

Review of Medium-term Management Plan

 Value for our Next Century
- Action for Future -



A

Review of Medium-term Management Plan

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- ▶ A-1 : New Plan: Business Environment: Changes and Key Themes
- ▶ A-2 : New Plan: Business structural reform ,Business Scale, Investment Plan
- ▶ A-3 : New Plan: Projection for FY2019, Step and Approach to improve ROE


B

Dialogues and collaboration with stakeholders

(in order to achieve sustainable growth and enhance corporate value)



A-1 New Plan: Business Environment: Changes and Key Themes

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Changes in Operating Environment

Economic outlook grows murkier

China

- ▶ Necessity of adjustment of excessive investment
- ▶ Recession through transition to a new normal

Emerging markets (EMs)

- ▶ Economies stall as commodity prices fall; worries about recovery speed

Developed markets (DMs)

- ▶ Worsened business condition in EU and other countries arising from politics and economical issue like as difference of financial policy.

Various risks

- ▶ Geopolitical risks, Economic impacts of political risks

A scenario where slower growth of economic translates into low growth of demand for logistics in the medium term emerges

Pressure from oversupply of tonnage Persist for a while longer

Changes in Marine Transport and Logistics Businesses

Structural changes in operating environment

- ◆ Delay in closing supply-demand gap
- ◆ Volatility with low freight rates is continuously kept for a while

Changes to our management plan will

- ▶ Revise policy for distribution of management resources
- ▶ Ensure Group competitiveness

(In particular, the plan features countermeasures for the dry bulk and containership businesses, where volatility has increased sharply)

Our Group's Response

Sharp rise in volatility

- ▶ Dry bulk – Carry out restructuring
 - Capesize: Freezing fleet expansion plan, secure greater competitiveness via cost reforms
 - Panamax etc.: Shrink exposure = reduce fleet size
- ▶ Containerships – Ensure competitiveness via business policy continuity
 - Accepted delivery of ten large containerships (FY2018) = ensures competitiveness
 - Manage business scale with focus on east-west routes

Expand businesses with stable earnings based on plan

- ▶ Car Carrier/LNG Carrier/Oil Tanker/ Dry Bulk based on Middle and long term contracts /Logistics
 - Continue existing measures to ensure stable earnings

Measures to combat deterioration in operating environment

- ▶ Heavy lifter vessels: implement fundamental reforms at this business
- ▶ Offshore: continue initiatives to stabilize this business

Important themes for the new management plan

2nd step


Further business growth based on financial soundness

1st step

Ensure **stability** by improving financial strength and **competitiveness** through business structural reform

A-2 New Plan:

Business structural reform, Business Scale, Investment Plan

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Business structural reform

Business structural reform costs to ensure competitiveness to total ¥69.0 bln in FY2015 (¥34.0 bln) and FY2016 (¥35.0 bln)

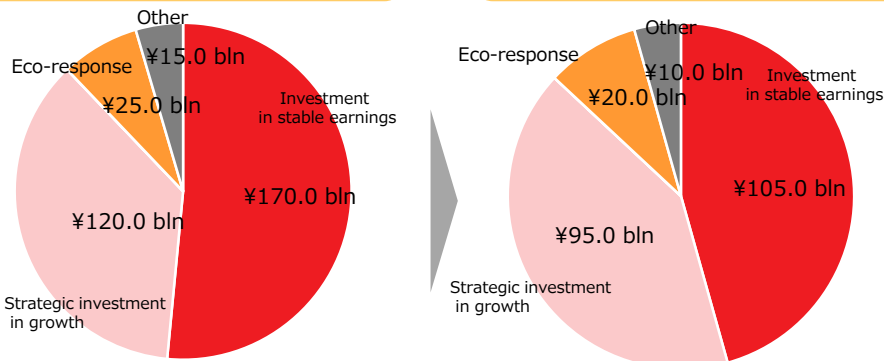
- ▶ Specific measures
 - Reforming fleet of bulk(middle and small size) & Cape size vessels (FY2015 and FY2016)
 - Structural reform at affiliates (FY2016)
- ▶ Earnings boost
 - Earnings boost of ¥10.0 bln in FY2016
 - Earnings boost of ¥13.5 bln in FY2017

(Unit: billion yen)	Reform costs	Earnings boost	
		FY2016	FY2017
FY2015-FY2016 Reform effects	69.0	10.0	13.5

Investment plan

FY2015-FY2019 budget of **¥330.0 bln** (old plan)

FY2015-FY2019 budget of **¥230.0 bln** (new plan)



Changing investment plan totally ¥230.0 bln for 5 years based on revised policy for distribution of management resources

- Budget in original plan: ¥330.0 bln (of which, ¥120.0 bln is strategic investment for expansion)
- Budget in revised plan: ¥230.0 bln (of which, ¥95.0 bln is strategic investment for expansion)

Plan for Fleet Rationalization

(Number of vessels in fleet)	FY2014 results	FY2015 results	FY2019 target (original plan)	FY2019 target (new plan)	Difference (original vs. new at end-FY2019)
Containerships	70	63	61	59	▲ 2
Dry bulk carriers	218	212	239	196	▲ 43
Capesize	85	79	100	81	▲ 19
Panamax	46	45	48	39	▲ 9
Thermal coal carrier	23	24	27	31	4
Others	64	64	64	45	▲ 19
Car carriers	96	102	98	96	▲ 2
Tankers	25	23	24	27	3
LNG carriers	43	41	61	57	▲ 4
Offshore E&P & heavy lifter vessels	24	23	26	24	▲ 2
Other	50	51	55	55	0
Total	526	515	564	514	▲ 50

Total vessels in fleet at end-FY2019 : 564 in original plan -> 514 in new plan

- ▶ Dry bulk vessels at end-FY2019: 239 in original plan > 196 in new plan
 - Capesize: Cancel in new build, keep fleet at current size and improve competitiveness
 - Panamax etc.: Adjustment of fleet size to reduce exposures
- ▶ Containerships at end-FY2019: 61 in original plan > 59 in new plan
 - Optimize scale on receipt of ten 14,000-TEU vessels by FY2018, dispose of smaller vessels
- ▶ Others
 - LNG carriers: Keep expanding fleet with a profitability focus in concert with project progress
 - Car carriers: Greater competitiveness on receipt of 15 new 7,500-unit car carriers
 - Tankers: Expand stable earnings sources based on medium- to long-term contracts

A-3 New Plan:

Projection for FY2019, Measure to improving ROE

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	FY2015 results	FY2016 forecast	FY2019 target (new plan)	Post-FY2020 targets	FY2019 targets (original plan)
Operating revenue (¥ bln)	1,243.9	1,100.0	1,200.0		1,500.0
Ordinary income (¥ bln)	3.3	15.0	45.0		85.0
Net income attributable to owners of parent(¥ bln)	▲51.5	▲35.0	33.0		over 60.0
EBITDA (¥ bln)	24.7	33.0	93.0		150.0
ROE	▲13%	▲11%	8%	Over 10%	Over 10%
Equity capital (¥ bln)	355.4	320.0	400.0	500.0	600.0
Equity ratio	32%	31%	36%	40%	40%
Interest-bearing liabilities(¥ bln)	525.2	520.0	480.0	480.0	480.0
DER	148%	163%	120%		80%
NET DER	80%	113%			55%
Cash flows from operating activities (¥ bln)	39.6	0	90.0		120.0
Cash flows from investing activities (¥ bln)	▲29.6	▲27.0	▲50.0		▲80.0
Exchange rate	¥ 120.78	¥ 110.00	¥ 110.00		¥ 110.00
Bunker oil price (Per MT)	\$ 295	\$ 275	\$ 370		\$ 500

► Initiatives for Improving ROE

- In view of structural changes to the operating environment, we are moving back our target for 10% ROE attainment to FY2020 at the earliest

ROE 10% = ROA (based on ordinary income) of over 6% X 2.5X target financial leverage
(target after FY2020)

- Revised policy for distribution of management resources
- Structural reform benefits: FY2016 +¥10.0 bln, FY2017 +¥13.5 bln
- Cost savings, earnings boost: FY2016 +¥18.8 bln
- Improved efficiency from paring unnecessary assets across Group

Given awareness of business volatility, we aim for:

- Shareholders' equity of ¥500.0 bln
- Equity ratio of 40%
- Interest-bearing liabilities of ¥480.0 bln

► Policy on Dividends

- Stable dividends will continue to be an ongoing plan
- FY2016 – not decided

With restructuring costs for restructuring slated for FY2015-FY2016 to be recorded, our highest priorities are ensuring competitiveness and bolstering our finances, while keeping a close eye on future operating environment trends. As a result, we have not yet decided on a FY2016 dividend plan.

※ROA(based on ordinary income)6% : it is same as ROA 4%(Net income base) after corporate tax payment) X leverage 2.5 = ROE 10%

Dialogue and collaboration with stakeholders (in order to achieve sustainable growth and enhance corporate value



Improve and Strengthen Corporate Governance structure

Strengthen corporate governance in order to achieve sustainable growth and enhance corporate value

- ▶ Aim to strengthen the Group corporate governance and advance business excursion that adheres to our principles and vision

Strengthen supervisory functions of the Board of Directors

- We established a nominating advisory committee and a compensation advisory committee, both chaired by outside director, as advisory bodies to the Board of Directors in December 2015
- Number of outside directors : 2 ⇒ 3 (scheduled to be adding one person),
Strengthen supervisory functions of the Board of Directors in June 2016

Strengthen our system of execution of operation

- Formalized processes for deliberation at Management Conferences: We formalized deliberative processes so as to enable speedier decision-making by the president & CEO at Management Conferences, which as a general rule are held at least once a week.
- Introduced a business unit system: We clarified and strengthened the operational responsibilities of directors and executive officers across multiple businesses and functions where multiple directors and executive officers had been in control under the previous system which put them in charge of relevant businesses or functions.

Group's Basic CSR Policy: Manage the Impacts of Business Activities, Create New Values

Focusing on dialogues and collaboration with stakeholders by proactive information disclosure

Safety in Navigation
And Cargo Operation

**Maintaining the world-leading
safe operation**

- ▶ FY2015 progress
 - Kept at zero our serious maritime accidents
 - Adopted a new system to manage accident information, and launched statistical analysis of accidents using this data

Environmental
Preservation

**"K"Line Environmental Vision 2050:
"Securing Blue Seas for Tomorrow"**

- ▶ FY2015 progress
 - Took delivery of next-generation eco-friendly flagship "DRIVE GREEN HIGHWAY" car carrier
 - Founded "K"Line Group Environmental Award
 - Sought to identify the Group's environmental impacts and promote initiatives to make them visible via our environmental data collection system "Eco Track"

Human Resource
Development

**Further cultivating an open and
innovative corporate culture, in which
both the organization and individuals
keep improving**

- ▶ FY2015 progress
 - Promoted projects to reassess working styles with a focus on improving productivity

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