

January 4, 2018

2018 New Year's Address

Towards New Heights

NS United Kaiun Kaisha Ltd.
President
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Happy new year to each and every one of you.

I hope you've enjoyed the new year holidays, despite the fact that our year-end holidays were based on the calendar and we didn't have as much time off. Today is the first day of work for this year. I would like to extend my greetings to one and all for the year ahead of us.

A Stable 2017

Looking back at the past year, I feel that it was somewhat stable compared to the previous ones. There were so many matters of concern at the start of the previous year, such as how the Trump administration would run the US government, or whether China would fall into bankruptcy. However, through it all, I can say that the previous year turned out to be a stable one.

The company's business environment also stabilized. Firstly, the market has made a turn-around. Large ships have been pulling BDI up, albeit slowly. In the middle of December the average rate for 5 routes for capsized ships reached \$30,000 per day. This wound down a little due to the Christmas holidays, but was certainly a great improvement over the figures for the previous year, or even the year before that. Secondly, the yen weakened from the second half of 2016, and it has stabilized to around 110 JPY per dollar in 2017. Oil prices (WTI) were at around \$50, and although prices increased to the high side of \$50 in the latter half of the year, prices were mostly stable throughout.

For a ship operator like our company, an upturn in the market is a positive development. Most of our revenues are in dollars, so a weak yen can be good for us. Oil prices directly impact bunker prices, but considering the ships owned/operated by the company and our contracts with our customers, I believe that stability in bunker prices is a positive development as well.

Our figures for the first half of the year in this environment were JPY 67.7 billion in sales, JPY 3.8 billion in operating profit, and JPY 3.1 billion in ordinary profit, which exceeded our initial estimates. Granted some external factors turned out in our favor, I understand that this was the result of your effort and hard work, and for that I am grateful. With only 3 months left in the fiscal year, I ask for your persistent support and effort to improve our profits so we can announce a good result for this fiscal year.

Implementation of the "NSU 2021" Mid-term Business Plan

Last year, we announced the new mid-term business plan to start in 2017 "NSU 2021 – Next Stage after United for 2021". Since 2011, we have implemented 3-year business plans twice under the "Unite and Full Ahead" initiative, and after seeing the results and believing we should move towards further progress, we came up

with this new plan. I believe you are familiar with the details at this point so I will not cover them here, but the plan is to bring ordinary profits to JPY 12 billion, ROE (return on equity) to more than 10%, and the D/E (debt/equity) ratio to less than 1.30 by 2021. It is my sincerest hope that we perform our daily duties with the goal of achieving these targets forward.

One of the core strategies for this mid-term business plan is to “allocate resources to stable return business”. The year 2017 brought us stable external factors, but there is no guarantee that this trend will continue in the future. In fact, the consensus is that variable factors such as the increasing number of new ships and the slowdown in Chinese demand will create downward pressure in the market. Under such circumstances, I believe that the company will have to invest corporate resources in more profitable areas. Our subsidiary in Singapore sold all the chemical tankers last year, and moving forward I believe we should recalibrate our fleet in an effort to expand our customers by focusing on not only bulk carriers but also VLGC as an energy transporter. In our efforts to do so, we have signed the second 25-year COA with the Brazilian ore company Vale in last November on the assumption that a 400,000dwt ore carrier will be constructed. I am very pleased that we will own and operate three Valemax ships, including the one for the Nippon Steel & Sumitomo Metal Corporation.

Response to Environmental Regulations

Responding to environmental regulations is one of the key factors of our fleet recalibration. The NOx tier III regulation has already been implemented, and the ballast water management convention took effect in last September. SOx regulations are also expected to be implemented by 2020. Furthermore, regulations to curtail CO2 and other greenhouse gas emissions are likely to be ratified and enforced. It is easy to think of these multiplied regulations in a negative way and associate them with more managerial workload and increased costs, but I want to take this as a great opportunity for us to expand our company’s business. I do acknowledge that there is some apprehension about installing de-sulfurizing scrubbers: price difference between regulation-compliant low sulfur C heavy oil and high sulfur C (HSC) heavy oil, securing HSC, managing and maintaining those scrubbers, and so on. Nevertheless, I would like to find some way to minimize the risk and corner market share ahead of other companies. The trends in environmental problems are difficult to predict, considering that they are used as negotiation tools in world politics, but I believe these regulations should be all the more strict in the future. Fortunately, most of our operating large ships are owned by us, which allows ourselves to make decisions regarding scrubber installation/retrofit at our own discretion. Let’s tackle these issues in a speedy, agile way.

Internal/Group Cooperation

Responding to these environmental regulations requires cross-function cooperation among not only the sales, but also other divisions such as ship management/construction, as well as legal division to back up the contracts with our customers. I ask for your cooperation and coordination to ensure that issues are correctly identified and resolved.

As I mentioned last year, our strength lies in the fact that all size vessels, from the largest tankers to the smallest coastal ships, are operated and managed by the company and subsidiaries within the same office. The best way to take advantage of this strength is to share information and ideas on a daily basis. Please continue your efforts to create a workplace that overcomes organizational barriers and promotes the free and frank exchange of ideas. In particular, I know how challenging it may be for the managers to stay on top of their workload, but please spare time and effort to make the organization a brighter and happier place to work in.

New demand can sometimes show up in the least expected places. For example, I think there will be more opportunities to pitch ideas as a group to customers in domestic/international shipping of coal and slag, or shipping of biomass including wood pellets/wood chips. These are opportunities to expand into new business. This is not limited to shipments originating from Japan. I would like us all to seize these opportunities for stable business and expand into Asian territories and the Indian Ocean. Stretch your antennas into the sky, collect information, share it with each other, exchange knowledge, and create better jobs.

Safe and Stable Ship Operations

The keys to expanding business opportunities are safe and stable ship operations. Fortunately, we were blessed in 2017 with no major issues, injuries, or illnesses. These past few years, we started monitoring and controlling “unscheduled stoppage rate” and the rate for 2017 has been the lowest it has ever been. These are the fruits of the labor of not just the crew on board the ships, but also the land-based ship management/safety management staff, as well as the cooperation and efforts of our manning agencies. Your efforts are indeed very commendable. I ask for your greater support so we can reach the level of “zero accidents/zero hazards” this year. As I always mention, the cornerstone of our business is our ships’ reputation in the market for not causing any trouble or problems. It is very important for everyone, including the staff who are not directly involved in ship operations, to always bear in mind the principles of “safety and stability” as they go about their daily work. I would also like to ask our vessel owners to continue maintaining our standards for trouble-and-problem-free operations. I ask everyone involved in ship operations including the vessel owners to act as one in order to elevate further our company’s reputation in the market.

This has become quite a lengthy address, but again, I ask everyone to lend us your strength as we turn the year 2018 into the year of “Great Leap”. I also wish that this year would be a great year for you and your families.

Thank you for your time and attention.