

# FY16/3 1<sup>st</sup> Quarter Report

July 2015



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# 1. Financial Highlights for FY16/3 1Q

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➤ **Increase in revenues and profit** compared to FY15/3 1Q.

Weakness in container and dry bulker market was compensated by yen depreciation, lower bunker oil price, and cost reduction, etc.

➤ **Compared to FY15/3 1Q,**

- **Global Logistics (Liner/Air Cargo/Logistics) : More revenues and profit**
  - **Liner business : Drop in spot rate was compensated by reduction in cost.**
  
- **Bulk Shipping : Less revenues, more profit**
  - **Dry bulker: Suffered from market depression**
  - **Tanker: More profit due to strong spot rate and contract renewals with better terms**
  
- **Non-Operating Income improved due to foreign exchange gain.**
  
- **Extraordinary Income and Loss(NET) improved due to extraordinary gain from sale of Crystal Cruise LLC..**



# Summary of FY16/3 1<sup>st</sup> Quarter Result

- Increase in revenues and profit compared to FY15/3 1Q, due to yen depreciation, lower bunker oil price, and etc..
- In particular, Net Income significantly improved due to extraordinary gain from sale of the cruise company.

(billion yen)	FY15/3							FY16/3 1Q	Year-on-year
	1Q	2Q	1H	3Q	4Q	2H	Full-Year		
Revenues	582.3	596.7	1,179.0	603.7	618.9	1,222.7	2,401.8	588.7	6.3
Operating Income	11.5	16.3	27.8	13.0	25.2	38.2	66.1	17.4	5.8
Recurring Profit	12.0	24.7	36.7	24.8	22.4	47.2	84.0	21.5	9.4
Net Income attributable to owners of the parent company	10.2	9.7	20.0	8.4	19.1	27.5	47.5	43.0	32.8

Exchange Rate    ¥102.40   ¥102.65   ¥102.53   ¥112.34   ¥119.36   ¥115.85   ¥109.19   ¥120.97   ¥18.57

Bunker Oil Price   \$616.36   \$610.64   \$613.50   \$574.02   \$428.10   \$501.06   \$557.28   \$357.71   -\$258.65



## FY15/3 1Q vs FY16/3 1Q by Industrial Segments

	Industrial Segments (billion yen)	FY15/3							FY16/3 1Q	Year-on-year
		1H			2H			Full-year		
		1Q	2Q	3Q	4Q	2H				
Global Logistics	Liner	166.8 -0.1	177.2 5.1	344.0 4.9	171.3 1.0	180.9 3.7	352.2 4.8	696.3 9.8	184.1 3.9	17.3 4.1
	Air Cargo	22.3 -2.2	24.0 -1.1	46.3 -3.3	26.8 2.0	25.9 1.9	52.7 4.0	99.1 0.6	24.6 0.8	2.3 3.0
	Logistics	109.8 1.4	116.7 2.8	226.5 4.2	127.2 3.0	133.1 3.4	260.3 6.5	486.9 10.7	123.4 2.3	13.6 0.8
	Total	299.0 -1.0	317.9 6.8	616.9 5.8	325.4 6.2	340.0 9.2	665.4 15.4	1,282.3 21.3	332.3 7.1	33.3 8.1
Bulk Shipping	Bulk Shipping	252.5	245.4	497.9	249.2	248.7	497.9	995.8	237.5	-15.0
		11.9	15.5	27.4	18.1	14.4	32.6	60.0	14.4	2.5
Others	Real Estate	2.4 0.9	2.4 0.8	4.8 1.8	2.3 0.8	2.3 0.6	4.6 1.4	9.5 3.2	2.3 0.7	0.0 -0.2
	Other	57.0 0.5	58.4 1.9	115.4 2.4	52.8 0.1	52.0 -1.0	104.9 -0.9	220.4 1.5	37.8 -0.1	-19.2 -0.7
	Elimination/ Unallocation	-28.6 -0.4	-27.4 -0.4	-56.1 -0.8	-26.0 -0.4	-24.1 -0.8	-50.1 -1.2	-106.3 -2.1	-21.3 -0.5	7.3 -0.1
	Consolidated	582.3 12.0	596.7 24.7	1,179.0 36.7	603.7 24.8	618.9 22.4	1,222.7 47.2	2,401.8 84.0	588.7 21.5	6.3 9.4

★ (Upper) Revenues (Lower) Recurring Profit

\* From FY16/3, previous "Cruises" segment is merged with "Other" segment due to sale of Crystal Cruises, Inc.

- Liner business turned black from lower bunker oil price and cost reduction even though market was weak due to spreading supply-demand gap.
- Bulk Shipping also improved due to strong tanker market covering weakness in dry bulker market.



## Analysis of Change in Recurring Profit between FY15/3 1Q and FY16/3 1Q

Contribution from yen depreciation, lower bunker oil prices, and cost reduction, surpassed weakness in container and dry bulker market.

(billion yen)

<b>Yen Depreciation</b>	<b>6.5</b>	¥ 120.97/\$, Depreciated by ¥ 18.57
<b>Lower Bunker Oil Price</b>	<b>6.5</b>	\$357.71/MT, Decreased by \$258.65
<b>Market Effects etc</b>	<b>-12.8</b>	
<b>Cost Reduction</b>	<b>4.3</b>	
<b>Foreign Exchange Gain</b>	<b>3.6</b>	
<b>Others</b>	<b>1.3</b>	
<b>Total</b>	<b>9.4</b>	

## 2. Forecast for FY16/3

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➤ **Maintain Recurring Profit and Net Income from previous forecast.**

Adjustment by segment from previous forecast :

Liner business	Downward
Bulk Shipping business	Upward
	Dry bulker : Lowered market forecast
	Liquid : Raised market forecast

➤ **Assume extraordinary loss from structural reform.**

**(No change from previous forecast)**

➤ **No change of cash dividend forecast from previous forecast**

**Annual dividend forecast of ¥8/share**

**(¥4/share for interim and ¥4/share for year-end).**

➤ **Assumption for exchange rate, bunker oil price and sensitivity on Recurring Profit (2Q – 4Q).**

- Exchange rate      ¥120/\$      : ¥ 1.4 billion (Full-year) increase per ¥1/\$ depreciation.
- Bunker oil price    \$350/MT      : ¥ 1.0billion (Full-year) increase per \$10/MT decrease.

# Forecast for FY16/3

**Maintain Recurring Profit and Net Income from previous forecast.**

(billion yen)	FY15/3(Result)					FY16/3 (Forecast)				Year-on-year	Change from previous forecast
	1H		2H		Full-year	1H		2H	Full-year		
	1Q	2Q	3Q	4Q		1Q (Result)	2Q				
Revenues	1,179.0		1,222.7		2,401.8	1,200.0		1,200.0	2,400.0	-1.8	-20.0
	582.3	596.7	603.7	618.9		588.7	611.3			0%	-1%
Operating Income	27.8		38.2		66.1	40.0		44.0	84.0	17.8	-4.0
	11.5	16.3	13.0	25.2		17.4	22.6			27%	-5%
Recurring Profit	36.7		47.2		84.0	45.5		44.5	90.0	6.0	0.0
	12.0	24.7	24.8	22.4		21.5	24.0			7%	0%
Net Income attributable to owners of the parent company	20.0		27.5		47.5	35.0		20.0	55.0	7.5	0.0
	10.2	9.7	8.4	19.1		43.0	-8.0			16%	0%

Exchange Rate	\$102.40	¥102.65	¥112.34	¥119.36	¥109.19	¥120.97	¥120.00	¥120.00	¥120.24	¥11.05
Bunker Oil Price	¥616.36	\$610.64	\$574.02	\$428.10	\$557.28	\$357.71	\$350.00	\$350.00	\$351.93	-\$205.35

- Sensitivity on Recurring Profit
  - Exchange rate : ¥ 1.4 billion (Full-year) increase per ¥1/\$ depreciation.
  - Bunker oil price : ¥ 1.0billion (Full-year) increase per \$10/MT decrease.
- FY16/3 cash dividend forecast :Annual dividend of ¥8/share (¥4/share for interim and ¥4/share for year-end).





## FY15/3 Results vs FY16/3 Revised Forecast by Industrial Segments

	Industrial Segment (billion yen)	FY15/3(Result)					FY16/3(Forecast)					Change Full-year
		1Q	2Q	1H	2H	Full-year	1Q (Result)	2Q	1H	2H	Full-year	
Global Logistics	Liner	166.8	177.2	344.0	352.2	696.3	184.1	185.9	370.0	384.0	754.0	57.7
		-0.1	5.1	4.9	4.8	9.8	3.9	5.5	9.4	11.1	20.5	10.7
	Air Cargo	22.3	24	46.3	52.7	99.1	24.6	24.2	48.8	47.2	96.0	-3.1
		-2.2	-1.1	-3.3	4.0	0.6	0.8	0.0	0.8	1.2	2.0	1.4
	Logistics	109.8	116.7	226.5	260.3	486.9	123.4	132.7	256.1	265.4	521.5	34.6
	1.4	2.8	4.2	6.5	10.7	2.3	2.9	5.2	6.8	12.0	1.3	
Total	299	317.9	616.9	665.4	1,282.3	332.3	342.8	675.1	696.4	1,371.5	89.2	
	-1	6.8	5.8	15.4	21.3	7.1	8.4	15.5	19.0	34.5	13.2	
Bulk Shipping	Bulk Shipping	252.5	245.4	497.9	497.9	995.8	237.5	241.9	479.4	472.1	951.5	-44.3
		11.9	15.5	27.4	32.6	60.0	14.4	13.9	28.3	25.2	53.5	-6.5
Others	Real Estate	2.4	2.4	4.8	4.6	9.5	2.3	2.5	4.8	5.2	10.0	0.5
		0.9	0.8	1.8	1.4	3.2	0.7	0.9	1.6	1.4	3.0	-0.2
	Other	57	58.4	115.4	104.9	220.4	37.8	44.5	82.3	87.7	170.0	-50.4
		0.5	1.9	2.4	-0.9	1.5	-0.1	0.9	0.8	0.2	1.0	-0.5
Elimination/ Unallocation	-28.6	-27.4	-56.1	-50.1	-106.3	-21.3	-20.4	-41.7	-61.3	-103.0	3.3	
	-0.4	-0.4	-0.8	-1.2	-2.1	-0.5	-0.1	-0.6	-1.4	-2.0	0.1	
Consolidated	582.3	596.7	1,179.0	1,222.7	2,401.8	588.7	611.3	1,200.0	1,200.0	2,400.0	-1.8	
	12	24.7	36.7	47.2	84.0	21.5	24.0	45.5	44.5	90.0	6.0	

- Liner business : Weak market condition continues however, cost reduction initiatives and lower bunker oil price should improve the bottom line.
- Overall, Recurring Profit will improve by 6.0 billion yen due to improvement in Liner business compensating the weakness in dry bulker market.



## FY16/3 Previous forecast vs Revised Forecast by Industrial Segments

	Industrial Segment (billion yen)	Previous Forecast			Revised Forecast			Change		
		1H	2H	Full-year	1H	2H	Full-year	1H	2H	Full-year
<b>Global Logistics</b>	<b>Liner</b>	391.0	381.0	772.0	370.0	384.0	754.0	-21.0	3.0	-18.0
		17.0	10.5	27.5	9.4	11.1	20.5	-7.6	0.6	-7.0
	<b>Air Cargo</b>	46.5	45.5	92.0	48.8	47.2	96.0	2.3	1.7	4.0
		0.5	1.5	2.0	0.8	1.2	2.0	0.3	-0.3	0.0
	<b>Logistics</b>	270.0	272.5	542.5	256.1	265.4	521.5	-13.9	-7.1	-21.0
	5.0	6.0	11.0	5.2	6.8	12.0	0.2	0.8	1.0	
	<b>Total</b>	707.5	699.0	1406.5	675.1	696.4	1,371.5	-32.4	-2.6	-35.0
		22.5	18.0	40.5	15.5	19.0	34.5	-7.0	1.0	-6.0
<b>Bulk Shipping</b>	<b>Bulk Shipping</b>	475.0	473.0	948.0	479.4	472.1	951.5	4.4	-0.9	3.5
		22.5	27.0	49.5	28.3	25.2	53.5	5.8	-1.8	4.0
<b>Others</b>	<b>Real Estate</b>	4.5	4.5	9.0	4.8	5.2	10.0	0.3	0.7	1.0
		1.5	1.5	3.0	1.6	1.4	3.0	0.1	-0.1	0.0
	<b>Other</b>	103.5	103.0	206.5	82.3	87.7	170.0	-21.2	-15.3	-36.5
		0.5	-0.5	0.0	0.8	0.2	1.0	0.3	0.7	1.0
	<b>Elimination/ Unallocation</b>	-76.0	-74.0	-150.0	-41.7	-61.3	-103.0	34.3	12.7	47.0
		-1.5	-1.5	-3.0	-0.6	-1.4	-2.0	0.9	0.1	1.0
	<b>Consolidated</b>	1,214.5	1,205.5	2,420.0	1,200.0	1,200.0	2,400.0	-14.5	-5.5	-20.0
		45.5	44.5	90.0	45.5	44.5	90.0	0.0	0.0	0.0

\* (Upper) Revenues (Lower) Recurring Profit

- Maintain overall Recurring Profit
- Deterioration in Liner business will be offset mainly by improvement in Bulk Shipping business.



## 3. Overview of Each Industrial Segment

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### **【Liner business】**

- **North America Trade** : Expect strong cargo movement in 1Q to continue 2Q onward.  
Lowered freight rate assumptions compared to previous forecast however, part of it should be recovered by cost reduction.
- **Europe Trade** : Due to spreading cargo vs space gap, 1Q spot rate fell sharply.  
Lowered freight rate assumptions from previous forecast however, we expect some recovery in rate level, cargo volume and utilization from 2Q onward.
- **Cost reduction initiatives** : Steadily in progressing. Match back ratio and variable cost per unit is improving.

### **【Air Cargo business】**

- **Almost as expected.** Peak season (3Q) is expected to rise as usual.

### **【Bulk Shipping business】**

- **Dry bulk division** :  
1Q market condition weakened due to slow cargo flow into China however, at last seemed to have bottomed out from the “unusual” depression. Scrapping, lay-up, and cancellation of new buildings is progressing at “better than expected” pace.
- **Liquid division** :  
Tanker market remains strong, longer transport distance due to diversified cargo source being one of the reason. We are also seeing improvements in VLCC contract terms upon renewal.

## 1. Liner(Container Transportation):

### Container Lifting, Slot (1,000TEU)

		FY15/3(Result)					FY16/3(Forecast)				Change from previous forecast (Full-year)
		1Q	2Q	3Q	4Q	Full-year	1Q (Result)	2Q	2H	Full-year	
Asia→ North America	Lifting	180	198	179	160	718	189	215	389	793	76
	Slot	202	213	193	166	774	203	226	405	834	60
	Utilizaion	89%	93%	93%	96%	93%	93%	95%	96%	95%	2%
Asia→Europe	Lifting	148	150	141	135	574	124	139	294	557	-17
	Slot	153	158	150	144	605	146	144	305	595	-11
	Utilizaion	97%	95%	94%	94%	95%	85%	96%	96%	94%	-1%

### Trend of Container Freight Rate (Index, FY09/3 1Q=100)

		FY15/3(Result)					FY16/3(Forecast)				Change from previous forecast (Full-year)
		1Q	2Q	3Q	4Q	Full-year	1Q (Result)	2Q	2H	Full-year	
Asia→North America		91	91	89	94	91	89	87	89	89	-3
Asia→Europe		72	74	66	69	70	58	58	63	61	-9

- **Lifting** : Expect strong liftings to continue for the rest of the year for NA trade. For Europe trade, 1Q lifting was weaker year on year however, we expect some recovery from 2Q.
- **Freight Rates** : Slightly weak but stable in NA trade. Spot rate in Europe trade went down to historically low level in 1Q however, we expect some improvement in 2H.

## 2. Air Cargo Transportation (NCA)

	FY15/3 (Result)					FY16/3 (Forecast)				Change from previous forecast
	1H		2H		Full-year	1H		2H	Full-Year	
	1Q	2Q	3Q	4Q		1Q (Result)	2Q			
<b>Revenues</b> billion yen	46.3		52.7		99.1	48.8		47.2	96.0	4.0
	22.3	24.0	26.8	25.9		24.6	24.2			
<b>Recurring Profit</b> billion yen	-3.3		4.0		0.6	0.8		1.2	2.0	0.0
	-2.2	-1.1	2.0	1.9		0.8	0.0			
<b>Chargeable Weight</b> 1,000 ton	233		237		470	248		237	485	1
	115	118	119	118		122	126			
<b>Volume (RTK)</b> Mil.ton kilo	1,410		1,485		2,895	1,571		1,431	3,002	95
	690	720	736	749		761	810			
<b>Capacity (ATK)</b> Mil.ton kilo	1,984		2,004		3,988	2,166		1,893	4,059	181
	975	1,009	1,017	987		1,048	1,118			
<b>YIELD</b> FY09/3 1Q=100	94		103		98	93		90	91	5
	93	94	105	101		94	91			
<b>MOPS</b> US\$ per bbl	\$118		\$80		\$99	\$73		\$70	\$71	\$1
	\$120	\$116	\$90	\$69		\$75	\$70			

- 1Q result was better than expected since urgent air-freight requirement due to U.S. West Coast port congestion continued until April.
- No change to full year Recurring Profit from previous forecast.

## 3. Logistics Segment

(billion yen)	FY15/3 (Result)					FY16/3 (Forecast)				Change from previous forecast (Full-year)
	1H		2H		Full-Year	1H		2H	Full-Year	
	1Q	2Q	3Q	4Q		1Q (Result)	2Q			
Revenues	226.5		260.4		486.9	256.1		265.4	521.5	-21.0
	109.8	116.7	127.2	133.1		123.4	132.7			
Recurring Profit	4.2		6.5		10.7	5.2		6.8	12.0	1.0
	1.4	2.8	3.0	3.4		2.3	2.9			

- 1Q : Although boost in air freight demand due to U.S. West Coast port congestion has calmed down, we saw steady growth in cargo volume. Ocean freight forwarding was strong ex-Asian countries. Logistics business was particularly strong in South East Asia.
- FY16/3 Full Year : Expect steady growth of handling volume.

## 4. Bulk Shipping – 1) Market trend and forecast:

		FY15/3(Result)					FY16/3(Forecast)				Previous Forecast (Full-year)
		1Q	2Q	3Q	4Q	Full-Year	1Q (Result)	2Q	2H	Full-Year	
Dry Bulk Carrier	B D I	983	950	1,120	614	917	632	1,134	1,165	1,024	958
	Cape (4TC)	11,884	12,665	14,148	4,610	10,827	4,551	14,000	15,000	12,138	11,000
	Panamax (Pac)	6,834	5,218	8,752	4,535	6,335	4,650	8,000	7,000	6,663	7,500
	Handymax (Pac)	9,022	8,639	8,928	5,980	8,142	6,058	8,000	8,000	7,515	7,000
	Handy (Pac)	8,083	6,405	7,003	5,527	6,755	4,618	6,000	6,750	6,030	6,500
Tanker	VLCC	14,050	21,497	48,792	56,493	35,208	62,411	40,000	37,500	44,353	37,500

\* Spot charterage by vessel type 4TC = average of 4 routes, Pac = Pacific-round, Currency Unit = US\$ / day

### 【Dry Bulk Carriers】

- 1Q market condition was weaker than previous forecast due to slowdown in Chinese economy.
- We are seeing some improvement in supply vs demand situation due to increased scrapping and lay-up and the rates seem to have bottomed out from the historically low level. Therefore, we raised the assumptions for all vessel types with the exception of Panamax from 2Q.

### 【Tankers】

- Market remained strong for 1Q.
- Expect some slow down in 2H however, slightly raised VLCC assumptions from previous forecast on a full year basis.

## Bulk Shipping business

### 4. Bulk Shipping –2) Car Carrier:

#### Car Transportation Result/Forecast(1,000Cars)

	FY15/3(Result)					FY16/3 (Forecast)				Change from previous forecast (Full-year)
	1H		2H		Full-year	1H		2H	Full-year	
	1Q	2Q	3Q	4Q		1Q (Result)	2Q			
All Trade (1,000cars)	1,840		1,820		3,650	1,840		1,850	3,700	0
	930	900	930	890		940	900			
Change	1%		3%		2%	0%		2%	1%	0%
	6%	-4%	-1%	7%		1%	0%			

-No change from previous forecast.





## 4. Progress of mid-term management plan

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### ① Profit Plan

- Surpassed target for FY14 i.e., first year of management plan.
- Secured approx. ¥110 billion of Recurring Profit from business with stable freight rate as planned.

### ② Balance Sheet Strategy

- Reduced interest-bearing debt down to ¥1,100 billion and DER to 1.36 as of FY14-end which is ahead from the original plan.

### ③ Review and update of business portfolio

- LNG and offshore investment is in line with the original plan. Already placed order for one third of the total 33 + $\alpha$  new vessel ordering plan for LNG tankers.
- Asset light strategy for container ships and dry bulk carriers progressing.

- Profit plan in progressing as planned.
- No change in the final goal of reduction in Interest-bearing debt though, it is progressing faster than original plan.

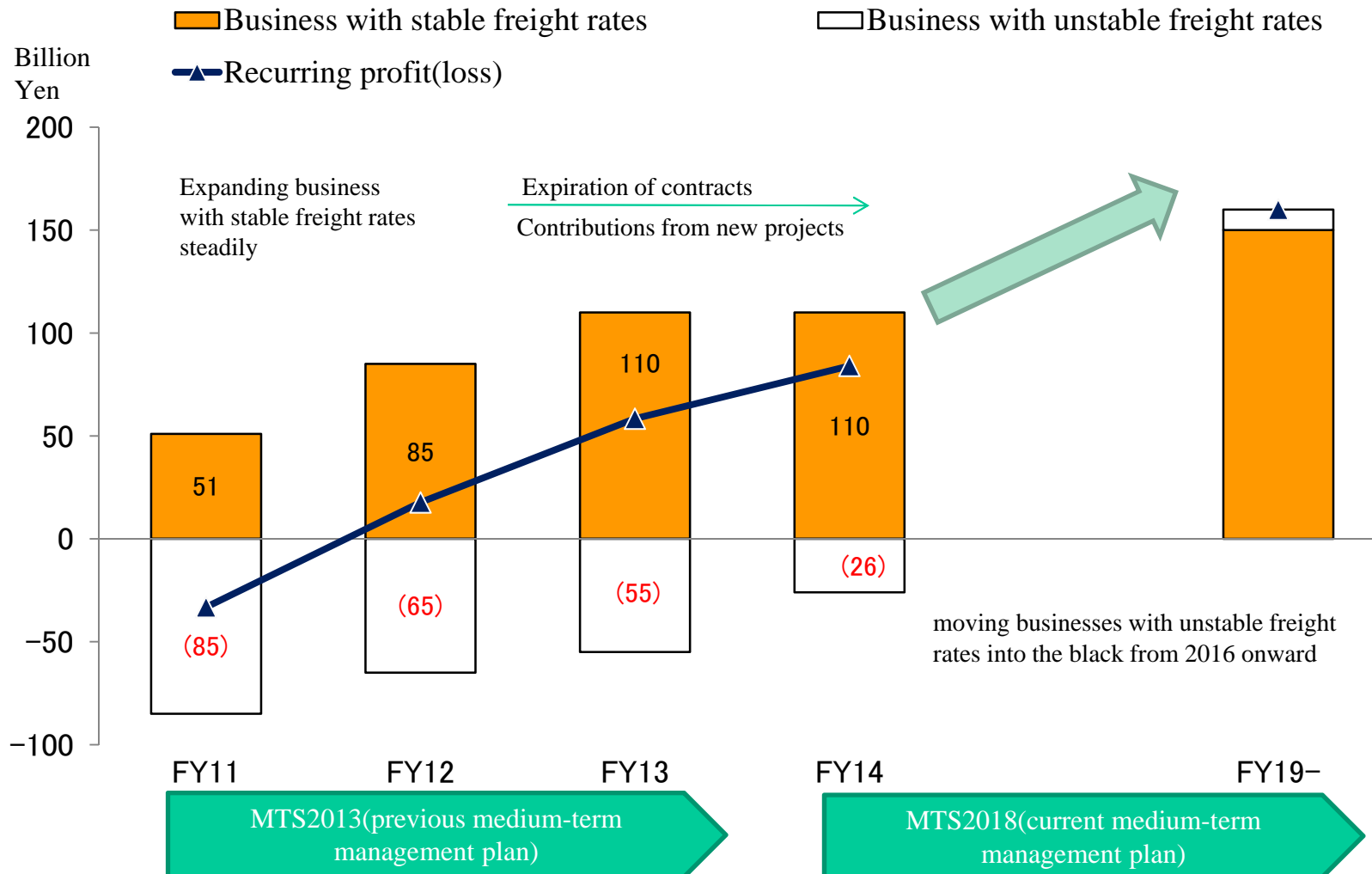
(Billions of yen)	Medium-term management plan (More Than Shipping 2018)			FY14 Result/FY15 Forecast	
	FY14 plan	FY16 plan	FY18 plan	FY14 Result	FY15 Forecast
Revenus	2,300	2,500	2,500	2,402	2,420
Recurring profit	70	120	160	84	90
Net income ☆	35	80	120	47.5	55
Cash flow from operating activities	120	170	220	136	140
Cash flow from investing activities	▲ 160	▲ 160	▲ 130	27	▲ 120
Interest-bearing debt	1,300	1,200	1,000	1,098	1,000
Shareholder's equity	750	860	1,000	810	840
Total assets	2,600	2,600	2,650	2,570	2,530
DER	1.7	1.4	1.0	1.36	1.19
Shareholder's equity ratio	29%	33%	38%	32%	33%
ROE	5%	9%	12%	6.2%	6.7%
Payout ratio	25%				
Foreign exchange rate (US\$)	¥100	¥100	¥100	¥109.19	¥115
Bunker oil price (per ton)	\$640	\$640	\$640	\$557.28	\$370

※as of 2014/3/31(Medium-term management plan)

※as of 2015/4/30

☆Net Income attributable to owners of the parent company

- Secured approx. ¥110 billion of Recurring Profit from business with stable freight rate which is in line with original plan.
- For business with unstable freight rates, we aim to minimize loss under depressed market situation by initiating asset light strategy and turn to black when market recovers.



**Investment in growth area : 11 out of planned 33+ $\alpha$  new LNG tankers already on order.**  
**Asset light strategy : Progressing as per plan for Container ships and Dry-bulk carriers.**

		March 31,2015	March 31,2015	March 31,2017	March 31,2019
		Plan	Result	Plan	Plan
Container ships		95	104	85	85
	(owned and long-term chartered vessels)	(70)	(68)	(65)	(65)
Car carriers		120	123	125	125
Dry-bulk carriers	Cape-size	120	123	110	100
	Post-Panamax, Panamax bulkers	95	113	90	85
	Handysize bulkers(includes box shape)	165	172	165	165
	Wood ship carriers	45	48	45	45
Liquid	Tankers	75	68	70	70
	LNG carriers(includes co-owned)	70	69	70	100+ $\alpha$
Others		70	51	41	36
Total		855	871	801	811+ $\alpha$
Shuttle tankers (operated by KNOT(affiliated company))		27	27	30	34

※2: Operating vessels at the end of fiscal 2016 and fiscal 2018 reflect the decrease in vessels due to the sale of a business engaged in the shipping of refrigerated cargo and a U.S. cruises business. However, other data has not been revised.

※2: Chartered are included in Result of March 31st, 2015 (It is not included in Plan).