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To our shareholders

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Security Code: 9101
Listings: First Section of the Tokyo and Nagoya
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Notice regarding the recording of non-operating expenses, extraordinary losses and extraordinary income

In the consolidated financial report for the second quarter (three month period) of the fiscal year ending March 2019, a non-operating expense, extraordinary loss and extraordinary income will be recorded, and in accordance with this, NYK Line also expects to record an extraordinary loss and extraordinary income in the non-consolidated financial report as indicated below.

1. Overview of the non-operating expense, extraordinary loss and extraordinary income

In the consolidated financial report for the second quarter (three month period) of the fiscal year ending March 2019 (hereinafter "this quarter"), NYK Line expects to record a non-operating expense of about ¥8.0 billion, extraordinary loss of about ¥12.0 billion, and extraordinary income of about ¥12.5 billion.

Regarding the overview of these items, first, as a result of the downward revision to the results in the first half at the integrated container shipping company (affiliate accounted for by the equity method) as announced separately today, an equity method investment loss occurred (non-operating expense). Next, an impairment loss occurred for the aircraft owned by NYK Line's consolidated subsidiary Nippon Cargo Airlines Co., Ltd., and one-time costs were incurred to confirm the soundness and inspect the airworthiness of the aircraft (extraordinary loss). Also, there was income resulting from the sale of investment securities (extraordinary income).

2. Background

(1) Liner trade

NYK Line integrated its liner business with those of Kawasaki Kisen Kaisha, Ltd., and Mitsui O.S.K. Lines, Ltd. to form Ocean Network Express Pte. Ltd., which started offering service from April of this year. Although synergies resulting from this integration have steadily emerged, the forecast for the first half and full year were revised downward due to a drop in loading volumes and slot utilization. (For details, please refer to the "Notice of Revisions in First Half and Full Year Consolidated Business Forecasts of Integrated Container Shipping Operating Company Ocean Network Express Pte. Ltd." that was announced separately today)

As a result, NYK Line expects to record in this quarter a non-operating expense of about ¥ 8.0 billion, which is equivalent to the company's equity ratio (38%).

(2) Air cargo transportation

NYK Line's consolidated subsidiary Nippon Cargo Airlines Co., Ltd., which operates an air cargo transportation business, submitted improvement measures in August in response to the "Business Improvement Order Regarding the Securing of Air Transportation Safety" received from the Minister of the Ministry of Land, Infrastructure, Transport and Tourism in July of this year. Based on the improvement order and improvement measures, Nippon Cargo Airlines Co., Ltd. is working to successively return the aircraft for which the soundness has been confirmed back into service, as well as thoroughly implement measures to prevent recurrence. As one of the measures for improvement, Nippon Cargo Airlines Co., Ltd. has decided to limit the aircraft types it operates to the Boeing 747-8F and eliminate the Boeing 747-400F. As a result of this decision, it has been determined necessary to record an impairment loss of about ¥ 10.0 billion for the Boeing 747-400F aircraft and spare engines owned by Nippon Cargo Airlines Co., Ltd. In addition, one-time costs have been incurred for confirming the soundness and inspecting the airworthiness of the aircraft, and it is expected that a total of about ¥ 12.0 billion will be recorded as an extraordinary loss for this quarter.

(3) Sale of investment securities

In accordance with the policy of reducing the strategic shareholdings as set forth in the Medium-term Management Plan, some of the investment securities held by NYK Line were sold. As a result of this sale, the company expects to record a total gain on the sale of investment securities of about ¥ 12.5 billion as extraordinary income this quarter.

3. Non-consolidated financial statement disclosures

In this quarter, NYK Line expects to record in the non-consolidated financial statement extraordinary income of about ¥ 12.5 billion resulting from the sale of investment securities as stated previously.

Also, in the air cargo transportation business, as a result of the previously stated extraordinary loss and deterioration in the business results following the halting of operations at the company's subsidiary, the company expects to record a provision of allowance for doubtful accounts of about ¥ 20.0 billion for the loans made to the company's subsidiary as an extraordinary loss. However, because this extraordinary loss will be eliminated in consolidation, it will have no impact on the consolidated profit and loss.

4. Business forecast and dividend

The consolidated results for the first half of the fiscal year ending March 2019 are currently being tabulated. In addition, regarding the consolidated business forecast for the full year ending March 2019, it is being prepared in light of the relevant non-operating expense, extraordinary loss, extraordinary income, and other situations, and the company plans to release the forecast on October 31.

Regarding the interim and year-end dividend outlook announced on July 31, 2018 (¥ 10 per share at each dividend, for a total annual dividend of ¥ 20), no changes are planned at this time.