss)

- ▶ Liner Made an upward revision. ONE's forecast in line with the previous forecast.  
(The forecast is based on the assumption overseas terminals remain at NYK until the end of FY18)
- ▶ Air Cargo Made an upward revision. All eight 747-8Fs NCA operates returned service as of today. NCA will implement measures to improve aircraft utilization rate.
- ▶ Logistics Made an upward revision. Both forwarding and contract logistics business robust. There were some special transportation demands in 3Q, which are not forecast in 4Q.
- ▶ Bulk Shipping Made an upward revision.
  - Dry Bulk Downwardly revised the market forecast reflecting demand and supply imbalance.
  - Liquid Upwardly revised the market forecast. Market robust amidst the winter high-demand season.  
LNG and Off-shore robust. Agreed on six LNG carriers and two shuttle tankers contracts adding on to the "stable-freight-rate business."
  - Car Carrier Transportation demand to Europe/US robust. Intra-Asia increasing.

- ▶ Extraordinary income / losses (forecast "net plus")

- \* Extraordinary income: 50% sale of NYK Cruises shares (JPY 8.0 billion), additional asset liquidation, etc.
- \* Extraordinary loss: Loss on early redelivery of high-cost chartered vessels, etc.

- ▶ Year-End Dividends: JPY 10/share (maintain yearly dividend forecast of JPY 20/share)

# Revised Forecast for FY 19/3 (Summary)

Forecast



**NYK** LINE  
NIPPON YUSEN KAISHA

(In billion yen)	FY 18/3 (Result)					FY 19/3 (Forecast)					Year-on year	Change from previous forecast (full-year)
	1H		2H		Full-year	1H (Result)		2H		Full-year		
	1Q	2Q	3Q	4Q		1Q	2Q	3Q (Result)	4Q			
Revenues	1,064.2		1,107.8		2,183.2	915.6		914.4		1,830.0	-353.2	20.0
	521.7	542.5	566.3	552.5		464.8	450.7	468.9	445.4			
Operating Income	12.7		17.3		27.8	-4.1		12.2		8.0	-19.8	2.5
	3.5	9.1	12.0	3.0		-8.1	3.9	8.7	3.4			
Recurring Profit	22.0		5.0		28.0	-9.0		4.0		-5.0	-33.0	8.0
	10.2	11.7	13.5	-7.5		-6.6	-2.4	5.6	-1.6			
Net Income Attributable to Owners of the parent company	6.2		4.8		20.1	-9.7		8.7		-1.0	-21.1	5.0
	5.3	0.8	10.5	3.3		-4.5	-5.2	1.0	7.7			

Exchange Rate	¥ 111.48	¥ 110.92	¥ 112.65	¥ 109.72	¥ 111.19	¥ 108.10	¥ 110.87	¥ 113.43	¥ 110.00	¥ 110.60	+ ¥ 0.59
Bunker Oil Prices	\$326.72	\$316.32	\$339.76	\$382.84	\$341.41	\$395.94	\$443.36	\$478.90	\$450.00	\$442.05	+\$100.64

## ► Sensitivity on Recurring Profit (4Q)

Exchange Rate : No substantial impact from yen/dollar fluctuations

Bunker Oil Prices : 0.3 billion(4Q) increase per \$10/MT decrease



# FY 19/3 Forecast by Industrial SEGs

Forecast



**NYK LINE**  
NIPPON YUSEN KAISHA

Industrial Segment	FY18/3 (Result)							FY 19/3 (Forecast)							Year-on Year	
	(In billion yen)	1Q	2Q	1H	3Q	4Q	2H	Full-year	1Q	2Q	1H (Result)	3Q (Result)	4Q	2H		Full-year
Global Logistics	Liner	171.5	179.0	350.5	176.8	164.0	340.8	691.4	80.1	70.0	150.2	67.9	65.8	133.8	284.0	-407.4
		5.7	7.6	13.3	3.8	-6.3	-2.4	10.8	-16.6	-2.2	-18.8	-5.8	-2.8	-8.7	-27.5	-38.3
	Air Cargo	23.3	23.7	47.1	25.8	24.8	50.6	97.8	21.7	7.4	29.1	13.1	18.7	31.8	61.0	-36.8
		0.7	-0.8	-0.0	0.8	1.0	1.8	1.8	-1.6	-6.2	-7.9	-4.2	-2.8	-7.1	-15.0	-16.8
	Logistics	118.9	127.7	246.7	135.6	129.9	265.5	512.3	130.4	135.3	265.7	137.3	124.9	262.2	528.0	15.7
	-0.0	1.3	1.2	1.0	0.0	1.1	2.3	1.3	1.9	3.2	3.8	0.4	4.3	7.5	5.2	
(Total)	313.9	330.5	644.4	338.2	318.8	657.1	1,301.5	232.3	212.7	445.0	218.3	209.6	427.9	873.0	-428.5	
	6.3	8.1	14.5	5.8	-5.2	0.5	15.0	-16.9	-6.5	-23.5	-6.3	-5.1	-11.5	-35.0	-50.0	
Bulk Shipping	Bulk Shipping	188.9	192.2	381.2	205.5	208.8	414.4	795.6	206.5	208.1	414.6	218.4	205.9	424.4	839.0	43.4
		2.7	2.2	5.0	6.5	-1.9	4.5	9.6	10.4	5.4	15.8	10.6	5.5	16.2	32.0	22.4
Others	Real Estate	1.9	1.9	3.9	1.9	2.0	4.0	7.9	1.8	1.9	3.8	1.8	1.8	3.7	7.5	-0.4
		0.6	0.8	1.4	0.6	0.5	1.2	2.6	0.7	0.7	1.4	0.6	0.4	1.1	2.5	-0.1
	Other	39.0	40.0	79.1	46.6	46.5	93.1	172.3	43.5	46.6	90.1	50.1	47.7	97.8	188.0	15.7
		1.1	0.9	2.0	1.0	0.0	1.1	3.1	0.9	-0.3	0.5	1.9	-0.1	1.9	2.5	-0.6
Elimination/Unallocation	Elimination/Unallocation	-22.2	-22.1	-44.4	-26.1	-23.6	-49.8	-94.2	-19.4	-18.6	-38.0	-19.9	-19.4	-39.4	-77.5	16.7
		-0.6	-0.4	-1.0	-0.5	-0.9	-1.4	-2.5	-1.7	-1.6	-3.3	-1.2	-2.3	-3.6	-7.0	-4.5
Consolidated	Consolidated	521.7	542.5	1,064.2	566.3	552.5	1,118.9	2,183.2	464.8	450.7	915.6	468.9	445.4	914.4	1,830.0	-353.2
		10.2	11.7	22.0	13.5	-7.5	6.0	28.0	-6.6	-2.4	-9.0	5.6	-1.6	4.0	-5.0	-33.0

※ (Upper) Revenues (Lower) Recurring Profit

➤ The significant decrease in Liner revenue is mainly due to the revenue of ONE, which is an equity method affiliate, not being recorded.

# FY19/3 Forecast vs latest Guidance by Industrial SEGs

Forecast



**NYK LINE**  
NIPPON YUSEN KAISHA

Industrial Segment (In billion yen)	Guidance			Forecast					Change Full-year	
	1H	2H	Full-year	1H (Result)	3Q (Result)	4Q	2H	Full-year	Full Year	
Global Logistics	Liner	150.2	129.8	280.0	150.2	67.9	65.8	133.8	284.0	4.0
		-18.8	-12.6	-31.5	-18.8	-5.8	-2.8	-8.7	-27.5	4.0
	Air Cargo	29.1	31.9	61.0	29.1	13.1	18.7	31.8	61.0	0.0
		-7.9	-8.1	-16.0	-7.9	-4.2	-2.8	-7.1	-15.0	1.0
	Logistics	265.7	266.3	532.0	265.7	137.3	124.9	262.2	528.0	-4.0
	3.2	2.8	6.0	3.2	3.8	0.4	4.3	7.5	1.5	
(Total)	445.0	428.0	8,730.0	445.0	218.3	209.6	427.9	873.0	0.0	
	-23.5	-17.9	-41.5	-23.5	-6.3	-5.1	-11.5	-35.0	6.5	
Bulk Shipping	Bulk Shipping	414.6	410.4	825.0	414.6	218.4	205.9	424.4	839.0	14.0
		15.8	14.2	30.0	15.8	10.6	5.5	16.2	32.0	2.0
Others	Real Estate	3.8	3.7	7.5	3.8	1.8	1.8	3.7	7.5	0.0
		1.4	1.1	2.5	1.4	0.6	0.4	1.1	2.5	0.0
	Other	90.1	89.8	180.0	90.1	50.1	47.7	97.8	188.0	8.0
	0.5	1.9	25	0.5	1.9	-0.1	1.9	2.5	0.0	
Elimination/Allocation	Elimination/Allocation	-38.0	-37.5	-75.5	-38.0	-19.9	-19.4	-39.4	-77.5	-2.0
		-3.3	-3.2	-6.5	-3.3	-1.2	-2.3	-3.6	-7.0	-0.5
Consolidated	Consolidated	915.6	894.3	1,810.0	915.6	468.9	445.4	914.4	1,830.0	20.0
		-9.0	-4.0	-13.0	-9.0	5.6	-1.6	4.0	-5.0	8.0

※ (Upper) Revenues (Lower) Recurring Profit

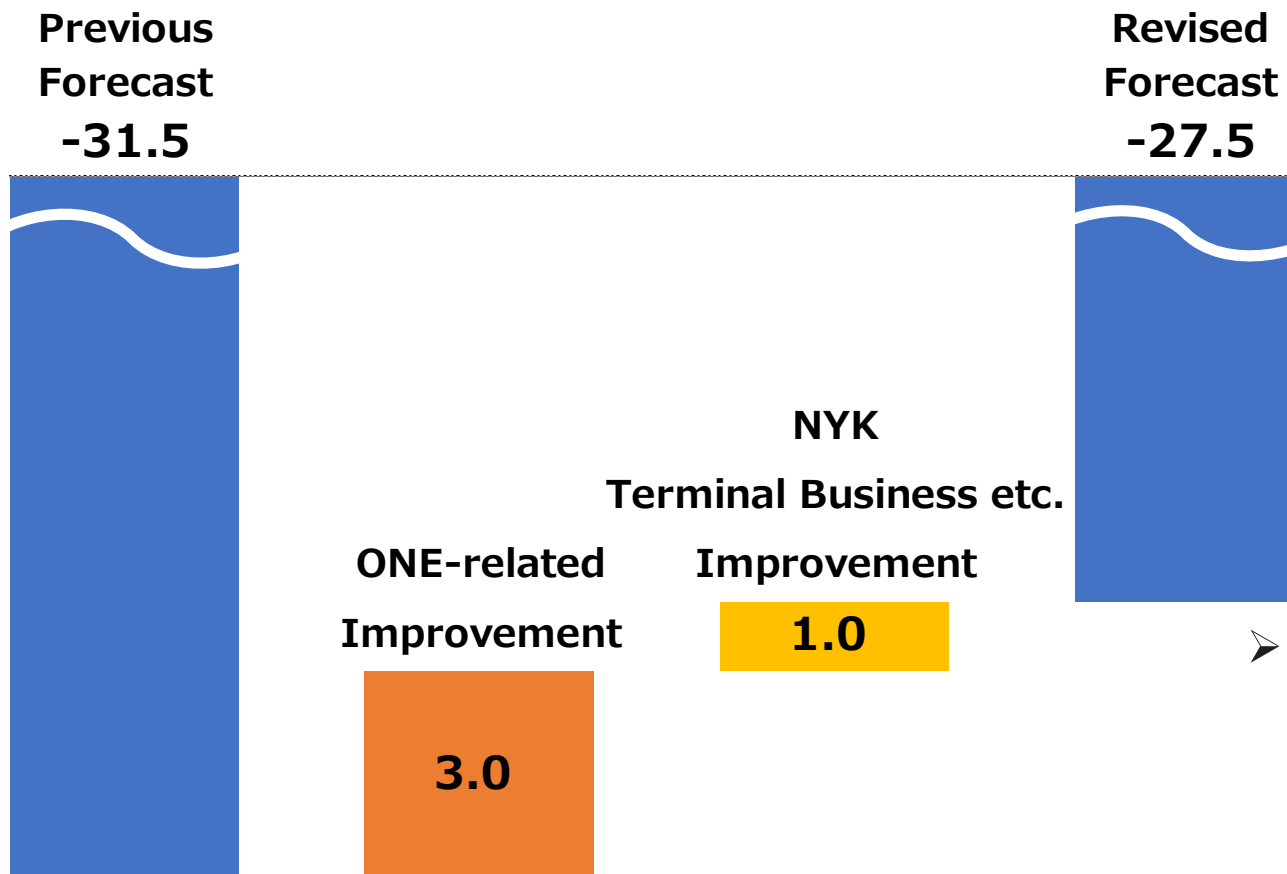


- Liner                      Recurring profit analysis
- Air Cargo                Results / various relating factors
- Logistics                Export handling volumes (ocean, air)
- Bulk Shipping          Market conditions (dry bulk, VLCC)  
                                 Handling volumes (finished vehicles)



### ▶ 1. Liner Trade Previous Forecast vs Revised Forecast

※All NYK assumption  
(In billion yen)



- ▶ ONE-related Improvement +3.0 includes following factors.  
(Previous Forecast vs Revised Forecast)
  - ▶ Improve profit which will cover negative impact due to removal of overseas terminal businesses in ONE full-year forecast.
  - ▶ Adjustment due to difference in bunker oil prices.



### ► 2. Air Cargo Transportation (NCA)

	FY18/3 (Result)					FY19/3 (Forecast)					Change from previous forecast (full-year)
	1H		2H		Full-year	1H(Result)		2H		Full-year	
	1Q	2Q	3Q	4Q		1Q	2Q	3Q (Result)	4Q		
<b>Revenues</b> (billion yen)	47.1		50.6		81.9	29.1		31.8		61.0	0.0
	23.3	23.7	25.8	24.8		21.7	7.4	13.1	18.7		
<b>Recurring Profit</b> (billion yen)	-0.0		1.8		1.8	-7.9		-7.1		-15.0	1.0
	0.7	-0.8	0.8	1.0		-1.6	-6.2	-4.2	-2.8		
<b>Chargeable Weight</b> (1,000 ton)	286		270		556	148		142		290	15
	142	145	138	132		112	36	57	85		
<b>Volume (RTK)</b> (mil.ton Kilo)	1,703		1,607		3,310	853		812		1,665	49
	847	855	819	787		669	183	304	508		
<b>Capacity (ATK)</b> (mil.ton Kilo)	2,401		2,199		4,601	1,222		1,169		2,390	35
	1,180	1,221	1,111	1,087		944	278	487	681		
<b>YIELD</b> FY09/3 1Q=100	82		90		86	90		91		90	-2
	81	82	91	89		94	79	95	88		
<b>MOPS</b> US\$ per bbl	\$62		\$76		\$69	\$88		\$84		\$86	-\$3
	\$61	\$64	\$73	\$80		\$87	\$89	\$83	\$85		

- Handling volume increased and business loss reduced in line with aircraft returning to service.
- All eight B747-8Fs NCA operates returned to service as of the end of January. It is now crucial for NCA to raise utilization rate of its aircraft.
- Three B747-400Fs will be utilized in a strategic business partnership with Atlas from next fiscal year.



### ▶ 3. Logistics

		FY17/3 Full-year	FY18/3				Full-year	FY19/3 (Forecast)					Change from previous forecast (full-year)
			1H		2H			1H(Results)		2H		Full-year	
			1Q	2Q	3Q	4Q	1Q	2Q	3Q (Result)	4Q			
Ocean Export	TEU (1,000TEU)	775	395		385		419		415		834	-14	
			195	200	200	186	203	216	207	208			
	Year-on year	22%	4%		-3%		6%		8%		7%	-2%	
			5%	3%	-2%	-4%	4%	8%	4%	12%			
Air Export	Weight (1,000ton)	369	184		191		190		194		385	-4	
			88	96	98	93	94	97	101	93			
	Year-on year	11%	4%		-1%		3%		2%		3%	-1%	
			2%	6%	-4%	2%	7%	1%	4%	0%			

- Ocean Freight Forwarding  
Front-loading of cargoes in connection with US/China trade friction led to robust handling volume.
- Air Freight Forwarding  
Additional volume from typhoon-related transportation demand contributed to increased handling volume vs. same period last year.
- Logistics  
Robust US domestic sales and new businesses in emerging markets increased revenue. Completed the sale of loss-making US business.



### ▶ 4. Bulk Shipping – 1) Market trend and forecast

	FY18/3 (Result)					FY19/3 (Forecast)					Previous forecast (Full-Year)	
	1Q	2Q	3Q	4Q	Full-Year	1Q (Result)	2Q (Result)	3Q (Result)	4Q	Full-Year		
<b>D R Y</b>												
<b>B</b>	BDI	1,018	1,137	1,519	1,174	1,212	1,258	1,603	1,357	1,203	1,355	1,501
<b>B</b>	Cape (5TC)	12,231	14,632	23,331	12,919	15,778	14,928	22,054	15,822	13,000	16,451	19,746
<b>C</b>	Panamax (Pac)	8,304	9,811	11,271	10,945	10,083	10,741	10,444	10,777	10,500	10,616	11,171
<b>C</b>	Handymax (Pac)	7,832	8,657	9,239	9,180	8,727	11,467	10,718	9,527	11,000	10,678	11,296
<b>A</b>	Handy (Pac)	6,778	7,112	8,640	7,671	7,551	8,684	7,932	7,718	8,000	8,084	8,529
<b>T</b>	VLCC	22,582	13,541	23,099	8,083	16,827	9,076	13,966	45,351	32,000	25,099	20,761

※ Dry Bulk Charter Market (Sport Time Charter) 5TC = 5 Trade Average Pac = Pacific Round Voyage Unit : \$/day

- Dry Bulk Market weakening in the winter slack season.
- Liquid Upwardly revised the market forecast to reflect the current market situation.



### ► 4. Bulk Shipping – 2) Car Carrier

	FY18/3 (Result)					Full-year	FY19/3 (Forecast)					Change from previous forecast (Full-year)
	1H		2H		Full-year		1H(Result)		2H		Full-year	
	1Q	2Q	3Q	4Q			1Q	2Q	3Q (Result)	4Q		
<b>All Trade</b> (10,000cars)	<b>179</b>		<b>184</b>		<b>363</b>	<b>168</b>		<b>171</b>		<b>338</b>	<b>8</b>	
	<b>88</b>	<b>91</b>	<b>94</b>	<b>90</b>		<b>87</b>	<b>81</b>	<b>86</b>	<b>84</b>			
<b>Year-on year</b>	<b>7%</b>		<b>9%</b>		<b>8%</b>	<b>-6%</b>		<b>-7%</b>		<b>-7%</b>	<b>2%</b>	
	<b>5%</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>		<b>-1%</b>	<b>-11%</b>	<b>-8%</b>	<b>-7%</b>			

- Collect trilateral transportation cargo to resolve cargo imbalance.
- Conduct optimized vessel operations and slow steaming to improve profitability.





### ➤ Update on “Staying Ahead 2022 with Digitalization and Green” and Future Initiatives

Optimize  
business portfolio

#### ✓ Reconfigure business portfolio to withstand volatile market conditions

- ❑ Reform the dry-bulk business through early redelivery of high-cost chartered vessels (6 vessels planned in FY2018)
- ❑ Integrate management of Port and Harbor transportation business in Japan – Reorganization including establishment of a joint holding company
- ❑ Transfer some equity portion of the cruise business - Joint management of NYK CRUISES CO.,LTD.

Secure stable-  
freight-rate  
business

#### ✓ Develop well-balanced revenue structure

- ❑ Expand logistics business further following full acquisition of YLK
- ❑ Secure LNG business steadily (13 vessels on order, including 6 vessels contracted in FY2018/ 97 vessels in total by end of FY2022)

Increase efficiency  
and  
create new value

#### ✓ Implement Digitalization & Green Initiatives

- ❑ Look to FinTech to realize cashless ships
- ❑ Launch ship-management platform
- ❑ Promote green finance (green bond/green loan)

#### ✓ Ongoing Initiatives

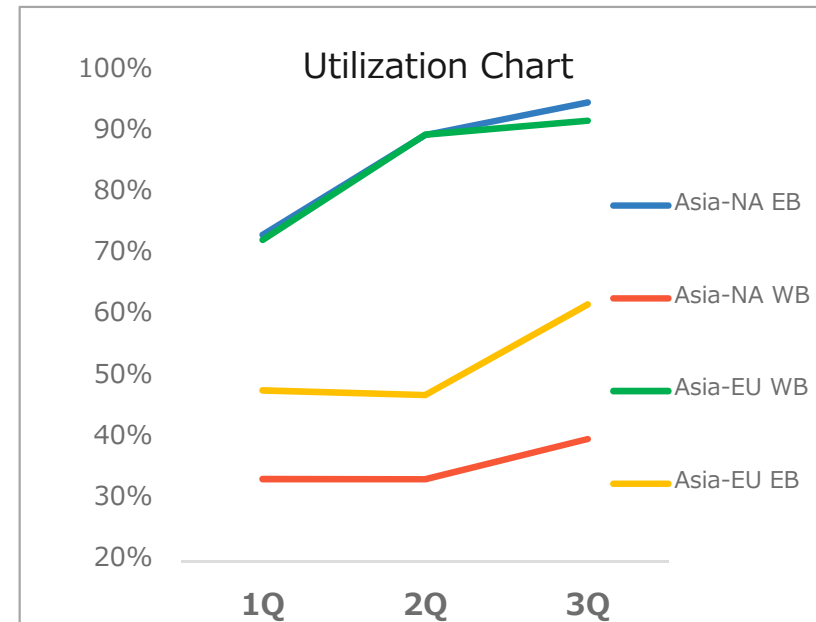
- ❑ Asset liquidation – reduction of stockholdings/disposal and re-development of real estates
- ❑ Integration of ESG principals to management strategy to strengthen corporate governance, enhance management of Group companies and contribute to sustainable environment and society

## ➤ Ensure action plans for profit improvement

- ❑ Stabilization: Overcoming teething problems and 3J Legacies (contracts, networks, etc.)
- ❑ Reformation: Conducting 2019 Structural Reforms to turn around into black in 2019

### Group 1) Stabilization and recovery from teething problems

- ✓ Significant recovery of liftings and utilization
- ✓ Collection of Detention and Demurrage at higher level of the target




### Group 2) Action plans toward FY2019

- ✓ Cargo Portfolio Optimization
  - Optimize cargo portfolio through tender negotiation
- ✓ Product Rationalization
  - Product restructuring including The Alliance and JV container terminal in Singapore with PSA
- ✓ Organization Optimization
  - Further optimize organization and systems toward the establishment of a more efficient, more competitive structure
- ✓ Synergistic Effects
  - Some 75% emerging in FY2018, and 100% in FY2020



## ◆ Resumption schedule of flight operation

- Ensure stabilization of business

	17-Jan. Suspension of operation	End of 2Q	End of 3Q	4Q		
				End of Jan.	End of Feb.	End of Mar.
# of operating aircraft	0	3	6	8		

### □ Stabilization of 747-8F flight operation

- ✓ Establishment of the only one model operation for 747-8F through restructuring of aircraft maintenance system
- ✓ Resumption of operation sequentially since last July and all eight 747-8F in operation by the end of January

### □ Promotion of utilizing five 747-400F fleets

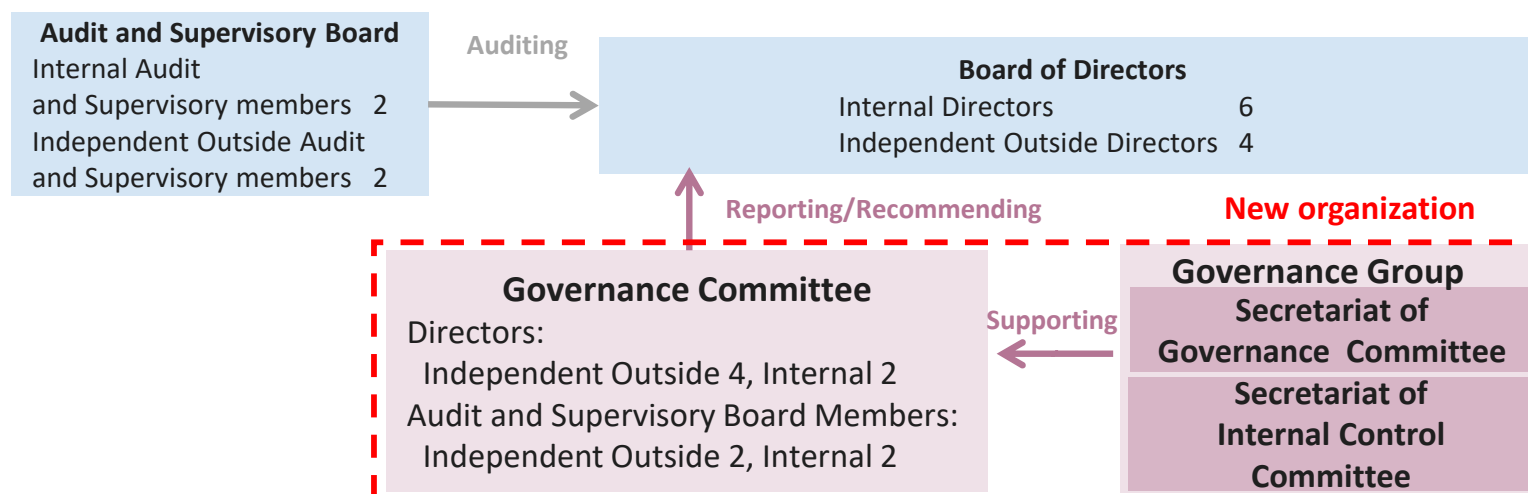
- ✓ Expand strategic partnership with Atlas Air Inc.
- ✓ Agree to the contract for the lease and air transport service
- ✓ Optimize its flight network and expand intermediate transport

### □ Response to the administrative measures at NCA - referring to our news release as of today

- ✓ Voluntary return of remuneration for directors and officers concerned including Chairman and President
- ✓ Assignment of our former director as a full-time chairman of NCA
- ✓ Supervision and monitor of the progress of NCA's prevention measures through strengthening of corporate governance



- Change of Directors, Auditors, and Corporate officers – referring to our news release as of today
  - ❑ Composition of Independent outside Directors and Auditors
    - Further enhancement of diversity of expertise and experience
- Establishment of ‘Governance Committee’
  - ❑ Membership - Five independent outside officers  
Four internal officers  
(two full-time Auditors, two Chief Executives - General Affairs HQs and Management Planning HQs) (\*)
  - ❑ Reinforce supervising and monitoring function through the organization with a high degree of objectivity and independence
  - ❑ Identify and report problems to make recommendations for improvements more actively  
(\*) Six outside officers and four Internal officers after the approval by 132<sup>nd</sup> ordinary general meeting of shareholders in June 2019



# ONE

**OCEAN NETWORK EXPRESS**

Financial Results for FY2018 3<sup>rd</sup> Quarter

JAN. 31, 2019

# Ocean Network Express FY2018 Q3 Financial Results/Forecasts



## Q3 Results/Full-year Forecast, and Comparison with Previous Forecasts

(Unit: US\$ million)

\*as of Oct 2018

	FY2018 Previous Forecasts*						
	Q1 Results	Q2 Results	H1 Results	Q3 Forecast	Q4 Forecast	H2 Forecast	Full Year Forecast
Revenue	2,066	2,963	5,030	2,982	2,988	5,970	11,000
Profit/Loss	-120	-192	-311	-218	-71	-289	-600

FY2018 Latest Forecasts						
Q1 Results	Q2 Results	H1 Results	Q3 Results	Q4 Forecast	H2 Forecast	Full Year Forecast
2,066	2,963	5,030	3,025	2,830	5,855	10,885
-120	-192	-311	-179	-104	-283	-594

Full Year	
Change	Change (%)
-115	-1.0%
6	-1.0%

Bunker Price (US\$/MT)	Q1	Q2	H1	Q3	Q4	H2	Full Year
	\$407.00	\$457.00	\$434.00	\$466.00	\$466.00	\$466.00	\$451.00

\$407.00	\$457.00	\$434.00	\$487.00	\$417.00	\$453.00	\$444.00
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-\$7.00
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☐ **Sensitivity on Profit/Loss:**  
Bunker Price  $\pm$  US\$ 6Million per US\$10/MT (For Remaining 3 months/Max)

## Profit/Loss Summary

Q3 Results: Ended with a -US\$179 million loss, an improvement from an anticipated -US\$218 million loss in the previous forecasts (announced on October 31). Utilization recovered significantly from H1 despite a slight shortfall in the previous outlook. Freight rates on Asia-North America Eastbound remained at high levels and contributed to the improvement in Q3 results. Actions aimed at boosting profitability also showed certain results. Cost reduction from the declining bunker prices was yet to contribute in Q3.

Q4/Full-year Forecasts: Updated Q4 forecasts conservatively factor in uncertainties in the external environment, such as the effects of China-U.S. trade friction, the European economy, and the impact of China's environmental protection laws on backhaul trades. The full-year net loss is projected at -US\$594 million, the same level of the previous forecasts.

# Ocean Network Express

## Liftings/Utilization/Freight Index

### □ Liftings/Utilization by Trade

(Unit: 1,000 TEU)

Liftings/Utilization by Trade		FY2018			
		Q1 Results	Q2 Results	H1 Results	Q3 Results
Asia-North America Eastbound	Liftings	530	761	1,291	746
	Utilization	73%	90%	82%	95%
Asia-Europe Westbound	Liftings	312	478	790	442
	Utilization	73%	90%	82%	92%

Asia-North America Westbound	Liftings	218	285	502	320
	Utilization	33%	33%	33%	40%
Asia-Europe Eastbound	Liftings	194	263	457	315
	Utilization	48%	47%	48%	62%

### □ Freight Index by Trade

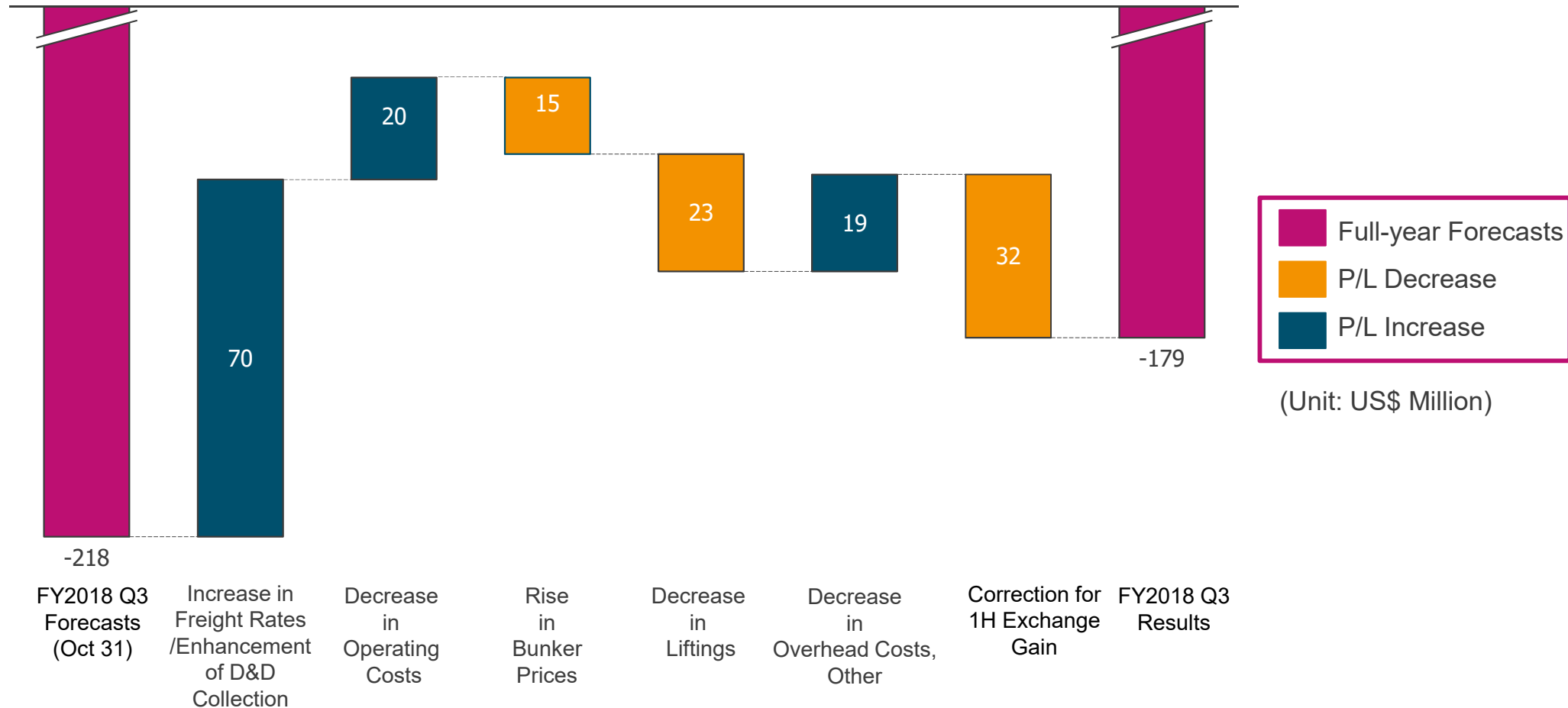
(Unit: 100 = FY2018 Q1 average)

Freight Index by Trade		FY2018			
		Q1 Results	Q2 Results	H1 Results	Q3 Results
Asia-North America Eastbound		100	101	101	108
Asia-Europe Westbound		100	106	104	100

#### Overview by Route

- **Asia-North America Eastbound:** Demand in October and November (usually a slow season following China's National Day) was stronger than usual, due in part to the impact of last-minute demand to avoid new U.S. tariffs on Chinese products. The tight demand and supply balance continued as frequencies of the service were reduced, and liftings and freight rates remained at high levels, higher than Q2.
- **Asia-Europe Westbound:** Liftings dropped as they typically do every year during the slow season (October and November after China's National Day), but demand recovered from December to year-end/before Chinese New Year. Ships continued to depart with almost full loads. Though freight rates, which had dropped since October did not collapse, their upturn was limited despite December's increase in demand.
- **Asia-North America Westbound/Asia-Europe Eastbound:** Liftings and utilization increased significantly from Q2, and freight rates remained stable. Efforts continued to enhance yield management and increase utilization.

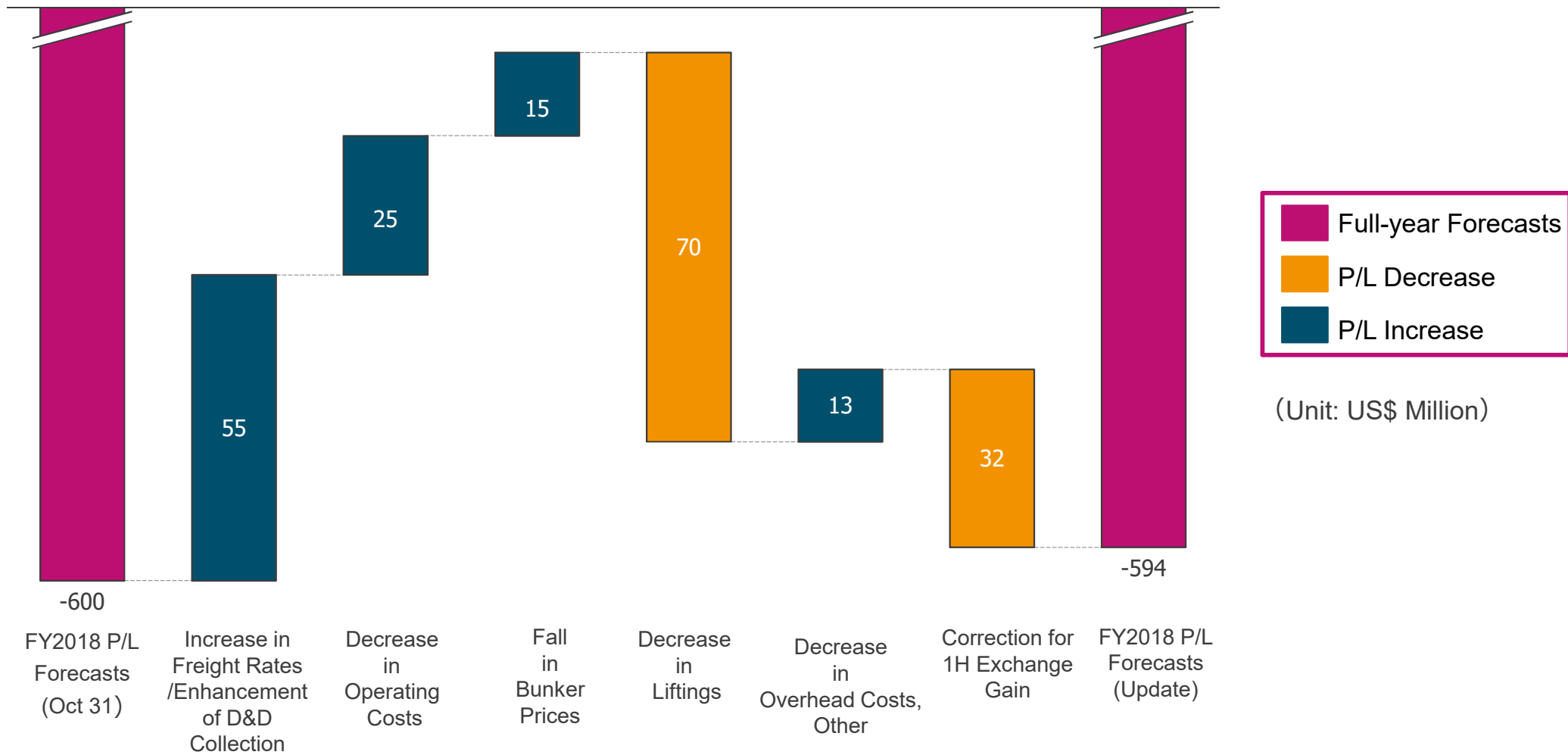
# Ocean Network Express FY2018 Q3 P/L Analysis (vs. Previous Forecasts)



Spot freight rates on the Asia-North America Eastbound trade remained higher than the assumption, and collection of detention and demurrage was enhanced. Operating costs dropped due to cancellation of some sailings in response to lower demand around China's National Day. Bunker costs increased due to rising bunker prices during the first half of Q3. Liftings were slightly short of targets, particularly on Asia-Europe routes. A temporary adjustment occurred in exchange gain in H1.



# Ocean Network Express FY2018 Annual P/L Analysis (vs. Previous Forecasts) -1/2



Variance Factor Analysis

Increase in Freight Rates / Enhancement of Detention & Demurrage Collection	Freight rates on Asia-North America routes relatively remained strong in Q3 due to last-minute demand before U.S. tariffs were raised, but those on Asia-Europe routes weakened. The impact of external factors such as China-U.S. trade friction was included in Q4 outlook. Detention & Demurrage collection amounts increased, remaining at higher levels than the previous outlook (announced on October 31).
Decrease in Operating Costs	Flexibly reduced frequencies of the service to meet decreased demand amid the impact of worse-than-expected dense fog and congestion in East China and North China regions. Operating costs are expected to be slightly lower than the previous outlook.
Fall in Bunker Prices	Reflected fall in bunker prices from late Q3. Reviewed projected unit price for H2: \$466 → \$453 Reviewed projected unit price for full year: \$451 → \$444
Decrease in Liftings	Utilization in Q3 increased to 95% on Asia-North America Eastbound and 92% on Asia-Europe Westbound, achieving the same level as those of the three parent companies before integration. However, liftings in Q4 are expected to show a slight decrease due to seasonal factors. In general, liftings have been increased, but external factors after Chinese New Year were re-estimated and factored into Q4 outlook.
Decrease in Overhead Costs, Other	Overhead costs decreased. Targeting transfer of overseas terminal businesses from each of the parent companies within FY2018.
Correction for 1H Exchange Gain	Adjustment in exchange rate loss for H1 was recorded in Q3. (-US\$32 million) as temporary factor.

**Full-year P/L is projected -US\$594 million loss, the same level as the previous forecasts.**

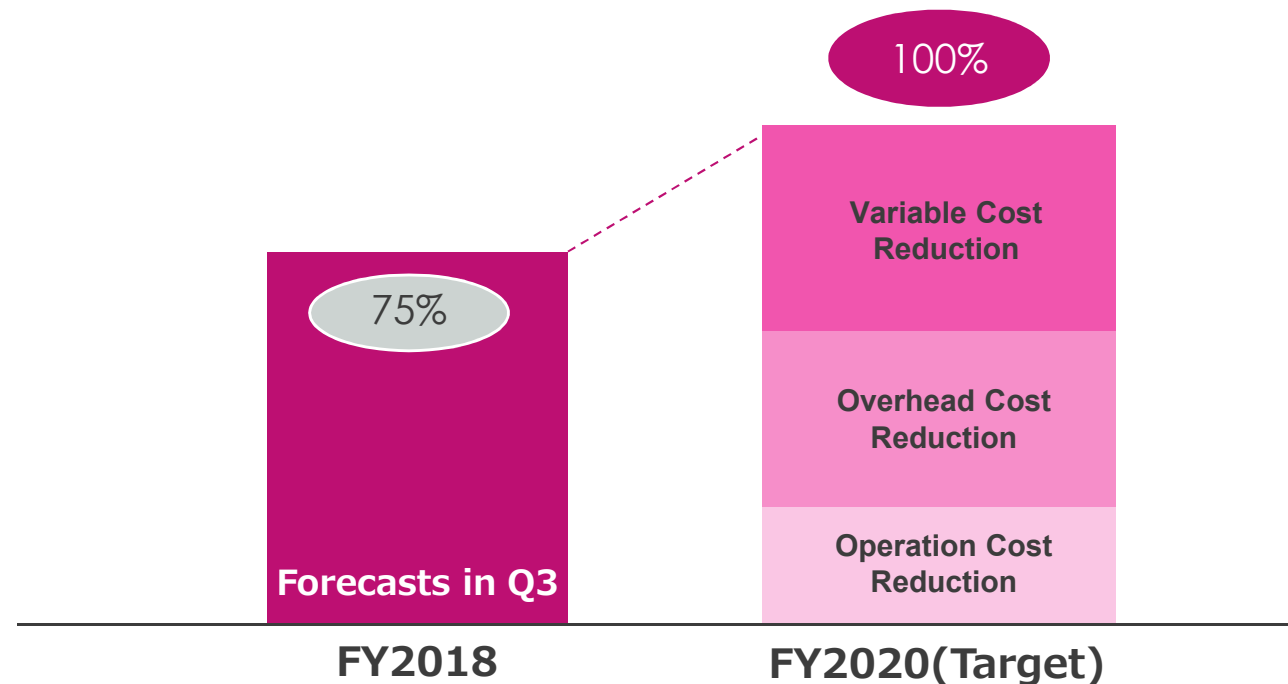
# Ocean Network Express Integration Synergy Update

From initial integration synergy forecast of US\$1,050 million, 75% of the synergistic effects is expected to emerge for the 1<sup>st</sup> year. (No change from the previous forecasts.)

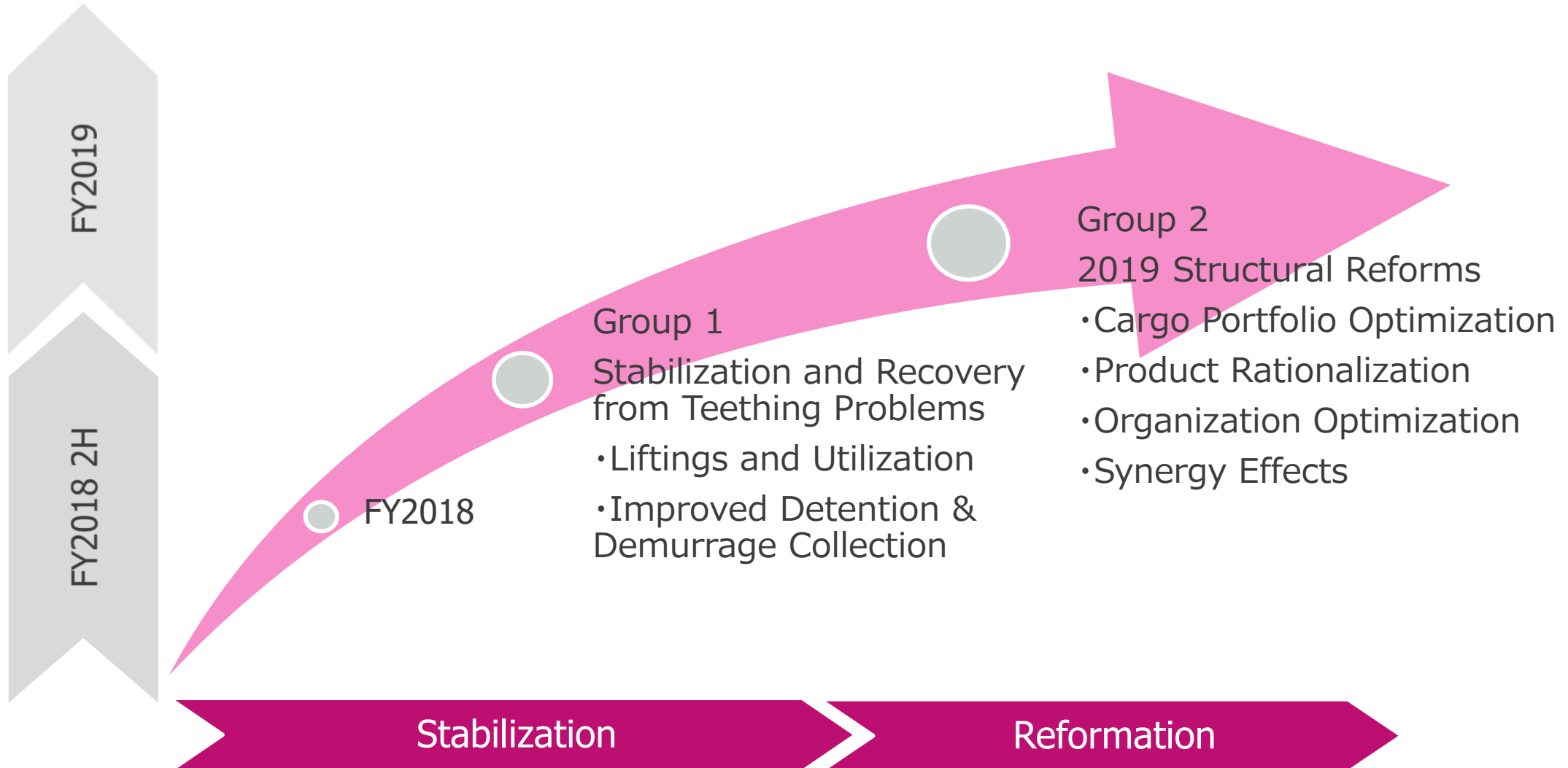
▪ **Break-down of the synergistic effect US\$1,050 million is as follows :**

- **Variable Cost Reduction** ...US\$430 million : Rail, Truck Feeder, Terminal Equipment, etc.
- **Overhead Cost Reduction** ...US\$370 million : IT cost, Rationalization of Organization, Outsourcing, etc.
- **Operation Cost Reduction** ...US\$250 million : Bunker consumption, product rationalization, etc.

**Achievement ratio against the initial target**



Establish an organization that can tolerate market volatility by stabilizing initial setup challenges and accomplishing significant structural reformation.



## Stabilization and Recovery from Teething Problems

Group 1	Recovery of Liftings and Utilization	Utilization showed a significant recovery, due in part to efforts to flexibly reduce frequencies. Liftings on Asia-North America Westbound/Asia-Europe Eastbound trades, which are to be addressed, also show a recovery trend.
	Enhancement of Detention & Demurrage Collection	Collected Detention & Demurrage at higher level of the target.

## Action Plans toward FY2019

Group 2	Cargo Portfolio Optimization	Improve profit by optimizing match back cargo plans. Optimize cargo portfolio through tender negotiations for 2019.
	Product Rationalization	Product restructuring including The Alliance has moved ahead step by step, as announced in press releases. Further enhance the bunker saving project, in terms of not only cost saving but also to reduce environmental impact.
	Organization Optimization	Further optimize organization and systems toward the establishment of a more efficient, more competitive structure, by reviewing the overall organization. Study measures to save labor in operations by strengthening e-commerce and introducing robotics and other technologies.
	Synergistic Effects	Some 75% of the synergistic effects will emerge in FY2018, the first year after integration. The synergistic effects in FY2020, the third year after integration, are expected to be at 100%.

# Ocean Network Express Fleet Structure

as of end of 3Q	Size		Combined
	>= 20,500 TEU	Capacity (TEU) Vessels	120,600 6
	10,500 - 20,500 TEU	Capacity (TEU) Vessels	307,000 22
	9,800 - 10,500 TEU	Capacity (TEU) Vessels	100,100 10
	7,800 - 9,800 TEU	Capacity (TEU) Vessels	330,856 37
	6,000 - 7,800 TEU	Capacity (TEU) Vessels	266,139 41
	5,200 - 6,000 TEU	Capacity (TEU) Vessels	84,170 15
	4,600 - 5,200 TEU	Capacity (TEU) Vessels	132,624 27
	4,300 - 4,600 TEU	Capacity (TEU) Vessels	71,816 16
	3,500 - 4,300 TEU	Capacity (TEU) Vessels	29,691 7
	2,400 - 3,500 TEU	Capacity (TEU) Vessels	60,952 23
	1,300 - 2,400 TEU	Capacity (TEU) Vessels	16,993 10
	1,000 - 1,300 TEU	Capacity (TEU) Vessels	6,449 6
< 1,000 TEU	Capacity (TEU) Vessels	2,106 3	
<b>Total</b>	<b>Capacity (TEU) Vessels</b>	<b>1,529,496 223</b>	



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