

FY16/3 3rd Quarter Report

January 2016



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1. Financial Highlights for FY16/3 1-3Q

➤ **Decrease in revenues and profit** compared to FY15/3 1-3Q

***Decline from weak container and dry bulker market exceeded benefits from lower bunker oil price and cost reduction initiatives.**

- Liner business : Less profit

- Bulk Shipping : Less profit

- Dry bulker : Suffered from market depression.

- Tanker : Supported by strong spot rate and contract renewals with better terms.

***Increase in profit of non-shipping business(Air Cargo/Logistics).**

***Non-Operating Income :Decrease due to loss of Foreign Exchange gain.**

➤ **Extraordinary Income and Loss(NET) :**

- Sale of Crystal Cruise LLC (in 1Q).

- Dry bulker : Sales of redundant ships, return before maturity, accrual of impairment loss(mainly in 3Q).

Summary of FY16/3 1-3Q Result

- Decrease in revenues and profit compared to FY15/3 1-3Q, due to weak market.
- Returned and sold redundant ships, accrued impairment loss in dry bulker segment.

(billion yen)	FY15/3						FY16/3				Year-on-year
	1Q	2Q	3Q	1-3Q	4Q	Full-Year	1Q	2Q	3Q	1-3Q	
Revenues	582.3	596.7	603.7	1,782.8	618.9	2,401.8	588.7	609.5	568.3	1,766.6	-16.1
Operating Income	11.5	16.3	13.0	40.9	25.2	66.1	17.4	21.1	8.5	47.1	6.2
Recurring Profit	12.0	24.7	24.8	61.5	22.4	84.0	21.5	21.2	13.3	56.0	-5.5
Net Income attributable to owners of the parent company	10.2	9.7	8.4	28.4	19.1	47.5	43.0	11.7	-31.9	22.8	-5.6

Exchange Rate ¥102.40 ¥102.65 ¥112.34 \$105.80 ¥119.36 ¥109.19 ¥120.97 ¥122.56 ¥121.23 ¥121.58 ¥15.78

Bunker Oil Price \$616.36 \$610.64 \$574.02 \$600.34 \$428.10 \$557.28 \$357.71 \$349.69 \$276.00 \$327.80 -\$272.54

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

	Industrial Segments (billion yen)	FY15/3						FY16/3				Year-on-year
		1Q	2Q	3Q	1-3Q	4Q	Full-year	1Q	2Q	3Q	1-3Q	
Global Logistics	Liner	166.8 -0.1	177.2 5.1	171.3 1.0	515.4 6.0	180.9 3.7	696.3 9.8	184.1 3.9	194.0 3.8	168.6 -6.9	546.9 0.8	31.4 -5.1
	Air Cargo	22.3 -2.2	24.0 -1.1	26.8 2.0	73.1 -1.2	25.9 1.9	99.1 0.6	24.6 0.8	24.2 0.1	23.8 1.2	72.7 2.2	-0.3 3.5
	Logistics	109.8 1.4	116.7 2.8	127.2 3.0	353.8 7.3	133.1 3.4	486.9 10.7	123.4 2.3	126.0 3.7	129.9 4.1	379.5 10.2	25.6 2.9
	Total	299.0 -1.0	317.9 6.8	325.4 6.2	942.3 12.0	340.0 9.2	1,282.3 21.3	332.3 7.1	344.3 7.7	322.4 -1.5	999.1 13.3	56.8 1.2
Bulk Shipping	Bulk Shipping	252.5 11.9	245.4 15.5	249.2 18.1	747.1 45.5	248.7 14.4	995.8 60.0	237.5 14.4	245.6 12.8	226.9 13.7	710.1 40.9	-36.9 -4.6
Others	Real Estate	2.4 0.9	2.4 0.8	2.3 0.8	7.1 2.6	2.3 0.6	9.5 3.2	2.3 0.7	2.5 0.9	2.4 0.8	7.3 2.5	0.1 0.0
	Other	57.0 0.5	58.2 1.9	52.5 0.1	167.8 2.6	52.5 -1.0	220.4 1.5	37.8 -0.1	38.6 0.2	36.5 0.8	113.0 0.8	-54.8 -1.7
	Elimination/ Unallocation	-28.6 -0.4	-27.2 -0.4	-25.8 -0.4	-81.7 -1.2	-24.1 -0.8	-106.3 -2.1	-21.3 -0.5	-21.6 -0.6	-20.0 -0.5	-63.0 -1.7	18.6 -0.4
	Consolidated	582.3 12.0	596.7 24.7	603.7 24.8	1,782.8 61.5	618.9 22.4	2,401.8 84.0	588.7 21.5	609.5 21.2	568.3 13.3	1,766.6 56.0	-16.1 -5.5

☆ (Upper) Revenues (Lower) Recurring Profit

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

- Decline in Liner was supplemented by improvement in Air Cargo and Logistics which resulted in overall improvement of Global Logistics.
- Bulk Shipping worsened due to weak "peak season"(=3Q) in dry bulker which couldn't be offset by strong tanker market.



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

Decline from weak container and dry bulk market and loss of Foreign Exchange Gain were larger than contribution from Yen Depreciation, Lower Bunker Oil Prices, and Cost Reduction initiatives.

(billion yen)

Yen Depreciation	13.0	¥ 121.58/\$, Depreciated by ¥ 15.78
Lower Bunker Oil Price	26.6	\$327.80/MT, Decreased by \$272.54
Market Effects etc	-39.2	
Cost Reduction	8.5	
Foreign Exchange Gain/Loss	-14.9	
Others	0.5	
Total	-5.5	

2. Forecast for FY16/3

- **Profit from Business with Stable Freight Rate was in line with initial plan however, adjusted previous forecast downward due to further weakening of container and dry bulker market.**
 - Liner : Downward adjustment reflecting further weakening of freight rate market.
 - Bulk Shipping : Slight improvement overall due to strong tanker market supplementing further weakening of dry bulker market.

- **Revised cash dividend forecast in line with downward adjustment of Net Income projection.**

Annual dividend forecast of ¥6/share
(¥4/share for interim and ¥2/share for year-end).

- **4Q assumption for exchange rate, bunker oil price and sensitivity to Recurring Profit projection.**
 - Exchange rate ¥120/\$: ¥ 0.2 billion (4Q) increase per ¥1/\$ depreciation.
 - Bunker oil price \$220/MT : ¥ 0.3 billion (4Q) increase per \$10/MT decrease.

Forecast for FY16/3

Downward adjustment mainly due to further weakening of Liner market.

(billion yen)	FY15/3(Result)				Full-year	FY16/3 (Forecast)				Year-on-year	Change from previous forecast	
	1H		2H			1H(Result)		2H (Forecast)				Full-year
	1Q	2Q	3Q	4Q		1Q	2Q	3Q (Result)	4Q (Forecast)			
Revenues	1,179.0		1,222.7		2,401.8	1,198.2		1,121.8		2,320.0	-81.8	-50.0
	582.3	596.7	603.7	618.9		588.7	609.5	568.3	553.5		-3%	-2%
Operating Income	27.8		38.2		66.1	38.6		12.4		51.0	-15.1	-24.0
	11.5	16.3	13.0	25.2		17.4	21.1	8.5	3.9		-23%	-32%
Recurring Profit	36.7		47.2		84.0	42.7		23.3		66.0	-18.0	-14.0
	12.0	24.7	24.8	22.4		21.5	21.2	13.3	10.0		-21%	-18%
Net Income attributable to owners of the parent company	20.0		27.5		47.5	54.7		-29.7		25.0	-22.5	-22.0
	10.2	9.7	8.4	19.1		43.0	11.7	-31.9	2.2		-47%	-47%

Exchange Rate	\$102.40	¥102.65	¥112.34	¥119.36	¥109.19	¥120.97	¥122.56	¥121.23	¥120.00	¥121.19	¥12.00
Bunker Oil Price	¥616.36	\$610.64	\$574.02	\$428.10	\$557.28	\$357.71	\$349.69	\$276.00	\$220.00	\$300.85	-\$256.43

- Sensitivity to Recurring Profit projection
 - Exchange rate : ¥ 0.2 billion (4Q) increase per ¥1/\$ depreciation.
 - Bunker oil price : ¥ 0.3 billion (4Q) increase per \$10/MT decrease.
- FY16/3 cash dividend forecast :Annual dividend of ¥6/share (¥4/share for interim and ¥2/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							Full-year	Full-year
		1Q	2Q	1H	3Q	4Q	2H		1Q	2Q	1H (Result)	3Q (Result)	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	194.0 3.8	378.2 7.8	168.6 -6.9	168.2 -0.9	336.8 -7.8	715.0 0.0	23.7 -9.8
	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	24.2 0.1	48.9 0.9	23.8 1.2	21.3 -0.1	45.1 1.1	94.0 2.0	-5.1 1.4
	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	126.0 3.7	249.5 6.0	129.9 4.1	120.6 2.4	250.5 6.5	500.0 12.5	13.1 1.8
	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	344.3 7.7	676.7 14.8	322.4 -1.5	310.0 1.4	632.4 -0.2	1,309.0 14.5	26.7 -6.8
Bulk Shipping	Bulk Shipping	252.5 11.9	245.4 15.5	497.9 27.4	249.2 18.1	248.7 14.4	497.9 32.6	995.8 60.0	237.5 14.4	245.6 12.8	483.1 27.2	226.9 13.7	220.0 10.1	446.9 23.8	930.0 51.0	-65.8 -9.0
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	2.5 0.9	4.8 1.7	2.4 0.8	2.8 0.5	5.2 1.3	10.0 3.0	0.5 -0.2
	Other	57.0 0.5	58.2 1.9	115.3 2.4	52.8 0.1	52.0 -1.0	104.9 -0.9	220.4 1.5	37.8 -0.1	38.6 0.2	76.5 0.0	36.5 0.8	42.0 -0.8	78.5 0.0	155.0 0.0	-65.4 -1.5
	Elimination/ Unallocation	-28.6 -0.4	-27.2 -0.4	-55.8 -0.8	-26.0 -0.4	-24.1 -0.8	-50.1 -1.2	-106.3 -2.1	-21.3 -0.5	-21.6 -0.6	-42.9 -1.1	-20.0 -0.5	-21.1 -0.9	-41.1 -1.4	-84.0 -2.5	22.3 -0.4
	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	609.5 21.2	1,198.2 42.7	568.3 13.3	553.5 10.0	1,121.8 23.3	2,320.0 66.0	-81.8 -18.0

* (Upper) Revenues (Lower) Recurring Profit

- Liner : Contribution from cost reduction initiatives and lower bunker oil price can not fully offset decline from weak market.
- Bulk Shipping : Strong tanker market can not fully compensate weakness in dry bulker market.

FY16/3 Previous forecast vs Revised Forecast by Industrial Segments

	Industrial Segment (billion yen)	Previous Forecast			Revised Forecast					Full-year
		1H	2H	Full-year	1H (Result)			Full-year		
						3Q (Result)	4Q		2H	
Global Logistics	Liner	378.2	361.8	740.0	378.2	168.6	168.2	336.8	715.0	-25.0
		7.8	7.7	15.5	7.8	-6.9	-0.9	-7.8	0.0	-15.5
	Air Cargo	48.9	47.1	96.0	48.9	23.8	21.3	45.1	94.0	-2.0
		0.9	1.1	2.0	0.9	1.2	-0.1	1.1	2.0	0.0
Logistics	249.5	270.5	520.0	249.5	129.9	120.6	250.5	500.0	-20.0	
	6.0	6.0	12.0	6.0	4.1	2.4	6.5	12.5	0.5	
Total	676.7	679.3	1,356.0	676.7	322.4	310.0	632.4	1,309.0	-47.0	
	14.8	14.7	29.5	14.8	-1.5	1.4	-0.2	14.5	-15.0	
Bulk Shipping	Bulk Shipping	483.1	466.9	950.0	483.1	226.9	220.0	446.9	930.0	-20.0
		27.2	22.8	50.0	27.2	13.7	10.1	23.8	51.0	1.0
Others	Real Estate	4.8	5.2	10.0	4.8	2.4	2.8	5.2	10.0	0.0
		1.7	1.3	3.0	1.7	0.8	0.5	1.3	3.0	0.0
	Other	76.5	74.5	151.0	76.5	36.5	42.0	78.5	155.0	4.0
		0.0	0.0	0.0	0.0	0.8	-0.8	0.0	0.0	0.0
Elimination/ Unallocation	-42.9	-54.1	-97.0	-42.9	-20.0	-21.1	-41.1	-84.0	13.0	
	-1.1	-1.4	-2.5	-1.1	-0.5	-0.9	-1.4	-2.5	0.0	
Consolidated	1,198.2	1,171.8	2,370.0	1,198.2	568.3	553.5	1,121.8	2,320.0	-50.0	
	42.7	37.3	80.0	42.7	13.3	10.0	23.3	66.0	-14.0	

* (Upper) Revenues (Lower) Recurring Profit

- Liner : Downward adjustment reflecting further weakening market, however expect uplift in 4Q vs 3Q due to lower bunker oil price.
- Bulk Shipping : Slight improvement overall due to strong tanker market supplementing further weakening of dry bulker market.

3. Overview of Each Industrial Segment

【Liner】

- **North America Trade** :Market softened in 3Q. Adjusted downward freight rate for 4Q vs previous forecast.
- **Europe Trade** : Adjusted downward freight rate assumption due to continued weak market.
- **Cost reduction initiatives** : Basically in line with initial plan.

【Air Cargo】

- Basically in line as a result of increased Asian (other than Japan) business and lower fuel price.

【Bulk Shipping】

- **Dry bulkers** :
We see some improvement in supply vs demand gap due to scrapping and cancellation of new buildings however, we don't see significant effect in market sentiment. Therefore, we further adjusted our market assumptions downward for 4Q.
- **Liquid tankers** :
Tanker market remains strong, with longer transport distance due to diversified cargo source being one of the reason. There could be some softening in 4Q but not significant.

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 (Result)	3Q (Result)	4Q	Full-year	
Asia→North America	Lifting	180	198	179	160	718	189	213	191	191	785	-15
	Slot	202	213	193	166	774	203	227	211	203	844	-1
	Utilizaion	89%	93%	93%	96%	93%	93%	94%	91%	94%	93%	-2%
Asia→Europe	Lifting	148	150	141	135	574	124	140	123	123	510	7
	Slot	153	158	150	144	605	146	143	126	124	539	8
	Utilizaion	97%	95%	94%	94%	95%	85%	98%	97%	99%	95%	0%

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 (Result)	3Q (Result)	4Q	Full-year	
Asia→North America		91	91	89	94	91	89	87	83	81	85	-3
Asia→Europe		72	74	66	69	70	58	54	48	46	51	-6

- **2H Liftings** : Adjusted downward for North America trade and increased for Europe.
- **4Q Freight Rates** : Adjusted downward for both trades in line with further weakening of spot rate.

2. Air Cargo Transportation (NCA)

		FY15/3 (Result)				Full-year	FY16/3 (Forecast)				Full-Year	Change from previous forecast
		1H		2H			1H(Result)		2H			
		1Q	2Q	3Q	4Q		1Q	2Q	3Q (Result)	4Q		
Revenues	billion yen	46.3		52.7		99.1	48.9		45.1		94.0	-2
		22.3	24.0	26.8	25.9		24.6	24.2	23.8	21.3		
Recurring Profit	billion yen	-3.3		4.0		0.6	0.9		1.1		2.0	0
		-2.2	-1.1	2.0	1.9		0.8	0.1	1.2	-0.1		
Chargeable Weight	1,000 ton	233		237		470	244		226		470	-11
		115	118	119	118		122	122	115	110		
Volume (RTK)	Mil.ton kilo	1,410		1,485		2,895	1,513		1,413		2,925	-71
		690	720	736	749		761	752	721	691		
Capacity (ATK)	Mil.ton kilo	1,984		2,004		3,988	2,135		2,052		4,188	30
		975	1,009	1,017	987		1,048	1,087	1,052	999		
YIELD	FY09/3 1Q=100	94		103		98	92		91		92	-1
		93	94	105	101		94	91	95	87		
MOPS	US\$ per bbl	\$118		\$80		\$99	\$68		\$55		\$61	-\$8
		\$120	\$116	\$90	\$69		\$75	\$61	\$55	\$55		

- Stable cargo flow during 3Q, particularly to U.S. ex Asia (incl. Japan) due to peak season. Yield also improved.
- Lower Fuel Price is also a contributing factor to maintain previous recurring profit projection for FY16/3.

3. Logistics

(billion yen)	FY15/3 (Result)					FY16/3 (Forecast)					Change from previous forecast (Full-year)
	1H		2H		Full-Year	1H(Result)		2H		Full-year	
	1Q	2Q	3Q	4Q		1Q	2Q	3Q (Result)	4Q		
Revenues	226.5		260.3		486.9	249.5		250.5		500.0	-20.0
	109.8	116.7	127.2	133.1		123.4	126.0	129.9	120.6		
Recurring Profit	4.2		6.5		10.7	6.0		6.5		12.5	0.5
	1.4	2.8	3.0	3.4		2.3	3.7	4.1	2.4		

- Air freight forwarding volume was strong from non-Japan origins.
- Ocean freight forwarding volume increased mainly ex-Asia.
- In logistics business , we continuously pursued “Business Efficiency”, and service network expansion.

Bulk Shipping business

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 (Result)	3Q (Result)	4Q	Full-Year	
Dry Bulk Carrier	B D I	983	950	1,120	614	917	632	974	640	707	738	842
	Cape (4TC)	11,884	12,665	14,148	4,610	10,827	4,551	11,579	6,931	5,000	7,015	9,533
	Panamax (Pac)	6,834	5,218	8,752	4,535	6,335	4,650	6,601	4,258	4,500	5,002	5,938
	Handymax (Pac)	9,022	8,639	8,928	5,980	8,142	6,058	6,700	5,204	5,500	5,866	6,690
	Handy (Pac)	8,083	6,405	7,003	5,527	6,755	4,618	4,838	4,302	4,500	4,564	5,114
Tanker	VLCC	14,050	21,497	48,792	56,493	35,208	62,411	54,951	87,296	55,000	64,915	48,091

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

【Dry Bulk Carriers】

- Slow down of Chinese economy is delaying market recovery, and 3Q market was worse than our previous forecast.
- BDI recorded historically low level in mid-Dec and we adjusted downward of our market assumptions for 4Q.

【Tankers】

- Strong market in 3Q vs same period previous year owing to rising demand for oil reserves in China due to lowering oil price.
- We may see some softening in market during 4Q due to large number of new deliveries however, not significant.

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 (Result)	3Q (Result)	4Q		
All Trade (1,000cars)	1,840		1,820		3,650	1,880		1,810		3,690	-10
	930	900	930	890		940	940	980	830		
Change	1%		3%		2%	3%		0%		1%	-0%
	6%	-4%	-1%	7%		1%	5%	5%	-7%		

- Remained stable due to very strong car sales in North America.
- 3Q volume increased due to forward shipment from 4Q. Basically maintained volume projection for this year.