



Financial Highlights Brief Report for 2nd Quarter FY2016



31st October 2016

A

Financial Highlights for 2nd Quarter FY2016

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Financial Highlights

for 2nd Quarter FY2016



A-1 Financial Results for 1st Half FY2016

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Consolidated Results for 1H 2016

	FY2016			FY2015	FY2016
	1Q	2Q	1H (a)	1H (b)	1H as of Jul (c)
Operating Revenues	244.6	246.6	491.2	668.3	500.0
Operating Income	▲14.8	▲11.6	▲26.4	18.8	▲18.0
Ordinary Income	▲22.5	▲13.6	▲36.1	16.0	▲27.0
Net Income Attributable to Owners of Parent	▲26.8	▲23.7	▲50.5	11.7	▲40.0
Exchange Rate	¥111.12	¥103.50	¥107.31	¥121.76	¥107
Bunker Price	\$208	\$246	\$226	\$352	\$224

(billion yen)

+/-	
(a-b)	(a-c)
▲177.2	▲8.8
▲45.2	▲8.4
▲52.1	▲9.1
▲62.1	▲10.5
▲¥14.45	¥0.31
▲\$125	\$2

Each Segment Operating Revenues / Ordinary Income

Businesses		FY2016			FY2015	FY2016
		1Q	2Q	1H (d)	1H (e)	1H as of Jul (f)
Containership Business	Operating Revenues	122.2	124.7	246.9	337.6	255.0
	Ordinary Income	▲12.3	▲8.7	▲21.0	3.1	▲14.0
Bulk Shipping Business	Operating Revenues	109.2	108.6	217.7	296.7	220.0
	Ordinary Income	▲7.3	▲2.6	▲9.8	18.8	▲8.0
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	4.6	4.8	9.5	15.0	9.0
	Ordinary Income	▲1.8	0.1	▲1.7	▲3.6	▲3.0
Other	Operating Revenues	8.5	8.5	17.0	19.0	16.0
	Ordinary Income	0.1	0.8	0.9	0.9	0.5
Adjustment	Operating Revenues	-	-	-	-	-
	Ordinary Income	▲1.2	▲3.3	▲4.5	▲3.3	▲2.5
Total	Operating Revenues	244.6	246.6	491.2	668.3	500.0
	Ordinary Income	▲22.5	▲13.6	▲36.1	16.0	▲27.0

+/-	
(d-e)	(d-f)
▲90.7	▲8.1
▲24.1	▲7.0
▲79.0	▲2.3
▲28.7	▲1.8
▲5.6	0.5
2.0	1.3
▲2.0	1.0
▲0.0	0.4
-	-
▲1.2	▲2.0
▲177.2	▲8.8
▲52.1	▲9.1

Main Financial Indicators

	End 1H FY2016 (g)	End FY2015 (h)	(g-h)
Equity Capital	283.0	355.4	▲72.3
Interest Bearing Liability	547.9	525.2	22.7
DER	194%	148%	46%
NET DER	113%	80%	33%
Equity Ratio	27%	32%	▲5%

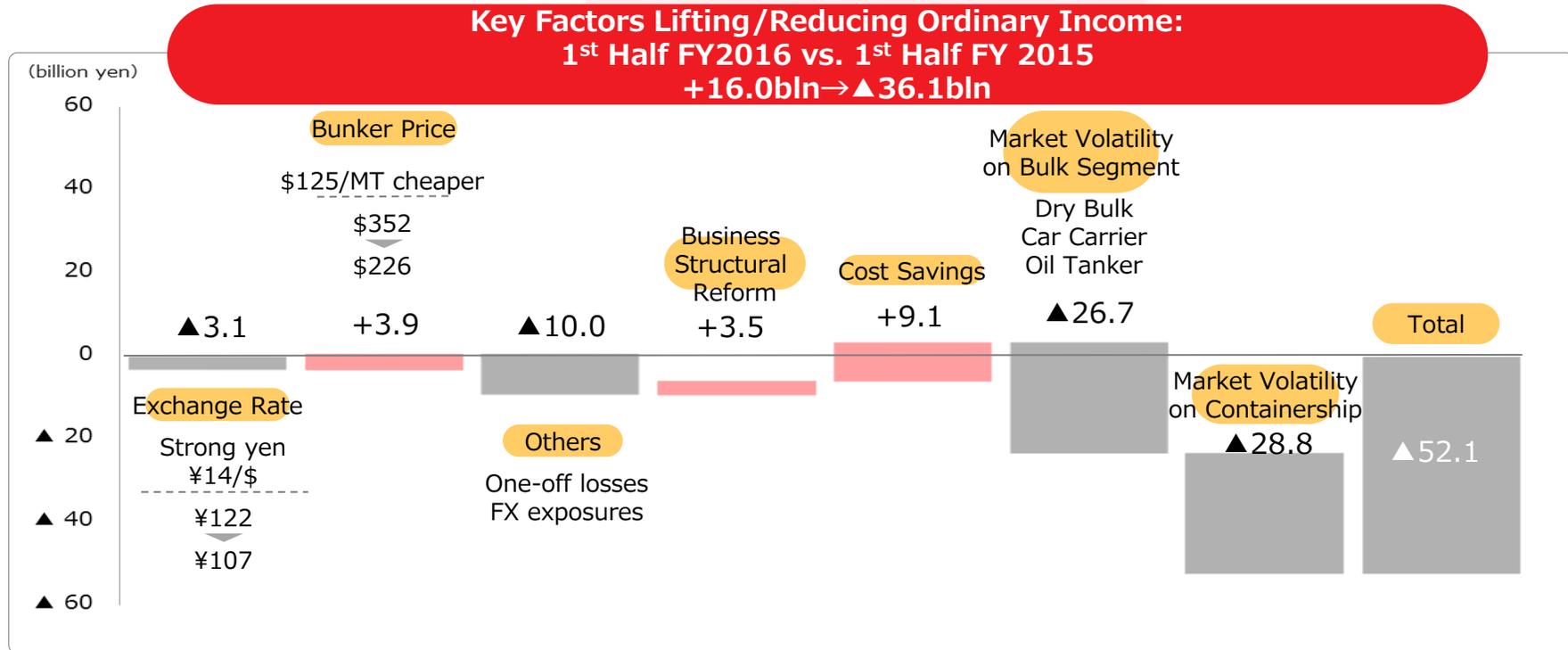
Key Factors for 1H FY2016

- ✓ Containership : Bankruptcy of major operator due to unexpected severe market
- ✓ Car Carrier : Prolonged downturn of car export to rich resource and emerging countries
- ✓ Business structural reform to ensure competitiveness is along the plan

A-2 Results for 1st Half FY2016

- 1st Half FY 2016 vs. 1st Half FY2015

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Market Freight Rate Comparison

		FY2015			FY2016			(b-a)
		1Q	2Q	1H (a)	1Q	2Q	1H (b)	
Containership (Freight Index)	Asia - North America	97	93	95	73	71	71	▲24
	Asia - Europe	49	51	50	40	47	44	▲6
Dry Bulk	CAPE	\$5,800	\$12,500	\$9,150	\$6,700	\$8,000	\$7,400	▲\$1,750
	PANAMAX	\$5,200	\$7,600	\$6,400	\$4,900	\$5,800	\$5,350	▲\$1,050
	HANDYMAX	\$6,700	\$8,800	\$7,750	\$5,800	\$7,000	\$6,450	▲\$1,300
	SMALL HANDY	\$5,100	\$6,300	\$5,700	\$4,800	\$5,800	\$5,300	▲\$400
Oil Tanker	VLCC (Middle East-Japan)	\$63,000	\$56,000	\$59,500	\$42,000	\$16,000	\$29,000	▲\$30,500
	AFRAMAX (South Asia-Japan)	\$37,000	\$32,000	\$34,500	\$18,600	\$10,000	\$14,300	▲\$20,200
	Clean Tanker (110,000mt) (Middle East-Japan)	\$26,500	\$40,000	\$33,250	\$14,400	\$14,500	\$14,500	▲\$18,750

A-3 Estimates for FY2016

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FY2016 Consolidated Estimates

	FY2016			FY2015 Results (b)	FY2016 as of Jul (c)
	1H	2H	Total (a)		
Operating Revenues	491.2	478.8	970.0	1,243.9	1,030.0
Operating Income	▲26.4	▲17.6	▲44.0	9.4	▲13.0
Ordinary Income	▲36.1	▲17.9	▲54.0	3.3	▲21.5
Net Income Attributable to Owners of Parent	▲50.5	▲43.5	▲94.0	▲51.5	▲45.5
Exchange Rate	¥107.31	¥100	¥104	¥ 120.78	¥106
Bunker Price	\$226	\$310	\$268	\$295	\$267

(billion yen)

+/-	
(a-b)	(a-c)
▲273.9	▲60.0
▲53.4	▲31.0
▲57.3	▲32.5
▲42.5	▲48.5
▲¥17	▲¥2
▲\$27	\$1

FY2016 Estimates by Segments

		FY2016			FY2015 Results (e)	FY2016 as of Jul (f)
		1H	2H	Total (d)		
Containership	Operating Revenues	246.9	236.1	483.0	614.9	535.0
	Ordinary Income	▲21.0	▲15.0	▲36.0	▲10.0	▲10.5
Bulk Shipping	Operating Revenues	217.7	214.3	432.0	567.6	440.0
	Ordinary Income	▲9.8	0.8	▲9.0	24.7	▲3.0
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	9.5	10.5	20.0	24.7	21.0
	Ordinary Income	▲1.7	▲1.3	▲3.0	▲6.6	▲4.0
Other	Operating Revenues	17.0	18.0	35.0	36.8	34.0
	Ordinary Income	0.9	0.1	1.0	1.8	1.0
Adjustments	Operating Revenues	-	-	-	-	-
	Ordinary Income	▲4.5	▲2.5	▲7.0	▲6.5	▲5.0
Total	Operating Revenues	491.2	478.8	970.0	1243.9	1030.0
	Ordinary Income	▲36.1	▲17.9	▲54.0	3.3	▲21.5

+/-	
(d-e)	(d-f)
▲131.9	▲52.0
▲26.0	▲25.5
▲135.6	▲8.0
▲33.7	▲6.0
▲4.7	▲1.0
3.6	1.0
▲1.8	1.0
▲0.8	0
-	-
▲0.5	▲2.0
▲273.9	▲60.0
▲57.3	▲32.5

Key Factors for FY2016

- ✓ Containership : Severe market to persist due to over supply
- ✓ Car Carrier : Demand from emerging and resource rich countries stay depressed
- ✓ Dry Bulk : Expecting slow recovery from historical low level
- ✓ Enforcing business structural reform to ensure competitiveness as planned
- ✓ Earning forecast downward revision mainly Containership and Car Carrier

Ordinary Income Sensitivity (for 6 months in 2H)

- Yen-US\$ rate assumption:
each ¥1 weaker (stronger)
adds (subtracts)
⇒ ¥0.03 bln
- Bunker price:
each \$10/mt down (up)
adds (subtracts)
⇒ ¥0.17 bln

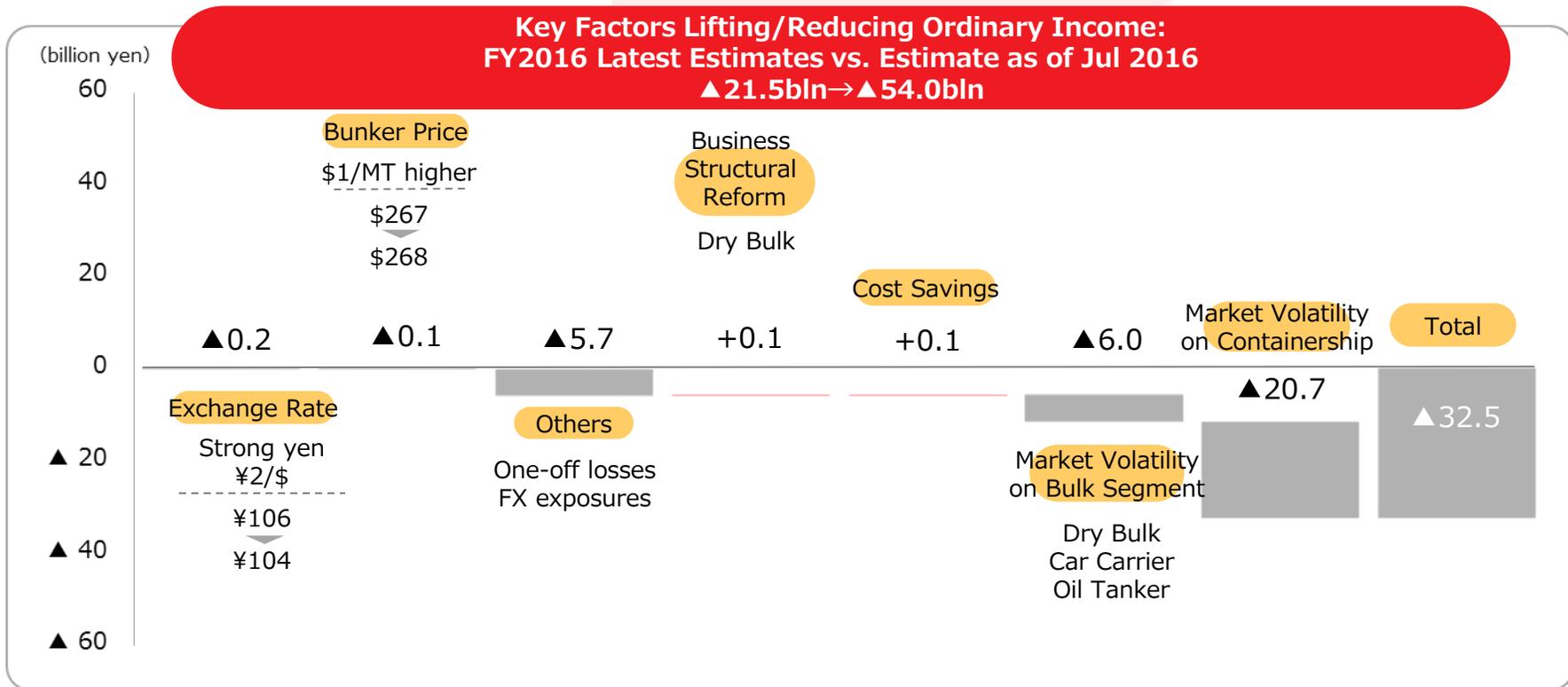
Dividend (FY2016)

- Interim : No Dividend
- Year-end : No Dividend

Very unfortunately, no dividend to be paid in FY2016. We will focus on financial structure improvement.

A-4 Estimates for FY2016

– Latest vs. as of Jul 2016



Market Freight Rate Comparison

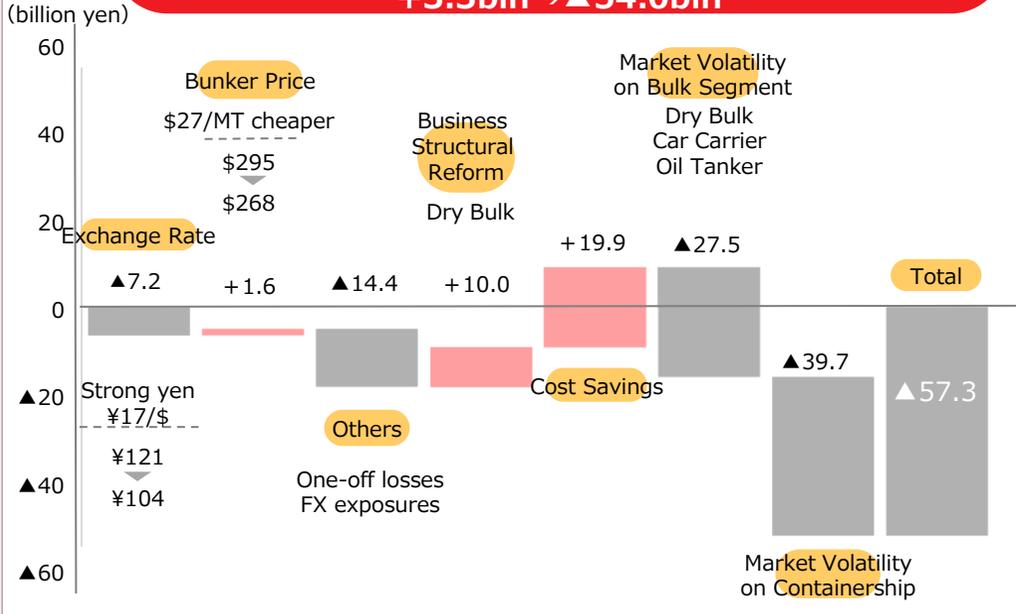
		As of Jul 2016			Latest			(b-a)
		1H	2H	(a)	1H	2H	(b)	
Containership (Freight Index)	Asia - North America	75	82	78	71	73	72	▲6
	Asia - Europe	50	64	57	44	50	47	▲10
Dry Bulk	CAPE	\$6,850	\$12,000	\$9,400	\$7,400	\$12,000	\$9,700	\$300
	PANAMAX	\$5,450	\$8,000	\$6,725	\$5,350	\$7,500	\$6,400	▲\$325
	HANDYMAX	\$5,900	\$6,000	\$5,950	\$6,450	\$6,000	\$6,200	\$250
	SMALL HANDY	\$4,900	\$5,500	\$5,200	\$5,300	\$5,500	\$5,400	\$200
Oil Tanker	VLCC (Middle East-Japan)	\$34,900	\$45,000	\$40,000	\$29,000	\$35,000	\$32,000	▲\$8,000
	AFRAMAX (South Asia-Japan)	\$22,050	\$27,500	\$24,800	\$14,300	\$17,800	\$16,050	▲\$8,750
	Clean Tanker (110,000mt)	\$14,850	\$25,000	\$19,900	\$14,500	\$17,500	\$16,000	▲\$3,900
	(Middle East-Japan)							

A-5 Estimates for FY2016

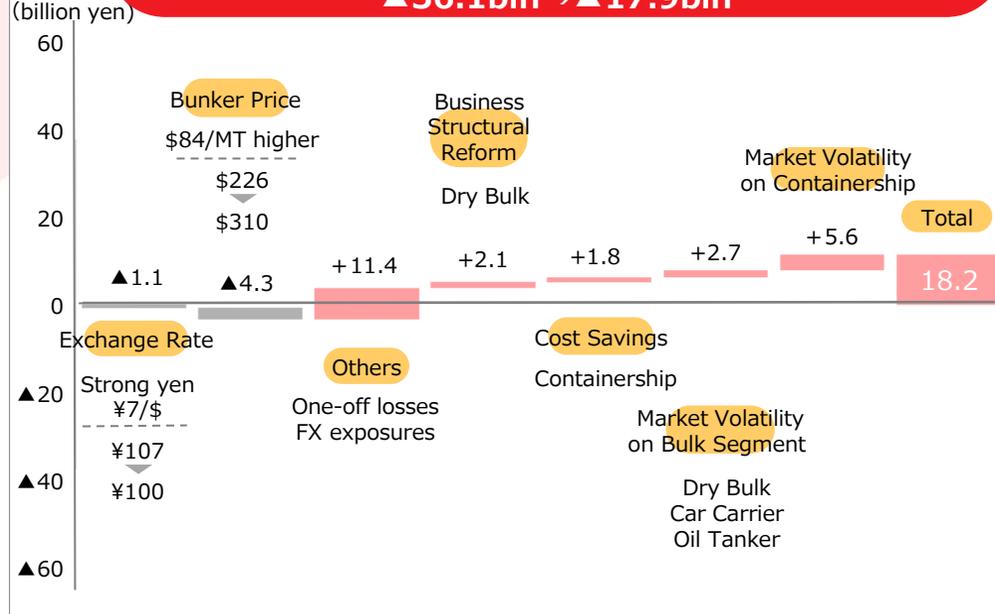
Value for our Next Century

- Latest vs. FY2015 Results / 1st Half vs. 2nd Half FY2016 - Action for Future -

Key Factors Lifting/Reducing Ordinary Income: FY2016 Latest Estimates vs. FY2015 Results +3.3bln → ▲54.0bln



Key Factors Lifting/Reducing Ordinary Income: 1st Half vs. 2nd Half FY2016 ▲36.1bln → ▲17.9bln



Actual Freight in FY2015 vs. Assumptions in the latest estimate FY2016

		FY2015			FY2016			(b-a)	(d-c)
		1H	2H	(a)	1H (c)	2H (d)	(b)		
Containership (Freight Index)	Asia - North America	95	87	91	71	73	72	▲19	2
	Asia - Europe	50	43	47	44	50	47	0	6
Dry Bulk	CAPE	\$9,150	\$5,350	\$7,250	\$7,400	\$12,000	\$9,700	\$2,450	\$4,600
	PANAMAX	\$6,400	\$3,750	\$5,100	\$5,350	\$7,500	\$6,400	\$1,300	\$2,150
	HANDYMAX	\$7,750	\$4,750	\$6,250	\$6,450	\$6,000	\$6,200	▲\$50	▲\$450
	SMALL HANDY	\$5,700	\$4,050	\$4,900	\$5,300	\$5,500	\$5,400	\$500	\$200
Oil Tanker	VLCC (Middle East-Japan)	\$59,500	\$76,250	\$68,000	\$29,000	\$35,000	\$32,000	▲\$36,000	\$6,000
	AFRAMAX (South Asia-Japan)	\$34,500	\$32,250	\$33,000	\$14,300	\$17,800	\$16,050	▲\$16,950	\$3,500
	Clean Tanker (110,000mt) (Middle East-Japan)	\$33,250	\$21,600	\$28,000	\$14,500	\$17,500	\$16,000	▲\$12,000	\$3,000

A-6 Business Structural Reform and Cost Reduction Value for our Next Century - Action for Future -

Business Structural Reform

● Plan as of April 2016

- ▶ FY2015 reforming losses(extraordinary losses) ▲¥34.0bln(approx.)
- ▶ FY2016 reforming losses(extraordinary losses) ▲¥35.0bln(approx.)
-
- ▶ Total ▲¥69.0bln(approx.)

(billion yen)	Earnings Improvement	
	FY2016	FY2017
FY2015-FY2016 Structural Reforming Cost	10.0	13.5

● Achievement as of end Sep 2016

(billion yen)	Earnings Improvement	
	FY2016	FY2017
Achieved by Sep 2016	9.3	9.8
Target by Mar 2017	10.0	13.5

✓ Dry Bulk Core Fleet Transition

(No. of vessels)	Mar 2014	Mar 2016		Mar 2019	Mar 2019	
	Results (a)	Target (b)	(b-a)	Reviewed Plan (A)	Original Plan (B)	(A)-(B)
Dry Bulk Core Fleet	218	184	▲34	196	239	▲43
include Panamax or smaller	96	73	▲23	70	99	▲29

Cost Reduction / Earnings Improvements Plan

- FY2016 Target as of April 2016 **¥18.8bln**
- FY2016 Revised target **¥19.9bln**

		Revised Estimate	1Q	2Q	1H	2H (est)	(billion yen)	
							vs. target in Apr	Percent Complete
Containerships	Route Rationalization							
	Operating Cost Saving	19.7	4.2	4.8	9.0	10.6	1.5	46%
	Cost Reduction							
	Earning Improvement	▲ 2.0	▲ 0.4	▲ 0.6	▲ 1.0	▲ 1.0	▲ 0.4	50%
	Total	17.7	3.8	4.3	8.0	9.6	1.2	46%
Non-Containerships		2.2	0.4	0.6	1.0	1.2	▲ 0.1	46%
Total		19.9	4.2	4.9	9.1	10.8	1.1	46%

[Action Plan]

- ❑ Rationalizing Unprofitable Services :
Rationalizing east-west routes by 14,000TEU vessels, Business reduction at Asia-East coast South America route etc
- ❑ Cost Reduction :
Strengthening Containership equipment management, Reducing inland cost in North America, Efficient yield management etc
- ❑ Earning Improvements :
Increasing the volume of higher-profit reefer cargoes (lower effect yoy due to weak market)

Division Trends



FY2016 1H Results

- Persisting over supply market while demand was gradually growing. Unexpectedly severe market caused bankruptcy of major carrier.
- Spot freight market rebounded slightly due to supply-demand gap.

Initiatives for FY2016 onward

- Depressed freight market to persist through 2nd half FY2016 due to supply-demand gap.
- Adjusting spaces to supply and demand fluctuation, Saving costs, Improving space utilization, Increasing profitable cargoes
- “THE Alliance” to be in service from April 2017. Improving service quality to meet customers’ expectation.

		FY2015					FY2016			
		1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Estimate
Operating Revenues	(billion yen)	171.7	165.9	145.1	132.2	614.9	122.2	124.7	236.1	483.0
Ordinary Income	(billion yen)	4.1	▲ 1.0	▲ 7.4	▲ 5.7	▲ 10.0	▲ 12.3	▲ 8.7	▲ 15.0	▲ 36.0
Freight Index FY2008 1Q= 100	Asia - N.America	97	93	87	86	91	73	71	73	72
	Asia - Europe	49	51	43	43	47	40	47	50	47
Lifting (10,000TEU)	Asia - N.America	24.3	24.8	21.0	19.7	89.8	23.3	26.6	48.0	97.8
	Asia - Europe	10.3	10.3	10.1	10.0	40.6	10.0	10.4	20.5	40.9
Capacity (10,000TEU)	Asia - N.America	24.3	26.2	25.8	24.5	100.9	26.5	27.7	53.5	107.7
	Asia - Europe	12.1	12.4	12.5	12.7	49.7	11.7	11.7	23.0	46.1
Utilization (%)	Asia - N.America	100%	95%	81%	80%	89%	88%	96%	90%	91%
	Asia - Europe	85%	83%	81%	79%	82%	88%	89%	89%	89%

FY2016 1H Results

- Total Units Carried : 1.514 million units (▲6% YoY)
- World Shipping Demand : Gradually expanding volume for North America and Europe supported firm total demand but cargo movement for emerging countries like Middle East, Central/South America, Russia, Africa and Asia which was affected by Chinese economic slow down faltered.
- Export from Japan : Volume decreasing for emerging countries, on the other hand, steady demand for North America and Europe braked weak trend as a whole.

Initiatives for FY2016 onward

- We are expecting steady trends for North America and slow recovery for rich resource and emerging countries in marine transport of finished vehicles.
- We utilize short period charter to conform space and fleet to demand.
- We enhance our fleet competitiveness by advanced cost-efficient vessels such as 15 large 7,500 unit car carriers.
- We increase profits via ongoing initiatives to expand volumes of “High & Heavy” cargo.
- We aim to expand our stable business base via various initiatives and pursue new routes in response to new transportation demand.

Total Units Carried (1,000 units)	FY2015					FY2016			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Estimate
Outbound	278	300	296	282	1,156	265	261	596	1,122
Homebound	63	70	77	37	247	47	50	92	189
Others	290	267	271	233	1,060	289	283	598	1,170
Intra-Europe	176	161	171	177	685	170	149	314	633
Total	807	797	815	729	3,149	771	743	1,600	3,114
Number of Operating Vessels	98	102	101	102	102	100	97		

FY2016 1H Results

- Capesize : Market rose due to Chinese crude steel production recovery but that lead to reduction of scrapping and lay-up which is weighing on market.
- Panamax etc : Market was recovering from historically low level but excess of supply is persisting.
- Reducing fleet especially for costly Panamax or smaller vessels.

Initiatives for FY2016 onward

- We prospect gradual market recovery from historically low level but it takes time for closing supply-demand gap.
- We ensure more competitive fleet by continuing dispose of costly vessels.
- We plan to bolster resilience to rate trends by securing stable profit and improving effective operation.

Dry Bulk Market	FY2015					FY2016			
	1Q	2Q	3Q	4Q	Results	1 Q	2 Q	2H	Estimate
Capesize	\$5,800	\$12,500	\$8,000	\$2,700	\$7,250	\$6,700	\$8,000	\$12,000	\$9,700
Panamax	\$5,200	\$7,600	\$4,500	\$3,000	\$5,100	\$4,900	\$5,800	\$7,500	\$6,400
Handymax	\$6,700	\$8,800	\$5,700	\$3,800	\$6,250	\$5,800	\$7,000	\$6,000	\$6,200
Small Handy	\$5,100	\$6,300	\$4,700	\$3,400	\$4,900	\$4,800	\$5,800	\$5,500	\$5,400

B-4 Bulk Shipping Business: LNG Carrier & Oil Tankers Business

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FY2016 1H Results

▶ LNG Carriers

- Continued steady showing on stable profits from medium- and long-term contracts.

▶ Tankers

- VLCC and LPG continued steady showing on stable profits from medium- and long-term contracts.
- Aframax and Clean were suffering from supply-demand deterioration.

Initiatives for FY2016 onward

▶ LNG Carriers

- While LNG market is slack, we expect future demand to be firm over time.
- We aim to increase securing capacity from current 49 to 57 by FY2019.

▶ Tankers

- We expect continuous steady demand for VLCC and LPG.
- Favorable crude oil demand especially from emerging countries to continue.
- We expect new buildings to be supplied in 2nd half FY2016 will weigh on market compared with the last year while winter peak season is coming.

Tanker Freight Rates (WS)	FY2015					FY2016			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Estimate
VLCC(M.East/Japan)	64 \$63,000	54 \$56,000	75 \$92,000	71 \$60,500	66 \$68,000	60 \$42,000	37 \$16,000	60 \$35,000	54 \$32,000
Aframax(S.Asia/Japan)	127 \$37,000	107 \$32,000	107 \$33,500	129 \$31,000	117 \$33,000	101 \$18,600	75 \$10,000	107 \$17,800	98 \$16,000
Clean 110,000mt type (M.East/Japan)	109 \$26,500	132 \$40,000	80 \$20,500	111 \$22,700	108 \$28,000	88 \$14,400	91 \$14,500	107 \$17,500	98 \$16,000

Offshore Energy E&P Support

FY2016 1H Results

- ▶ Offshore support vessels
 - Business environment eroded on softening market conditions due to the slump in crude oil prices and stalled offshore development.
- ▶ Drillship
 - Contributed to long term stable profit by brisk deployment due to long-term contracts.

Initiatives for FY2016 onward

- ▶ Offshore support vessels
 - Need more time for market recovery.
 - We aim to secure profitability by cutting costs and securing medium- and long- term contracts.
 - We see an opportunity to act ahead of narrowing gains/losses on debt valuation affecting earnings and plan to adopt countermeasures.
- ▶ Drillship
 - We expect stable earnings on steady capacity utilization.

Heavy Lifters

FY2016 1H Results

- Market remained weak but fleet rationalization had a certain effect for better earnings.

Initiatives for FY2016 onward

- Persisting weak market
- We aim to improve profitability on measures to reduce costs, streamline vessel allocation, and strengthen initiatives for project contracts in FY2016.
- We plan to investigate fundamental reform measures.

Medium-term Management Plan

- ▶ Due to the container shipping business integration, we are planning to review our present Medium-term Management Plan and announce it within this financial year.
- ▶ We are considering the additional measure for this adverse market condition on the container segment and other segments, and we will announce the details once it is ready.

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