2019 New Year’s Address

Let’s Unite Our Strengths for the Next Stage

Happy New Year to each and every one of you.

We were able to start this New Year with no major accidents, so I would like to begin my New Year’s address by first thanking all our staff at sea, who have worked to ensure safe and stable ship operations over the holidays, and then share my outlook for the year ahead.

The Business Environment in 2018

As we know, last year was marked by political instability, while the situation on the economic front remained mostly stable. Sustained by the U.S. economic boom and by China, which maintained consistent levels of growth despite a slowdown, the global economy showed balanced growth, especially from 2016 through the first half of fiscal 2018. This provided a sound external environment, particularly since exchange rates remained extremely stable at around 110 JPY per dollar.

By autumn, however, the situation began to deteriorate rapidly, triggering warning signs, as stock prices fell at a faster pace by year-end and crude oil prices dropping as well. Whether this will result in a red light that halts business growth or return to green depends on individual view of the situation, we have begun the New Year remaining alert to the uncertainty of this future outlook.

In terms of the shipping business, the market has gradually recovered since hitting bottom two years ago, with rates for large ships exceeding $20,000 by May, and while fluctuating to as high as $27,000 by August, they remained firm throughout this period. However, signs of change in the Chinese steel market sent rates tumbling down in November, and recent conditions have remained harsh, as rates continue to hover around the breakeven point.

Meanwhile, in terms of the balance between supply and demand, there are fewer prospects for mass construction of new ships as there has been in the past. It is expected that the growing requirements for environmental operations will put additional constraint on the supply side and keep it tight.

Our first-half results have shown that we achieved significant improvement compared to our initial budget, allowing us to pay interim dividends for the first time in a while, and I am grateful for all of your efforts. Let’s keep this up for the remaining three months and achieve our full-year targets.
Preparing for the Coming Era

Well then, what is in store for us this year, and what kind of era are we stepping into with the end of the “Heisei” period? Heisei has sometimes been described as “two decades of lost opportunities.” Judging from the tremendous changes that took place around us during this time, perhaps Heisei was a period of transition from the post-World War II “Showa” era into the new era that awaits us. However, these years should not have been seen as the lost years but rather as a period of endurance in which to prepare for the new era.

Changes are coming fast, and the future will not be created through conventional approaches. The shipping industry has evolved by providing dedicated vessels, larger ships and improved energy efficiency. These efforts have now come full circle, and we are about to enter a brand new era. Will we succeed in transforming shipping from a conventional business into an innovative one? Positioned between China and South Korea, how will we enhance Japanese shipping, shipbuilding and maritime industries, and envision a bright future for the sea that spreads out before us? We shall hold our heads high and maintain a broad perspective so that we can carve out our own future.

Eight years have passed since the major trends of the times led to our merger. We have been transitioning from integration to development and establishing solid footing for the company by selectively investing our management resources, including reviewing our business portfolio. I am strongly convinced that we have finally reached the levels and heights we have sought since the merger. Now is the time to pursue our next goals through new strategic actions based on the technology, human resources and financial strengths we have gained over the years.

This year will be busy as we renew our efforts for establishing the foundations of our fleet and business, and prepare our next move. Also, this is the final year of our Mid-term Business Plan. It will be a crucial year in which to tackle numerous issues while concurrently discussing the goals for the next mid-term business plan and seeking out our corporate identity for the 2020s. I would like to ask your cooperation as we unite our strengths and move forward.

Meeting the Challenges of Fiscal Year 2019

First, we must strive to accomplish the performance targets laid out in our Mid-term Business Plan. Thanks to your efforts, we have steadily achieved results along the lines of the plan, and I expect you to continue advancing to attain the targets centered on ordinary profits. I am looking forward to many of the state-of-the-art vessels that launch this year as a prerequisite for our progress. The VALEMAX
and LPG carriers are also scheduled to begin their navigation. Let us diligently make use of these new resources to generate revenues. Moreover, I would like to initiate a thought experiment for deciding the direction of our next fleet portfolio for the 2020s, together with our business domains.

Second, we must address pressing environmental issues. We need to offer an urgent response to regulations concerning SOx and ballast water management. This year in particular, we must retrofit our existing vessels and establish operational techniques without delay. This will be a major project for the company in terms of cost, time and technology, and will require everyone’s support. Our biggest challenge is the shift to compliant fuel, which is scheduled to begin in the latter half of the year. We must minimize the financial impact deriving from the transition to compliant fuel by facilitating smooth fuel replacement operations and commercial arrangements with our customers.

We also need to start our initiatives for the future. As we have disclosed in our integrated report, we have been addressing environmental issues by setting voluntary targets and have more or less been successful in achieving them. Keeping in mind our actions to achieve the SDGs, with our eye on the future beyond 2020, I would like to initiate a discussion on creating a new roadmap for further enhancing transport quality that encompasses the promotion of our newly launched project for improving the operational efficiency of our ships, reducing CO2 emissions and ensuring sound ESG management.

Third, we must respond to the changing market. As bulk and steel transports constitute the double pillars of our business, if we are to sustain our operations, we must accommodate as quickly as possible to the needs of major customers such as Nippon Steel & Sumitomo Metal Corporation. Last year, we achieved progress in our bulk business that included signing a new contract for loading iron ore from China, meeting offshore loading needs for U.S. coal and navigation using the new Panama Canal, as well as forging closer relationships with European mills. We also entered into contracts to transport non-ore cargo and biomass fuel for return voyages to support our steel export business. We must carefully continue our sales efforts while keeping our attention focused on trade patterns that are predicted to emerge as major trends. In particular, we must follow trade patterns in the Indian Ocean resulting from the growing steel industry in India, where Nippon Steel & Sumitomo Metal Corporation are planning to take part. Trade patterns are expected to shift from China as one major destination to more complicated and double-tracked patterns. I would like to hold discussions to determine promising trade patterns, what we can and will do in response.

Fourth is safe navigation. We have improved and maintained our unscheduled stoppage rates at low levels over the past few years. Thanks to everyone’s efforts, there were no serious accidents last year, but unfortunately some small problems did arise. We must renew our persistent commitment to safety as a group, involving ship owners.
Fifth, we must advance our initiatives for ensuring self-directed internal control, one step at a time. It would not be an exaggeration to say that the success or failure of governance depends on internal control activities undertaken at each workplace. Self-directed internal control is equivalent to the flow of blood in the human body. Like a human body, governance among our workplace will not work well just by its bone structure and its muscles; it requires proper blood circulation. Each workplace best understands itself. You must recognize the issues and resolve them through a united effort of supervisors and subordinates. The ultimate goal is to improve operational efficiency. I hope you will maintain a consistent cycle based on the results of last year’s surveys and strive to create an open and friendly workplace.

The key to all these initiatives is that each of them has cross-sectional relevance to the entire company. Our strength lies within teamwork under a single roof, so I encourage everyone to communicate closely with each other across departments. Be flexible in deciding the roles of leaders and team members in order to make those groups as strong as they can be for each challenge.

Finally, I must point out that we do not operate in the realm of a major industry player. Therefore it is important for us as a shipping company engaged in niche businesses to renew our commitment to providing trusted and high-quality marine transportation service, which is our Basic Philosophy, and maintain credibility and reliability, safe navigation, environmental protection, consistent reform and compliance, which lies as the foundation, while seeking further advancement and development into the next stage. As I mentioned before, this will be a busy year as we prepare to make that move. Let’s all pitch in to make this a good year as well. I look forward to working with all of you.

In concluding my address, I would like to wish all employees a healthy, safe and rewarding 2019.