

# "K" LINE Vision 100

## FY 2008 – 2011 "K" LINE Group Medium-term Management Plan





## **Background of revisions to "K" LINE Vision 2008<sup>+</sup>**



## **Theme of 100th-Anniversary Vision "K" LINE Vision 100**

- Synergy for all and sustainable growth



## **"K"LINE Vision 100: business environment and business strategies**

- Business environment
- Business strategies
- Numerical targets

# **Background of revisions to "K" LINE Vision 2008+**

# Background of revisions to “K” LINE Vision 2008 + Business-performance trends and overview



**Numerical targets for FY 2008 achieved one year in advance thanks to negative factors such as rising fuel and other costs being offset by factors such as business expansion and strong dry bulk market**

(Unit: billion yen)

|                       | FY2004<br>(actual) | FY2005<br>(actual) | FY2006<br>(actual) | FY2007<br>(actual) | FY2008<br>(planned) | Achievement |
|-----------------------|--------------------|--------------------|--------------------|--------------------|---------------------|-------------|
| Operating revenues    | 828.4              | 940.8              | 1,855.0            | 1,331.0            | 1,100.0             | ◎           |
| Ordinary income       | 107.2              | 88.6               | 63.9               | 125.9              | 110.0               | ◎           |
| Net income            | 59.9               | 62.4               | 51.5               | 83.0               | 70.0                | ◎           |
| ROA                   | 18%                | 13%                | 8%                 | 13%                | 11%                 | ◎           |
| ROE                   | 40%                | 28%                | 17%                | 24%                | 19%                 | ◎           |
| Interest-bearing debt | 239.2              | 278.2              | 326.2              | 329.4              | 350.0               | ◎           |
| Shareholders' equity  | 181.3              | 257.8              | 344.8              | 355.8              | 400.0               | ○           |
| Equity ratio          | 30%                | 34%                | 38%                | 37%                | 39%                 | ○           |
| DER                   | 132%               | 108%               | 95%                | 92%                | 88%                 | ○           |
| Payout ratio          | 16%                | 17%                | 21%                | 20%                | 20%                 | ◎           |

◎Achieved ahead of schedule ○Target achieved

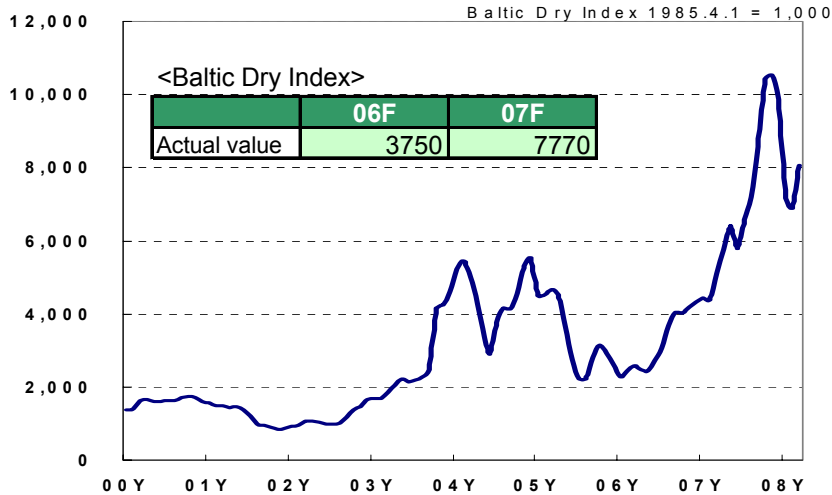
**Achieving initial targets for mid-2010's (sales of 1.5 trillion yen and ordinary income of 150 billion yen) is also feasible.**

# Background of revisions to “K” LINE Vision 2008 + Dramatic changes in the business environment: positive factors

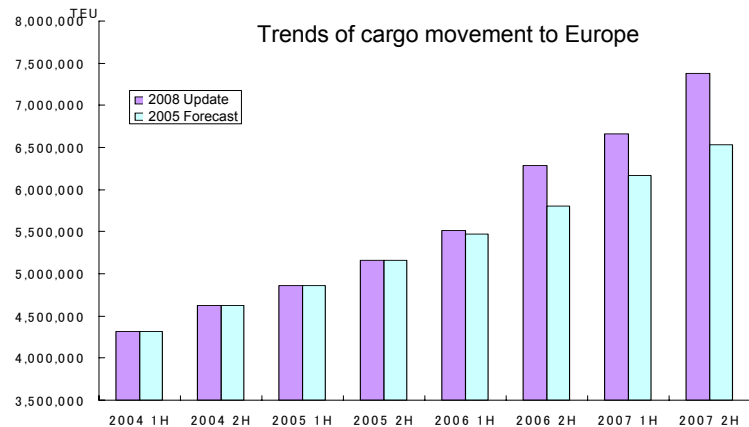
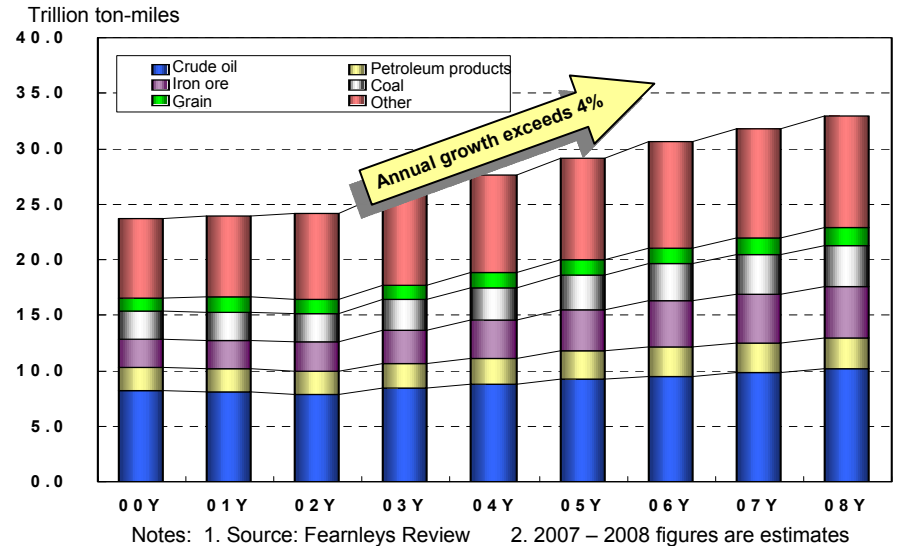


## Unprecedented increases in dry bulk market

⇒ Moves at rates far higher than initially planned



## Growth in seaborne trade volume surpassing assumptions

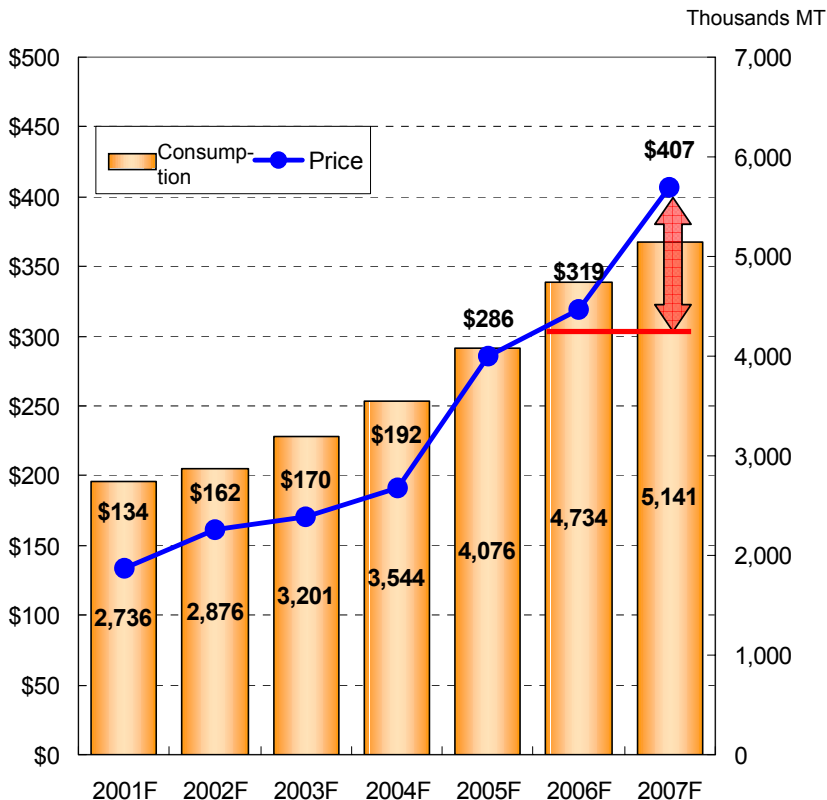


- **Rate of growth of container shipments to Europe:**  
Planned: 12% range in 2006-2007; actual: 17% in 2006, 19% in 2007
- **Growth in automotive shipments and shortage of auto vessels**  
Growth in exports from Japan and diversification of trilateral shipments
- **Rapid growth in bulk shipments (growing steel demand)**  
Projected world crude-steel production for 2007: increased from 1.19 billion tons to 1.34 billion tons

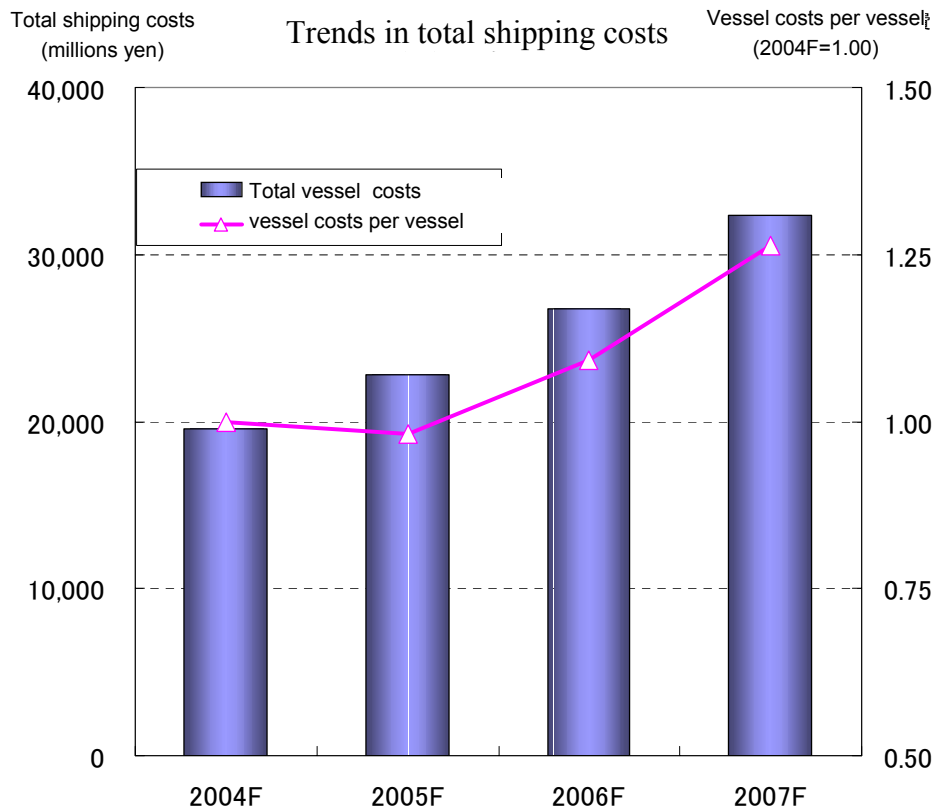
# Background of revisions to “K” LINE Vision 2008 + Dramatic changes in the business environment: negative factors



## Rising fuel-oil prices



## Rising vessel costs



Change in fuel-oil price:

Planned: 300/MT => \$407/MT



**100th-Anniversary  
Vision  
“K” LINE Vision 100**

**1919 - 2019**

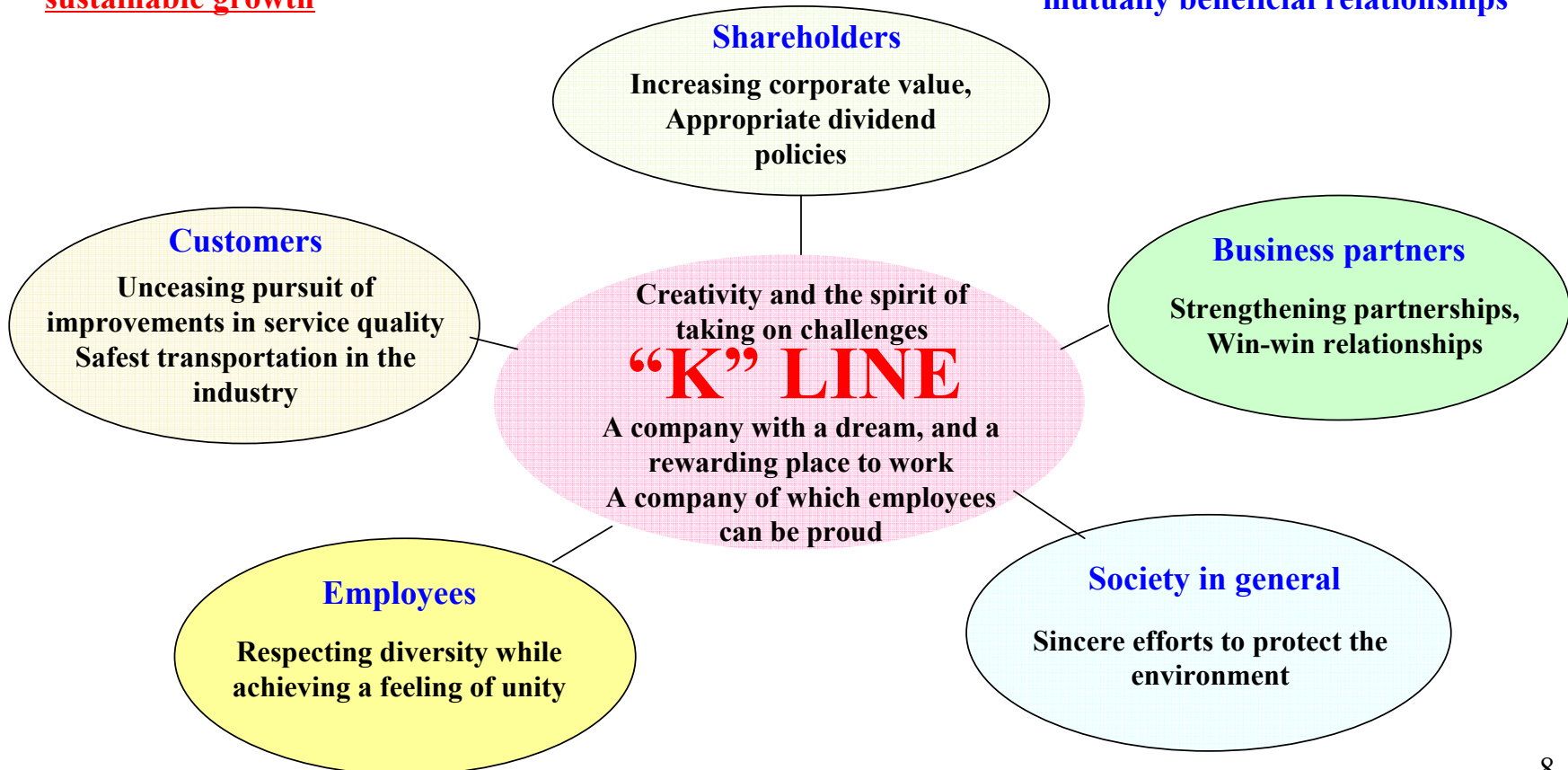
**Toward the 100th Anniversary of  
the Company's founding (2019)**

# Theme of “K” LINE Vision 100

## Theme: Synergy for all and sustainable growth

Achieving **synergy for all** stakeholders and **sustainable growth**

“Synergy for all” refers to **mutually beneficial relationships**



# “K” LINE Vision 100

## Efforts toward synergy for all and sustainable growth

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Activities to promote environmental protection



Stable and safe ship operation administration structure



Borderless Management Through the Best and Strongest Organization



Proper allocation of strategic investment and management resources



Improvement of corporate value and complete risk management

# “K” LINE Vision 100

## Efforts toward synergy for all and sustainable growth

### Activities to promote environmental protection

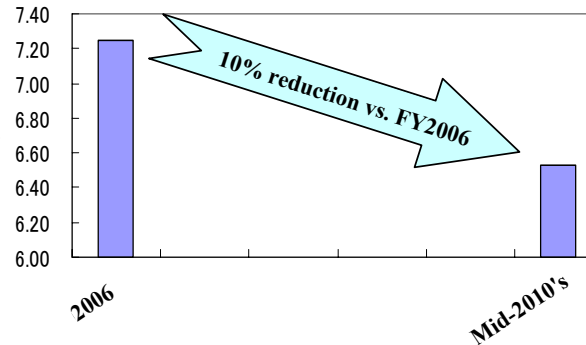
Environmental target:

Emissions of CO<sub>2</sub>, SOXs, and NOXs, halon per shipping ton-mile

**Target for mid-2010s:**

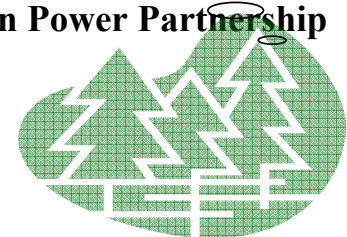
**10% reduction vs. 2006**

CO<sub>2</sub> emissions per shipping ton-mile



Other activities:

- Planting trees
- Green Power Partnership



#### Clean seas

Appropriate management of ballast water  
Use of new paints  
100% double-hulled tankers  
Protecting fuel tanks

#### Preventing global warming

Appropriate navigation speeds  
Use of energy-conservation systems  
Effective use of exhaust energy  
Use of natural energy sources

#### Clean air

Expanding use of cleaner fuels  
Expanding use of exhaust processing equipment  
Expanding installation of electronically controlled engines  
Use of land-based power sources  
Adoption of hybrid cargo-handling equipment

**Environmental Team upgraded to Environmental Management Division on July 1:**

**Making every effort toward improving the earth's environment**

# “K” LINE Vision 100

## Efforts toward synergy for all and sustainable growth



### Stable and safe ship operation administration structure



### **[Borderless Management Through the Best and Strongest Organization]**

- **Accelerating borderless management through the spread of the "K" Line Standards**
- **Strengthening overall abilities by bringing together Group knowledge and expertise**
- **Dramatic improvements in worker productivity**
- **A bright, vibrant workplace**
- **Industry-leading competitive strength**

# “K” LINE Vision 100



## Efforts toward synergy for all and sustainable growth

### Proper allocation of strategic investment and management resources

Toward a fleet size of approximately 900 vessels in FY 2019: investing approximately 1.18 trillion yen on 180 vessels over the period 2008 - 2011

(Unit : vessels)

| Vsssel type  | End of FY2007 | Fleet improvement plans |           |           |           |                | End of FY2011          | Mid-2010's             | End of 2019 (100th anniv.) |
|--------------|---------------|-------------------------|-----------|-----------|-----------|----------------|------------------------|------------------------|----------------------------|
|              |               | FY2008                  | FY2009    | FY2010    | FY2011    | Four-year plan |                        |                        |                            |
| Container    | 99            | 4                       | 15        | 15        | 9         | 43             | Approx. 750-ship fleet | Approx. 900-ship fleet |                            |
| Dry Bulker   | 169           | 13                      | 16        | 16        | 20        | 65             |                        |                        |                            |
| Car Carrier  | 102           | 4                       | 10        | 8         | 5         | 27             |                        |                        |                            |
| LNG          | 34            | 14                      | 1         | 0         | 0         | 15             |                        |                        |                            |
| Oil Tanker   | 28            | 4                       | 5         | 0         | 4         | 13             |                        |                        |                            |
| Heavy Lift   | 15            | 3                       | 1         | 3         | 0         | 7              |                        |                        |                            |
| Offshore     | 0             | 0                       | 0         | 3         | 3         | 6              |                        |                        |                            |
| Other        | 52            | 2                       | 0         | 1         | 1         | 4              |                        |                        |                            |
| <b>Total</b> | <b>499</b>    | <b>44</b>               | <b>48</b> | <b>46</b> | <b>42</b> | <b>180</b>     |                        |                        |                            |

- Establishing a stable profitability structure in existing businesses:
  - Aggressive investment toward strengthening foundations in container, car carrier, and bulk sectors
  - Energy transportation sector: strengthening profitability through efforts focused on new shipping demand
- Growing new businesses into profitable ones
  - Heavy lift: building the top state-of-the-art fleet in the industry
  - Offshore business: assigning the latest offshore support vessels to the North Sea and expanding size and target waters of this business
- Advancing investment based on internal financial rules

# “K” LINE Vision 100

## Efforts toward synergy for all and sustainable growth



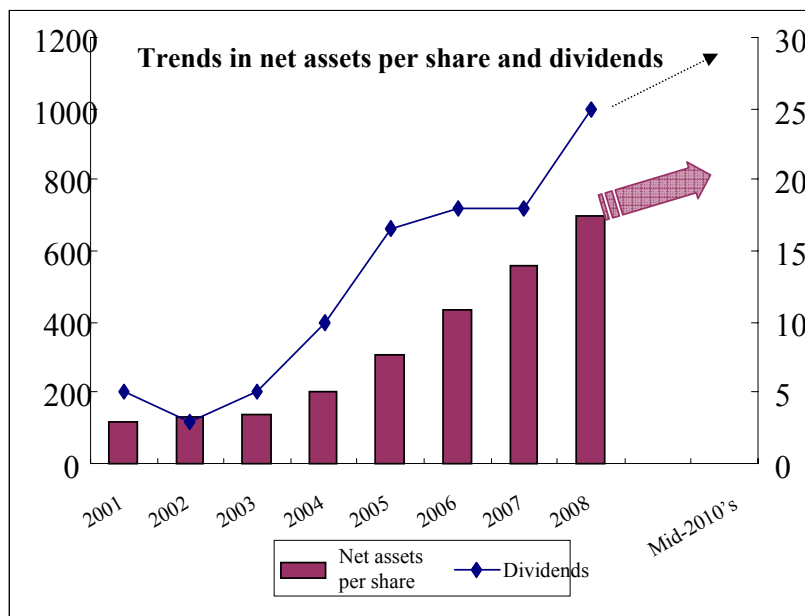
### Improvement of corporate value and complete risk management

#### Dividend policy:

- Allocation to capital investment, etc.
- Enhancing corporate quality => retention of funds
- Maximizing returns to shareholders



Payout ratio: aiming at a ratio of 25% in 2011 with a goal of 30% for the mid-2010s, and gradually increasing this ratio



#### Risk management

- (i) Disaster response and business continuity plans
- (ii) Responding to potential risks

#### Market risk:

Global recession due to U.S. credit crunch

Changes in market rates due to changes in demand-supply relationship

#### Inflation risk:

Rising ship costs, charter costs, ship-management costs, and fuel-oil prices

#### Exchange-rate risk:

Effects of exchange rates (falling value of the dollar) on revenues and expenditures

#### HR risk:

Shortages of experienced personnel and seafarer

#### Risk of hostile takeover:

Risk of hostile takeover due to falling stock prices

#### Safety/environmental risks:

Risks of oil spills and marine pollution

#### Disaster risk:

Large-scale earthquakes, new strains of influenza

# “K” LINE Vision 100

## - Business Strategies -

**Business strategies for the coming  
four years in preparation for the  
100th Anniversary (2019)**

# “K” LINE Vision 100



## Mid- to long-term (2010s) forecasts for management environment

### Global macroeconomic environment

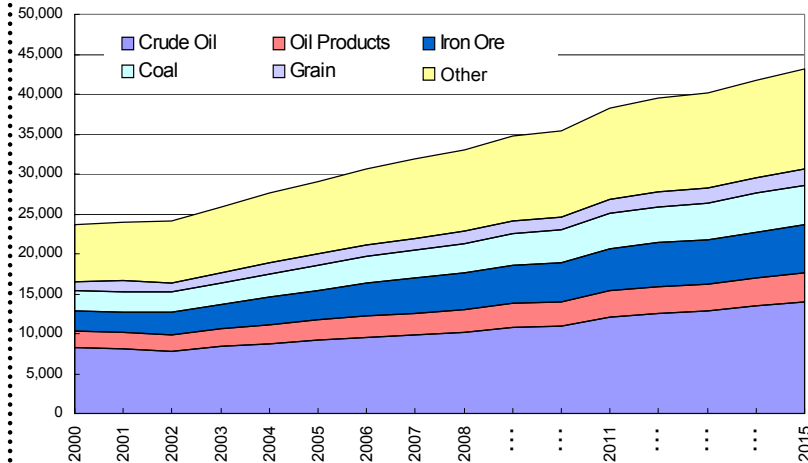
- Multipolarization of economy (BRICs and VISTA), rapid growth in India
- Continued growth in consumption due to population growth and living-standard improvements
- Continued high resource demand (in particular for coal)
- Diversification of targets for investment of abundant surplus capital worldwide
- Growth of environmental businesses

### Trends in marine transportation

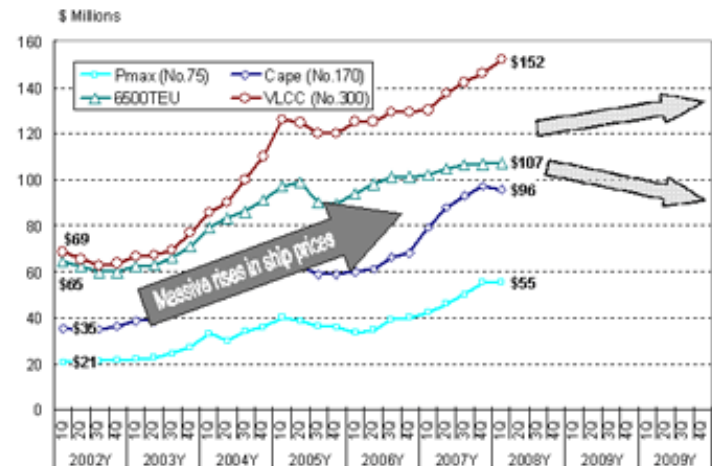
- Diversification of seaborne trade and continued increase in ton-miles
- Trend toward slower pace of vessel supply over the mid- to long term (due to crew shortages and rising costs such as those of shipbuilding, vessel management, and fuel oil)
- Shutout of maritime companies with inadequate safety and environmental measures

Billion ton-miles Trends in world seaborne trade volume

Source: Fearnleys



### Rising ship prices



# “K” LINE Vision 100



## Mid-term business strategies: containership business

### [Business environment]

Continued growth of the container-vessel market

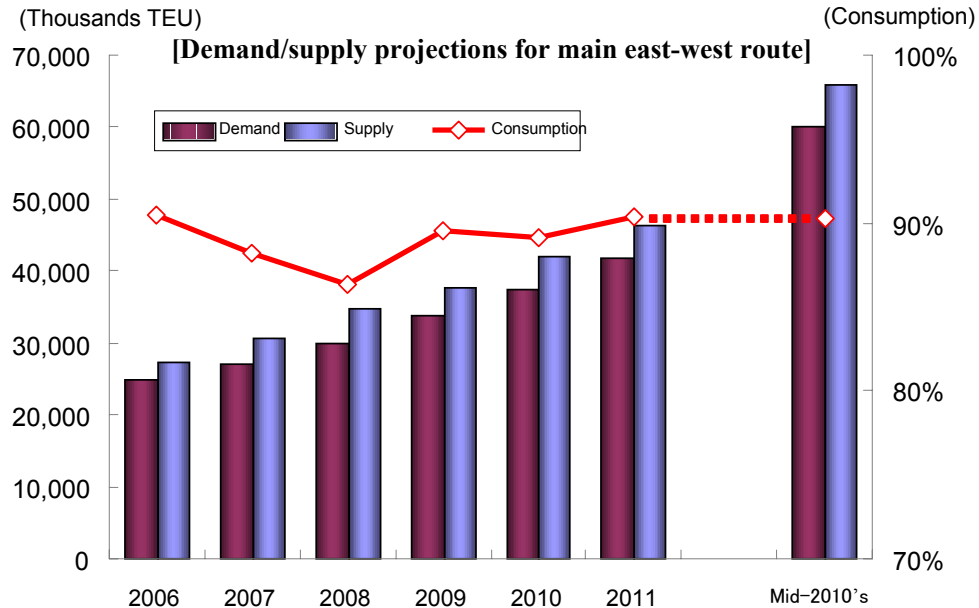
- Worldwide population growth and specialization of production
- Growing purchasing power of emerging markets and oil-producing nations

### [Business strategies]

- Responding to globalization of customer base through expansion of service network (growth of business on north-south routes and in emerging markets)
- Strengthening competitive abilities through continued fleet and terminal improvements
- Pursuit of safe operation with a focus on environmental protection

### [Container cargo movement forecasts]

| Route                   | 2007F | 2008F | 2009F | 2010F | 2011F |
|-------------------------|-------|-------|-------|-------|-------|
| Asia – N. America       | 1%    | 1%    | 7%    | 5%    | 5%    |
| Asia – Europe           | 19%   | 15%   | 15%   | 15%   | 10%   |
| East-west route average | 9%    | 8%    | 9%    | 8%    | 8%    |



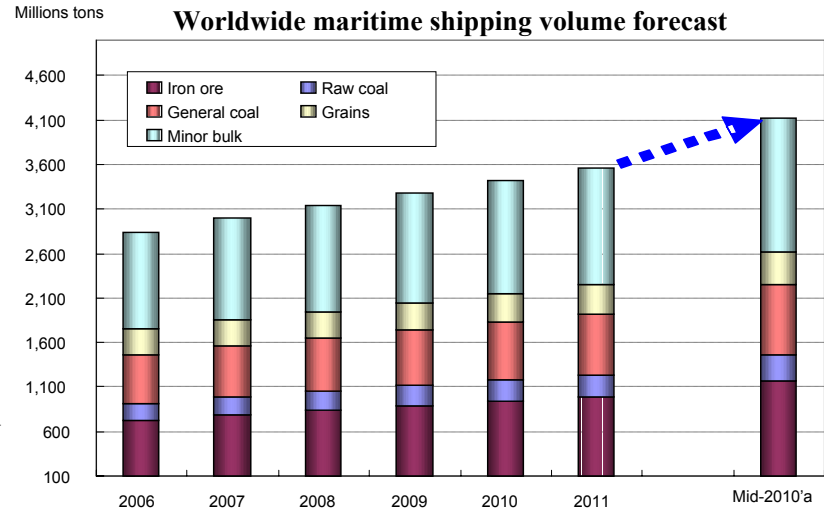
# “K” LINE Vision 100



## Mid-term business strategies: dry bulk carrier business

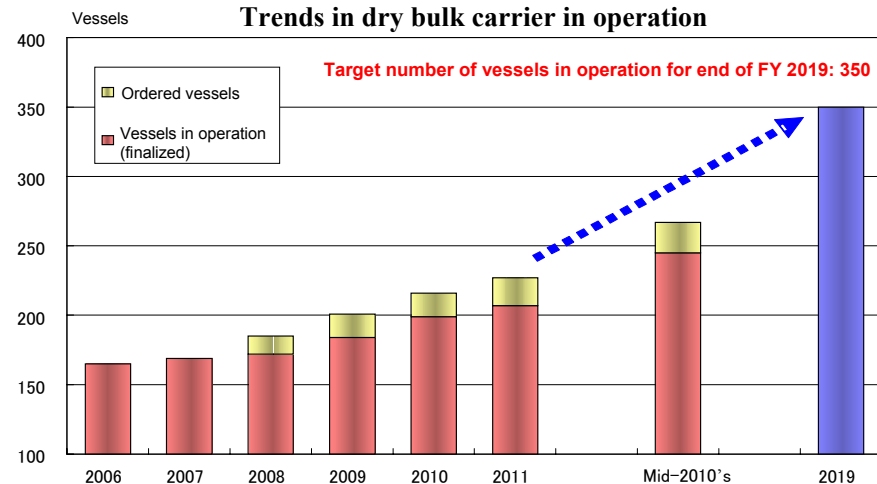
### [Business environment]

- Continued growth in dry bulk carrier demand
  - ◆ Dramatic growth in shipping of resources due to rapid economic growth in emerging markets
  - ◆ Infrastructure improvements unable to keep up with increased demand: chronic congestions
  - ◆ Use of more remote sources of resources and grains: growth in ton-miles



### [Business strategies]

- Acceleration of global business development: advancing into Asia, Europe, and the Middle East market
- Differentiation through provision of high-quality services capable of responding to diverse customer needs
- Aggressive fleet expansion

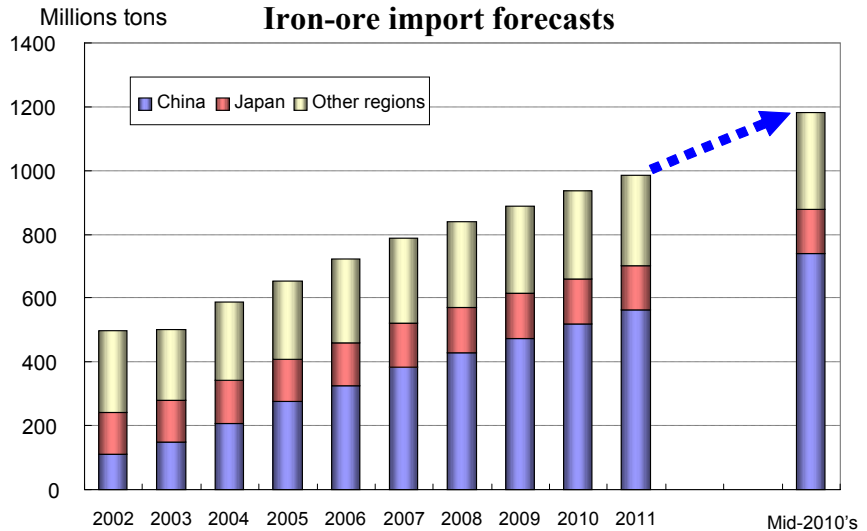


# “K” LINE Vision 100

## Mid-term business strategies: dry bulk carrier business (Coal and Iron Ore Carrier)

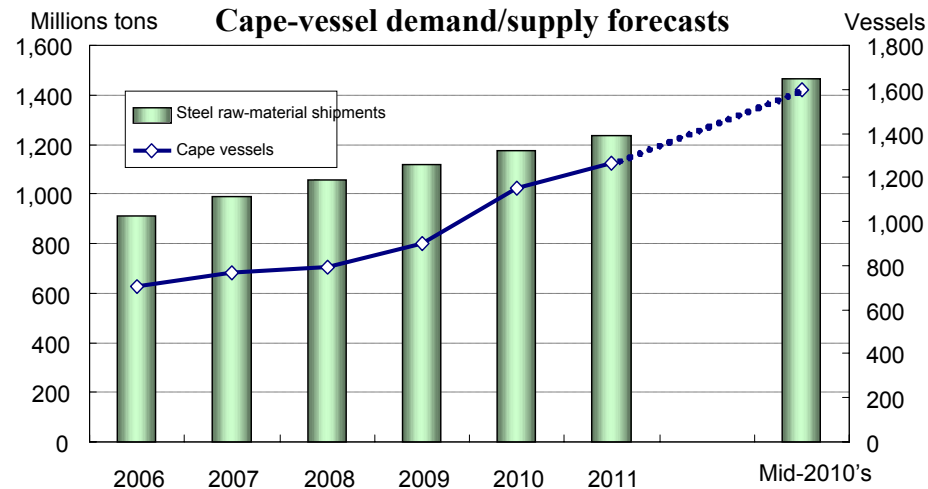
### [Business environment]

- Continued growth in global crude-steel production:
  - 2006: 1.25 billion tons (including 420 million tons in China)
  - 2007: 1.34 billion tons (including 490 million tons in China)
  - 2011: 1.6 billion tons (including 600 - 700 million tons in China)
- Increasing Chinese iron-ore imports
  - 2007: 380 million tons
  - 2011: 500 - 600 million tons
- India, Brazil, Eastern Europe, Middle East:
  - Increased demand for steel products: increased shipment of steel raw materials



### [Business strategies]

- One of the world's top operators of cape size bulkers
  - 100 vessels in operation
  - Aiming at a worldwide market share of 10% in steel raw-material shipments
- Global business development
  - Strengthening of overseas facilities in London, Singapore, Shanghai, India, South Korea, etc.
- Strengthening stable profitability structure through mid-to long-term contracts
- Increasing market-linked ratio



# “K” LINE Vision 100

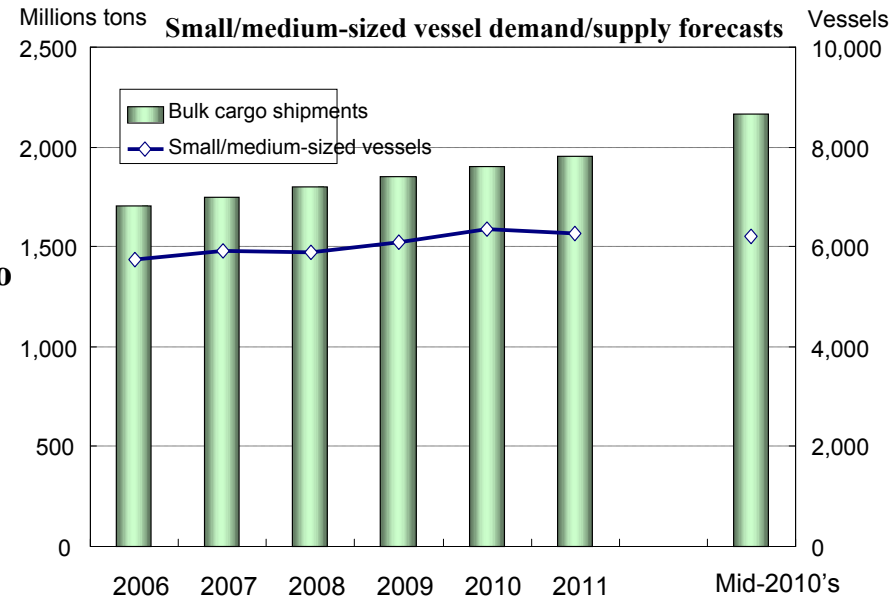
## Mid-term business strategies: dry bulk carrier business (Bulk Carrier )

### [Business environment]

- Growth of general coal imports in emerging markets
- Increase in shipments of steel products due to construction of new blast furnaces in raw-material-producing countries
- Increase in shipments of grains due to population growth and living-standard improvements
- Increase in demand for high-quality vessels due to aging of Small Handy bulkers

### [Business strategies]

- Provision of high-quality services through state-of-the-art fleet improvements
- Advancing business into Atlantic waters and expanding in Asia
- Growth of ratio of mid- and long-term contracts
- Growth in cross trade of steel products and half-finished products



(Cargo movements: Thermal coal, grains, minor bulk)

\* Panamax and Handymax are expected to be dismantled after 27 tonnage years, and Small Handy is expected to be dismantled after 30 tonnage years.

# K" LINE Vision 100

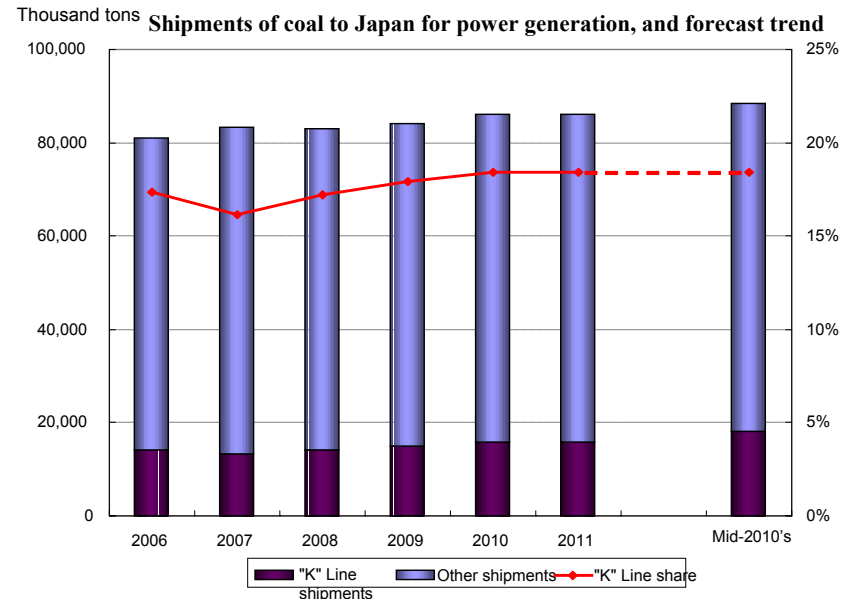
Mid-term business strategies: dry bulk carrier business (Thermal Coal , woodchip and Pulp Carrier)

## [Business environment]

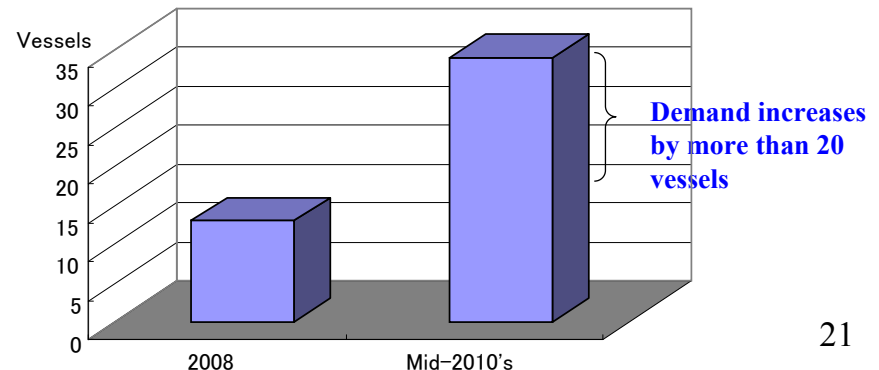
- Size of thermal coal market in Japan: 75 - 85 million tons
- Growth in thermal coal shipments on a global scale
- Growth in demand for woodchip carriers for China
- Growth in new lightweight-cargo shipments such as soy cake in the Atlantic

## [Business strategies]

- Expansion of one of the world's largest post-Panamax free fleets, centered on Corona-type vessels
- As part of the coal supply chain, developing a ship management structure directly linked to safe operation, and expanding the competitive high-quality fleet
- Expansion of shipment volume to domestic power companies and advancing into shipments of thermal coal to Asia and Europe
- Overseas expansion focused on woodchip shipments on cross trades
- Obtaining new lightweight cargo business using woodchip vessels



Overseas chip vessel/COA demand forecasts



# “K” LINE Vision 100



## Mid-term business strategies: Car Carrier

### [Business environment]

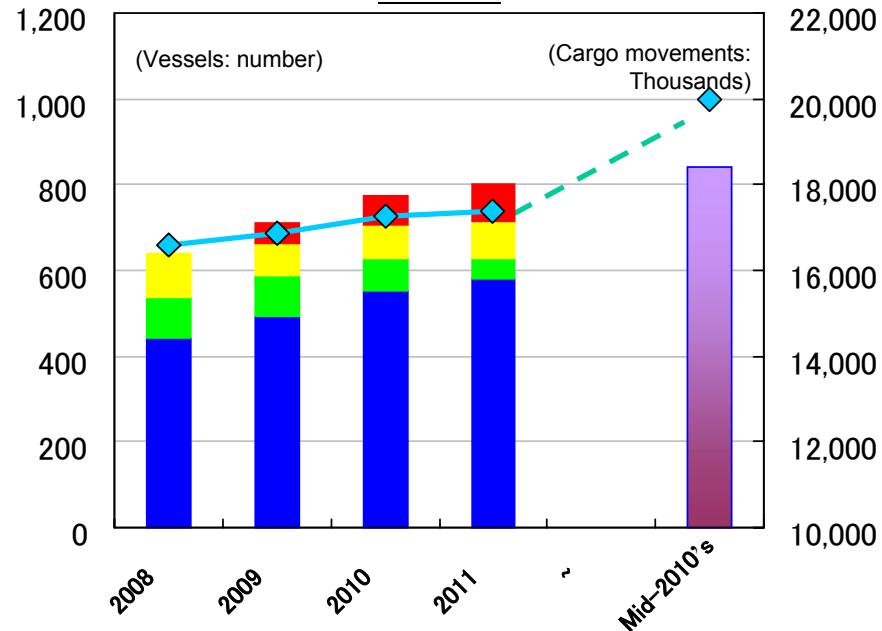
- Continuous growth in global auto-sales market
  - 2008: 70 million vehicles
  - 2011: 81 million vehicles
  - Mid-2010’s: approx. 90 million vehicles
  
- Continuous growth in global shipments
  - 2008: 16.6 million vehicles
  - 2011: 17.4 million vehicles
  - Mid-2010’s: approx. 20 million vehicles

### [Business strategies]

World-leading service quality and improvements to and expansion of route network

1. Reexamining safety- and quality-management rules, and providing high-quality products that can earn customers’ trust
2. Advancing environmental-protection efforts together with customers
3. Fleet and service-network improvements in response to growing demand
4. Aggressive and flexible responses to new customer needs in emerging markets and elsewhere

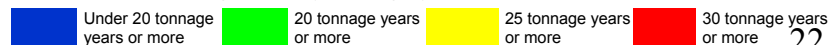
**Worldwide vessels and cargo movements forecasts**



| Number forecast                               | Total | 2008 | 2009 | 2010 | 2011 | Mid-2010's    |
|---|-------|------|------|------|------|---------------|
| Total   |       | 638  | 711  | 772  | 803  | 840 (vessels) |
| Excluding vessels of 30 tonnage years or more |       | 638  | 664  | 706  | 713  | (vessels)     |

1. The number of vessels is a simple sum of the vessel numbers of each car carrier operated in the market.

2. Vessels (left axis): Categorized by tonnage years



3. Cargo movements (right axis): Polygonal curve

### [Business environment]

- ◆ Continued growth in demand for shipment of energy resources
- ◆ Removal of single-hull tankers in stages
- ◆ Increased demand for petroleum and chemical products transportation and diversifying trade
- ◆ High demand for shift to clean energy, to protect the environment
- ◆ Increased demand for deep-sea oil and gas field development
- ◆ Increased demand for energy-storage facilities

### [Business strategies]

- ◆ Positioning safe transportation as the greatest brand strength
- ◆ Business concept: stable revenues over the long term
- ◆ Expansion of business domains
  - Development and promotion of the following businesses to expand business domains from LNG and crude-oil shipment and to increase revenue opportunities and synergy effects:
    - CNG, chemicals
    - Offshore support vessels, drilling ships, FPSO, FSRU/SRV,
- ◆ Organizational enhancement
  - Establishing the Energy Transportation Business Development Group in July 2008 to improve results and increase speed of strategic businesses and business expansion in fields such as CNG and chemicals

# “K” LINE Vision 100

## Mid-term business strategies: energy transportation and tanker business (LNG Carrier)

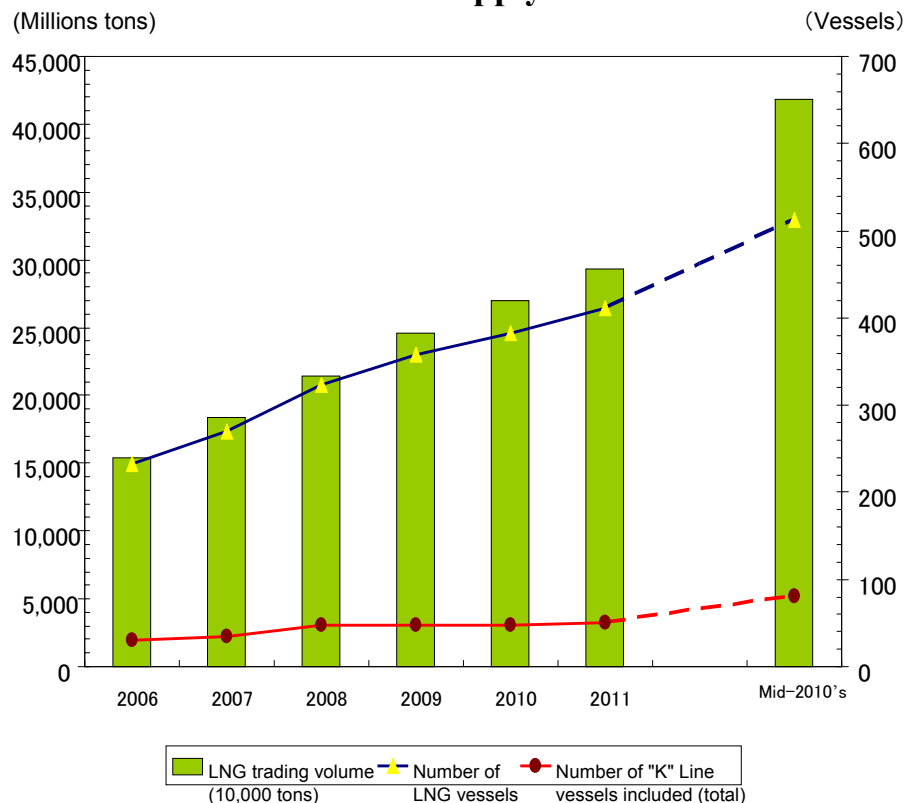
### [Business environment]

- Continued growth in LNG demand worldwide
- Delay of implementation of LNG projects
- Rising LNG price, price differential among regions
- Increase in spot cargo and short- to mid-term chartering
- Globalization of LNG transactions

### [Business strategies]

- Securing long-term stable profitability with expansion of ships owned and managed
- Establishment and strengthening of a global business structure (sales and ship management)
- Aggressive efforts in the areas of gas-field development and upstream/downstream businesses, such as CNG vessels

### LNG demand/supply forecasts



Source:  
LNG demand and the number of vessels: Poten & Partners and “K” LINE forecasts

# “K” LINE Vision 100

## Mid-term business strategies: energy transportation and tanker business (oil tanker segment)

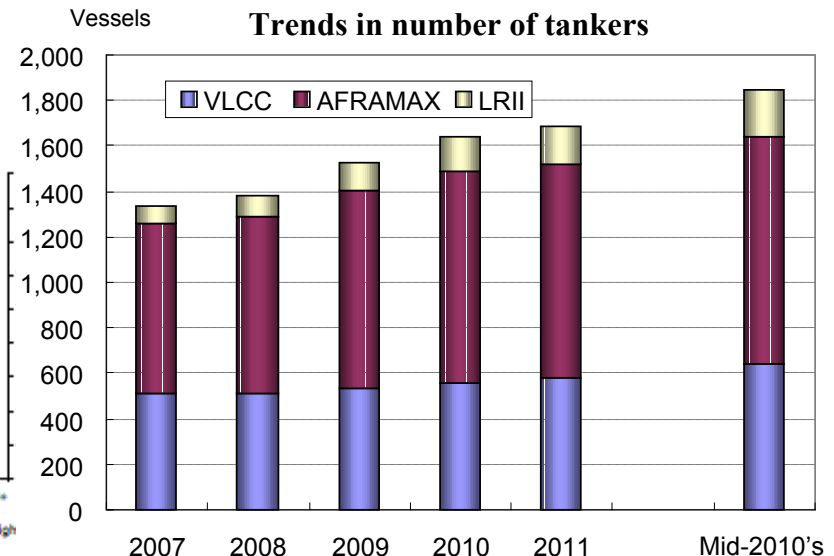
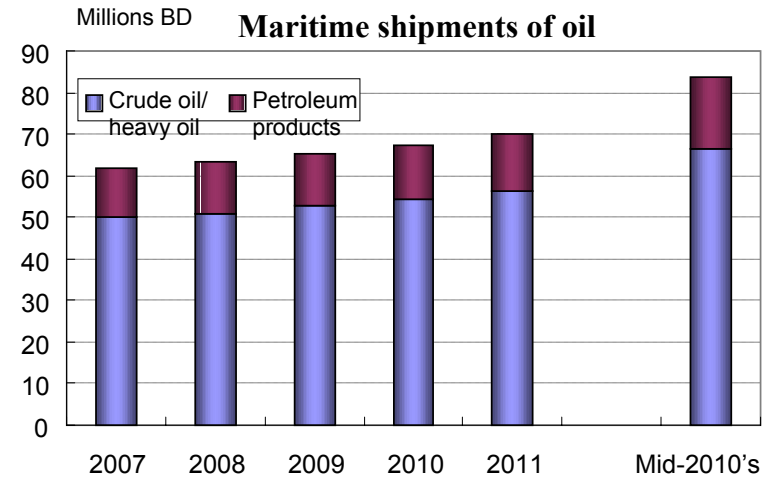
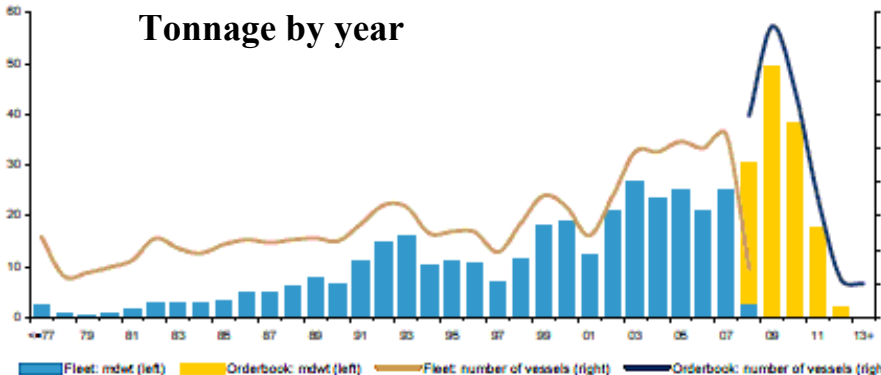
### [Business environment]

- Continued growth in oil demand
- Increased needs for high-quality services focused on safety and the environment
- Risk of excess vessel supply < booming trend in demand over the medium term

### [Business strategies]

- VLCC: Efforts directed at overseas customers (major oil companies, etc.)
- AFRAMAX: Further strengthening of existing presence
- Product tankers: Globalization of service areas
- LPG vessels: Expansion into transportation of liquid gases in general (not including LNG) in addition to LPG
- Chemical tankers: Expansion into new businesses anticipating growth in demand

Tanker fleet age profile



# “K” LINE Vision 100

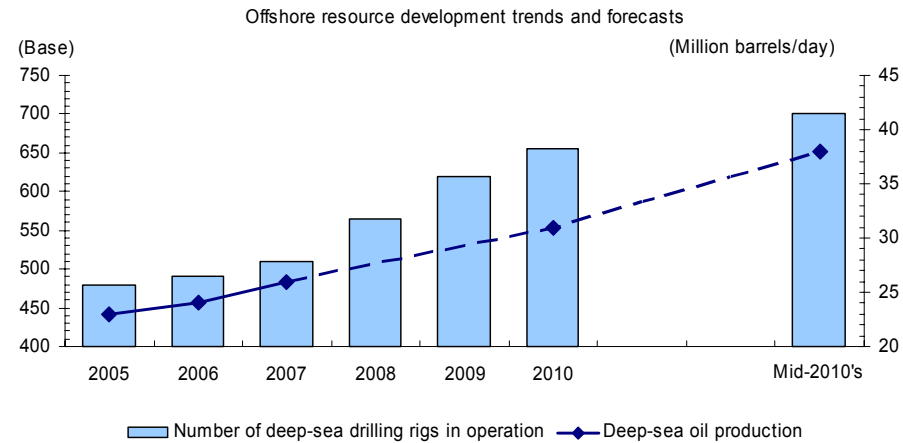
## Mid-term business strategies: energy transportation and tanker business (offshore vessel segment)

### [Business environment]

- Enlivening offshore resource development
- Expansion of marine resource development to deepwater and far-offshore areas
- Demand for environmentally-sensitive vessel specifications
- Promotion of demand for replacement of aged vessels

### [Business strategies]

- Introducing the latest large vessels to the North Sea
- Establishing a foundation for the Company's brand
- Expanding fleet size and waters when service is provided
- Supported by high quality ship operation and management services



Source: OSC/Platou and “K” LINE forecasts

# “K” LINE Vision 100

## Mid-term business strategies: heavy lift business

### [Business environment]

- Continued strong demand for construction of petrochemical plants in oil-producing nations, backed by abundant oil money
- Growing demand for construction of new nuclear power plants as one means of fighting global warming
- Concerns about market softening due to completion of a large number of heavy-cargo ships in 2010 and later

However, firm demand for shipment of very heavy cargo will continue

### [Business strategies]

- Improving our state-of-the-art heavy cargo ship fleet, being in the world’s top class
- Pursuing synergies with K Line Offshore AS, utilizing offshore vessels



#### New vessels:

20-knot speed, with environmental protection equipment

- Model 176: four vessels with lift capacity of 1400 tons (Feb./April/Oct. 2008 and Jan. 2009)
- Model 179: four vessels with lift capacity of 2000 tons (April/June/Oct./Dec. 2010)  
Offshore specifications

# “K” LINE Vision 100

## Mid-term business strategies: logistics business

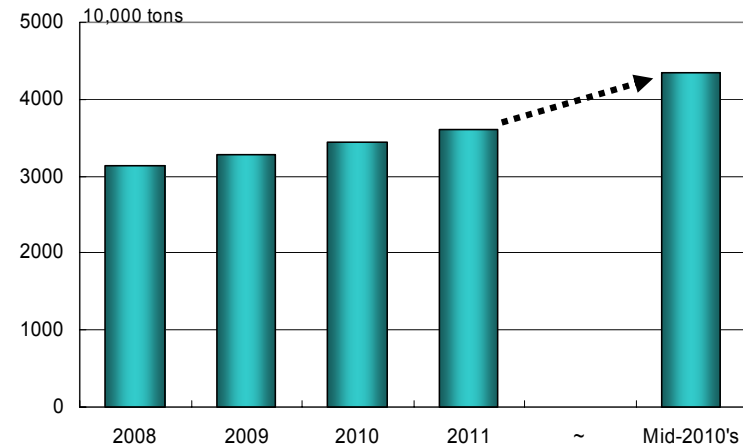
### [Business environment]

- Continued steady growth of logistics business worldwide
- Acceleration of consolidation
- Intensification of competition among logistics firms, including integrators
- Dramatic changes in logistics needs in areas such as SCM
- Increased expectations and demands for environmental efforts in the logistics business

### [Business strategies]

- Project development anticipating logistics needs
- Global partnerships with customers
- Providing locally oriented services
- Shifting to a logistics group powered by “K” Line Logistics
- Increasing the speed of strengthening the business infrastructure, through business and capital tie-ups

Worldwide air cargo shipment demand forecast



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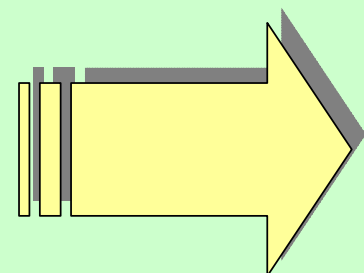
## **Seeds of new businesses, directed toward the mid-2010's and our 100th Anniversary**

- **Compressed natural gas (CNG) carrier**
- **Upstream/downstream energy-related businesses**
- **Environmental businesses (exhaust control, research into next-generation vessel propulsion systems, etc.)**
- **Ship repair business**

# “K” LINE Vision 100: numerical targets

## Performance/financial targets

(Unit: billion yen)

|  | FY2007  | FY2008  | FY2009  | FY2010  | FY2011          |
|--|---------|---------|---|---------|-----------------|
| Operating revenues                     | 1,331.0 | 1,340.0 | 1,450.0   | 1,600.0 | 1,750.0         |
| Ordinary income                        | 125.9   | 121.0   | 135.0   | 145.0   | 160.0           |
| Net income                             | 83.0    | 78.0    | 85.0  | 95.0    | 105.0           |
| ROA                                    | 13%     | 12%     |  |         | 10% or higher   |
| Shareholder's equity                   | 355.8   | 426.0   |   |         | 680.0 or higher |
| Equity ratio                           | 37%     | 37%     |   |         | 40% or higher   |
| DER                                    | 93%     | 100%    |   |         | 85% or lower    |
| Interest-bearing debt/<br>operating CF | 2.3     | 4.2     |   |         | 3.5 or lower    |
| Payout ratio                           | 20%     | 22%     |   |         | 25%             |

Mid- 2010's: sales of 2.2 trillion yen

100th-Anniversary Vision: sales of approx. 3 trillion yen

# “K” LINE Vision 100: numerical targets

## Assumptions of this plan

|                          | FY2007<br>(actual) | FY2008<br>(planned)                   | FY2009<br>(planned) | FY2010<br>(planned) | FY2011<br>(planned) |
|--------------------------|--------------------|---------------------------------------|---------------------|---------------------|---------------------|
| Baltic Dry Index         | 7770               | 6900                                  | 5500                | 4100                | 3500                |
| CAPE (US\$/day)          | 125,000            | 100,000                               | 80,000              | 60,000              | 50,000              |
| PMAX (US\$/day)          | 60,000             | 60,000                                | 50,000              | 30,000              | 25,000              |
| HMAX (US\$/day)          | 48,000             | 50,000                                | 40,000              | 25,000              | 25,000              |
| VLCC (WS)                | 95                 | 100                                   | 100                 | 100                 | 110                 |
| Exchange rate (YEN/US\$) | 115                | 100                                   |                     |                     |                     |
| Bunker rate (US\$/MT)    | 407                | 520 (Oil price: US\$100/bbl at Dubai) |                     |                     |                     |

## Sensitivity on profit and loss (FY 2008)

|                            |               |   |   |
|----------------------------|---------------|---|---|
| Change in exchange rate :  | 1 yen/US \$   | ⇒ | profit/loss change in approx. 1.4 billion yen |
| Change in bunker price :   | US\$10/MT     | ⇒ | profit/loss change in approx. 2.6 billion yen |
| Market (dry bulk) change : | US\$1,000/day | ⇒ | profit/loss change in approx. 1.7 billion yen |