I will set out a road map for enhancing corporate value from both financial and ESG management perspectives.

Akira Kono

Representative Director, Executive Vice-President, Executive Officer
Chief Financial Officer
Senior Assistant to the President
Chief Executive of Management Planning Headquarters
Chief Executive of ESG Strategy Headquarters

CFO MESSAGE

Fiscal 2023 Performance Overview

In fiscal 2023, the year ended March 31, 2024, we did not achieve the level of performance of fiscal 2021 and fiscal 2022, when the market continued soaring due to the COVID-19 pandemic. If our performance in those two fiscal years is excluded, however, we achieved record-high profits in fiscal 2023, despite the emergence of geopolitical risks and various other risks. I believe that this performance reflected the success of various initiatives we began before the pandemic. These include the accumulation of medium- and long-term contracts in the energy business and structural reform of the dry bulk business. The maritime shipping industry is subject to supply–demand cycles. Market volatility inevitably affects business performance. In the fiscal year under review, contributions to our performance were made not only by efforts to accumulate stable earnings but also by the refinement of our ability to manage exposure* so that it appropriately reflected the supply–demand situation. In addition, although the tendency is to view stable earnings as being the result of medium- to long-term contracts, we must not forget the roles of our constant strengthening of service quality and the relationships of trust we have cultivated with our customers over many years of business. Regardless of the length of contract periods, NYK's strength lies in the endorsements it has earned from many customers thanks to such long-standing efforts.

* Exposure refers to exposure to market fluctuation risk due to a mismatch between market demand and fleet capacity as supply.

Fiscal 2024 Outlook

In fiscal 2024, freight rates are expected to remain steady, and our performance is likely to surpass that of fiscal 2023. Stable earnings continue to grow steadily. Even in the face of geopolitical risks and other changes in the external environment that are difficult to envision, we expect to be able to absorb downside risks related to our performance.

With regard to the expected earnings of each business, based on the disclosure of the first-quarter financial results in August 2024, the liner trade business is anticipated to post recurring profit of ¥183.0 billion (up ¥115.2 billion year on year). Although greater supply pressure is likely with the delivery of a series of new ships, the supply–demand balance is expected to tighten to some extent due to the impact of the Panama Canal and Suez Canal diversions and a gradual recovery in cargo movements. The logistics business, which comprises the forwarding and contract logistics businesses, is forecast to achieve recurring profit of ¥22.0 billion (down ¥3.9 billion year on year). Although a rise in handling volumes is likely in the ocean forwarding and air forwarding businesses, freight rates are expected to decline due to market conditions. On the other hand, the contract logistics business has been steadily growing by capturing demand in the United States and Europe. In fiscal 2024, the business is projected to continue performing solidly. The business is actively executing M&A and will continue working to increase scale and accumulate stable earnings.

In the dry bulk business, recurring profit is expected to be ¥198.0 billion (up ¥27.9 billion year on year). As for the automotive business, the cost of procuring shipping capacity has been rising recently amid tight supply and demand for such capacity. This business will continue to enhance ship utilization rates, steadily capture the high demand for transportation, and accumulate stable earnings. The dry bulk business is seeing market conditions trend toward recovery, and a performance above the level of fiscal 2023 is likely. The energy business is projected to continue performing firmly as transportation demand for crude oil, liquefied petroleum gas (LPG), and liquefied natural gas (LNG) is firm.

Investment Plan: Progress and Issues

Our latest target is to invest a total of ¥1.3 trillion during the period of the medium-term management plan, which ends in fiscal 2026. As of the end of fiscal 2023, we have decided on project investments that amount to approximately ¥750.0 billion. Of this amount, the investment of 70% of the funds earmarked for core businesses and new technologies has been decided. Although determining 70% of the investments in just one year may seem fast, investment decisions are made in anticipation of the lead times required for shipbuilding, which takes several years from order placement through to delivery. For example, among new technologies, we are placing orders for new LNG-fueled vessels, mainly pure car and truck carriers. The LNG-fueled pure car and truck carriers that have already been completed have enabled us to gain the understanding of customers with respect to the environmentally friendly maritime shipping provided by these carriers. The new vessels to be completed going forward promise to further boost the Group's competitiveness.

Meanwhile, in addition to the rising price of ships and material prices due to global inflation, the recent depreciation of the yen against the U.S. dollar has led to an increase in investment monetary amounts per project. We are not fixated on the ¥1.3 trillion investment target. We intend to review and manage the scale of investments on a case-by-case basis while keeping an eye on progress in relation to our performance plan and our ability to generate cash. As of the end of fiscal 2023, the shareholders' equity ratio stood at 62%. Even including off-balance-sheet lease assets (charter fee liabilities), the ratio was still above 50%. While taking into account the fact that profitability is increasing, we will consider what level of financial leverage to use.

Although investments are progressing well, I feel that we have not been able to adequately communicate to our stakeholders the scale, time frame, and speed of return on investments in decarbonization and new business fields. The scope of new businesses is broad, and their time lines vary depending on the nature of the business. However, we expect that these investments will begin contributing to earnings around 2027 at the earliest. A little more time will be required for ammonia-fueled ships and other projects that are at the verification stage. We expect such projects to contribute to earnings from 2030 onward. Further, I also recognize that the limited growth rate of our earnings relative to the scale of total assets is an issue. I would like to explain more carefully and clearly to our shareholders, investors, and other stakeholders how earnings will grow in tandem with investments and how we will improve capital efficiency.

Cash Allocation Progress and Capital Efficiency Improvement

Our basic approach is to conduct business management with an awareness of the cost of capital and our share price. In other words, we will maximize profits and improve the efficiency of investments in line with our capital policy, thereby enhancing corporate value.

I want to explain more carefully how earnings will grow in tandem with investments.

In light of our cash generation capabilities, in May 2024 we revised the scale of the funds of the cash allocation plan that was announced when we issued the medium-term management plan. We have set out operating cash flows of more than ¥1.1 trillion for the period and upwardly revised the respective amounts for acquisition of treasury stock and total dividends. Following on from a ¥200.0 billion acquisition of treasury stock in fiscal 2023, in May 2024 we announced a ¥100.0 billion acquisition of treasury stock. Our measures are intended to improve capital efficiency, raise return on equity (ROE), and improve the price-to-book ratio. Given that the cost of shareholders' equity is somewhat high, we want to reduce the weighted average cost of capital (WACC) and increase investment returns through the acquisition of treasury stock and the utilization of financial leverage. Further, operating cash flows include dividends received from equity-method affiliates. Dividend income reflects the portion that is currently highly likely to be received. Not all of the expected amount has been factored in. Mindful of the prospect of additional cash inflows, we will continue considering a better balance between investment scale and shareholder returns.

The Group has introduced return on invested capital (ROIC) as a means of improving investment efficiency, setting ROIC of 6.5% or higher as a Companywide target in the medium-term management plan. While managing ROIC performance for each business, we are implementing specific measures to improve ROIC. In the investment decision-making process, we evaluate the balance sheet of each business as well as its internal rate of return and net present value. We are also in the process of replacing our core systems, which will further enhance risk and scenario analysis and strengthen monitoring capabilities. For investment projects related to decarbonization technologies and other environmental technologies, we utilize internal carbon pricing (ICP). By setting ICP unit prices at a higher level than those of our competitors, we will encourage the acceleration of environmental investments. Depending on the nature of investments, we currently use either ROIC or ICP for evaluation. Going forward, however, we aim to create a system enabling business monitoring and investment evaluation that take into account the carbon costs of each business. Collaboration between the ESG Strategy Headquarters and the Management Planning Headquarters will become even more important. As the leader of both headquarters, I am firmly committed to further elevating management efficiency in this regard.

ESG Management and Corporate Value Enhancement

In fiscal 2023, we released three stories: the NYK Group ESG Story 2023, which is our third such story; the NYK Group Decarbonization Story; and the NYK Group CX (corporate transformation) Story, which is focused on enhancing human capital. In particular, the NYK Group Decarbonization Story includes extremely ambitious goals. Society as a whole cannot achieve carbon neutrality without decarbonizing logistics businesses, which support global supply chains. Based on an awareness of this issue, these goals reflect the belief that earnest efforts to reduce greenhouse gas emissions will lead to the Group's sustainable growth. The response from outside the Company has been very strong and has begun a major trend that is encouraging co-creation within the industry—a goal of the medium-term management plan. Also, in April 2024 the ESG Management Group, IR Group, and Corporate Communication Group began working closely together to raise the level of disclosure with a view to acquiring higher external evaluations of the Group's initiatives. In-house, as ESG management moves into the implementation phase, we will disseminate information that helps employees better understand how non-financial information can increase corporate value.

Investment Plan: Progress

Plan ¥560.0 billion

70%*

- **LNG carriers** ¥300.0 billion
- **Dry bulk carriers** ¥120.0 billion

New LNG carriers, etc., for major customers in Japan and abroad, etc.

Plan ¥460.0 billion

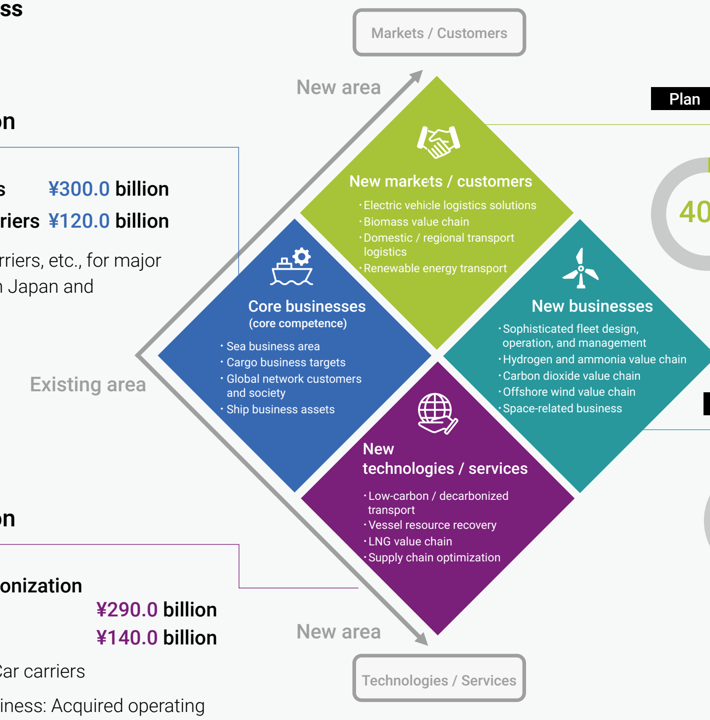
70%*

- **Ship decarbonization** ¥290.0 billion
- **M&A, etc.** ¥140.0 billion

LNG fueled: Car carriers

Logistics business: Acquired operating companies in the United Kingdom and the Netherlands

Logistics business: Invested in a warehouses with automated operations in the United Kingdom, etc.



Plan ¥30.0 billion

40%*

- **Auto logistics** ¥17.0 billion

Investments in car terminal businesses in Indonesia and other countries, etc.

Plan ¥100.0 billion

40%*

- **Offshore wind power generation** ¥43.0 billion
- **Hydrogen/ammonia** ¥32.0 billion

Ammonia-fueled ammonia carrier, etc.

* The amounts for each investment area are the planned amounts announced in the medium-term management plan. The percentages show the progress rate against plan.

Cash Allocation

(Billions of yen)

		Medium-Term Management Plan Four-Year Total	
		Original Target (Announced in March 2023)	Announced in May 2024
Cash In	Operating cash flows	Over ¥820	Over ¥1,100
	Financing cash flows	Over ¥610	Over ¥610
	Cash on hand	¥200	¥200
Cash Out*	Investments	¥1,200	Over ¥1,200 (Includes the repayment of loans to Nippon Cargo Airlines Co., Ltd. (NCA))
	Acquisition of treasury stock	¥200	¥300
	Normal dividends	¥230	¥270

* Flexibly implementing additional shareholder returns based on consideration of investment opportunities and the business environment

As stakeholders' demands on companies become more diverse and complex, meeting such demands with limited resources requires prioritization and continuous organizational reform. Digital transformation will be a very important way of achieving this reform. The ESG Strategy Headquarters and the Management Planning Headquarters will play extremely important roles in efforts aimed at enhancing corporate value. In addition to highly transparent disclosure both internally and externally, we will enhance dialogue even further. I hope that all of our stakeholders eagerly anticipate the future evolution of the Group's ESG management. As we evolve, I would like to ask our shareholders, investors, and other stakeholders for their continued support.

A PASSION FOR PLANETARY WELLBEING

Going beyond the Scope of a Comprehensive Global Logistics Enterprise to Co-Create Value Required for the Future

Since its foundation in 1885, the NYK Group has supported industry and society through maritime shipping. To be a corporate group that is needed by society and which sustains growth in the future, we will continue to support society as an integral part of the transportation infrastructure while demonstrating leadership.