NYK Line
Aug 2019

Summary of Q&A Session at Briefing on Financial Results
for the First Quarter of Fiscal Year Ended March 31, 2020

- Liner Business

Q1. Please tell us about your outlook for the direction of the freight index in the 2nd quarter. In particular, the peak season in the trans-Pacific route feels slightly weak.

A1. In relation to the future freight forecasts, please understand that the figures are confidential as releasing them could be considered signaling to the market. Recently in the trans-Pacific routes, spot freight rates have been strong to the East Coast, but they have been weakening to the main West Coast. However, each alliance is planning to introduce the peak season surcharge of around $800-$1,000 for 40-foot containers and continues the blank sailings as well. The total freight rate including the surcharge is expected to rise through August, and as long as there is no sudden change in cargo volumes, the trans-Pacific route is expected to be relatively stable. Concerning the Asia-Europe route, although there are some concerns, every containership operator seems to be in a difficult situation. So it is anticipated that the carriers will balance capacity through blank sailings, and spot freight rates will likely rise.

- Air Cargo Business

Q2. The forecast has been revised downward. What is the outlook for returning profitability next year and beyond?

A2. First, we believe that we are at the stage of implementing the profit improvement measures that can be enacted in the short term.
Although the preparation of the operational framework for the aircraft has been sufficiently carried out, the cargo situation (cargo volumes) has not been sufficient in response. Assuming the space which NCA offer is 100, freight volumes from Japan are only about 74, and NCA has reduced the recent transportation space supply down to about 93 presently. Essentially reducing the daily transportation service will be very difficult to carry out in relation to the customer needs. Regarding the cargo movement, the impact of the trade friction between China and the US has appeared in multiple areas, and we are carefully monitoring the trends. Based on the past experience that even during years with large drops in freight volumes there has been increased demand in the peak season, a certain increase in demand has been considered in the forecast for the second half. However, this year is

expected to be a challenging business environment overall. Concerning the measures to improve the bottom line, as shown in the presentation slide (p.13), it is planned to optimize the fleet allocation and reduce costs. While confirming the demand trends timely, depending on the situation, we will consider selection and concentration, such as reducing coverage to a particular area. However, this could result in missed business opportunities, so the decisions will be made and carried out while considering the overall situation.

- Logistics Business

Q3. Despite profits being almost zero in the 1st quarter, you have forecast a profit of 2 billion yen in the 2nd quarter. Will this truly be possible to achieve?

A3. The forecast reflects the seasonal trends and our feeling at present. First of all, in the previously announced initial forecast (first half), the 1st quarter was already expected to be a challenging period. In particular, Yusen Logistics (YLK) is relatively reliant on the Japanese market, and for example, the impact of considerable drop in cargo volume during the 10-day Golden Week holiday was considered in the forecast. Although affected by these factors, the results are expected to improve from the 2nd quarter, and there has also been a strong feeling. In addition, the Tsuruga – Hakata service operated by Kinkai Yusen is one of the factors behind the improved results. It is relatively small scale, but the service has been upgraded from one vessel to a daily service utilizing 2 vessels, and the results are expected to improve.

- Bulk Shipping Business

Q4. On the recurring profit level, the 1st quarter results and 2nd quarter forecast appear to be unchanged at about 9 billion yen. Doesn't the result improve in the 2nd quarter considering the rapid rise in the dry bulk market? The forecast looks to be slightly conservative, but what is your outlook?

A4. Energy transportation and car carriers are firm and will not change much from the 1st quarter. In dry bulk, there are definitely the expectations that the bottom line will improve following the rapid rise in the market from around July. However, part of the figures are already fixed as the result of freight forward agreements and other agreements. It is difficult to predict what direction the market levels will move, which have started to fall somewhat recently. As a result, we have not changed the market assumptions much from the initial forecast

Q5. You expect profits to increase by 4 billion yen for the year compared to the previous forecast, but can you please provide a breakdown, including the ratio accounted for by energy transportation and car carriers?

A5. Energy transportation and car carriers will each account for roughly half. Although Energy transportation is mostly composed by stable-freight-rate businesses based on medium- to long-term contracts for LNG carriers and the offshore business, we also have the market-linked businesses such as LPG carriers (equivalent 2.5 vessels), which has been strong recently and would be somewhat stable in the second half, and these factors are reflected in the revised forecast. In car carriers, the transportation volume is expected to grow by 100,000 vehicles compared to the initial forecast. We also consider the increase in the revised forecast, along with the effects of optimizing vessel allocation currently underway.

- Governance of NYK Group Subsidiaries

Q6. I believe that NYK management style for YLK and NCA from the past is to leave the management to the subsidiaries while monitoring and supervising. It does not appear to have led to any fundamentally better profitability. I think it may be necessary to drastically change this style. What is your thinking?

A6. We have been discussing the issue you mentioned. Presently, we recognize the management style for NCA as the biggest business challenge, and also regard the NCA's scale and business environment (reliance mainly on the Japanese market) etc. as the fundamental issue. We do not feel there is much time remaining. In regard to YLK, it is not expected to be placed in a challenging position abruptly, like NCA, because it is a non-asset based business. From a positive viewpoint, we are discussing what the management style for YLK should be.