

# Financial Highlights Brief Report for 2nd Quarter FY2017

31<sup>st</sup> October 2017



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# Financial Highlights for 2nd Quarter FY2017



# A-1 Financial Results for 1<sup>st</sup> Half FY2017

## Consolidated Results for 1H FY2017

(billion yen)

	FY2017			Year-on-Year Comparison		vs. FY2017 1H as of Jul	
	1Q	2Q	1H (a)	FY2016 1H (b)	(a)-(b)	1H (c)	(a)-(c)
Operating Revenues	287.4	291.6	578.9	491.2	87.8	570.0	8.9
Operating Income	3.9	2.4	6.2	▲ 26.4	32.7	10.0	▲ 3.8
Ordinary Income	6.0	5.2	11.1	▲ 36.1	47.3	10.0	1.1
Net Income Attributable to Owner of Parent	8.5	4.7	13.2	▲ 50.5	63.6	15.0	▲ 1.8
Exchange Rate (¥/\$)	¥111.48	¥110.92	¥111.20	¥107.31	¥3.89	¥110.74	¥0.46
Bunker Price(\$)	\$326	\$322	\$324	\$226	\$97	\$325	▲\$1

Business Segment		FY2017			Year-on-Year Comparison		vs. FY2017 1H as of Jul	
		1Q	2Q	1H (a)	FY2016 1H (b)	(a)-(b)	1H (c)	(a)-(c)
Containership	Operating Revenues	147.2	157.3	304.4	246.9	57.5	299.0	5.4
	Ordinary Income	6.1	2.9	9.0	▲ 21.0	30.0	11.0	▲ 2.0
Bulk Shipping	Operating Revenues	126.4	124.5	250.9	217.7	33.1	248.0	2.9
	Ordinary Income	0.4	2.4	2.7	▲ 9.8	12.6	1.5	1.2
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	4.9	1.4	6.2	9.5	▲ 3.2	6.0	0.2
	Ordinary Income	▲ 0.2	1.0	0.8	▲ 1.7	2.5	▲ 0.5	1.3
Other	Operating Revenues	8.9	8.4	17.4	17.0	0.3	17.0	0.4
	Ordinary Income	1.0	0.9	2.0	0.9	1.1	1.5	0.5
Adjustments	Operating Revenues	-	-	-	-	-	-	-
	Ordinary Income	▲ 1.3	▲ 2.1	▲ 3.4	▲ 4.5	1.1	▲ 3.5	0.1
Total	Operating Revenues	287.4	291.6	578.9	491.2	87.7	570.0	8.9
	Ordinary Income	6.0	5.2	11.1	▲ 36.1	47.3	10.0	1.1

## Main Financial Indicators

(billion yen)

	FY2016 (a)	FY2017 2Q (b)	(b)-(a)
Equity Capital	219.5	232.0	12.5
Interest-bearing liability	550.5	557.9	7.4
DER (%)	251%	241%	▲10%
NET DER (%)	160%	148%	▲12%
Equity Ratio (%)	21%	22%	0%

### ▶ Containership

- Freight rate market mainly in the East-West services had bottomed out and earnings returned to profits in 1H FY2017.

### ▶ Bulk Shipping

- Softened market trend in Oil Tankers.
- Dry Bulk market trend was firm due to expansion of firm transportation demands mainly for China.
- Cargo movement of Car Carriers from Asia to resource-rich countries remained low level, but increased cargo volume especially in Atlantic regions and Intra-Europe.
- Reversed Allowance for Loss related to the Anti-Monopoly Act.

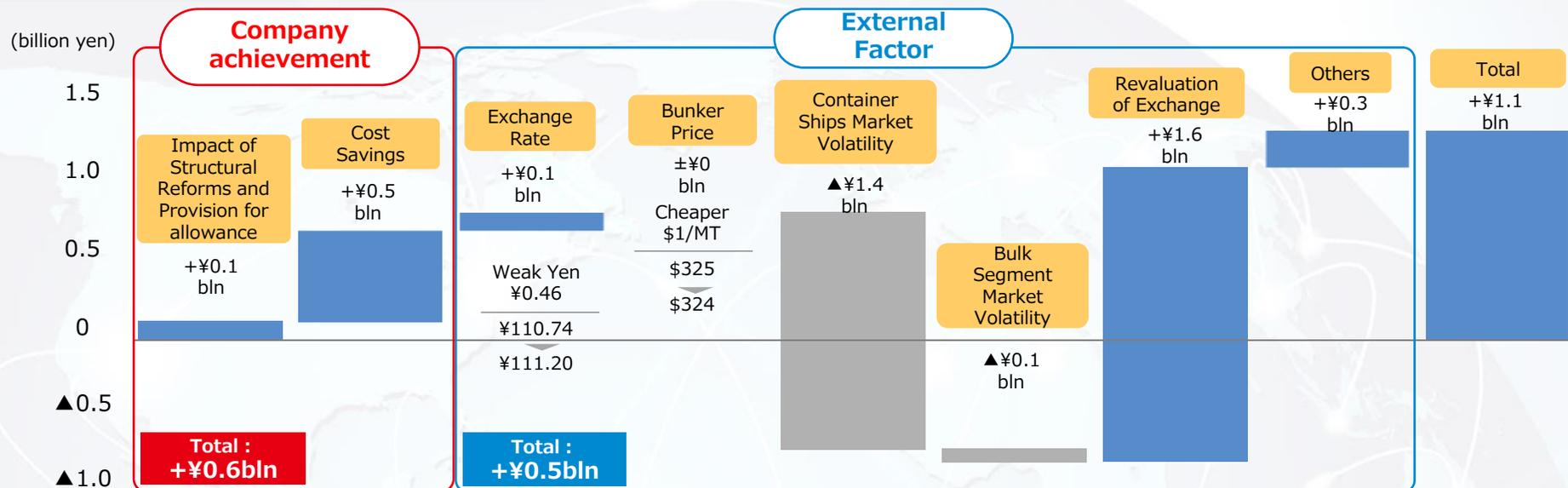
### ▶ Offshore Energy E&P Support & Heavy lifter

- Sold out Heavy lifter business in July.
- Offshore support vessel market remained low level. Promote structural reforms for expanding stable-income.

# A-2 Financial Results for 1<sup>st</sup> Half FY2017 - vs. Assumption as of Jul 2017

## Key Factor : Ordinary Income

Assumption as of Jul 2017 + ¥ 10.0bln ⇒ Results + ¥ 11.1bln (+ ¥ 1.1bln)



## Market rate in Results for 1H FY2017 vs. Assumption as of Jul 2017: Comparison

		FY2017 1H as of Jul (a)	FY2017 1H (b)	(a)-(b)
Containership	North America outbound freight Index	77	76	▲ 1
	Europe outbound freight Index	57	55	▲ 2
Dry Bulk	CAPE	\$13,100	\$13,400	+\$300
	PANAMAX	\$9,000	\$9,600	+\$600
	HANDYMAX	\$8,350	\$8,950	+\$600
	SMALL HANDY	\$7,000	\$7,350	+\$350
Oil Tanker	VLCC (Middle East/Japan)	\$18,100	\$15,400	▲\$2,700
	AFRAMAX (South Asia/Japan)	\$10,100	\$9,300	▲\$800
	Clean Tanker (110,000MT) (Middle East/Japan)	\$10,500	\$10,450	▲\$50

# A-3 Estimate for FY2017

## Consolidated Results for 1H & Estimates for FY2017

(billion yen)

	FY2017					Year-on-Year Comparison		vs. FY2017 1H as of Jul	
	1Q	2Q	1H	2H	Total (a)	FY2016 (b)	(a)-(b)	Total (c)	(a)-(c)
Operating Revenues	287.4	291.6	578.9	561.1	1,140.0	1,030.2	109.8	1,122.0	18.0
Operating Income	3.9	2.4	6.2	6.8	13.0	▲ 46.0	59.0	23.0	▲ 10.0
Ordinary Income	6.0	5.2	11.1	1.9	13.0	▲ 52.4	65.4	21.0	▲ 8.0
Net Income Attributable to Owner of Parent	8.5	4.7	13.2	▲ 4.7	8.5	▲ 139.5	148.0	21.0	▲ 12.5
Exchange Rate(¥/\$)	¥111.48	¥110.92	¥111.20	¥110	¥111	¥108.76	¥2.07	¥110.37	¥0.46
Bunker Price(\$)	\$326	\$322	\$324	\$326	\$325	\$265	\$60	\$322	\$3

- ▶ Revised the estimate of Net Income Attributable to Owner of Parent in FY2017 due to postponement a part of Extraordinary Income and losses in FY2017 to FY2018.

### Ordinary Income Estimates Sensitively (2<sup>nd</sup> Half 6months basis)

- Yen-US\$ rate assumption:  
each ¥1 weaker (stronger) adds (subtracts) ▶ ¥0.2 bln
- Bunker price:  
each \$10/mt down (up) adds (subtracts) ▶ ¥0.2 bln

### Dividends (FY2017)

Interim – no dividend  
Year-end – no dividend

With much regret, we decided not to pay both interim and year-end dividends in FY2017, given the urgency in improving our financial structure and the stabilization of our business base.

# A-4 Estimate for FY2017 by Segment

## Operating Revenues / Ordinary Income Estimates by Segment

(billion yen)

Business Segment		FY2017					Year-on-Year Comparison		vs. FY2017 1H as of Jul	
		1Q	2Q	1H	2H	Total (a)	FY2016 (b)	(a)-(b)	Total (c)	(a)-(c)
<b>Containership</b>	Operating Revenues	147.2	157.3	304.4	289.6	594.0	519.0	75.0	589.0	5.0
	Ordinary Income	6.1	2.9	9.0	0.0	9.0	▲ 31.5	40.5	19.0	▲ 10.0
<b>Bulk Shipping</b>	Operating Revenues	126.4	124.5	250.9	251.1	502.0	456.5	45.5	488.0	14.0
	Ordinary Income	0.4	2.4	2.7	4.3	7.0	▲ 9.5	16.5	7.5	▲ 0.5
<b>Offshore Energy E&amp;P Support &amp; Heavy Lifter</b>	Operating Revenues	4.9	1.4	6.2	1.8	8.0	19.4	▲ 11.4	8.0	0.0
	Ordinary Income	▲ 0.2	1.0	0.8	▲ 0.4	0.4	▲ 5.1	5.5	▲ 1.5	1.9
<b>Other</b>	Operating Revenues	8.9	8.4	17.4	18.6	36.0	35.3	0.7	37.0	▲ 1.0
	Ordinary Income	1.0	0.9	2.0	0.9	2.9	2.5	0.4	2.5	0.4
<b>Adjustments</b>	Operating Revenues	-	-	-	-	-	-	-	-	-
	Ordinary Income	▲ 1.3	▲ 2.1	▲ 3.4	▲ 2.9	▲ 6.3	▲ 8.8	2.5	▲ 6.5	0.2
<b>Total</b>	Operating Revenues	287.4	291.6	578.9	561.1	1,140.0	1,030.2	109.8	1,122.0	18.0
	Ordinary Income	6.0	5.2	11.1	1.9	13.0	▲ 52.4	65.4	21.0	▲ 8.0

### ► Containership

Expect Containership market will be limited upside in rates. Reflect the costs (about ¥4.0bln) related to the foundation of "OCEAN NETWORK EXPRESS" for New Integrated Container Shipping Business in "Equity in Loss of subsidiaries and affiliates".

### ► Bulk Shipping

Oil Tanker Market will be weak and Dry Bulk Market is expected to keep recovery trend.

Cargo movement of Car Carriers from Asia to resource-rich countries will remain low, but cargo volume especially in Atlantic regions and Intra-Europe will be increased.

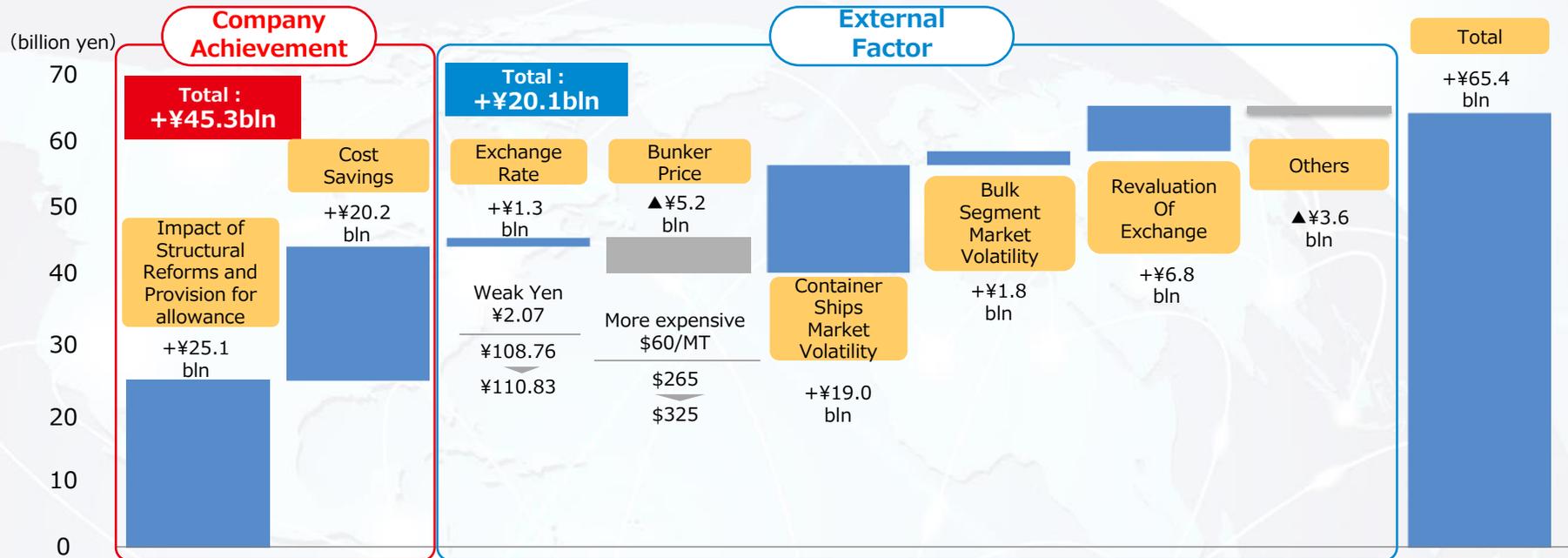
### ► Offshore Energy E&P Support

Promote structural reforms in Offshore support vessel business for expanding stable-income.

# A-5 Latest Forecast for FY2017 - vs. Financial Results for FY2016

## Key Factor : Ordinary Income

Results FY2016 ▲¥52.4bln ⇒ Latest Forecast FY2017+¥13.0bln (+¥65.4bln)



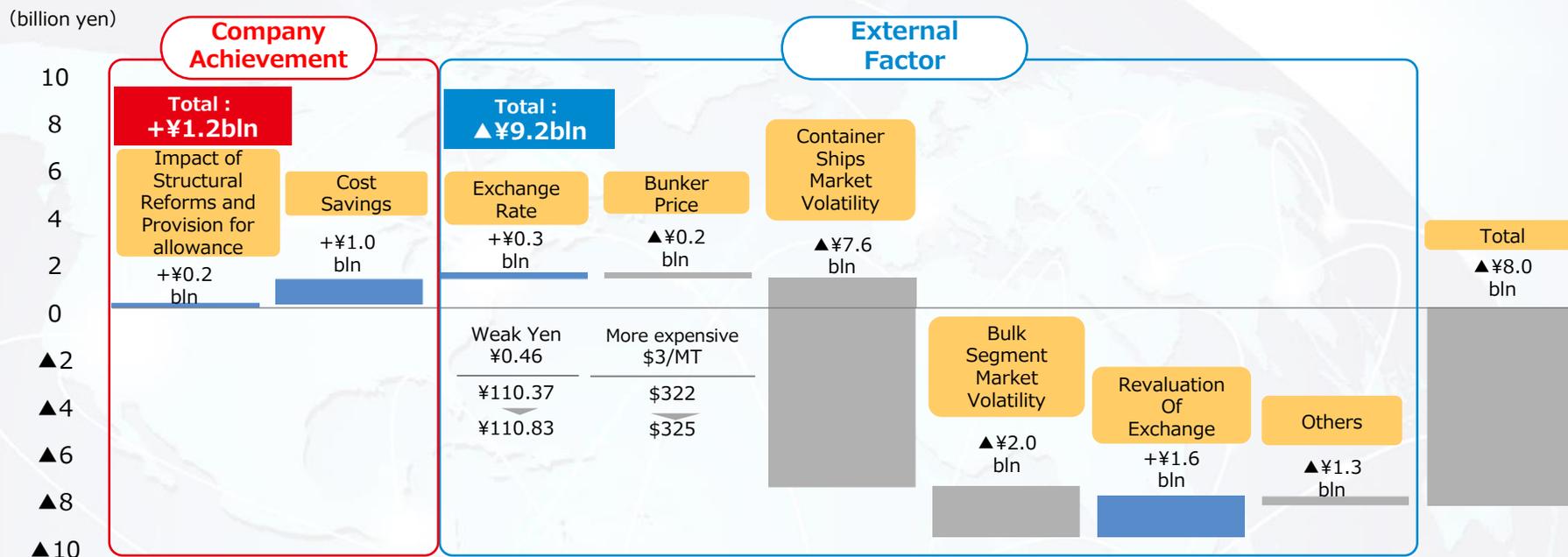
## Market rate in FY2016 vs. Latest Forecast for FY2017 : Comparison

		FY2016			FY2017			(a)-(b)
		1H	2H	Results (a)	1H	2H	Forecast (b)	
Containership	North America outbound freight Index	72	78	75	76	77	76	1
	Europe outbound freight Index	43	50	47	55	55	55	8
Dry Bulk	CAPE	\$7,400	\$11,500	\$9,450	\$13,400	\$16,000	\$14,700	+\$5,250
	PANAMAX	\$5,350	\$8,450	\$6,900	\$9,600	\$12,000	\$10,800	+\$3,900
	HANDYMAX	\$6,450	\$8,250	\$7,350	\$8,950	\$10,000	\$9,500	+\$2,150
	SMALL HANDY	\$5,300	\$6,800	\$6,050	\$7,350	\$7,750	\$7,550	+\$1,500
Oil Tanker	VLCC (Middle East/Japan)	\$29,000	\$38,000	\$33,500	\$15,400	\$21,000	\$18,200	▲\$15,300
	AFRAMAX (South Asia/Japan)	\$14,300	\$14,250	\$14,300	\$9,300	\$10,000	\$9,650	▲\$4,650
	Clean Tanker (110,000MT) (Middle East/Japan)	\$14,450	\$10,250	\$12,400	\$10,450	\$12,000	\$11,200	▲\$1,200

# A-6 Latest Forecast for FY2017 - vs. Assumption as of Jul 2017

## Key Factor : Ordinary Income

Assumption as of Jul 2017 +¥21.0bln ⇒ Latest Forecast +¥13.0bln(▲¥8.0bln)



## Market rate in FY2017 Assumption as of Jul vs. Latest Forecast : Comparison

		Assumption as of July			Latest Forecast FY2017			(a)-(b)
		1H	2H	Forecast (a)	1H	2H	Forecast (b)	
Containership	North America outbound freight Index	77	82	80	76	77	76	▲ 4
	Europe outbound freight Index	57	58	57	55	55	55	▲ 2
Dry Bulk	CAPE	\$13,100	\$16,000	\$14,550	\$13,400	\$16,000	\$14,700	+\$150
	PANAMAX	\$9,000	\$11,000	\$10,000	\$9,600	\$12,000	\$10,800	+\$800
	HANDYMAX	\$8,350	\$9,000	\$8,700	\$8,950	\$10,000	\$9,500	+\$800
	SMALL HANDY	\$7,000	\$7,000	\$7,000	\$7,350	\$7,750	\$7,550	+\$550
Oil Tanker	VLCC (Middle East/Japan)	\$18,100	\$33,000	\$25,600	\$15,400	\$21,000	\$18,200	▲\$7,400
	AFRAMAX (South Asia/Japan)	\$10,100	\$18,000	\$14,100	\$9,300	\$10,000	\$9,650	▲\$4,450
	Clean Tanker (110,000MT) (Middle East/Japan)	\$10,500	\$18,000	\$14,300	\$10,450	\$12,000	\$11,200	▲\$3,100

# A-7 Financial Impact in FY2017 by Structural Reforms and Provision of allowance in FY2015 & FY2016 · Progress of Cost Savings

## Financial Impact in FY2017 by Structural Reforms and Provision of allowance in FY2015 & FY2016

(billion yen)

	Assumption as of Apr 2017(a)	FY2017 Forecast (b)	(b)-(a)
Bulk Shipping	11.8	11.9	0.1
Containership	20.3	20.2	▲ 0.1
Offshore Energy E&P Support & Heavy Lifter	2.2	2.3	0.1
<b>Total</b>	<b>34.3</b>	<b>34.4</b>	<b>0.1</b>

## Cost Saving Results (vs. Original Target as of Apr 2017)

(billion yen)

		Original Target (a)	1Q	2Q	1H	2H Forecast	FY2017 Forecast (b)	(b)-(a)	Achievement rate
Containership	Route Rationalization	14.5	3.2	4.7	8.0	7.0	15.0	0.5	103%
	Operating Cost Saving								
	Cost Reduction								
	Earning Improvement								
Bulk Shipping · Others		4.7	1.4	1.3	2.6	2.6	5.3	0.6	112%
<b>Total</b>		<b>19.2</b>	<b>4.6</b>	<b>6.0</b>	<b>10.6</b>	<b>9.6</b>	<b>20.2</b>	<b>1.0</b>	<b>105%</b>

## Rebuilding Portfolio Strategy

- Sold out Heavy Lifter Business (July, 2017)
- Agreed in principle to participate in the owning and chartering business for FPSO for Oil production in Ghana (July,2017)
- Expand stable-income business  
e.g. Long-term contract to transport steaming coal for Tenaga Nasional in Malaysia
- Initiatives for the accomplishment of successful merger of container shipping businesses
- New 2 LNG Carriers for Ichthys LNG Project in Australia were Named.  
(September & October,2017) : To be delivered in 4Q FY2017

[Expansion situation of Stable Income Business ]		
	FY2016	FY2017 (Forecast)
Asset Base	¥500bln	¥500bln
Ordinary Income	¥ 25bln	¥ 27bln

## Advanced Business Management & Function-Specific Strategies

- Advanced Business Management
  - Disclosed the outline of “Advancement of Management” by Total risk-return management and it will be commenced from 2H FY2017. [Please refer to Page 17 in this material]
- Strengthen customer relationship management (CRM)
  - Established Internal project team and studying to strengthen customer business base
- Technological and Business model innovation
  - Installation of “KAWASAKI Integrated Maritime Solutions Navigating System(K-IMS)” to our operated/managed vessels.  
(September, 2017)
  - “K” Line Group Collaboration for Japan’s First LNG-fueled Ferry.  
(September, 2017)

## ESG Initiatives

- “K” Line’s Next-Generation Eco-Friendly Flagship, “DRIVE GREEN HIGHWAY,” a 7,500RT large-scale car carrier has been selected as recipient of “Ship of the Year 2016” by the Japan Society of Naval Architects and Ocean Engineers.
- “K” Line has been selected as a constituent of the leading global indices for Socially Responsible Investment (SRI).
  - [FTSE4Good Global Index] (15<sup>th</sup> consecutive year)
  - [ETHIBEL EXCELLENCE Investment Register ]
  - [MSCI Japan Empowering Women Index (WIN)]
  - [Dow Jones Sustainability Asia Pacific Index] (7<sup>th</sup> consecutive year)
- “K” Line has been selected for the highest evaluation on the "Climate A List" by CDP.  
(October, 2017、 2<sup>nd</sup> consecutive year)

# Division Trends



## FY2017 2Q Results

Dry Bulk market trend was firm due to expansion of firm transportation demands mainly for China.

- ▶ Capesize                    Despite slow down of supply-demand gap, Capesize Market was kept increasing by Chinese strong demands for Iron Ore due to economical effectiveness by Chinese Government
- ▶ Panamax and Smaller size  
Panamax and Smaller size markets maintained upside trends the same as Capesize market due to firm demands e.g. Coal and Nickle ore from South East Asia to China and Grain from South America to China.
- Ensured more effective fleet allocation, the most economical vessel operation and reduction of market exposure.

## Initiatives for FY2017 3Q onward

- Expand stable-income business and improve effective operation to make stable earnings structure which is less affected by spot market.

Bulk Market	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H forecast	Forecast
<b>CAPE</b>	\$6,700	\$8,000	\$12,000	\$11,000	\$9,450	\$12,200	\$14,600	\$16,000	\$14,700
<b>PANAMAX</b>	\$4,900	\$5,800	\$8,700	\$8,200	\$6,900	\$9,000	\$10,200	\$12,000	\$10,800
<b>HANDYMAX</b>	\$5,800	\$7,000	\$8,400	\$8,100	\$7,350	\$8,700	\$9,200	\$10,000	\$9,500
<b>SMALL HANDY</b>	\$4,800	\$5,800	\$7,000	\$6,600	\$6,050	\$7,300	\$7,400	\$7,750	\$7,550

### FY2017 2Q Results

- ▶ LNG Carrier
  - With dexterity, operate a fleet of stable-income vessels with medium-and-long-term contracts
  - Newly-established “Liquefied Gas New Business Division” to bolster the business
- ▶ Oil Tanker
  - Supply-demand gap was expanded due to over-supplied and all type of Market remained low level
  - With dexterity, operate a fleet of stable-income vessels, mainly VLCC and LPG carriers, with medium-and-long-term contracts

### Initiatives for FY2017 3Q onward

- ▶ LNG Carrier
  - Promote developing new LNG/LPG demand creation business
  - Build up stable-income business by securing more medium-and-long-term contracts
  - Correspond Medium-term demands as trade trends changes with considering business risks control.
- ▶ Oil Tanker
  - Expand medium-and-long-term contracts via vessel replacements and achieving new business opportunities
  - Shrink market-exposed business
- ▶ Thermal Coal Carrier
  - Build up stable-income business by securing more medium-and-long-term contracts
  - Improve effective operation to make stable earnings structure which is less affected by spot market.

Tanker Market (WS)	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H forecast	Forecast
<b>VLCC</b>	60	37	70	69	59	57	45	61	56
<b>(M.East/Japan)</b>	\$42,000	\$16,000	\$48,000	\$28,000	\$33,500	\$19,800	\$11,000	\$21,000	\$18,200
<b>AFRAMAX</b>	101	75	97	115	97	99	93	100	98
<b>(S.Asia/Japan)</b>	\$18,600	\$10,000	\$15,000	\$13,500	\$14,300	\$10,200	\$8,350	\$10,000	\$9,650
<b>Clean 110,000DWT type</b>	88	91	75	107	90	92	112	110	106
<b>(M.East/Japan)</b>	\$14,400	\$14,500	\$9,500	\$11,000	\$12,350	\$8,700	\$12,200	\$12,000	\$11,200

## ▶ FY2017 2Q Results

- ▶ Offshore support vessel
  - Flagging spot rates owing to weakness in offshore E&P development
- ▶ Drillships
  - Earn stable income through steady operation of vessels via long-term contracts
- ▶ FPSO
  - Agreed in principle to participate in the owning and chartering business for FPSO for Oil production in Ghana  
(Expand stable-income business and develop next-gen core business by 15 years chartering contract)

## ▶ Initiatives for FY2017 3Q onward

- ▶ Offshore support vessel
  - Promote structural reforms, cost savings, and foreign exchange countermeasures to stabilize earnings
- ▶ Drillships
  - Keep operating as a stable-income business via a high utilization approach to navigation and operation
- ▶ FPSO
  - Proceed signing contracts to start the owning and chartering business for FPSO for Oil production in Ghana by execution of agreements

## FY2017 2Q Results

- Freight rate market mainly Asia-North America/Asia-Europe had bottomed out and earnings recovered sharply and returned to profits.
- Cargo movements was solid and lifting was increased by Year-on-Year.
- Route rationalization and cost saving were carried out and such output meets our expectations.

## Initiatives for FY2017 3Q onward

- Freight rate will be limited in upside due to business circumstance changes by reshuffles of Alliance and new delivery of VLCS
- Promote bolstering of operation costs reduction by effective fleet allocation, high-margin specialty cargo and improving the gap between inbound and outbound services
- Provide a stronger network by responding to customer needs via THE Alliance
- Promote launching of operating company for New Integrated Container Shipping Business by 3 Japanese Shipping Companies

		FY2016				Results	FY2017			
		1Q	2Q	3Q	4Q		1Q	2Q	2H forecast	Forecast
<b>Operating revenue (¥bln)</b>		122.2	124.7	134.5	137.6	519.0	147.2	157.3	289.6	594.0
<b>Ordinary income (¥bln)</b>		▲ 12.3	▲ 8.7	▲ 2.9	▲ 7.6	▲ 31.5	6.1	2.9	0.0	9.0
<b>Freight rate trends</b> FY2008 1Q = 100	Asia-North America	73	71	76	81	75	76	75	77	76
	Asia-Europe	40	47	47	54	47	54	56	55	55
<b>Lifting (10,000 TEU)</b>	Asia-North America	23.3	26.6	26.4	23.5	99.7	25.6	26.8	50.2	102.6
	Asia-Europe	10.0	10.4	10.6	10.9	41.8	11.5	12.2	23.7	47.4
<b>Capacity (10,000 TEU)</b>	Asia-North America	26.5	27.7	27.0	25.8	107.0	27.9	28.8	56.5	113.2
	Asia-Europe	11.4	11.7	11.6	11.3	46.0	12.3	13.2	25.5	51.0
<b>Utilization (%)</b>	Asia-North America	88%	96%	97%	91%	93%	92%	93%	89%	91%
	Asia-Europe	88%	89%	91%	96%	91%	94%	92%	93%	93%

## FY2017 2Q Results

- Total Units Carried : 1,731 thousand units (+14% Year-on-Year)
- World Shipping Demand :

Cargo movement from Asia to resource-rich countries remained low level, but cargo volume was increased in the route from F.E. Asia to Europe and Intra-Europe due to new contracted cargoes acquisition in addition to firm cargo volume in Atlantic regions.

## Initiatives for FY2017 3Q onward

- Expect steady trend for cargo movements from F.E. Asia to Europe, from F.E. Asia to North America, and in Atlantic regions, however cargo movements for resource-rich countries will not be recovered.
- Increase profits via ongoing initiatives to expand volumes of “High & Heavy” cargo.
- Enhance our fleet competitiveness by advanced cost-efficient vessels such as 15 large 7,500-unit car carriers.
- Utilize short period charter to conform space and fleet to demand.
- Strengthen our stable business base via proceeding with fleet rationalization and fleet planning in response to the changes and complication of trade structure

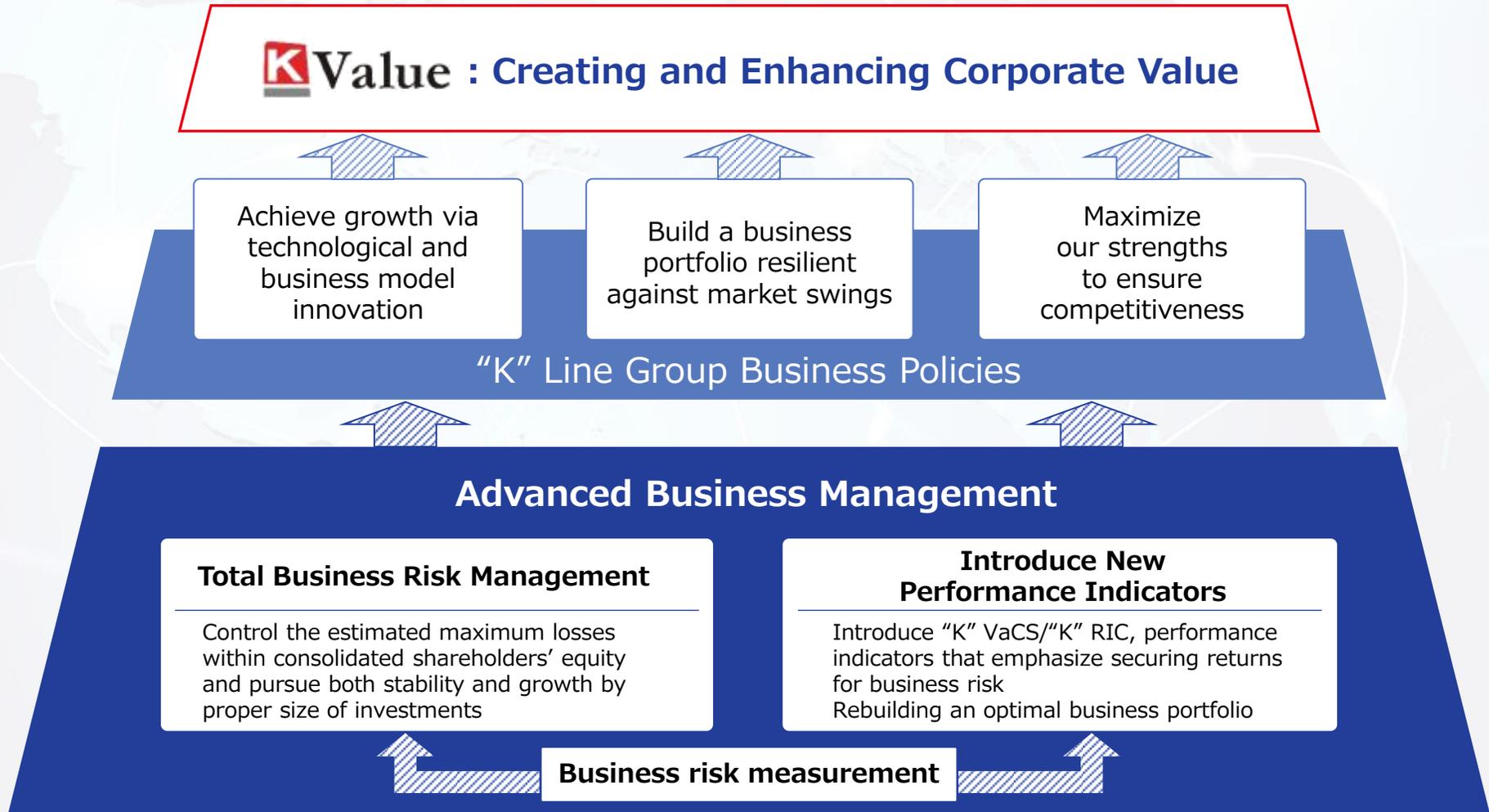
Total units carried (1,000 units)	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H forecast	Forecast
<b>Outbound</b>	265	261	296	250	1,071	264	250	554	1,068
<b>Homebound</b>	47	50	48	36	181	48	46	103	197
<b>Others</b>	289	283	312	286	1,171	362	324	690	1,375
<b>Intra-Europe</b>	170	154	155	203	682	213	225	456	893
<b>Total units carried</b>	771	748	811	775	3,106	887	844	1,803	3,533
<b>Number of operation vessels</b>	100	97	95	94	94	94	94		

# Advanced Business Management

**K** Value Creation, Portfolio Rebuilding



### ▶ Progress on priority initiatives in “Revival for Greater Strides,” the medium-term management plan released in April 2017



## ▶ Beginning the deployment below from 2017 2H, continue refinement and sophistication

### ■ Measurement of "Total Business Risk = Estimated Maximum Losses"

- ▶ Measure risk for each Group businesses (including off-balance sheet exposures)
- ▶ Use EaR/VaR method such as Monte Carlo simulations to calculate business risk  
EaR (Earnings at Risk) : Earnings volatility risk  
VaR (Value at Risk) : Asset value volatility risk

### ■ Business Risk Control, Risk-Return Management

- ▶ Keep tolerable business risk below consolidated shareholders' equity
- ▶ Setting new target for the return on business risk in each business

➡ Active rebuilding of business portfolio via optimal allocation of management resources

### ■ New Performance Indicators: "K" VaCS/"K" RIC

- ▶ Introduce new performance indicators for advanced business management

➡ See Slide 3 for a full explanation

### ■ Upgrade Investment Evaluations

- ▶ Measure business risk for each prospective investment; quantitatively evaluate the required return level corresponding to the measured risk
- ▶ In addition, combine the above with qualitative evaluations such as consistency with management strategy for decision-making

- ▶ **Adoption of new performance indicators enhances the visibility of the business risk and profitability corresponding to cost of shareholders' equity.**

### **“K” VaCS** - “K” LINE Value after Cost of Shareholders' equity -

- A profit indicator that represents economic value corresponding to the cost of shareholders' equity
- Aims to optimize the Group's business portfolio by using the measured business risk

#### — Formula —

“K” VaCS = Net income after tax – (Business risk based on the Group's business attributes x Cost of shareholders' equity)

(\*) If “K” VaCS is greater than zero, then corporate value is enhanced

### **“K” RIC** - “K” LINE Return on Invested Capital -

- A efficiency indicator promoting corporate value enhancement that factors in the cost of capital
- Accelerate return on invested capital by establishing a profitability baseline
- Sets hurdle rates for each business and the Group overall by using business risk

#### — Formula —

“K” RIC = Earnings before interest after taxes ÷ invested capital

(\*) As a general rule, “K” RIC should be above the hurdle rate; among viable hurdle rate candidates is the weighted-average cost of capital (WACC)

▶ Realize an optimal business portfolio by utilizing "K" VaCS and "K" RIC  
 Bridge to enhancement of corporate value (K Value) by;

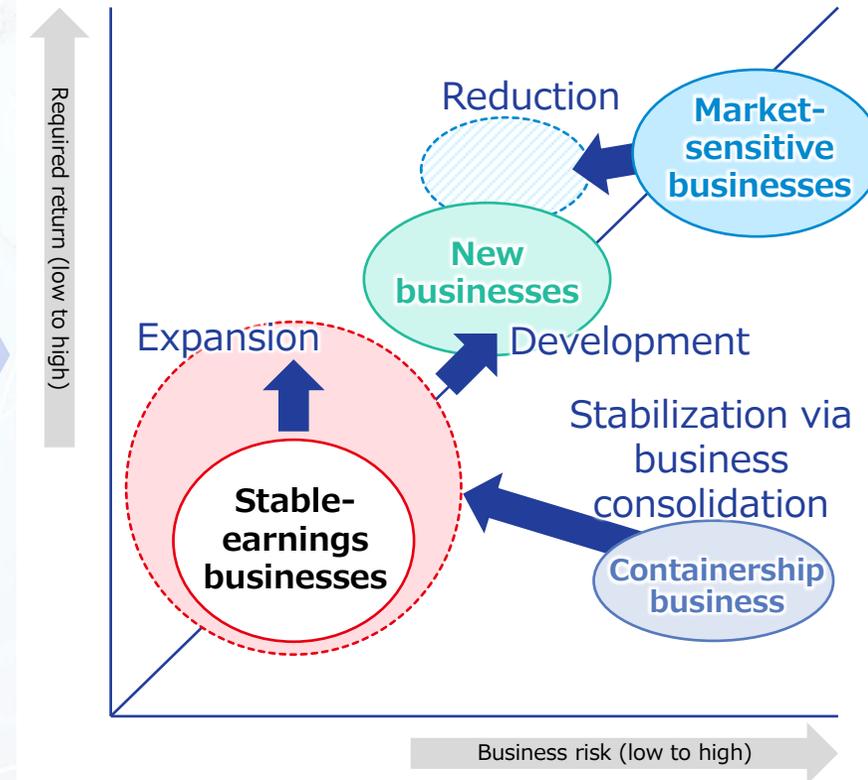
- ▶ Further expanding the stable-earnings
- ▶ Improving the resilience of market-sensitive businesses
- ▶ Fostering new business for growth



Measure risks of each business  
 Pursue suitable returns for business risk



### Business Portfolio Rebuilding



# ONE

## OCEAN NETWORK EXPRESS

Operating Company for New Integrated Container Shipping  
Business –Progress status report for business launch–

OCT 31ST 2017

# Progress of Integration(1/3)

Overall progress : No change from the original schedule



NewCo: Ocean Network Express is named as ONE



2017/7/10 @Press Conference (From Left K-Line: Eizo Murakami, MOL: Junichiro Ikeda, ONE: Jeremy Nixon, NYK: Tadaaki Naito)



# Progress of Integration(2/3)

## Regional Head Quarter and Local Entity Establishment

- Global Head Quarter : Marina One Office in Singapore will be open in Jan 2018
- All Regional Head Quarters (Singapore, Hong Kong, UK, USA, Brazil) and Japan Local Office start business
- Offices in other countries are in progress of establishment

## Antitrust license approval

- Only South Africa is under process of appeal. It will be concluded in Jan 2018.
- Procedure related to the business integration completed in other countries.

## Contract with customers (Bid)

- As for the contract effective from Apr 2018, we started to participate in bidding process invited by customers. (\*)

## Contract with vendors

- As for the contract effective from Apr 2018, we started to talk with vendors. (\*)

(\*) Excluding South Africa Trade

# Progress of Integration(3/3)

## IT Infrastructure

- ▣ Built a core system that combines best practices (Aug 2017)
- ▣ Training for booking launch (Feb 2018) started around the world (From Sep 2017)
- ▣ E-commerce : Developing multi functional Home Page for customer convenience

## Safe Operation, Environment

- ▣ Scheduled installation of state-of-the-art 24 hours vessel operation center in GHQ office
- ▣ Started to formulate ONE own safe navigation standard
- ▣ Started preparations for ISO14001

## Corporate Function

- ▣ Decision of audit corporation
- ▣ Decided financial period (Apr – Mar)
- ▣ Adopted Global Cash Management System for the more efficient cash flow control

**We will continue preparations for service start from Apr 2018**



**K** Value for our Next Century