November 2019
Nippon Yusen Kabushiki Kaisha

Summary of the questions and answers for presentation of the financial results for the second quarter of the fiscal year ending March 31, 2020

<Liner Business>
Q1:
Concerning the second half forecast for ONE, what are the second half spot freight rate assumptions on which the forecast is based, and what is the ratio of spot freight out of total freight volumes? Is it correct that the recent spot freight rates have been applied for the entire second half?

A1:
The spot freight rate assumptions have been forecast on a weekly basis for the entire second half. Offering the major Transpacific and Asia-Europe trades as an example, there is not much difference between the actual freight rates and forecast rates at this time. In the Transpacific trade, freight rates rose in the middle of October by $150- $200 per container to both the East Coast and West Coast. This trend remains unchanged also in November, and rates are viewed to be almost in line with the forecast. In the Asia-Europe trade, we believe the market has bottomed out. In terms of the spot freight ratio, it is about 30% in the North America trade and about 50% in the Europe trade.

<Air Cargo Business>
Q2:
What is your outlook for NCA in the second half?

A2:
A certain seasonal increase in demand and the effects of the changes to the production system (flight schedule) have been considered in the forecast. According to the statistics issued by JAFA, cargo volumes from Japan continue to be 20-30% below the same period last year, and although no remarkable improvement can be seen, there are certain expectations for export demand that has been shifted from China to Southeast Asia. The

change of the routes and flight schedules, including suspensions of the Atlantic route, is underway. All flights will fly out of Narita under a hub and spokes configuration, and the arrival and departure times at Narita will meet the needs of customers. Through this, the company can better acquire time-sensitive and high freight rate cargo such as fresh food.

Q3:
When do you expect NCA to become profitable on a quarterly basis? How much does NCA have in assets?

A3:
Presently, NCA is formulating a medium-term management plan, and there is nothing specific to announce at this time. Speaking based solely on feel, although it would likely be rather difficult for NCA to be profitable assuming the average market level over the past five years (cargo volumes, yield, etc.), the company would be profitable in the best market year. However, air cargo demand has mainly cyclical elements, and if we take everything into consideration, we believe that we must make a plan that will lead to profitability on a quarterly basis in the second half of next year. Regarding assets, when looking from a consolidated standpoint, it varies depending on the method used to calculate the owned aircraft and leased aircraft, but we can say is that it is a considerable amount. While keeping this amount in mind, we are currently considering matters including how to operate the air cargo business in the future.

Q4:
It was mentioned during the presentation of the first quarter results that NCA is the largest management issue. What discussions are being held? Also, what is the direction and progress of those discussions, including the options and time frame?

A4:
We are unable to announce anything specific at this time, but as we move forward with our discussions, we intend to decidea direction within this year.

<Bulk Shipping Business>
Q5:
What is your policy for using FFA?

A5:

When we established the Tramper Group two years ago, internal rules on the use of FFA and a concept for the usable limits were formulated in order to operate a stable dry bulk business even in volatile markets. Specifically, using the quarterly market rate assumptions set at the start of the year as criteria, FFA are executed under the decision of the Chief Executive of the Dry Bulk Division. Also, a validation is conducted every year based on the results, and revisions are made as necessary. In terms of the financial results, they are generally in line with the initial forecast, and rather than benefitting from the strong rise in the market, we sought to stabilize the business results.

Q6:

The derivative loss in non-operating expenses has increased by 4.5 billion yen compared to the same period last year. Is this amount basically the impact of the FFA?

A6:

That is generally correct.

Q7:

What impact will future market fluctuations have on the second half results in the dry bulk shipping? If the market is higher at the end of the year, what is your outlook for recognizing a valuation loss again this year and delaying the profits to next year?

A7:

We do not look favorably on valuation profits and losses causing large changes to the bottom line at the end of the year, and with the aim of limiting FFA that cross over into next year, we are giving instructions into the company, including specific figures.

Q8:

Concerning the bulk shipping results, excluding the impact of the FFA, profit will increase by approximately 3 billion yen compared to the previous year in both the first half and second half. Which divisions are driving the increased profits?

A8:

Overall, there are multiple factors, but car carriers contributed in the first half, while energy will contribute in the second half. In particular, the benefits from rationalizing the unprofitable trades and restoring freight rates in the car carrier business have appeared in the first half.

<Response to the SOx regulations>

Q9:

What policies do you have behind the advance procurement of regulatory compliant fuel, and how much does it cost? What is the status of passing on the cost increases to the shippers?

A9:

The regulatory compliant fuel we are procuring in advance has been contracted under rational conditions at the present time. Unless there are major fluctuations in overall oil and fuel prices, the regulatory compliant fuel will hardly have a major impact on our financial results. In relation to passing on the costs, the understanding of almost all shippers has been obtained. In terms of actual operations, there will be minor differences in the timing of the physical procurement of the regulatory compliant fuel, the start of its actual use and the settlement with the customer. Also, there will be a slight difference between our procurement price and the settlement price with the customer due to the way the bunker adjustment factor (BAF) is calculated, but from a long-term perspective, this is expected to have almost no impact on the bottom line.