

# Financial Highlights Brief Report for 1st Quarter FY2017

31<sup>st</sup> July 2017



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# Financial Highlights for 1st Quarter FY2017



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

## Consolidated Results for 1Q FY2017

(billion yen)

	FY2017	Year-on-Year Comparison	
	1Q (a)	FY2016 1Q (b)	(a)-(b)
Operating Revenues	287.4	244.6	42.8
Operating Income	3.9	▲ 14.8	18.7
Ordinary Income	6.0	▲ 22.5	28.5
Net Income Attributable to Owners of Parent	8.5	▲ 26.8	35.3
Exchange Rate	¥111.48	¥111.12	¥0.36
Bunker Price	\$326	\$208	\$118

Business		FY2017	Year-on-Year Comparison	
		1Q (a)	FY2016 1Q (b)	(a)-(b)
Containership	Operating Revenues	147.2	122.2	24.9
	Ordinary Income	6.1	▲ 12.3	18.4
Bulk Shipping	Operating Revenues	126.4	109.2	17.2
	Ordinary Income	0.4	▲ 7.3	7.6
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	4.9	4.6	0.2
	Ordinary Income	▲ 0.2	▲ 1.8	1.6
Other	Operating Revenues	8.9	8.5	0.4
	Ordinary Income	1.0	0.1	1.0
Adjustments	Operating Revenues	-	-	-
	Ordinary Income	▲ 1.3	▲ 1.2	▲ 0.1
Total	Operating Revenues	287.4	244.6	42.8
	Ordinary Income	6.0	▲ 22.5	28.5

## Main Financial Indicators

(billion yen)

	FY2016	FY2017 1Q
Equity Capital	219.5	227.6
Interest-bearing liability	550.5	555.0
DER (%)	251%	244%
NET DER (%)	160%	154%
Equity Ratio (%)	21%	22%

### ► Containership

Freight rate market had bottomed out and Earnings returned to profits.

### ► Bulk Shipping

Oil Tanker market remained low level. Voyage completion of Drybulk vessels were delayed to 2Q influenced by Cyclone etc. Capesize market was limited upside in rates. Increased cargo volume especially in Atlantic regions and Intra-Europe for Car Carriers. Earnings returned to profits due to effectiveness of Structure Reforms in last year.

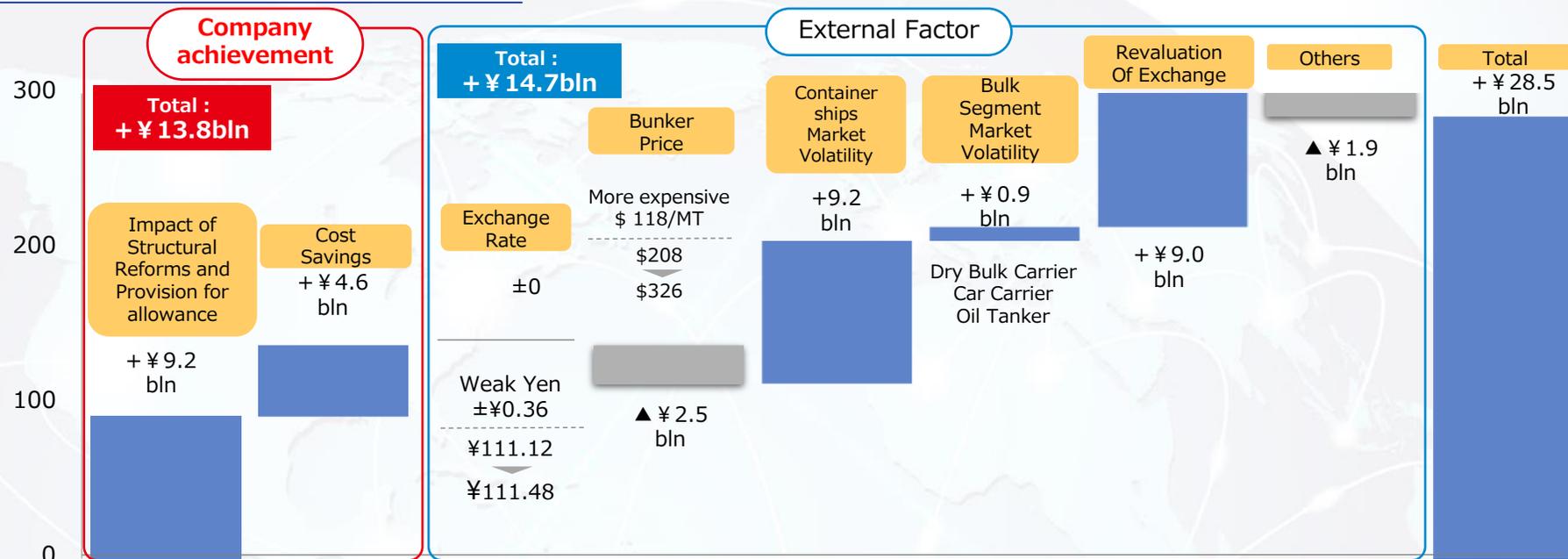
### ► Offshore Energy E&P Support & Heavy lifter

Sold out Heavy lifter business in July. Carrying out to rebuild portfolio strategy by "Agreement in principle to participate in FPSO business." Offshore support vessel market remained low level. Promote to Structure Reforms for expanding stable-income.

# A-2 Results for 1<sup>st</sup> Quarter - 1Q FY2017 vs. 1Q FY2016

## Key Factor : Ordinary Income

▲ ¥ 22.5bln in 1Q FY2016 ⇒ + ¥ 6.0bln in 1Q FY2017 (Improved + ¥ 28.5bln)



## Market rate in 1Q FY2017 vs. 1Q FY2016: Comparison

		FY2016 1Q (a)	FY2017 1Q (b)	(a)-(b)
<b>Containership</b>	North America outbound freight index	73	76	3
	Europe outbound freight index	40	54	14
<b>Dry Bulk</b>	CAPE	\$6,700	\$12,200	+\$5,500
	PANAMAX	\$4,900	\$9,000	+\$4,100
	HANDYMAX	\$5,800	\$8,700	+\$2,900
	SMALL HANDY	\$4,800	\$7,300	+\$2,500
<b>Oil Tanker</b>	VLCC(Middle East-Japan)	\$42,000	\$19,800	▲\$22,200
	AFRAMAX (South Asia/Japan)	\$18,600	\$10,200	▲\$8,400
	Clean Tanker(110,000MT) (Middle East /Japan)	\$14,400	\$8,700	▲\$5,700

# A-3 Estimate for 1st Half & FY2017

## Consolidated Estimates for 1H & FY2017

(billion yen)

	FY2017					Previous Estimate 1H & FY2017 as of Apr			
	1Q	2Q	1H (a)	2H	Total (b)	1H (c)	(a)-(c)	Total (d)	(b)-(d)
<b>Operating Revenues</b>	287.4	282.6	570.0	552.0	1,122.0	570.0	-	1,130.0	▲ 8.0
<b>Operating Income</b>	3.9	6.1	10.0	13.0	23.0	11.0	▲ 1.0	24.0	▲ 1.0
<b>Ordinary Income</b>	6.0	4.0	10.0	11.0	21.0	10.0	-	21.0	-
<b>Net Income Attributable to Owners of Parent</b>	8.5	6.5	15.0	6.0	21.0	15.0	-	21.0	-

Exchange Rate	¥111.48	¥110	¥111	¥110	¥110	¥110	¥1	¥110	¥0
Bunker Price	\$326	\$323	\$325	\$320	\$322	\$320	\$5	\$320	\$2

### ■ Ordinary Income Estimates Sensitively (2Q~4Q 9months basis)

- Yen-US\$ rate assumption: each ¥1 weaker (stronger) adds (subtracts) ▶ ¥0.4 bln
- Bunker price: each \$10/mt down (up) adds (subtracts) ▶ ¥0.6 bln

### ▶ Dividend

With much regret, we decided against paying 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 1st Half & FY2017 by Segment

## Operating Revenues / Ordinary Income Estimates by Segment

(billion yen)

Business		FY2017					Previous Estimate 1H & FY2017 as of Apr			
		1Q	2Q est	1H est (a)	2H est	Total (b)	1H (c)	(a)-(c)	Total (d)	(b)-(d)
<b>Containership</b>	Operating Revenues	147.2	151.9	299.0	290.0	589.0	290.0	9.0	580.0	9.0
	Ordinary Income	6.1	4.9	11.0	8.0	19.0	11.0	-	19.0	-
<b>Bulk Shipping</b>	Operating Revenues	126.4	121.6	248.0	240.0	488.0	250.0	▲ 2.0	490.0	▲ 2.0
	Ordinary Income	0.4	1.1	1.5	6.0	7.5	3.0	▲ 1.5	9.0	▲ 1.5
<b>Offshore Energy E&amp;P Support &amp; Heavy Lifter</b>	Operating Revenues	4.9	1.1	6.0	2.0	8.0	10.0	▲ 4.0	20.0	▲ 12.0
	Ordinary Income	▲0.2	▲0.3	▲ 0.5	▲ 1.0	▲ 1.5	▲ 1.0	0.5	▲ 2.0	0.5
<b>Other</b>	Operating Revenues	8.9	8.0	17.0	20.0	37.0	20.0	▲ 3.0	40.0	▲ 3.0
	Ordinary Income	1.0	0.5	1.5	1.0	2.5	1.0	0.5	2.0	0.5
<b>Adjustments</b>	Operating Revenues	-	-	-	-	-	-	-	-	-
	Ordinary Income	▲1.3	▲2.2	▲ 3.5	▲ 3.0	▲ 6.5	▲ 4.0	0.5	▲ 7.0	0.5
<b>Total</b>	Operating Revenues	287.4	282.6	570.0	552.0	1,122.0	570.0	-	1,130.0	▲ 8.0
	Ordinary Income	6.0	4.0	10.0	11.0	21.0	10.0	-	21.0	-

## Forecast for FY2017

### ▶ Containership

Freight rate market has bottomed out but both political and geopolitical risks must be monitored. Provide high-quality services by "THE Alliance" continuously.

### ▶ Bulk Shipping

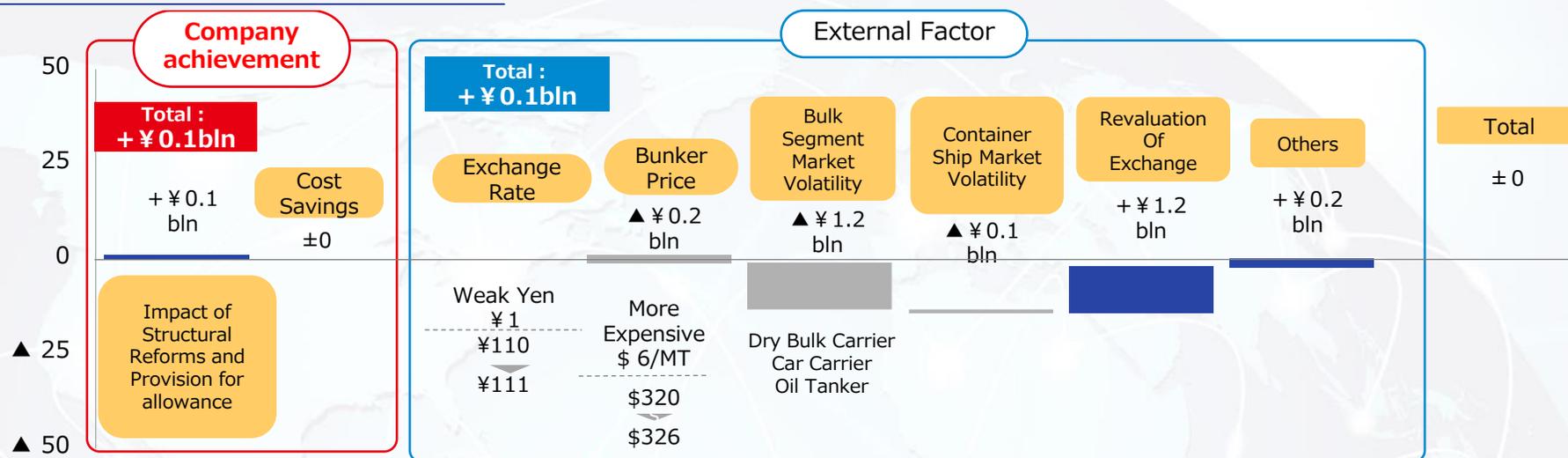
Dry Bulk market will be gradually recovering. Oil Tankers market will be limited upside in rates. Car Carrier cargo volume recovery to resources rich countries will be limited, but cargo movement in Atlantic regions and Intra-Europe will be firm.

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

Promote Structure Reforms to stabilize Offshore business.

# A-5 Latest Forecast for FY2017 1H - vs. Assumption as of Apr 2017

**Key Factor : Ordinary Income** As of Apr 2017 1H FY2017 + ¥ 10.0bln ⇒ Latest Forecast 1H 2017 + ¥ 10.0bln(±0)



## Market rate in Latest Forecast vs. Assumption as of Apr 2017

		Assumption as of Apr 2017	Latest Forecast	Disparity
<b>Containership</b>	North America outbound freight index	80	77	▲ 3
	Europe outbound freight index	56	57	1
<b>Dry Bulk</b>	CAPE	\$14,000	\$13,100	▲ \$900
	PANAMAX	\$10,000	\$9,000	▲ \$1,000
	HANDYMAX	\$9,000	\$8,350	▲ \$650
	SMALL HANDY	\$7,000	\$7,000	+\$0
<b>Oil Tanker</b>	VLCC(Middle East-Japan)	\$31,000	\$18,100	▲ \$12,900
	AFRAMAX (South Asia/Japan)	\$18,000	\$10,100	▲ \$7,900
	Clean Tanker(110,000MT) (Middle East /Japan)	\$17,000	\$10,500	▲ \$6,500

# A-6 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	2.1	▲ 0.1
<b>Total</b>	<b>34.3</b>	<b>34.2</b>	<b>▲0.1</b>

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

(billion yen)

	Original Target	FY2017 1Q	FY2017		FY2017	vs. Original Target	Achievement Rate
			1H Forecast	2H Forecast			
Containership	14.5	3.2	7.5	7.0	14.5	-	100%
Route Rationalization							
Operating Cost Saving							
Cost Reduction							
Earning Improvement							
Bulk Shipping · Others	4.7	1.4	2.7	2.1	4.8	+0.1	102%
<b>Total</b>	<b>19.2</b>	<b>4.6</b>	<b>10.2</b>	<b>9.1</b>	<b>19.3</b>	<b>+0.1</b>	<b>101%</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

## Advanced management and Strategy

- Total risk-return management  
Under preparation to sophisticate our total risk-return management with third-parties' advice and plan to disclosing the outline
- Strengthen customer relationship management (CRM)  
Established Internal project team and studying to strengthen customer business base
- Pursue high-quality service via technological and business model innovation  
Newly-Established "Advanced Technology Group" to strengthen our initiatives for responding to social changes and customer requests.

## 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's has been selected as a constituent of the leading global indices for Socially Responsible Investment (SRI).
  - 「FTSE4Good Global Index」 (15th consecutive year)
  - 「ETHIBEL EXCELLENCE Investment Register」
  - 「MSCI Japan Empowering Women Index (WIN)」

# Division Trends



## FY2017 1Q Results

Supply-demand gap was improved year-on-year with firm transportation demands. Drybulk market was recovering but still remains at a standstill due to uncertain prospects of Iron Ore and Coal demands.

- ▶ Capesize Iron Ore cargo movements still remain strong the same as last year. However, due to the risks of tightening Chinese monetary policy /real estate market and environmental measure by Chinese Government, the market was limited upside in rates.
- ▶ Panamax and Smaller size  
Market was dropped the same as Capesize market, but Coal and Grain cargo movement activated in each sea route from June and therefore, the market was recovered to some extent.
- Ensured more effective fleet allocation, the most economical vessel operation and reduction of market exposure.

## Initiatives for FY2017 2Q onward

- Expand stable-income business and improve effective operation to make stable earnings structure which is not affected by spot market.

Dry Bulk Market	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	1H Forecast	2H Forecast	Forecast
<b>Cape</b>	\$6,700	\$8,000	\$12,000	\$11,000	\$9,450	\$12,200	\$13,100	\$16,000	\$14,550
<b>Panamax</b>	\$4,900	\$5,800	\$8,700	\$8,200	\$6,900	\$9,000	\$9,000	\$11,000	\$10,000
<b>Handymax</b>	\$5,800	\$7,000	\$8,400	\$8,100	\$7,350	\$8,700	\$8,350	\$9,000	\$8,700
<b>Small Handy</b>	\$4,800	\$5,800	\$7,000	\$6,600	\$6,050	\$7,300	\$7,000	\$7,000	\$7,000

## FY2017 1Q 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 2Q onward

- ▶ LNG Carrier
  - ▶ Build up stable-income fleet by securing more medium-and-long-term contracts
  - ▶ Correspond Medium-term demands as trade trends changes with considering business risks control.
  - ▶ Promote to develop new LNG/LPG demand creation business
- ▶ Oil Tanker
  - ▶ Expand medium-and-long-term contracts via vessel replacements and achieving new business opportunities
  - ▶ Shrink market-exposed business

Tanker Market (WS)	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	1H Forecast	2H Forecast	Forecast
<b>VLCC</b> <b>(M.East/Japan)</b>	60	37	70	69	59	57	54	77	66
	\$42,000	\$16,000	\$48,000	\$28,000	\$33,500	\$19,800	\$18,100	\$33,000	\$25,600
<b>Aframax</b> <b>(S.Asia/Japan)</b>	101	75	97	115	97	99	100	137	119
	\$18,600	\$10,000	\$15,000	\$13,500	\$14,300	\$10,200	\$10,100	\$18,000	\$14,100
<b>Clean 110,000type</b> <b>(M.East/Japan)</b>	88	91	75	107	90	92	102	145	124
	\$14,400	\$14,500	\$9,500	\$11,000	\$12,400	\$8,700	\$10,500	\$18,000	\$14,300

# B-3 Offshore Energy E&P Support and Heavy Lifter Segment

## ▶ FY2017 1Q 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)
- ▶ Heavy Lifters
  - Sold out Heavy lifter business in July to rebuild portfolio strategy

## ▶ Initiatives for FY2017 2Q onward

- ▶ Offshore support vessel
  - Structural reforms, cost savings, and foreign exchange countermeasures to stabilize earnings
- ▶ Drillships
  - This has become a stable-income business via a high utilization approach to navigation and operation

## FY2017 1Q Results

- Freight rate market mainly Asia-North America/Asia-Europe had bottomed out and earnings recovered sharply and returned to profits.
- Route rationalization and cost saving were carried out and such output meets our expectations.

## Initiatives for FY2017 2Q onward

- Freight rate market has bottomed out, but both political risks in part of developed countries and geopolitical risks in part of regions must be monitored.
- Maintain monitoring the market impact by further merger and acquisition during another containership companies.
- Secure to maintain cargo composition focusing on high-margin cargo
- Promote bolstering of high-margin specialty cargo, reduce costs, proceed with fleet rationalization, and respond to clear-cut further slowing that coincides with seasonal factors
- Provide a stronger network by responding to customer needs via THE Alliance
- Strengthen vessel competitiveness via completion of three 14,000-TEU containerships

	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1H	1H Forecast	2H Forecast	Forecast
<b>Operating Revenues (billion yen)</b>	122.2	124.7	134.5	137.6	519.0	147.2	299.0	290.0	589.0
<b>Ordinary Income (billion yen)</b>	▲ 12.3	▲ 8.7	▲ 2.9	▲ 7.6	▲ 31.5	6.1	11.0	8.0	19.0
<b>Freight rate trends</b>									
Asia-North America	73	71	76	81	75	76	77	82	80
<b>FY2008 1Q = 100</b>									
Asia-Europe	40	47	47	54	47	54	57	58	57
<b>Lifting (10,000 TEU)</b>									
Asia-North America	23.3	26.6	26.4	23.5	99.7	25.6	52.3	49.6	101.9
Asia-Europe	10.0	10.4	10.6	10.9	41.8	11.5	24.2	23.0	47.2
<b>Capacity (10,000 TEU)</b>									
Asia-North America	26.5	27.7	27.0	25.8	107.0	27.9	57.0	56.1	113.1
Asia-Europe	11.4	11.7	11.6	11.3	46.0	12.3	25.7	24.6	50.4
<b>Utilization (%)</b>									
Asia-North America	88%	96%	97%	91%	93%	92%	92%	88%	90%
Asia-Europe	88%	89%	91%	96%	91%	94%	94%	93%	94%

## FY2017 1Q Results

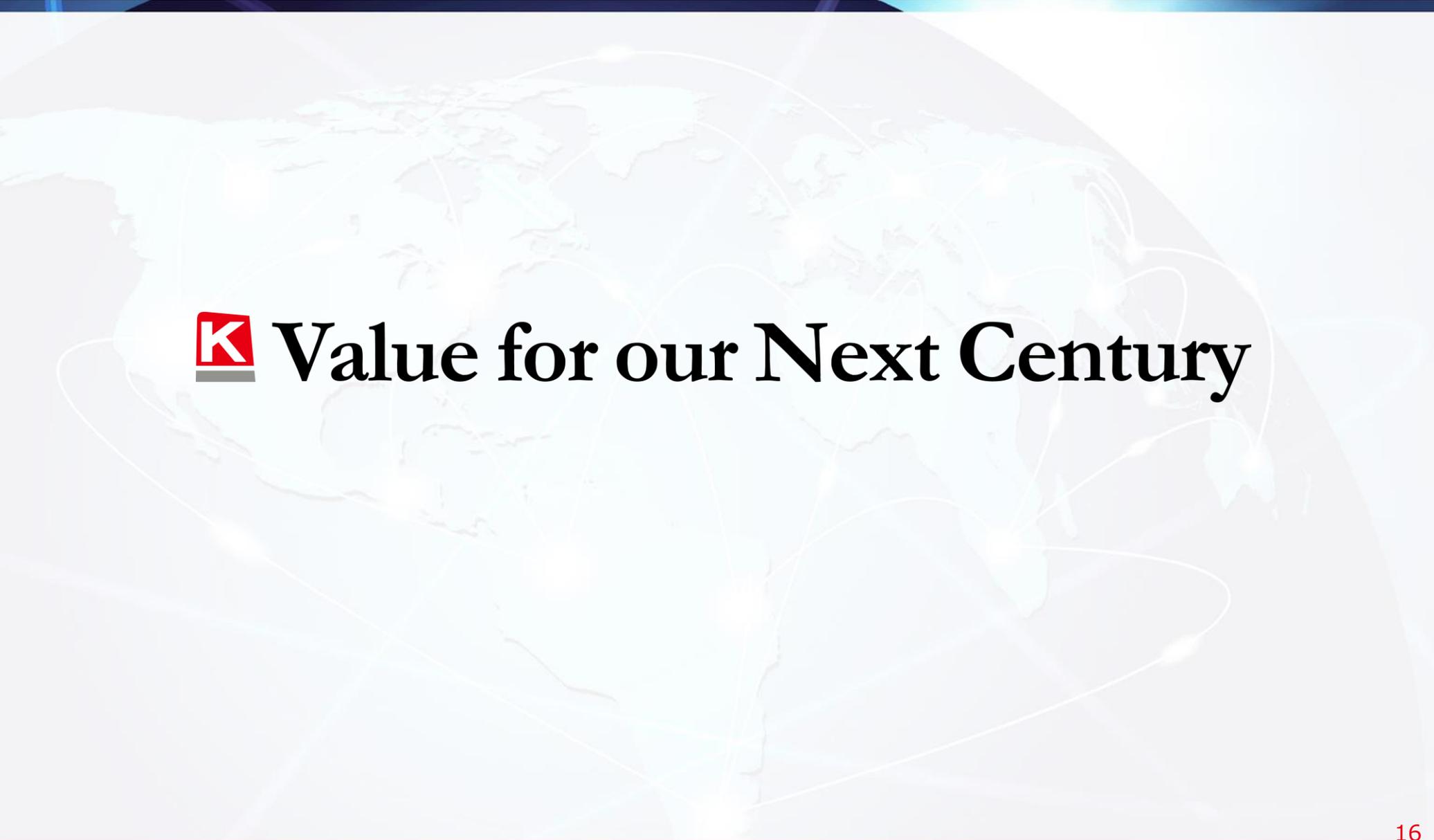
- Total Units Carried : 887 thousand units (+15% Year-on-Year)
- World Shipping Demand :

Cargo movement from Asia to resource-rich countries remained low level, but cargo volume was increased from F.E. Asia to Europe, in Atlantic regions and Intra-Europe

## Initiatives for FY2017 2Q onward

- Expect steady trend for cargo movements from F.E.Asia to Europe, from F.E. Asia to North America, and in Atlantic regions but recovery trend for resource-rich countries will be limited within this year.
- 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.
- Expand our stable business base via various initiatives and pursue new routes in response to new transportation demand.

Total units carried (1,000 units)	FY2016					FY2017			
	1Q	2Q	3Q	4Q	Results	1Q	1H Forecast	2H Forecast	Forecast
<b>Outbound</b>	265	261	296	250	1,071	264	500	548	1,048
<b>Homebound</b>	47	50	48	36	181	48	94	94	188
<b>Others</b>	289	283	312	286	1,171	362	712	661	1,373
<b>Intra-Europe</b>	170	154	155	203	682	213	432	457	889
<b>Total units carried</b>	771	748	811	775	3,106	887	1,738	1,760	3,498
<b>Number of operation vessels</b>	100	97	95	94	94	94			



**K** Value for our Next Century