August 2021
Nippon Yusen Kabushiki Kaisha

Summary of the questions and answers for presentation of the financial results for the first quarter of the fiscal year ending March 31, 2022

<Liner Business>

Q1: What is your view on freight rate levels from the second quarter while you expect the supply and demand to gradually normalize from the third quarter?

A1: The first half outlook of OCEAN NETWORK EXPRESS PTE. LTD. (“ONE”) is set as approx. 6 billion dollars (profit after-tax). In the second half, the impact of COVID-19 will subside in a certain period of time and supply and demand will normalize, following which spot freight rates are expected to gradually decline, and we believe seasonal factors such as the National Day of China in October will serve as a trigger. We believe the key for normalization is the consumption trend in the U.S. Currently, the consumption trend is gradually shifting from consumption of things to consumption of experience, and we also expect some e-commerce-related consumption to cool off. Taking these into consideration, we have calculated spot freight rate levels on the outlook that supply and demand would gradually normalize towards the fourth quarter.

Q2: What is the impact of port labor negotiations in the West Coast of the U.S. next year on the container market?

A2: They plan to have negotiations in July next year and there is not much information we can elaborate on at this moment. We believe we must prepare for all possibilities.

Q3: What is the source for the planned large increase in dividends this time? Is it dividends from ONE? How is the progress in discussions regarding dividends from ONE?

A3: For the current fiscal year, the forecast for full-year dividend is 700 yen per share based on our dividend policy. Interim dividend is small at 200 yen per share based on the non-consolidated financial restrictions in accordance with the Companies Act. In our case, we believe that we have assured dividend sources thanks to profit contributions and dividends from Nippon Cargo Airlines Co., Ltd. (“NCA”) and Yusen Logistics Co., Ltd. (“YLK”) as well as other divisions to the parent company, and also the dividends from ONE. We are currently discussing dividends from ONE from the perspective of how to improve fund efficiency under the financial discipline. Regarding the dividend policy of ONE, we are currently formulating a medium- to long-term operating policy including capital policy and investment plan. Though it is difficult even to make the forecast for the second half of the current fiscal year, we are formulating a profit plan for the normalized period after the confusion is cleared and are also discussing investment for strengthening competitiveness and sustainable profits as well as capital policy including shareholder dividends. The basic idea of shareholder return is taking shape between ONE and its shareholders, but the accumulation of profits since the previous fiscal year is very large and discussions regarding the return policy of the profits and cash are still ongoing. We will push ahead with discussions to ensure that dividends for shareholders will also contribute to the capital policy of the parent company.

Q4: When will the medium-term management plan of ONE be announced?

A4: The details are starting to take shape. The plan is being formulated for quite a long period of time, so we will be discussing the period of the plan and concrete figures for announcement from now on. At least, we would like to announce the second half outlook when the first half result is available, and then subsequently arrange for an opportunity to explain the business plan and future outlook either within this year or early next year.

Q5: Recurring profit of the Liner Business in the second half is forecast to decline by about 60% compared with the first half. Does it mean that you are assuming the freight rates in the second half to halve on average compared with the first half?

A5: Spot freight rates for the first quarter was about 2.5 to 3 times year on year for the North American routes and about 8 times for the European route, which are abnormal levels, and it is very difficult to foresee the future. We made the forecast based on an assumption that spot freight rates will gradually go back to the level before COVID-19 going into the fourth quarter.

Q6: The freight rates for the North American east coast routes exceed 10,000 dollars and some say the prevailing rates are from 15,000 to 20,000 dollars. Are there such prevailing rates other than SCFI? Also, has ONE been able to get contracts at the similar freight levels with that rates?

A6: They are possible as a momentary rate, but we have not confirmed such prevailing rates. To be sure, the spot freight rates that ONE has been getting are comparable to the market.

Q7: Port congestion for container ships appears to be gradually easing. Has there been any changes in container box shortage? Also, will there be progress in collection once it enters a slack season? I would like to know it by route.

A7: According to the most recent figures, port congestion is headed for resolution and cargo has begun flowing to inland smoothly, so we believe that ship congestion will also be eventually resolved. However, we are concerned that there will be no fundamental solution unless consumption in the U.S. steadies. Usually, it is going to be summer dry season in Europe and the U.S., and homeward cargo will decline. Considering the necessity to return container boxes to major places of shipment in Asia for winning business, it is important to forward as many empty containers as possible during the summer dry season and ONE is also considering it.

Q8: If U.S. retail sales starts declining, are ONE and various alliances going to adjust the shipping scale by taking the backlogs into account?

A8: If ship capacity recovers due to cancellation of backlogs, we will proceed with forwarding of empty containers. As transportation demand settles down, vessel turnover rate will improve, and we believe there is a possibility that things will suddenly normalize.

<Logistics Business>

Q9: Amid rising purchase price, has the air freight forwarding business of YLK been able to pass it on to customers and secure profit margin? Is it that you are not expecting any problems even if the margin shrinks because handling volume is increasing?

A9: When the impact of COVID-19 pandemic started to surface, purchase price rose in advance and there was a time lag before selling price increased. Currently, supply and demand continue to be affected by the pandemic and we have been able to maintain a certain level of profit.

Q10: What is the reason for the about 40% decline in second-half recurring profit forecast compared with the same period of the previous fiscal year?

A10: Although there is a time difference with ONE and NCA, which are asset-type business, profit levels of the Logistics Business fluctuate depending on the supply and demand of the assets, which is also thought to affect handling volumes. In particular, we are expecting normalization of supply-demand balance in the fourth quarter. Moreover, one of the reasons for YLK's very strong business performance in the current fiscal year is e-commerce-related warehousing business, etc. and we are also expecting the local business to cool down along with normalization of supply and demand.

Q11: Profits increased year on year in the first quarter and full-year forecast was also revised upwards. What are the levels of contributions of the ocean freight forwarding business, air freight forwarding business, and logistics business?

A11: I would like to refrain from commenting on concrete figures, but the ocean freight forwarding business made significant contribution. While the air freight forwarding business was the first to respond to the change in supply and demand due to COVID-19 pandemic, securing a certain level of profit, the ocean freight forwarding business took some time to respond and its profit levels finally improved and the services it won in addition to Port to Port are also contributing. The air freight forwarding business continues to have high handling volume and the contract logistics business has also been stable.

<Bulk Shipping Business>

Q12: I understand the primary factor behind the upward revision of the results is the improvement in the dry bulk division. What are the factors by ship type and how did you reach this revised figure given that you have already reduced the market exposure to a certain level?

A12: Including the structural reforms carried out last year, the exposure of free ships has declined, and we did the upward revision as we are expecting to focus on the few remaining in the high market condition. In addition, there is also the shift of cargo to open hatch ships given the space shortage for container ships, based on which we are expecting improved results. We would like to refrain from disclosing the detailed breakdown by ship type, but the market levels are in general rising for all ship types and basically, we have estimated increased income in line with that.

<Others>

Q13: I understood that the impact of the partial share transfer of Yusen Real Estate Corporation ("Yusen Real Estate") is a significant factor behind the fall in profit level of the real estate business. Are you expecting the level of its profit contribution to Nippon Yusen Kaisha to rise in the medium to long term, as it jointly develops real estate with the partner to boost the values of properties, which in turn would increase its corporate value?

A13: As we disclosed a few days earlier, the partial share transfer of Yusen Real Estate has been completed. By entering into a partnership with Japan Post Real Estate Co., Ltd. ("Japan Post Real Estate"), which has the real estate business as a pillar of its revenues, we would like to strive to grow Yusen Real Estate and further improve its corporate value. We will see the impact of it becoming an equity affiliated company on the results for this term, but in the future, by being involved in the redevelopment of the real estate holdings of Yusen Real Estate or those held by Japan Post Real Estate, we expect to support the improvement in value of Yusen Real Estate.

Q14: What are the extraordinary losses or income you are anticipating outside of the capital gains from the partial share transfer of Yusen Real Estate?

A14: There are no extraordinary income or losses of note. This is a result after looking at the extraordinary income that could be earned from asset disposal due to changes in the market condition, change in accounting period, and changes in tax expenses.