



# Financial Highlights Brief Report for 1st Quarter FY2016

**K** "K" LINE  
川崎汽船株式会社

29 JUL 2016

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# Financial Highlights

## for 1st Quarter FY2016



# A-1 Financial Results for 1st Quarter and Estimates for 1st Half FY2016

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## Consolidated Results for 1Q / Estimates for 1H 2016

	FY2016			FY2015 Results		FY2016
	1Q (a)	2Q est	1H est (b)	1Q (c)	1H (d)	1H as of Apr (e)
Operating Revenues	244.6	255.4	500.0	335.5	668.3	530.0
Operating Income	▲14.8	▲3.2	▲18.0	11.2	18.8	▲2.0
Ordinary Income	▲22.5	▲4.5	▲27.0	14.6	16.0	▲3.0
Net Income Attributable to Owners of Parent	▲26.8	▲13.2	▲40.0	10.2	11.7	▲37.0
Exchange Rate	¥111.12	¥103	¥107	¥120.97	¥121.76	¥110
Bunker Price	\$208	\$240	\$224	\$366	\$352	\$240

(billion yen)

+/-		
(a-c)	(b-d)	(b-e)
▲90.9	▲168.3	▲30.0
▲26.1	▲36.8	▲16.0
▲37.1	▲43.0	▲24.0
▲37.0	▲51.7	▲3.0
▲¥9.85	▲¥14.76	▲¥3
▲\$158	▲\$128	▲\$16

## Each Segment Operating Revenues / Ordinary Income

Businesses		FY2016			FY2015 Results		FY2016
		1Q (f)	2Q est	1H est (g)	1Q (h)	1H (i)	1H as of Apr (j)
Containership Business	Operating Revenues	122.2	132.8	255.0	171.7	337.6	280.0
	Ordinary Income	▲12.3	▲1.7	▲14.0	4.1	3.1	0.0
Bulk Shipping Business	Operating Revenues	109.2	110.8	220.0	146.2	296.7	220.0
	Ordinary Income	▲7.3	▲0.7	▲8.0	10.4	18.8	0.0
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	4.6	4.4	9.0	8.1	15.0	12.5
	Ordinary Income	▲1.8	▲1.2	▲3.0	0.5	▲3.6	▲1.0
Other	Operating Revenues	8.5	7.5	16.0	9.4	19.0	17.5
	Ordinary Income	0.1	0.4	0.5	0.6	0.9	1.0
Adjustment	Operating Revenues	-	-	-	-	-	-
	Ordinary Income	▲1.2	▲1.3	▲2.5	▲1.1	▲3.3	▲3.0
Total	Operating Revenues	244.6	255.4	500.0	335.5	668.3	530.0
	Ordinary Income	▲22.5	▲4.5	▲27.0	14.6	16.0	▲3.0

+/-		
(f-h)	(g-i)	(g-j)
▲49.5	▲82.6	▲25.0
▲16.5	▲17.1	▲14.0
▲37.1	▲76.7	-
▲17.7	▲26.8	▲8.0
▲3.5	▲6.0	▲3.5
▲2.2	0.6	▲2.0
▲0.8	▲3.0	▲1.5
▲0.6	▲0.4	▲0.5
-	-	-
▲0.1	0.8	0.5
▲90.9	▲168.3	▲30.0
▲37.1	▲43.0	▲24.0

## Main Financial Indicators

	End 1Q FY2016	End FY2015	+/-
Equity Capital	307.7	355.4	▲47.7
Interest Bearing Liability	521.3	525.2	▲3.9
DER	169%	148%	21%
NET DER	100%	80%	20%
Equity Ratio	29%	32%	▲3%

## Key Factors for 1H FY2016

- ✓ Slowdown in demand growth and the delay of market recovery scenario due to increasing economic uncertainty  
→ Market downturn of containership business and decreasing car export to emerging countries. Dry bulk market was as expected in April.
- ✓ Exchange loss due to appreciation of the yen (End MAR 2016 ¥112.68→End JUN ¥102.91)
- ✓ Business structural reform to ensure competitiveness is along the plan

# A-2 Estimates for FY2016

## FY2016 consolidated Estimates

	FY2016		Estimate (a)	FY2015 Results (b)	FY2016 as of Apr (c)
	1H	2H			
Operating Revenues	500.0	530.0	1,030.0	1,243.9	1,100.0
Operating Income	▲18.0	5.0	▲13.0	9.4	17.0
Ordinary Income	▲27.0	5.5	▲21.5	3.3	15.0
Net Income Attributable to Owners of Parent	▲40.0	▲5.5	▲45.5	▲51.5	▲35.0
Exchange Rate	¥107	¥105	¥106	¥ 120.78	¥ 110.00
Bunker Price	\$224	\$310	\$267	\$ 295	\$ 275

## FY2016 Estimates by Segments

Segments		FY2016		Estimate (d)	FY2015 Results (e)	FY2016 as of Apr (f)
		1H	2H			
Containership	Operating Revenues	255.0	280.0	535.0	614.9	580.0
	Ordinary Income	▲14.0	3.5	▲10.5	▲10.0	11.0
Bulk Shipping	Operating Revenues	220.0	220.0	440.0	567.6	460.0
	Ordinary Income	▲8.0	5.0	▲3.0	24.7	9.0
Offshore Energy E&P Support & Heavy Lifter	Operating Revenues	9.0	12.0	21.0	24.7	25.0
	Ordinary Income	▲3.0	▲1.0	▲4.0	▲6.6	▲2.0
Other	Operating Revenues	16.0	18.0	34.0	36.7	35.0
	Ordinary Income	0.5	0.5	1.0	1.8	2.0
Adjustments	Operating Revenues	-	-	-	-	-
	Ordinary Income	▲2.5	▲2.5	▲5.0	▲6.6	▲5.0
Total	Operating Revenues	500.0	530.0	1,030.0	1,243.9	1,100.0
	Ordinary Income	▲27.0	5.5	▲21.5	3.3	15.0

## Key Factors for FY2016

- ✓ Delay of market recovery scenario – Stubborn resistance on the upward
  - Containership market : Signs of gradual recovery for Asia/North America, Asia/Europe trade
  - Dry Bulk market : Recovering from the historical low level but it will take a while until further recovery beyond break-even point
  - Car Carrier cargo movement : Volume recovery for emerging countries depends on oil price and therefore it takes time
- ✓ Progressing appreciation of the yen due to increasing uncertainty of world economy
- ✓ Enforcing business structural reform to ensure competitiveness and cost reduction as planned

(billion yen)

+/-	
(a-b)	(a-c)
▲213.9	▲70.0
▲22.4	▲30.0
▲24.8	▲36.5
6.0	▲10.5
▲¥14.78	▲¥4
▲\$28	▲\$8

+/-	
(d-e)	(d-f)
▲79.9	▲45.0
▲0.5	▲21.5
▲127.6	▲20.0
▲27.7	▲12.0
▲3.7	▲4.0
2.6	▲2.0
▲2.7	▲1.0
▲0.8	▲1.0
-	-
1.6	0.0
▲213.9	▲70.0
▲24.8	▲36.5

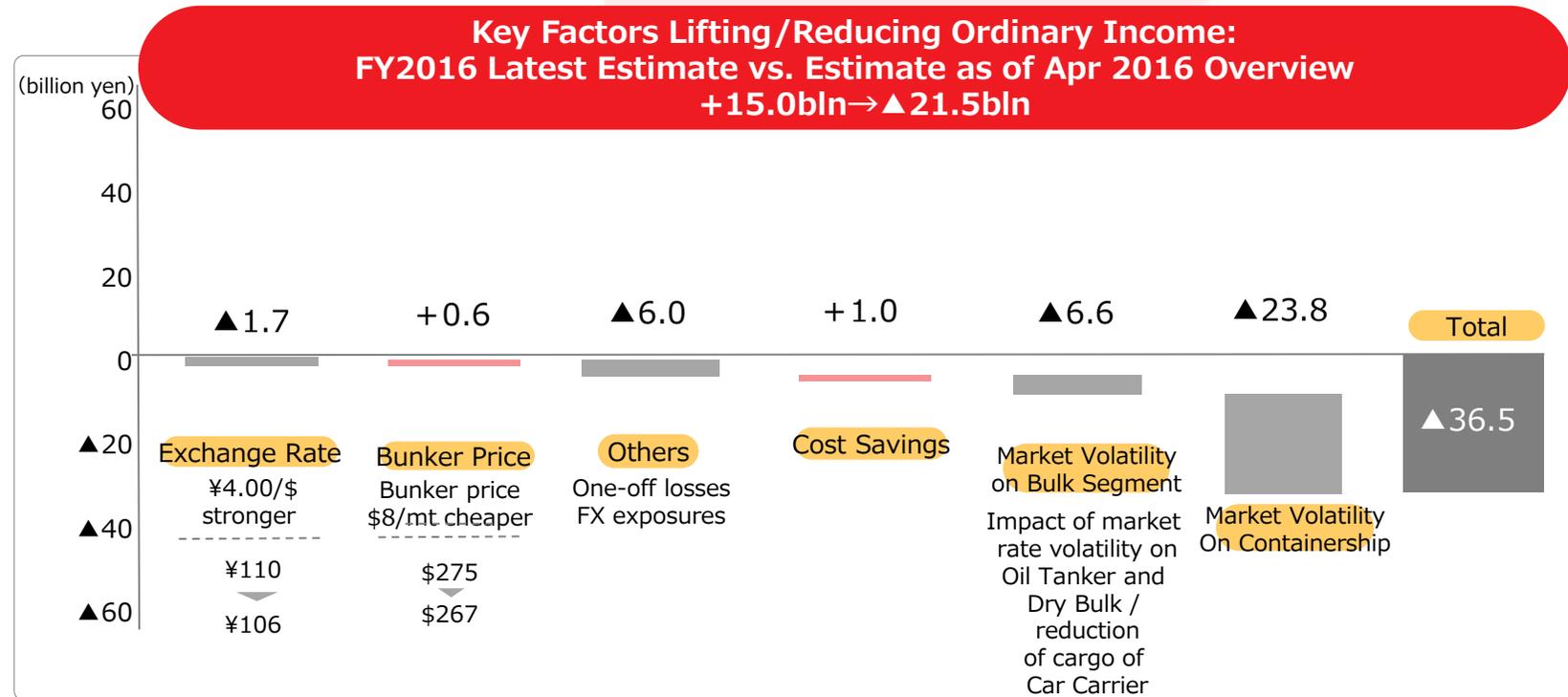
## Ordinary income estimates sensitivity (2Q-4Q 9months basis)

- ▶ Exchange Rate / Bunker oil price assumptions
  - Yen-US\$ rate assumption:  
each ¥1 weaker (stronger) adds (subtracts) ▶ ± ¥0.45 bln
  - Bunker price:  
each \$10/mt up (down) adds (subtracts) ▶ ± ¥0.33 bln

# A-3 Estimates for FY2016

## - Latest vs. as of April 2016

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<b>Market Freight Rate Comparison</b>		1H	2H	as of APR FY2016	1Q	2Q	1H	2H	Latest FY2016	difference
Containership (Freight Index)	Asia - North America	86	93	89	73	76	75	82	78	▲11
	Asia - Europe	54	62	58	40	59	50	64	57	▲1
Dry Bulk	CAPE	\$5,800	\$12,000	\$8,900	\$6,700	\$7,000	\$6,850	\$12,000	\$9,400	+500
	PANAMAX	\$5,500	\$8,000	\$6,750	\$4,900	\$6,000	\$5,450	\$8,000	\$6,725	▲25
	HANDYMAX	\$5,500	\$6,000	\$5,750	\$5,800	\$6,000	\$5,900	\$6,000	\$5,950	+200
	SMALL HANDY	\$4,750	\$5,500	\$5,100	\$4,800	\$5,000	\$4,900	\$5,500	\$5,200	+100
Oil Tanker	VLCC (Middle East-Japan)	\$46,250	\$45,000	\$45,600	\$42,000	\$27,800	\$34,900	\$45,000	\$40,000	▲5,600
	AFRAMAX (South Asia-Japan)	\$29,000	\$30,000	\$29,500	\$18,600	\$25,500	\$22,050	\$27,500	\$24,800	▲4,700
	Clean Tanker (110,000mt) (Middle East-Japan)	\$20,750	\$25,000	\$22,900	\$14,400	\$15,300	\$14,850	\$25,000	\$19,900	▲3,000

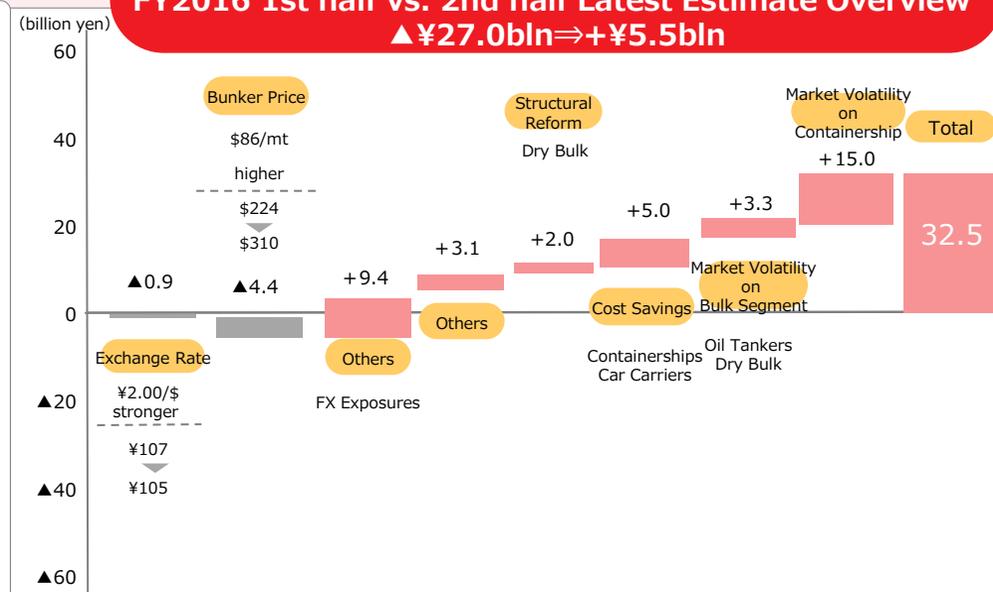
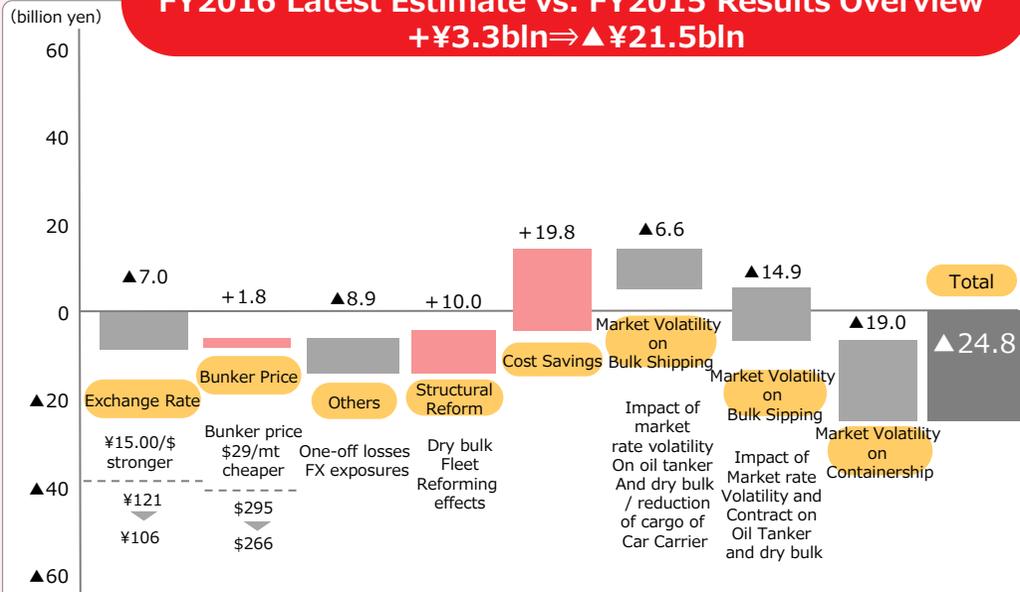
# A-4 Estimates for FY2016

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

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## Key Factors Lifting/Reducing Ordinary Income: FY2016 Latest Estimate vs. FY2015 Results Overview +¥3.3bln⇒▲¥21.5bln

## Key Factors Lifting/Reducing Ordinary Income: FY2016 1st half vs. 2nd half Latest Estimate Overview ▲¥27.0bln⇒+¥5.5bln



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

		1Q	2Q	3Q	4Q	FY2015 Results	1Q	2Q	1H	2H	FY2016 Estimate	difference
Containership (Freight Index)	Asia - North America	97	93	87	86	91	73	76	75	82	78	▲13
	Asia - Europe	49	51	43	43	47	40	59	50	64	57	+10
Dry Bulk	CAPE	\$5,800	\$12,500	\$8,000	\$2,700	\$7,250	\$6,700	\$7,000	\$6,850	\$12,000	\$9,400	+2,150
	PANAMAX	\$5,200	\$7,600	\$4,500	\$3,000	\$5,100	\$4,900	\$6,000	\$5,450	\$8,000	\$6,725	+1,625
	HANDYMAX	\$6,700	\$8,800	\$5,700	\$3,800	\$6,250	\$5,800	\$6,000	\$5,900	\$6,000	\$5,950	▲300
	SMALL HANDY	\$5,100	\$6,300	\$4,700	\$3,400	\$4,900	\$4,800	\$5,000	\$4,900	\$5,500	\$5,200	+300
Oil Tanker	VLCC (Middle East-Japan)	\$63,000	\$56,000	\$92,000	\$60,500	\$68,000	\$42,000	\$27,800	\$34,900	\$45,000	\$40,000	▲28,000
	AFRAMAX (South Asia-Japan)	\$37,000	\$32,000	\$33,500	\$31,000	\$33,000	\$18,600	\$25,500	\$22,050	\$27,500	\$24,800	▲8,200
	Clean Tanker (110,000mt) (Middle East-Japan)	\$26,500	\$40,000	\$20,500	\$22,700	\$28,000	\$14,400	\$15,300	\$14,850	\$25,000	\$19,900	▲8,100

# A-5 Business Structural Reform and Cost Reduction / Earning Improvements Plan - 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)	Structural Reforming Costs	Earnings Improvement	
		FY2016	FY2017
FY2015-FY2016 Structural Reforming Cost	<b>69.0</b>	<b>10.0</b>	<b>13.5</b>

### ● Achievement as of end Jun 2016

(billion yen)	Earnings Improvement	
	FY2016	FY2017
Achieved by Jun 2016	8.3	9.5
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	Target	FY14 vs. FY16		Reviewed Plan (A)	Original Plan (B)
Dry Bulk Core Fleet	218	182	▲36	196	239	▲43
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               **¥19.8bln**

(billion yen)

		Revised Estimate	1Q	1H	2H	vs. est on Apr	Achievement Rate
Containerships	Route Rationalization						
	Operating cost saving	19.2	4.2	8.1	11.1	1.1	22%
	Cost Reduction						
	Earning Improvement	▲1.6	▲0.4	▲0.8	▲0.8	0.1	25%
<b>Total</b>		<b>17.5</b>	<b>3.8</b>	<b>7.3</b>	<b>10.3</b>	<b>1.0</b>	<b>22%</b>
Non-Containerships		2.3	0.4	1.0	1.3	0.0	17%
<b>Total</b>		<b>19.8</b>	<b>4.2</b>	<b>8.3</b>	<b>11.6</b>	<b>1.0</b>	<b>21%</b>

### [ 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 1Q Results

- Demand was gradually growing but supply-demand gap is still wide due to delivery of new large containerships.
- Asia / North America : Both long term contract and spot freight market stay at low level
- Asia / Europe : Market was recovering gradually from the lowest market since 2008 last year

## Initiatives for FY2016 onward

- Freight Market
  - Asia / North America : Spot market is on the way to recovery with growing demand.
  - Asia / Europe : Market would bottom out around May and keep recovering slowly
- Enforcing business structural reform to ensure competitiveness and cost reduction as planned
- Matching supply and demand by adjusting spaces and executing flexible freight policy
- "THE Alliance" to be in service from April 2017. Improving service quality with various trades 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	123.5	131.5	280.0	535.0
Ordinary Income	(billion yen)	4.1	▲ 1.0	▲ 7.4	▲ 5.7	▲ 10.0	▲ 12.3	▲ 1.7	3.5	▲ 10.5
Freight Index FY2008 1Q= 100	Asia - N.America	97	93	87	86	91	73	76	82	78
	Asia - Europe	49	51	43	43	47	40	59	64	57
Lifting (10,000TEU)	Asia - N.America	24.3	24.8	21.0	19.7	89.8	23.3	26.2	49.0	98.4
	Asia - Europe	10.3	10.3	10.1	10.0	40.6	10.0	11.3	19.4	40.6
Capacity (10,000TEU)	Asia - N.America	24.3	26.2	25.8	24.5	100.9	26.4	27.9	53.6	107.9
	Asia - Europe	12.1	12.4	12.5	12.7	49.7	11.4	12.1	21.3	44.9
Utilization (%)	Asia - N.America	100%	95%	81%	80%	89%	88%	94%	91%	91%
	Asia - Europe	85%	83%	81%	79%	82%	88%	93%	91%	91%

## FY2016 1Q Results

- Total Units Carried : 0.77 million units (▲4% YoY)
- World Shipping Demand : Total volume is stable supported by gradual expand bound for North America and Europe but demand for emerging countries like Middle East, Central/South America, Russia, Africa is weak and need a time to recover
- Export from Japan : Volume decreasing for emerging countries, on the other hand, steady demand for North America braked gradually declining trend as a whole

## Initiatives for FY2016 onward

- We forecast steady trends in marine transport of finished vehicles driven by demand for North America
- Our Initiatives :
  - We enhance our fleet competitiveness by advanced cost-efficient vessels such as 15 large 7,500 unit car carriers
  - We expand 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	250	610	1,130
Homebound	63	70	77	37	247	47	50	100	200
Others	290	267	271	233	1,060	289	300	610	1,200
Intra-Europe	176	161	171	177	685	170	150	310	630
<b>Total</b>	<b>807</b>	<b>797</b>	<b>815</b>	<b>729</b>	<b>3,149</b>	<b>771</b>	<b>750</b>	<b>1650</b>	<b>3,180</b>
Number of Operating Vessels	98	102	101	102	102	100			

## FY2016 1Q Results

- Capesize : Market rose due to Chinese crude steel production recovery in the last quarter but that lead to reduction of scrapping and lay-up which is weighing on market
- Panamax etc : Market hit bottom by steady demand of grain export from South America but excess of supply is continuing
- Ensuring competitiveness by restructuring and reducing market exposures

## Initiatives for FY2016 onward

- Market is gradually recovering from historical low level but there is stubborn resistance on the upward
- We plan to bolster resilience to rate trends and secure competitiveness by proceeding structural reform
- We will continue to improve profitability via cost savings and efficient allocation, drawing on our strengths in securing stable profits

Dry Bulk Market	FY2015					FY2016			
	1Q	2Q	3Q	4Q	Results	1 Q	2 Q	2H	Estimate
<b>Capesize</b>	\$5,800	\$12,500	\$8,000	\$2,700	\$7,250	\$6,700	\$7,000	\$12,000	\$9,400
<b>Panamax</b>	\$5,200	\$7,600	\$4,500	\$3,000	\$5,100	\$4,900	\$6,000	\$8,000	\$6,725
<b>Handymax</b>	\$6,700	\$8,800	\$5,700	\$3,800	\$6,250	\$5,800	\$6,000	\$6,000	\$5,950
<b>Small Handy</b>	\$5,100	\$6,300	\$4,700	\$3,400	\$4,900	\$4,800	\$5,000	\$5,500	\$5,200

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

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## FY2016 1Q 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 are 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 contract from current 49 to 57 by FY2019

### ▶ Tankers

- Favorable crude oil demand especially from emerging countries to continue even in lean season
- New buildings to be supplied in 2nd half FY2016 will weigh on market compared with last year
- Reduced exposure from FY2015 and medium- and long-term contracts will provide stable revenues

Tanker Freight Rates (WS)	FY2015					FY2016			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Estimate
VLCC(M.East/Japan)	64	54	75	71	66	60	50	69	62
	\$63,000	\$56,000	\$92,000	\$60,500	\$68,000	\$42,000	\$27,800	\$45,000	\$39,950
Aframax(S.Asia/Japan)	127	107	107	129	117	101	123	139	125
	\$37,000	\$32,000	\$33,500	\$31,000	\$33,000	\$18,600	\$25,500	\$27,500	\$24,800
Clean 110,000mt type (M.East/Japan)	109	132	80	111	108	88	95	135	113
	\$26,500	\$40,000	\$20,500	\$22,700	\$28,000	\$14,400	\$15,300	\$25,000	\$19,900

## Offshore Energy E&P Support

### **FY2016 1Q 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
  - 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 1Q Results**

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

### **Initiatives for FY2016 onward**

- Weak market to be continued
- Aim to improve profitability on measures to reduce costs, streamline vessel allocation, and strengthen initiatives for project contracts in FY2016
- Plan to investigate fundamental reform measures

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