COMPANY RESEARCH AND ANALYSIS REPORT

IINO KAIUN KAISHA, LTD.

9119

Tokyo Stock Exchange First Section/ Fukuoka Stock Exchange

26-Jul.-2019

FISCO Ltd. Analyst

Masanobu Mizuta

FISCO

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Accumulating stable earnings foundations ahead of the Company's 120th anniversary

1. Aiming for sustainable, stable growth from the twin axes of the historical shipping and real estate business

IINO Kaiun Kaisha, Ltd. <9119> (hereafter, also "the Company") is a shipping company with a history of 120 years since it was founded in 1899 (IINO Shokai, Maizuru, Kyoto). Currently, it is aiming for sustainable, stable growth by developing its business on the twin axes of the shipping businesses (the oceangoing shipping business and the coastal and regional shipping business), which mainly involve the transportation of resources and energy, and the real estate business for the rental of office buildings, mainly the head office of the IINO Building. The Company celebrates the 120th anniversary of its foundation in July 2019.

The Company has three business segments; the oceangoing shipping business, the coastal and regional shipping business, and the real estate business. In FY3/19, these three business segments accounted for 76.3%, 11.1%, and 12.6% of total revenue, respectively, and 12.2%, 19.4%, and 68.4% of operating profit, respectively. Earnings from the shipping business tends to fluctuate as they are influenced by elements including FOREX rates, shipping market conditions, and the price of fuel oil, but in FY3/19, earnings from the shipping business accounted for approximately 30% of Company-wide earnings despite the weak shipping market conditions. The Company's distinguishing characteristic and strength in the shipping business is its fleet of chemical tankers, which is one of the largest scale in the industry. In particular, the Company boasts a top-class market share in terms of transport volume of petrochemical products originating in the Middle East. In the real estate business, earnings have temporarily declined due to the impact of the demolition of an owned building in conjunction with the Shimbashi Tamura-cho District Urban Redevelopment Project, but this business continues to be a stable source of earnings.

2. Both recurring and final profit increased in FY3/19, while the Company expects both to decline in FY3/20

In the FY3/19 consolidated results, revenue increased 4.3% year on year (YoY) to ¥84,843mn, operating profit declined 15.4% to ¥4,782mn, recurring profit increased 1.5% to ¥4,701mn, and profit attributable to owners of parent increased 10.4% to ¥4,685mn. Revenue increased in all business segments, thanks to the increase in operating chemical tankers, the rise in market conditions in regional gas transport, and the acquisition of the NS Toranomon Building. Operating profit increased considerably in the coastal and regional shipping business due to the renewals of contracts at favorable terms and other factors, but operating profit in the real estate business was roughly flat, while there was a significant decline in operating profit in the oceangoing shipping business due to the delay in the recovery of market conditions for chemical tankers. Recurring profit increased due to the improvement in FOREX gains as well as the rise in dividends received, while profit attributable to owners of parent increased as a result of gains on sales of non-current assets.

The forecasts for the FY3/20 consolidated results are for revenue to increase 4.9% YoY to ¥89,000mn, operating profit to rise 0.4% to ¥4,800mn, recurring profit to decline 12.8% to ¥4,100mn, and profit attributable to owners of parent to decline 18.9% to ¥3,800mn. The forecast for an increase in revenue is due to an increase in the number of operating vessels resulting from the completion of new vessels, the compensatory effect from the BAF (Bunker Adjustment Factor – price adjustment clause in conjunction with fluctuations in fuel oil prices), as well as a recovery in the chemical tanker market. Overall operating profit is expected to move roughly sideways, as the expectations for a recovery in the chemical tanker market will be offset by negative factors such as an increase in docking expenses and a temporary decline in occupancy rates in the real estate business. Recurring profit is expected to decline with the decline in dividend income as non-operating income, while profit attributable to owners of parent is expected to decline due to the non-recurrence of extraordinary income from the sale of vessels.

3. Accumulating stable earnings foundations ahead of the Company's 125th anniversary

There has been no change to the Company's policy of realizing a growth scenario from the twin axes of the shipping business and the real estate business. In its Mid-term Management Plan, it set the theme of the Plan as Taking up the Challenges of Balanced Management and Advancement (achieving a balance between the twin axes of the shipping businesses and the real estate business, stable earnings and next-generation businesses, and numerical growth targets with a good balance), and the Company's priority strengthening measures are Pursuing Greater Business Differentiation, Solidifying Stable Earnings, and Challenges of Next-Generation Business. The Company is expected to achieve its consolidated revenue target in FY3/20, the final fiscal year of the Mid-term Management Plan, but is unlikely to reach the consolidated profit line targets due to the delay in the recovery of shipping market conditions, the decline in occupancy rates in the real estate business, and other factors. However, heading towards its 125th anniversary in 2024, the Company is steadily building up a stable earnings base. Earnings growth is expected over the medium to long term, and we will keep a close eye on the Company's ESG (environment, society, and governance) efforts.

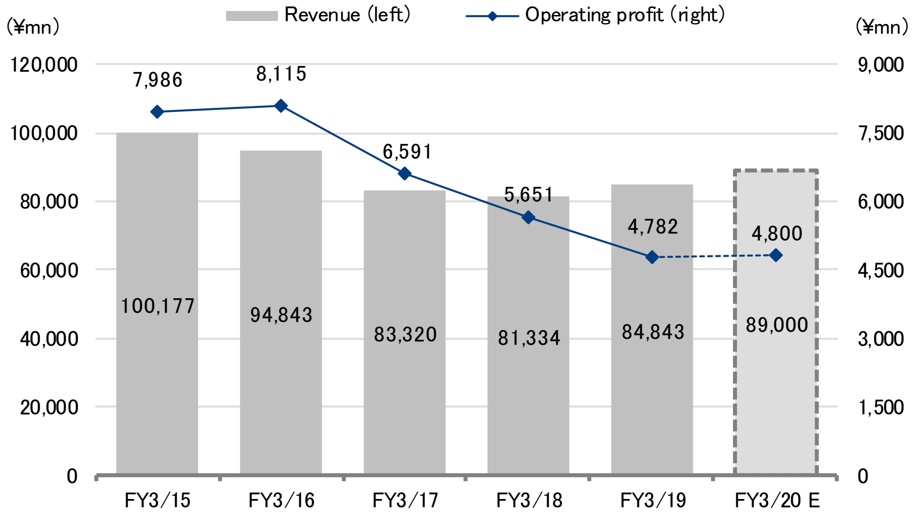
4. Aims for stable profit distribution of a dividend of ¥8 to ¥12

As the results in the shipping business is significantly influenced by trends in market conditions and FOREX rates, the Company's basic policy for the distribution of profits is to continuously pay a dividend while also strengthening its financial structure and supplementing the internal reserves it will need, while giving full consideration to the prospects for the business environment in the future. Also, it intends to supplement the funds for internal reserves in order to invest in strategic fields in the shipping businesses and excellent properties in the real estate business, to maintain and improve the fleet and buildings, and to enter into promising businesses. Under the Mid-Term Management Plan Be Unique and Innovative, the Company aims to pay a stable dividend of ¥8 to ¥12 per year as shareholder returns.

Key Points

- Aiming for sustainable, stable growth on the twin axes of the shipping business and the real estate business
- In the shipping business, the main businesses are chemical tankers, for which it has the largest fleet in the industry, and oil tankers and gas carriers, which are mainly on medium- to long-term contracts
- The real estate business chiefly involves the rental of office buildings in prime districts of Metropolitan Tokyo, such as the IINO Building

Result trends



Source: Prepared by FISCO from the Company's financial results

Company profile

A shipping company with a history of 120 years on the twin axes of the shipping business and the real estate business

1. Company profile

The Company is a shipping company with a history of 120 years since it was founded in 1899 (Iino Shokai, Maizuru, Kyoto). Currently, it is aiming for sustainable, stable growth by developing its business on the twin axes of the shipping businesses (the oceangoing transport shipping business and the coastal and regional transport shipping business), which mainly involves the transportation of resources and energy, and the real estate business for the rental of office buildings, primarily the head office of the IINO Building.

At the end of FY3/19, capital was ¥13,092mn, the equity ratio was 32.8%, net assets per share was ¥689.25, and the number of outstanding shares was 111,075,980 shares (of which 5,268,871 were treasury shares).

2. History

In 1899, the founder Torakichi Iino established IINO Shokai in Maizuru, Kyoto, and began transportation of coal and stevedoring business. In 1944, the Company changed its name to its current name of IINO Kaiun Kaisha, Ltd., and in 1949 the Company listed on the Tokyo Stock Exchange.

In 1964, the Company separated and transferred its liner department upon the consolidation of the shipping industry. After this, it shifted to focus on the management of tanker and tramp services. The Company began the chemical tanker business in earnest in the 1980s. In 1991, it participated in an Indonesian-produced LNG project and began an LNG transportation business. In 1993, the Company participated in a Qatar-produced LNG project, while in 2001 it participated in the world's largest methanol production project in Saudi Arabia.

In 2004, the Company simultaneously obtained ISO9001 and ISO14001 certification in the shipping business. In 2005, it simultaneously obtained the ISO9001 and ISO14001 certification in the office building leasing business. In 2011, the Company completed phase 1 of the IINO Building rebuilding construction work and the building started operations. The head office became the first in Japan to acquire the LEED Platinum Certification. In 2014, the Company completed phase 2 of the IINO Building construction work and held the grand opening. In 2018, the Shimbashi Tamura-cho District Urban Redevelopment Project, which includes the former Tokyo Sakurada Building, made a full-fledged start, and the IINO Building office standard floors (Floors 7-27) received the 5-star ranking in the Building-Housing Energy-efficiency Labeling System (BELS) assessment. The Company celebrates the 120th anniversary of its founding in July 2019.

Company history

Year	Major event
1899	Torakichi IINO, established IINO Shokai in Maizuru, Kyoto, and began a harbor loading and coal transportation business.
1918	Established IINO Shoji Kaisha, Ltd., which succeeded all of the businesses of IINO Shokai.
1922	Established IINO Kisen Kaisha Ltd, and it inherited the separated IINO Shoji outsourcing maritime transportation business.
1931	Fujisan Maru, Japan's first full-scale oceangoing transport tanker was built.
1941	Changed the name of IINO Shoji to IINO Kaiun Sangyo Kaisha, Ltd., and it was merged with IINO Kisen.
1944	Changed the name of IINO Kaiun Sangyo to IINO Kaiun Kaisha, Ltd, the current company name.
1949	The company's stock was listed on the Tokyo Stock Exchange.
1950	Built Ryuho Maru, Japan's first post-war large-scale tanker.
1951	Entered fully into the liner business.
1953	Established IINO Fudosan Kaisha, Ltd.
1960	Completed building of the former IINO Building, transferred the head office to this building, and started the IINO Hall business
1963	Built Toyosu Maru, the Company's first oceangoing LPG tanker.
1964	Separated and transferred the liner business department on the consolidation of the marine transportation industry. Since then, it has focused on the management of tankers and cargo trampers.
1967	Completed Tokyo Sakurada Building.
1970	Built Zenkoren Maru No.5, the Company's first Panamax- dry bulk carrier.
1974	Established IINO Marine Service Co., Ltd., to conduct ship management operations.
1983	Completed Tokyo Fujimi Building.
1988	Completed IINO Takehaya Building.
1991	Participated in an Indonesia LNG project and began an LNG transportation business.
1993	Participated in a Qatar LNG project.
1995	Completed Sasazuka Center Building.
1997	Merged with IINO Fudosan Kaisha, Ltd. Established IINO Media Pro Co, Ltd., a company managing photo studios and conducting design and advertising production.
1999	100th anniversary of its foundation Completed building of the Ryuho Maru, the Company's first double-hull tanker.
2000	Completed building of BLUE ISLAND, the Company's first cape size-type dry bulk carrier.
2001	Participated in the world's largest methanol production project in Saudi Arabia (started operations in 2004).
2002	Established IINO SINGAPORE PTE. LTD., as a local subsidiary in Singapore
2003	Built SK SUNRISE, the Company's first self managing LNG tanker. Opened the Dubai Representative Office.
2004	Acquired integrated certification for ISO9001 and ISO14001 in the marine transportation industry. Established IINO UK LTD., as a local subsidiary in London.
2005	Established a joint venture with Mitsui & Co., Ltd., and QATAR SHIPPING COMPANY. Acquired integrated certification for ISO9001 and ISO14001 for office-leasing business. Built NORTH PIONEER, the Company's first and Japan's second regional shipping LNG tanker.
2006	Completed Shiodome Shiba-Rikyu Building. Started ship operations at IINO SINGAPORE.
2007	Integrated the Small Gas Tanker Division into IINO Gas Transport, Ltd.
2009	Started the IINO Building construction (rebuilding) work. Started transportation of bio-ETBE (ethyl tertiary butyl ether) by chemical tanker.

Year	Major event
2011	Completed phase 1 of the IINO Building construction project. The building opened in October. The head office (the IINO Building) is the first office space in Japan to receive the LEED Platinum Certification. The Iino Building was awarded the top ranking of platinum, while the Shiodome Shiba-Rikyu Building received the gold ranking, in the DBJ Green Building Certification by the Development Bank of Japan.
2014	Expanded facilities at the North America base and established the Houston office. Completed phase 2 of the IINO Building construction project and held the grand opening.
2016	The IINO Building was certified as being a workplace excelling in specified global warming countermeasures (top-level workplace) in the Tokyo Metropolitan Government Environmental Protection Ordinance. The IINO Building was awarded the 1st ABINC Special Award.
2017	Formulated the new Mid-Term Management Plan (3-year period)
2018	Concluded a time charter contract for a newly constructed methanol ship equipped with a dual-fuel main engine, the Company's first. The IINO Building acquired the Tokyo Fire Department's Fire Safety Building Certification (common name: Excellence Mark). The IINO Building was registered by the Tokyo Metropolitan Government Bureau of Environment as an Edo no Midori Registered Green Area (Excellent Green Area). Fully fledged start of the Shimbashi Tamura-cho District Urban Redevelopment Project, which includes the site of the former Tokyo Sakurada Building. The IINO Building was awarded 5 stars by the Building-Housing Energy-efficiency Labeling System (BELS) for the office floor portion (7th floor through 27th floor). The NS Toranomon Building was awarded Honorable Mention at the FY2018 Minato-ku "Scenic Town Awards." Acquired additional shares of Northern LNG Transport Co., I Ltd. and Northern LNG Transport Co., II Ltd. in the Snohvit LNG project.
2019	Completed a VLGC for Astomos Energy Corporation. IINO Building kept the top ranking of 5 stars, while the Shiodome Shiba-Rikyu Building kept a 4-star ranking in the DBJ Green Building Certification by the Development Bank of Japan.

Source: Prepared by FISCO from the Company's materials

3. Group companies

At the end of FY3/19, the Group consisted of 71 companies, of the Company and 70 Group companies (56 consolidated subsidiaries, 5 equity-method affiliates, and 9 affiliates outside the scope of consolidation). Overseas, it has 7 bases, including local subsidiaries and representative offices (in Singapore, Houston, London, Connecticut, Dubai, Busan, and Manila).

The main Group companies

Oceangoing Shipping Business	
Ship Operation	IINO Singapore Pte. Ltd. / IINO Shipping Asia Pte. Ltd.
Ship Management	IINO Marine Service Co., Ltd.
Ship Brokerage, Ship Equipment Sales	IINO Enterprise Co., Ltd.
Ship Equipment Sales	Godo Senpaku Kogyo Co., Ltd.
Regional Shipping Business	
Ship Operation, Leasing, and Management	IINO Gas Transport Co., Ltd.
Real Estate Business	
Building Management	IINO Building Technology Co., Ltd.
Warehousing	Taiho Marine Co., Ltd.
Photography Studios and Photo Retouching Services	IINO Mediapro Co., Ltd.
Hall and Conference Center Management	IINO Hall Co., Ltd.
Other Businesses	
Accounting Service Commissioned Business	IINO Management Data Processing Co., Ltd.
IT-related Business	IINO System Co., Ltd.
Insurance Agency, Support for General Affairs and Human Resources-related Operations	IINO Business Service Co., Ltd.

Source: Prepared by FISCO from the Company's 2018 business report

Business overview, features, and strengths

Engaged in the oceangoing transport shipping business, the coastal and regional transport shipping business, and the real estate business

1. Business overview

A feature of the Company is that its earnings are from the twin axes of the shipping business (the oceangoing shipping business and the coastal and regional shipping business) and the real estate business. The Company has three business segments; the oceangoing shipping business, the coastal and regional shipping business, and the real estate business. In FY3/19, these three business segments accounted for 76.3%, 11.1%, and 12.6% of total revenue, respectively, and 12.2%, 19.4%, and 68.4% of operating profit, respectively.

In the shipping business, earnings tend to fluctuate as they are influenced by factors including FOREX rates, shipping market conditions, and the price of fuel oil, but these businesses still secured around 30% of Company-wide profits in FY3/19 despite the poor market conditions. In the real estate business, earnings have temporarily declined due to the impact of the demolition of an owned building in conjunction with the Shimbashi Tamura-cho District Urban Redevelopment Project, but this business continues to be a stable source of earnings.

Consolidated results

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Revenue	100,177	94,843	83,320	81,334	84,843
Operating profit	7,986	8,115	6,591	5,651	4,782
Recurring profit	7,194	7,655	5,105	4,631	4,701
Profit attributable to owners of parent	5,213	3,659	3,885	4,243	4,685
EPS (¥)	46.98	32.97	35.01	38.53	44.28
Dividend (¥)	10.00	10.00	10.00	10.00	15.00
BPS (¥)	593.72	587.51	619.18	653.29	689.25

Source: Prepared by FISCO from the Company's financial results

Trends in revenue and operating profit and percentages of the totals by segment
(before adjustment for consolidation)
Revenue and percentages of total revenue by segment

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Consolidated revenue	100,177	94,843	83,320	81,334	84,843
Oceangoing shipping business	78,912	72,364	62,572	61,865	64,873
Regional shipping business	9,695	9,424	8,514	9,012	9,427
Real estate business	11,653	13,138	12,314	10,545	10,669
Total	100,260	94,925	83,399	81,422	84,968
Adjustment	-83	-82	-80	-88	-125
%					
Oceangoing shipping business	78.7	76.2	75.0	76.0	76.3
Regional shipping business	9.7	9.9	10.2	11.1	11.1
Real estate business	11.6	13.8	14.8	13.0	12.6

Source: Prepared by FISCO from the Company's financial results

Operating profit and percentages of total operating profit by segment

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Consolidated operating profit	7,986	8,115	6,591	5,651	4,782
Oceangoing shipping business	3,285	3,767	2,626	1,713	583
Regional shipping business	650	364	180	700	926
Real estate business	4,051	3,984	3,786	3,238	3,273
Total	7,986	8,115	6,591	5,651	4,782
Adjustment	-	-	-	-	-
%					
Oceangoing shipping business	41.1	46.4	39.8	30.3	12.2
Regional shipping business	8.1	4.5	2.7	12.4	19.4
Real estate business	50.7	49.1	57.4	57.3	68.4

Source: Prepared by FISCO from the Company's financial results

In the shipping business, chemical tankers for which the Company has one of the largest fleets in the world, and gas carriers are the core businesses

2. Shipping Business

The Oceangoing shipping business involves the transportation of cargo across the water worldwide by oil tankers, which transport crude oil; chemical tankers, which transport petrochemical products; large gas carriers, which transport LNG (liquefied natural gas) and LPG (liquefied petroleum gas); dedicated coal and wood chip carriers; and small- and medium-sized dry bulk carriers, which transport cereals, steel materials, and fertilizer. The coastal and regional shipping business involves the transportation of cargo mainly in Japan's coastal and regional marine areas, including by small gas carriers that transport LNG, LPG, and petrochemical gas. These businesses also include other operations, such as a ship management business and sales of maritime equipment.

With the main operations being resources- and energy-related transportation by chemical tankers, gas carriers, and other ships, these businesses utilize the Company's global network to provide efficient marine transportation services over a wide range of marine areas, from open oceans to regional waters. The Company also leads the industry in terms of shares of the domestic markets for the transportation of LPG and petrochemical gas. Moreover, it is one of the very few companies in Japan operating coastal shipping LNG carriers.

At the end of FY3/19, the Group's number of operating ships (including shared equity interests) was a total of 107 ships. Breaking this down, in the oceangoing shipping business, it had 80 ships (2 oil tankers, 43 chemical tankers, 17 large gas carriers, and 18 dry bulk carriers), while in the coastal and regional shipping business, it had 27 ships, mainly small gas carriers. Its fleet of chemical tankers is one of the largest in the industry.

The Company's main business partners include Astomos Energy Corporation (an LPG trading company created from the integration of the LPG departments of the Idemitsu Kosan <5019> Group and the Mitsubishi Corporation <8058> Group), Idemitsu Kosan, Oji Holdings Corp. <3861>, JXTG Nippon Oil & Energy Corporation (a JXTG Holdings <5020> Group company), National Federation of Agricultural Cooperative Associations (ZEN-NOH), J-POWER <9513>, Tosoh Corporation <4042>, Zeon Corporation <4205>, Hokkaido Gas Co., Ltd. <9534>, and SABIC (Saudi Arabia Basic Industries Corporation).

In October 2017, the Company concluded a time charter contract for the transportation of methanol with Methanol Holdings (Trinidad) Ltd., of Trinidad and Tobago, which is one of the world's leading methanol manufacturing companies. Under this contract, the Company will deploy one 37,000 DWT-type chemical tanker. In the Mid-term Management Plan, the global deployment of the chemical tanker business, and in particular, acquiring more shale-derived cargoes on regular US-bound routes, was set as a priority strengthening measure, and this contract will provide the foothold for this.

Also, in February 2018, the Company concluded a time charter contract for a newly built methanol-fueled vessel with Waterfront Shipping Company Ltd, which is a wholly-owned subsidiary of Methanex Corp., the world's largest producer of methanol. This vessel is equipped with a dual-fuel main engine, meaning in addition to the usual heavy oil, it can also use methanol as fuel, and the Company is working toward the commercialization of next-generation fuel vessels in order to reduce the burden on the environment.

Moreover, in April 2018, the Company concluded a dedicated vessel transportation contract with Tohoku Electric Power <9506> for PEGASUS ISLAND, which is an 88,000 DWT-type coal vessel whose construction was completed in February 2018. It plays a role in Tohoku Electric Power stably procuring coal.

The Company's distinguishing characteristic and strength is one of the largest chemical tanker fleets in the industry. In particular, the Company has a leading share in transport volume of petrochemical products originating from the Middle East.

Many of the chemical tankers that the Company operates have stainless-steel tanks. Compared to normal iron tankers, stainless-steel tankers have strong resistance to corrosion, so they have the advantage of being able to transport cargo such as sulfuric acid. The Company is also working to realize efficient operations for the transportation in its chemical tankers not only of petrochemical products, but also of cargo such as palm oil.

In addition to stainless-steel tankers, the Company possesses advanced ship management expertise that is required for the transportation of petrochemical products, such as for tank cleaning, and moreover expertise in transporting cargo efficiently, which leads to it having a competitive advantage.

The real estate business involves the leasing of office buildings in prime areas in the center of Metropolitan Tokyo

3. Real estate business

The real estate business mainly involves the rental, management and maintenance of office buildings. A feature of this business is that the Company owns rental office buildings in the center of Metropolitan Tokyo, such as the IINO Building (including the IINO Hall & Conference Center), which is the head office building. It is also deploying related business including a rental photo studio business (Hiroo studio and Minami Aoyama studio).

In addition to the Tokyo Fujimi Building (Metropolitan Tokyo, Chiyoda Ward) completed in 1983, the IINO Takehaya Building (Metropolitan Tokyo, Bunkyo Ward) completed in 1988, and the Shiodome Shiba-Rikyu Building (Metropolitan Tokyo, Minato Ward) completed in 2006, in 2009 the Company began work to rebuild the IINO Building (Metropolitan Tokyo, Chiyoda Ward), and it completed phase 1 of the IINO Building construction project in October 2011 and the building opened for business, and then in November 2014, it completed phase 2 of this project and held the grand opening. In December 2017, it acquired partial equity interest to the NS Toranomon Building (Metropolitan Tokyo, Minato Ward), which was completed in 2016.

In March 2017, the Company sold the Sasazuka Center Building following a review of its real estate business target area strategy and its portfolio of owned buildings, which it had set out it STEP FORWARD 2020, its previous Mid-term Management Plan. Also, in order to participate in the Shimbashi Tamura-cho District Urban Redevelopment Project (construction began in April 2018 and is scheduled to be completed in March 2021), in FY3/18 it demolished the Tokyo Sakurada Building (Metropolitan Tokyo, Minato Ward , completed in 1967).

As a result, as of the end of FY3/19, the Company owned five rental buildings (IINO Building, Tokyo Fujimi Building, Shiodome Shiba-Rikyu Building, NS Toranomon Building, and the IINO Takehaya Building).

The IINO Building is pursuing advanced environmental performance

4. IINO Building

The IINO Building, which opened in 2011 (grand opening in 2014), has become an earnings pillar based on the concept of being a “building that will still be loved 100 years in the future,” and it is equipped with hall and conference functions. The building also pursues advanced environmental performance. For example, on the outside of the usual outer wall (the inner skin) has been built one more outer wall (the outer skin), and the adoption of this “double-skin exterior” reduces the thermal load by creating an air-heat insulating layer.

It was the first building in Japan to acquire the Platinum Certification, which is the highest certification for LEED-CI (environmental compliance evaluation system by the U.S. Green Building Council). Also, in 2015 it acquired the Certification of Site Symbiosis with Ikimono (living things) (Association for Business Innovation in harmony with Nature and Community (ABINC) certification), which evaluates the efforts of office buildings and commercial facilities to protect biodiversity. In 2016, within the sites that had acquired ABINC certification, this building was awarded the 1st ABINC Special Award as a facility that is contributing greatly to the spread in the awareness of ABINC and to the mainstream acceptance of biodiversity.

Also, in 2016 it was certified as being a workplace excelling in specified global warming countermeasures (top-level workplace) in the 2015 Tokyo Metropolitan Government Environmental Protection Ordinance. In February 2018, it acquired the Fire Safety Building Certification (common name: Excellence Mark), based on the Tokyo Fire Department’s system to show which buildings had been certified as being excellent for fire safety. Then, in March 2018, the building was registered as an Edo-Midori Green Space (Excellent Green Space) by the Tokyo Metropolitan Government Bureau of Environment in its native plants registration system. In October 2018, the IINO Building’s office floor portion (7th floor through 27th floor) received the highest rank of five stars under the Building-Housing Energy-efficiency Labeling System (BELS).

Furthermore, in March 2019, in the DBJ Green Building certification by the Development Bank of Japan, the IINO Building kept a top rank of five stars, while the Shiodome Shiba-Rikyu Building maintained its four-stars ranking.

Countering the impact of fluctuating market conditions with price changes, etc.

5. Earnings profile/risk factors and countermeasures

In terms of earnings profile and risk factors, the shipping business, and the oceangoing shipping business in particular, is impacted by elements including shipping market conditions, the price of fuel oil, and FOREX rates. Moreover, for the mainstay chemical tankers, the effects of fluctuating market conditions on spot freight cannot be avoided.

To counter these factors, for chemical tankers, the Company aims to maximize profits by combining multiple, approximately one-year COA (contract of affreightment), which constitute about 70% of the total, and spot freight. Contracts of affreightment generally have a price adjustment clause tied to fluctuations in the price of fuel oil, but depending on the contract, if the fuel oil price increases by a small amount, the increase may not be transferred to the price, and this may impact profitability.

Oil tankers and gas carriers are the mainly deployed on medium- to long-term time charter contracts. The Company is promoting the accumulation of stable long-term revenue sources with oil tankers and gas carriers, and in December 2018 the Company acquired additional shares in Northern LNG Transport Co., I Ltd. and Northern LNG Transport Co., II Ltd. (hereinafter, “NLTC I” and “NLTC II”) – special purpose companies formed for the purpose of owning LNG tankers in the Snohvit LNG project – from Mitsui & Co., Ltd. <8031>, thereby increasing its ownership stake in these two companies. Also, including the coastal and regional shipping business, the Company is working to renew contracts on favorable terms to handle the increase in costs, and is aiming to boost profitability.

From January 2020, the International Maritime Organization (IMO) will start to implement tighter international regulations on sulfur content in marine fuels. Specifically, cap on the concentration of sulfur included in marine fuel will be lowered from the current level of “no more than 3.5%” to “no more than 0.5%.” As response options, the Company can install scrubbers (desulfurization units) and/or use low-sulfur fuel oil (fuel that is compliant with the new regulation).

The negative impacts of the tougher regulation include the increased costs of ship equipment and servicing required to ensure that vessels can use compliant fuel oil and cost increases related to differences between the cost of conventional fuel and compliant fuel oil. The Company will mainly respond by using fuel oil that is compliant with the regulations, but plans to negotiate with cargo owners to reflect the increased costs in contracts of affreightment and other contracts. Meanwhile, the positive impact of the tougher regulation is expected to lead to an improvement in market conditions for product tankers and chemical tankers due to demand for the transport of compliant fuel oil and an improvement in the supply-demand balance due to the scrapping of vessels that cannot comply with the tighter regulation.

In the real estate business, earnings tend to be influenced by factors including real estate market conditions, vacancy rates, and rent, but all of the rental buildings that the Company owns are located in prime locations in the center of Metropolitan Tokyo. In the center of Metropolitan Tokyo (the five wards of Chiyoda, Chuo, Minato, Shinjuku, and Shibuya), office building rents are firm.

The IINO Building, the pillar of earnings in the real estate business, not only is located in a good area, but its advanced environmental performance is also a strength. The IINO Building should continue to be a source of stable earnings. Moreover, based on its target-area strategy, the Company is advancing the replacement of owned assets and participating in redevelopment projects. Construction of the Shimbashi Tamura-cho District Urban Redevelopment Project (Metropolitan Tokyo, Minato Ward) is scheduled to finish in the spring of 2021.

Both the shipping business and the real estate business are impacted by fluctuating market conditions. In response to this risk, the Company is accumulating stable revenue sources with the aim of building robust business bases in both businesses, and aims for sustainable, stable growth from the twin axes of the shipping business and the real estate business.

Business performance

Recurring profit and final profit increased in FY3/19

1. Overview of FY3/19 consolidated results

In the FY3/19 consolidated results, revenue increased 4.3% YoY to ¥84,843mn, operating profit declined 15.4% to ¥4,782mn, recurring profit increased 1.5% to ¥4,701mn, and profit attributable to owners of parent increased 10.4% to ¥4,685mn. The average FOREX rate was ¥110.67/USD (versus ¥111.19/USD in the previous fiscal year), and the average price of fuel oil was 430USD/MT (versus 337USD/MT in the previous fiscal year).

Overview of FY3/19 consolidated results

(¥mn)

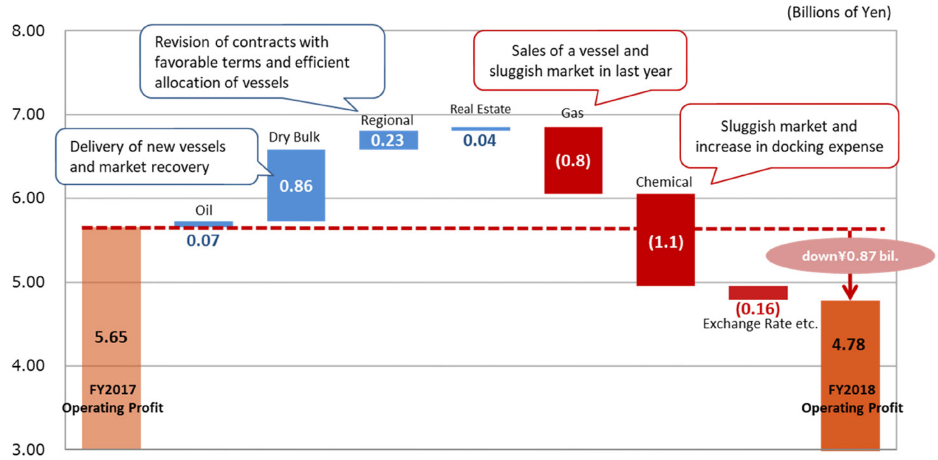
	FY3/18	FY3/19	YoY
Revenue	81,334	84,843	4.3%
Operating profit	5,651	4,782	-15.4%
Recurring profit	4,631	4,701	1.5%
Profit attributable to owners of parent	4,243	4,685	10.4%
EPS (¥)	38.53	44.28	-
Dividend (¥)	10.00	15.00	-
BPS (¥)	653.29	689.25	-
Average FOREX rate (¥/USD)	111.19	110.67	-
Average price of fuel oil (USD/MT)	337	430	-

Source: Prepared by FISCO from the Company's financial results

Looking at the comparison with FY3/18, revenue increased in all business segments, as the increase in operating chemical tankers contributed to revenue in the oceangoing shipping business, while in the coastal and regional shipping business revenue increased due to the upturn in market conditions in regional gas transport while revenue increased in the real estate business due to factors including the acquisition of the NS Toranomon Building. Overall revenue increased by 4.3%. In terms of operating profit, in the coastal and regional shipping business there was a significant increase in operating profit, aided by renewals of contracts on favorable terms and other factors, but operating profit in the real estate business was flat and there was a large decline in the oceangoing shipping business due to the delayed recovery in market conditions for chemical tankers, along with other factors. Thus, overall operating profit declined 15.4%.

The overall ¥870mn decline in operating profit was the result of positive factors including oil tankers (+¥0.07bn), dry bulk carriers (disposal of unprofitable vessels and other structural reforms, market recovery; +¥0.86bn), coastal and regional transport shipping business (favorable contract renewals, efficient allocation of vessels; +¥0.23bn), and real estate (+¥0.04bn). On the other hand, negative factors included gas carriers (decline in operating vessels due to vessel sales, the impact of certain VLGC for which contracts were entered into based on prices in the previous year when market conditions were weak; -¥0.80bn), chemical tankers (sluggish market and higher docking costs; -¥1.1bn), and exchange rate and other (-¥0.16bn).

Changes in operating profit (FY17 vs. FY18)



Source: The Company's results briefing materials

For recurring profit, there was an increase of 1.5%, aided by the improvement in forex gains in non-operating income (up ¥789mn; ¥378mn in gains in FY3/19 versus ¥411mn in losses in FY3/18), and the increase in dividend income (up ¥399 mn; ¥1,257mn in FY3/19 versus ¥858mn in FY3/18). Profit attributable to owners of parent increased10.4%. Total extraordinary losses were ¥1,605mn, which included an impairment loss of ¥1,146mn, while total extraordinary income was ¥2,161mn, including gains on the sales of non-current assets of ¥2,155mn.

When compared to forecast values (revised values announced on January 31, 2019: revenue of ¥84,000mn, operating profit of ¥5,100mn, recurring profit of ¥5,100mn, and profit attributable to owners of parent of ¥4,900mn), revenue exceeded the forecast, while all profit lines fell short of the forecasts.

Significant decline in profit in the oceangoing shipping business due to sluggish chemical tanker market conditions and higher docking expenses, large increase in profit in the coastal and regional shipping business due to renewals of contracts on favorable terms and other factors

2. Business performance and initiatives by segment

The overview by segment (before adjustment for consolidation) is as follows.

Overview of FY3/19 results by segment

(¥mn)

	FY3/18	FY3/19	YoY
Consolidated revenue	81,334	84,843	4.3%
Oceangoing shipping business	61,865	64,873	4.9%
Regional shipping business	9,012	9,427	4.6%
Real estate business	10,545	10,669	1.2%
Total	81,422	84,968	4.4%
Adjustment	-88	-125	-
Consolidated operating profit	5,651	4,782	-15.4%
Oceangoing shipping business	1,713	583	-66.0%
Regional shipping business	700	926	32.3%
Real estate business	3,238	3,273	1.1%
Total	5,651	4,782	-15.4%

Source: Prepared by FISCO from the Company's financial results

(1) Shipping Business

In the oceangoing shipping business, revenue increased 4.9% YoY to ¥64,873mn, while operating profit declined 66.0% YoY to ¥583mn. The increase in revenue was due to an increase in operating vessels following the completion of new chemical tankers, while the Company continued to deploy oil tankers and gas carriers on medium- to long-term contracts. However, overall profit declined, as the positive impacts from structural reforms such as disposing of unprofitable vessels, and timing the deployment of vessels to match improvements in market conditions were offset by a drop in profitability in each area, including weak market conditions and higher docking expenses for chemical tankers, while in the large gas carrier division there was a decline in operating vessels due to the sale of a vessel and the impact of certain VLGC entered into a contract based on market prices during a time of weak market conditions in FY3/18.

Conditions in the oil tanker market rose sharply from the fall of 2018, but softened towards the end of the fiscal year. Conditions in the chemical tanker market were sluggish throughout the fiscal year, due to influx of product tankers into the chemical tanker market. The conditions in the large LPG carrier market were firm due to the increase in transport from the U.S. to Asia. Conditions in the large LNG carrier market started to soften toward the end of the period with the trail off of winter season demand and the influx of new vessels. In dry bulk carriers, market conditions weakened compared to the previous fiscal year at some points, but recovered towards the end of the period.

In terms of the status of initiatives, for chemical tankers, the recovery in market conditions were delayed more than expected, the Company expanded its market share in the mainstay Middle East routes through the acquisition of new COAs (three contracts acquired during FY3/19) and fleet upgrades (seven vessels delivered in FY3/19). In order to accumulate foundations for stable growth, the Company continued to deploy oil tankers, gas carriers, and dry bulk carriers (dedicated vessels) on medium- to long-term contracts. In gas carriers, in December 2018 the Company acquired additional shares and thereby increased its ownership stake in LNG vessel holding companies NLTC1 and NLTC2, which are involved in the Snohvit LNG Project. For dry bulk carriers, in February 2018 the Company completed construction of one 88,000 DWT-type vessel which has excellent operating efficiency.

In the coastal and regional shipping business, revenue increased 4.6% YoY to ¥9,427mn, while operating profit increased 32.3% to ¥926mn. Transport volume was a bit low in both coastal and regional shipping, but profitability improved due to renewals of contracts at more favorable terms in the coastal gas shipping business, while in regional gas shipping operations, profitability improved due to time charter contract renewals on favorable terms in conjunction with the upturn in market conditions at the beginning of the fiscal year. As a result, operating profit increased significantly.

(2) Real Estate Business

In the real estate business, revenue increased 1.2% YoY to ¥10,669mn and operating profit increased 1.1% to ¥3,273mn. Although there was a temporary decline in the number of operating buildings due to the sale of the Sasazuka Center Building (March 2017) and the demolition of the Tokyo Sakurada Building in association with the Shimbashi Tamura-cho District Urban Redevelopment Project (construction work started in 2018 and is scheduled to finish in the spring of 2021), performance was aided by the steady occupancy in existing buildings and the NS Toranomon Building (the Company acquired a partial stake in the building in December 2017). This business remains a stable source of earnings.

Net assets are steadily accumulating toward realizing the medium-term target

3. Financial overview

For profitability, in FY3/19, the gross profit margin was 13.8%, down 1.6 percentage points compared to the previous fiscal year. The selling, general and administrative expenses ratio declined 0.3 percentage points to 8.1%, and the operating profit margin declined 1.3 percentage points to 5.6%. Recurring profit increased slightly due to the improvement in non-operating income. While the recurring profit margin declined 0.2 percentage points to 5.5%, the extent of the decline was smaller than that of the operating profit margin. Profit attributable to owners of parent increased by double digits due to the improvement in extraordinary income. As a result, the net income margin attributable to owners of parent rose 0.3 percentage points to 5.5%, and ROE (return on equity) increased 0.4 percentage points to 6.6%.

Financially, at the end of FY3/19 total assets were up ¥12,198mn on the end of the previous fiscal year, including due to increases in ships, land, and construction in progress, while the equity ratio fell 0.1 to 32.8%. Net assets increased ¥3,840mn to ¥73,077mn and they are steadily accumulating toward achieving the Company's medium-term target of more than ¥100bn. Based on its strengths of the twin axes of the shipping businesses and the real estate business, there would seem to be no problems in terms of the Company's financial soundness.

Key management indicators

(¥mn)

Item	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Revenue	100,177	94,843	83,320	81,334	84,843
Cost of sales	85,799	79,974	69,880	68,816	73,160
Gross profit	14,378	14,869	13,440	12,518	11,683
Gross margin (%)	14.4	15.7	16.1	15.4	13.8
SG&A expenses	6,392	6,754	6,848	6,867	6,901
SG&A expenses ratio	6.9	7.1	8.2	8.4	8.1
Operating profit	7,986	8,115	6,591	5,651	4,782
Operating margin (%)	8.0	8.6	7.9	6.9	5.6
Non-operating income	1,844	2,643	742	1,153	1,721
Non-operating expenses	2,636	3,103	2,229	2,173	1,802
Recurring profit	7,194	7,655	5,105	4,631	4,701
Recurring margin (%)	7.2	8.1	6.1	5.7	5.5
Extraordinary income	1,657	633	3,776	3,577	2,161
Extraordinary losses	3,548	4,022	5,027	3,599	1,605
Profit before income taxes	5,302	4,267	3,854	4,609	5,257
Total income taxes	94	602	-19	344	467
Profit attributable to owners of parent	5,213	3,659	3,885	4,243	4,685
Net income margin attributable to owners of parent (%)	5.2	3.9	4.7	5.2	5.5
Comprehensive income	8,446	497	4,607	4,780	4,814
Total assets	228,693	230,278	203,969	210,237	222,435
(Current assets)	31,455	29,125	25,145	24,711	24,365
(Non-current assets)	197,238	201,153	178,824	185,526	198,070
Total liabilities	162,785	164,993	135,195	140,999	149,359
(Current liabilities)	36,416	35,342	38,039	41,688	51,607
(Non-current liabilities)	126,369	129,651	97,156	99,311	97,752
Net assets	65,907	65,285	68,774	69,237	73,077
(Shareholders' equity)	58,767	61,322	64,098	64,036	67,801
(Capital stock)	13,092	13,092	13,092	13,092	13,092
No. of shares outstanding at the end of the fiscal period, including treasury shares	111,075,980	111,075,980	11,075,980	11,075,980	11,075,980
No. of treasury shares at the end of the fiscal period	105,119	106,024	106,737	5,267,927	5,268,871
EPS (¥)	46.98	32.97	35.01	38.53	44.28
BPS (¥)	593.72	587.51	619.18	653.29	689.25
Dividend per share (¥)	10.00	10.00	10.00	10.00	15.00
Equity ratio (%)	28.8	28.3	33.7	32.9	32.8
ROE (return on equity) (%)	8.4	5.6	5.8	6.2	6.6
Cash flows from operating activities	16,107	18,804	11,075	12,117	14,549
Cash flows from investing activities	-13,022	-18,551	12,788	-15,399	-21,202
Cash flows from financing activities	-8,594	2,475	-27,242	3,350	5,826
Cash and cash equivalents at end of period	11,965	14,326	10,719	10,536	9,826
Ratio of cash flow to interest-bearing debt (years)	7.8	6.9	9.7	9.5	8.1
Interest coverage ratio (times)	6.2	7.9	5.4	7.1	9.0
Number of employees	617	619	626	622	629

Source: Prepared by FISCO from the Company's financial results

Outlook

Forecast is for lower recurring profit and final profit in FY3/20

1. Overview of consolidated results outlook for FY3/20

The FY3/20 consolidated results forecasts are for revenue to increase 4.9% YoY to ¥89,000mn, operating profit to rise 0.4% to ¥4,800mn, recurring profit to decline 12.8% to ¥4,100mn, and profit attributable to owners of parent to decline 18.9% to ¥3,800mn. The assumed average exchange rate is 1USD/¥110, and the assumed average price of fuel oil is 430USD/MT (the FY3/19 results were an average exchange rate of 1USD/¥110.67 and an average price of fuel oil of 430USD/MT).

Overview of consolidated forecast for FY3/20

(¥mn)

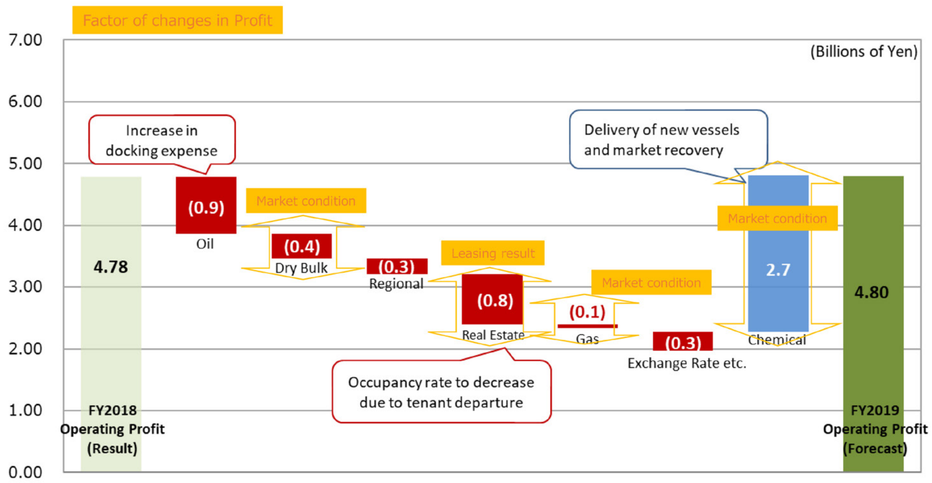
	FY3/19 results	FY3/20 forecast	YoY
Revenue	84,843	89,000	4.9%
Operating profit	4,782	4,800	0.4%
(Shipping Business)	1,509	2,300	52.4%
(Real Estate Business)	3,273	2,500	-23.6%
Recurring profit	4,701	4,100	-12.8%
Profit attributable to owners of parent	4,685	3,800	-18.9%
EPS (¥)	44.28	35.91	-
Dividend (¥)	15.00	10.00	-
Average FOREX rate (¥/USD)	110.67	110.00	-
Average price of fuel oil (USD/MT)	430	430	-

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Revenue is expected to increase 4.9% YoY due to factors including an increase in the number of operating vessels resulting from the completion of new vessels, the compensatory effect from the Bunker Adjustment Factor (BAF) in conjunction with fluctuations in fuel oil prices, as well as a recovery in the chemical tanker market. Overall operating profit is expected to move sideways, as in the oceangoing shipping business the expectations for a recovery in the chemical tanker market will be offset by an increase in docking expenses and a profit decrease in real estate business due to a temporary decline occupancy with the departure of tenants. Recurring profit is expected to decline with the drop in dividend income as non-operating income, while profit attributable to owners of parent is forecast to decline due to the non-recurrence of extraordinary income from the sale of vessels.

Overall operating profit is expected to increase by ¥0.02bn. The positive factor is chemical tankers (fleet enhancement, market recovery; +¥2.7bn), while negative factors include oil tankers (docking expenses; -¥0.9bn), dry bulk carriers (vessel sales, docking, market conditions; -¥0.4bn), coastal and regional shipping (docking, -¥0.3bn), real estate (temporary decline in occupancy due to tenants leaving; -¥0.8bn), gas carriers (-¥0.1bn) and forex/other (-¥0.3bn).

Changes in operating profit (FY18 result vs. FY19 forecast)



Source: The Company's results briefing materials

The forecasts for 1H consolidated results are for revenue to increase 4.8% YoY to ¥44,000mn, operating profit to decrease 54.6% to ¥1,500mn, recurring profit to decline 66.4% to ¥1,100mn, and profit attributable to owners of parent to decline 80.6% to ¥900mn. The expectation is that the effects of the improvements in market conditions for chemical tankers will emerge in earnest from 2H, while in the real estate business the Company expects new tenants to move into buildings from 2H as well. As a result, the revenue and profits are expected to concentrate more in 2H than in 1H.

In the shipping business, there is a lot of uncertainty, including the impacts of U.S.-China trade friction as well as the impacts of the tightening of the IMO’s marine fuel sulfur regulation (the SOx regulation), but the Company plans to increase the profitability of operations by renewing existing contracts on favorable terms and deploying vessels efficiently, among other measures.

Expecting a recovery in chemical tanker market conditions in the oceangoing shipping business

2. Initiatives by segments

The Company’s initiatives by segment are as follows.

(1) Shipping business

In the oceangoing shipping business, the Company is expecting a large increase in operating profit for chemical tankers. Profits declined in FY3/19 due to the delay in the market recovery, but the market is expected to recover in FY3/20, as there has been no change to the upward trend in marine transport volume for petrochemical products, the supply of newly-built ships has settled down, and product tankers should return to the petroleum products market in conjunction with the arising of demand for transport of fuel oil compliant with the IMO regulation. The Company plans to negotiate with cargo owners to reflect the increased costs due to compliant fuel oil use in contracts of affreightment and other contracts. The Company will also improve profitability by efficiently deploying its fleet. The Company is also planning to complete the construction of a new methanol tanker (time charter) with a dual-fuel main engine in 2H.

For oil tankers, the Company expects a decline in profit due to docking expenses, but will work to secure stable earnings from medium- to long-term contracts that are not affected by market conditions. The Company is also expecting to deploy one new VLCC in 2H. For gas carriers, profit is expected to move sideways, but the Company will respond flexibly while keeping a close watch on changes in market conditions in order to secure stable earnings. In dry bulk carriers, the Company is expecting profit to decline YoY due to the impact of docking expenses as well as market conditions, but the Company will work to optimize its fleet size and cultivate new contracts.

In coastal and regional shipping, operating profit is expected to decline due to higher docking expenses, but the Company will work towards stable earnings.

(2) Real Estate Business

The Company is expecting operating profit to decline YoY due to the temporary decline in occupancy rates caused by the sale of the Sasazuka Center Building (March 2017), the demolition of the Tokyo Sakurada Building in conjunction with the Shimbashi Tamura-cho District Urban Redevelopment Project (construction work started in April 2018 and is scheduled to be completed in March 2021), as well as the impact of the temporary decline in the IINO Building's occupancy rate in FY3/20 due to some tenant departures. However, the real estate business remains a stable source of earnings, and the Company will work on leasing activities for the IINO Building. Furthermore, the value of the Nishi-Shimbashi and Toranomon areas is expected to increase due to large-scale redevelopment projects. The Company expects operating profit to start to increase again in FY3/22, the year that the Shimbashi Tamura-cho District Urban Redevelopment Project begins operating.

Medium- to long-term growth strategy

Advancing balanced management and taking on the challenge of having a spirit of innovation

1. Mid-term Management Plan, Be Unique and Innovative Towards our 125th Anniversary in 2024

Toward the 125th anniversary of its foundation in 2024, the Company formulated its Mid-term Management Plan, Be Unique and Innovative, for April 2017 to March 2020. There has been no change to its policy of realizing a growth scenario from the twin axes of the shipping business and the real estate business, while it set the theme of the Plan as Taking up the Challenges of Balanced Management and Advancement (achieving a balance between the twin axes of the shipping business and the real estate business, stable earnings and next-generation business, and growth numerical targets with a good balance). Toward this, it has set the priority strengthening measures as Pursuing Greater Business Differentiation, Solidifying Stable Earnings, and Challenges of Next-Generation Business.

Toward Pursuing Greater Business Differentiation, in the shipping business the Company is responding to diversifying needs and accelerating its global business development, while in the real estate business, it is further deepening its target-area strategy. In order to deal with the uncertainty of conditions in the shipping market, in terms of Solidifying Stable Earnings, in the real estate business it is advancing the stable operations of existing buildings and the concentration of assets within the target areas, while in the shipping business, it is stabilizing earnings through medium- to long-term contracts. Also, for the Challenges of Next-Generation Business, the Company is researching a new energy-related business, entering-into promising niche markets, and next-generation office buildings.

In terms of the specific measures, in the chemical tanker business, it is acquiring more shale-derived cargoes on regular U.S. bound routes, providing high quality services throughout the world, maintaining and expanding market share in the Middle East, and continuously improving its fleet. In the oil tankers and gas carriers businesses, it is focusing on acquiring new contracts, responding to logistical changes due to the shale revolution, responding to diversifying gas cargo transport, continuing high quality ship management and securing competitive advantages. In the dry bulk carriers business, it is aiming to utilize medium- to short-term carriers to build an optimized fleet, accumulate stable earnings through dedicated carriers for cargo including coal and wood chip, expand Middle East-related cargo, and diversify the routes for fleet deployment. In the real estate business, the Company's policy is to continue measures for the target-area strategy based on a long-term viewpoint, provide high quality building management, strengthen the leasing structure, and implement thorough cost management for the Shimbashi Tamura-cho District Urban Redevelopment Project.

The Company expects to fall short of its profit targets set in the Mid-Term Management Plan, but is accumulating foundations for stable growth ahead of its 125th anniversary
Accumulating stable earnings foundations ahead of the Company's 125th anniversary

2. Outlook for achievement of the Mid-term Management Plan

The targets in the Mid-term Management Plan for its final fiscal year of FY3/20 include revenue of ¥89,000mn, operating profit of ¥9,000mn, recurring profit of ¥7,800mn, profit attributable to owners of parent of ¥7,400mn, net assets of ¥82,500mn, and ROE of approximately 9%. The assumptions for the shipping businesses are an exchange rate of 1 U.S. dollar to ¥110 and a price of fuel oil of 370 U.S. dollar/MT.

The Company is aiming to realize growth while maintaining a balance between profitability (increasing operating profit and cash from operating activities, and realizing sustainable growth), efficiency (improving the efficiency of owned assets, diversifying fund-raising methods, and replacing assets) and financial soundness (accumulating own capital and prioritizing an investment balance). Within the Goals for 2024, which is the 125th anniversary of its foundation, the Company is aiming for net assets of more than ¥100,000mn.

The Company's plans call for total growth investments of ¥38bn in the three-year period (¥28bn in vessels, ¥9bn in buildings, and ¥1bn in the environment and systems). In FY3/18, the Company made ¥15.4bn in growth investments, while it made ¥21.2bn in growth investments in FY3/19.

In FY3/20, the final fiscal year of the Mid-term Management Plan, the Company expects revenue to almost reach the target, but expects all profit lines to fall short of the targets due to the delay in the market recovery in the shipping business, the decline in occupancy in the real estate business, and other factors.

Numerical Targets

Profitability
Increase operating profit
Increase cash profit from business operations
Promote sustainable growth

Efficiency
Improve efficiency of owned assets
Diversify asset procurement method
Replace old assets with new ones

Financial Health
Increase owned capital
Focus on investment balance

Goals for 2024 (our 125th Anniversary)
Net Assets 100 billion yen

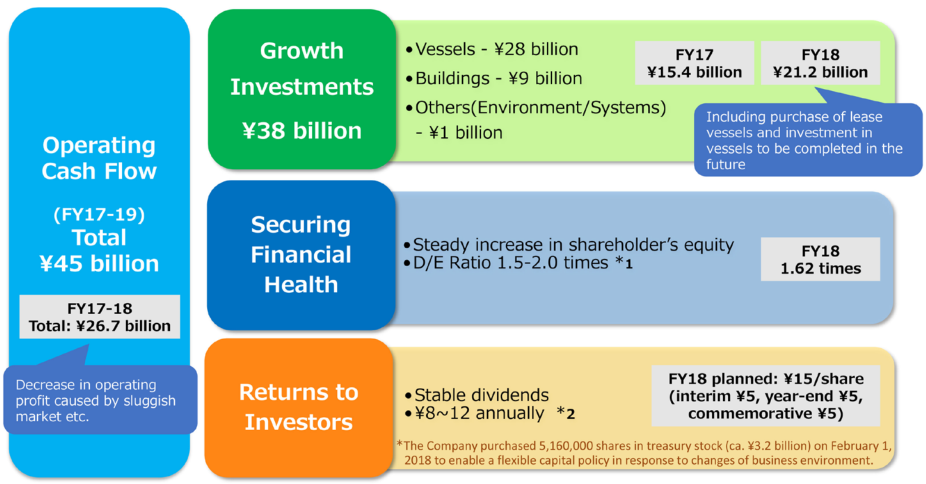
(Units:Yen 100 Million)

	FY2017			FY2018			FY2019	
	Plan	Result	Difference	Plan	Result	Difference	Plan	Forecast as of 26. Apr.
Revenue	800	813	+13	840	848	+8	890	890
Operating Profit	50	57	+7	70	48	▲ 22	90	48
Shipping	17	24	+7	35	15	▲ 20	50	23
Real Estate	33	33	0	35	33	▲ 2	40	25
Recurring Profit	40	46	+6	61	47	▲ 14	78	41
Net Income	37	42	+5	58	47	▲ 11	74	38
Net Assets	718	692	▲ 26	763	731	▲ 32	825	–
ROE	abt.5%	6.2%	+1.2%	abt.8%	6.6%	▲1.6%	abt.9%	–
D/E Ratio*1	1.6-2.0	1.67	Achieved	1.6-2.0	1.62	Achieved	1.5-2.0	–
[Assumptions]								
Exchange Rate(Yen/$)	110	111	+1	110	111	+1	110	110
Bunker Price($/MT)*2	370	337	▲ 33	370	430	60	370	430
Panamax($/day)	6,000	10,047 *3	+4,047	7,000	9,817 *3	+2,817	9,000	10,750
Smallhandy($/day)	5,250	7,543 *3	+2,293	5,500	7,502 *3	+2,002	6,000	9,000
EBITDA	140	146	+6	170	142	▲ 28	190	145
EBITDA/Total Assets	6% Level	7.1%	Achieved	7% Level	6.4%	Not Achieved	8% Level	–

*1 Interest Bearing Debt / Shareholder's Equity
*2 IFO 380cSt in Singapore
*3 Pacific Round (Source:Tramp Data Service)

Source: The Company's results briefing materials

Cash flow plan and dividend payout



*1 When there are opportunities that could contribute to stable earnings or future growth, we will invest with an eye to maintain a sound financial base, and aim to keep our D/E ratio under 2.0.
*2 Because our core shipping business is so vulnerable to fluctuations in international market conditions, forex rates, etc., good management requires that we fortify our financial position with substantial retained earnings. We will constantly examine our performance with an eye to balancing the twin goals of maintaining internal reserves and returning a reasonable dividend to our shareholders.

Source: The Company's results briefing materials

Investment plan

OWNED

*scheduled to be deployed on medium- to long-term contracts

	FY2017	FY2018	FY2019(F)	FY2020(F)
Large Gas Carrier		82,200㎥ ×1		
Chemical Tanker	35,000DWT ×1	35,000DWT ×2		
Oil Tanker			310,000DWT ×1	310,000DWT ×2
Regional Shipping			1,820㎥ ×1	1,820㎥ ×2
Real Estate	Acquisition of NS Toranomon Building			Redevelopment project planned to be completed

CHARTERED

	FY2017	FY2018	FY2019(F)	FY2020(F)
Chemical Tanker	35,000DWT ×1 22,000DWT ×1	38,000DWT ×2 35,000DWT ×1 21,000DWT ×2	49,000DWT ×1 19,950DWT ×1	
Dry Bulk Carrier	88,000DWT ×1 37,000DWT ×1			88,000DWT×1 50,000DWT×1
Regional Shipping				8,700㎥ ×1

Source: The Company's results briefing materials

The Company is steadily accumulating a stable earnings base ahead of its 125th anniversary (2024).

In the oceangoing shipping business, for chemical tankers the Company acquired three new contracts of affreightment in FY3/18 and three new contracts of affreightment in FY3/19, while in terms of improving its fleet, the Company built three vessels in FY3/18 and built seven vessels in FY3/19. The Company is also making progress acquiring medium- to long-term contracts for its oil tankers, gas carriers, and dry bulk carriers.

In the coastal and regional shipping business, the Company is servicing a new domestic transport gas carrier for a leading domestic chemicals manufacturer. The Company earned high praise from cargo owners for its strengths, including its consistent deployment of vessels, and thus the Company is making progress on revising contracts at more favorable terms, aiming to increase profitability.

In the real estate business, the IINO Building's occupancy rate is expected to temporarily decline, but its advanced environmental performance is a strength, and it should continue to be a base for stable earnings going forward. Furthermore, aided by the increase in the value of the Nishi-Shimbashi and Toranomon districts, the Company expects operating profit to start to increase again in FY3/22, the year that the Shimbashi Tamura-cho District Urban Redevelopment Project begins operations.

No change to the Company's policy of realizing a growth scenario based on the twin axes of the shipping business and the real estate business, while also focusing on ESG management

3. Growth scenario and ESG management

There has been no change to the Company's policy of aiming to realize sustainable, stable growth on the twin axes of the shipping business and the real estate business, while medium-term growth in earnings is expected.

In the oceangoing shipping business, in February 2018 the Company concluded a time charter contract for a newly-built methanol-fueled vessel. Under this contract, the Company will build the vessel equipped with a dual-fuel main engine (heavy oil and methanol), which will be a first for the Company, and is working towards reducing the burden on the environment. Also, the Company has begun a demand survey of LNG-fueled vessels and LNG bunkering vessels through the fuel conversion of existing domestic LNG carriers. In the real estate business, there has been strong praise for the IINO Building's advanced environmental performance.

This management with a strong focus on ESG (environment, society, governance) will continue to be closely watched.

Shareholder return policy

Aims for a stable annual dividend of ¥8 to ¥12

As the results in the shipping business are greatly influenced by trends in market conditions and FOREX rates, the Company's basic policy for the distribution of profits is to continuously pay a dividend while also strengthening its financial structure and supplementing the internal reserves it will need, while giving full consideration to the prospects for the business environment in the future. Also, the Company intends to supplement the funds for internal reserves in order to invest strategically in the shipping business and excellent properties in the real estate business, to maintain and improve the fleet and buildings, and to enter into new, promising businesses. In the Mid-term Management Plan, Be Unique and Innovative, the Company aims for a stable annual dividend of ¥8 to ¥12 to return profits to shareholders.

Based on this basic policy, the FY3/19 dividend per share was an annual dividend of ¥15 (interim dividend of ¥5, period-end dividend of ¥5, and 120th anniversary commemorative dividend of ¥5), which is ¥5 more than the previous fiscal year. The consolidated dividend payout ratio was 33.9%. The FY3/20 dividend forecast is for an annual dividend of ¥10 (interim dividend of ¥5 and period-end dividend of ¥5). This will be a ¥5 decline compared to the previous fiscal year, due to the non-recurrence of the 120th anniversary commemorative dividend of ¥5.

Information security

Formulated information security-related regulations considering the latest situation

In a situation in which large-scale cyber attacks against companies are increasing and interest in companies' information security measures is rising, the Company is aware that conducting information security and appropriately protecting its information assets are one of its most important management issues. Therefore, it has formulated information-related regulations. In January 2019, it has revised an information security policy.

Also, together with IINO Systems Co., Ltd., a subsidiary that is responsible for systems development, maintenance, and management for the Group, in addition to restricting Web access, changing passwords and other measures, the Group as a whole is implementing various information security measures, including holding Risk Management Committee meetings and conducting risk management response checks.

FISCO

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp