

Management Plan

28th April 2017



Management Policy:

- C-1 : Review: Business environmental Changes
- C-2 : Review: Business Assessment
- C-3 : Strengths: Analysis based on Historical Perspective
- C-4 : Corporate Principles and Vision
- C-5 : Business Environment for Shipping and Logistics, Future Policy

Medium-term Management Plan (FY2017-FY2019)

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C-1 Management Plan

Review: Business environmental Changes

Up to 2008

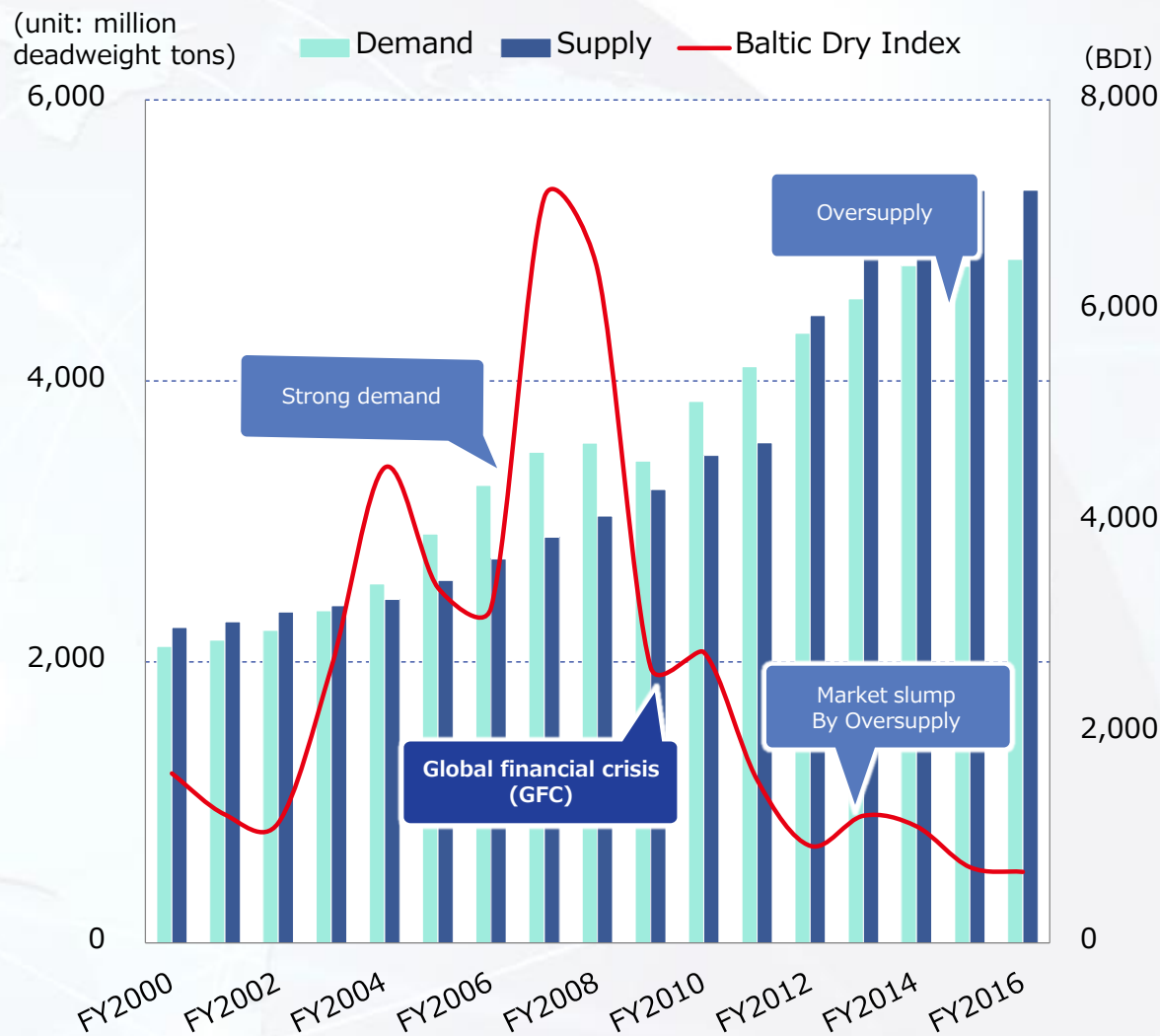
- Rapid growth in China & other EM
- Rates surge on strong growth in marine transport demand
- Speculative money flows into shipping industry

**Global Financial Crisis(GFC)
(Leman Shock)**




Since 2009

- Slow down in Global economic growth & trade and global economy becomes uncertain
- Oversupply of new-buildings ordered before GFC
- Prolonged slump in freight market by supply-demand gap

Dry Bulk Vessel Supply-Demand and Market Trend



Stable business developed; need to take steps based on emerging risks in market-sensitive businesses and issues in new business expansion

Stable business	Market-sensitive business	New business
<div style="text-align: center;"></div> <ul style="list-style-type: none"> ■ Differentiate based on high service quality ■ Secure stable business <p style="text-align: center;">Ordinary income from stable business</p> <p>▶ FY2016 ¥25.0 billion</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Target</p> <p>Dry bulk carriers, oil tankers, LNG carriers with medium-and-long term contracts; stable expansion of car carriers, short sea and coastal vessels, and logistics businesses</p> </div>	<div style="text-align: center;"></div> <ul style="list-style-type: none"> ■ Emerging risk of overinvestment ■ Shareholders' equity erosion <p style="text-align: center;">Response and Countermeasures</p> <ul style="list-style-type: none"> ▶ Containership business <ul style="list-style-type: none"> ▸ Three major Japanese carriers to integrate containership businesses ▸ Impairment Loss & Loss allowances ▶ Dry bulk business (mid/small-sized) <ul style="list-style-type: none"> ▸ Executed structural reform 35 vessels (FY2015-FY2016) <div style="border: 1px dashed red; padding: 5px; margin-top: 10px;"> <p>Target</p> <p>Containerships (sensitive to rate volatility), vessels without contracts and Dry bulk carriers (mainly small and mid-sized vessels), some Oil tankers (product tankers, etc.)</p> </div>	<div style="text-align: center;"></div> <ul style="list-style-type: none"> ■ Contribute to stable revenue and increasing corporate value <ul style="list-style-type: none"> ▶ Drillship business ■ Earnings slump, shareholders' equity erosion <ul style="list-style-type: none"> ▶ Heavy Lifter Business ■ Structural Reform <ul style="list-style-type: none"> ▶ Offshore Energy E&P Support Business

Customers
(who support “K” Line’s high quality services)



To be a best and long-term business partner for customers
by providing logistics solutions that
only “K” Line is capable

High-quality logistics services?? Such as;

Engineering	Excellent shipping services	Global network	Human resource diversity
E.g.; Eco-friendly flagship “Drive Green Highway”	<ul style="list-style-type: none">• Safety in navigation and cargo operation• Ship management• Operational quality	313 Group companies at home and overseas	about 8,000 employees (total in Japan and overseas)

▶ Corporate Principle and Vision

■ Corporate Principle ~ : trust from all over the world ~

As an integrated logistics company grown from shipping business, the “K” Line Group contributes to society so that people live well and prosperously.

We always recognize this principle in our operations

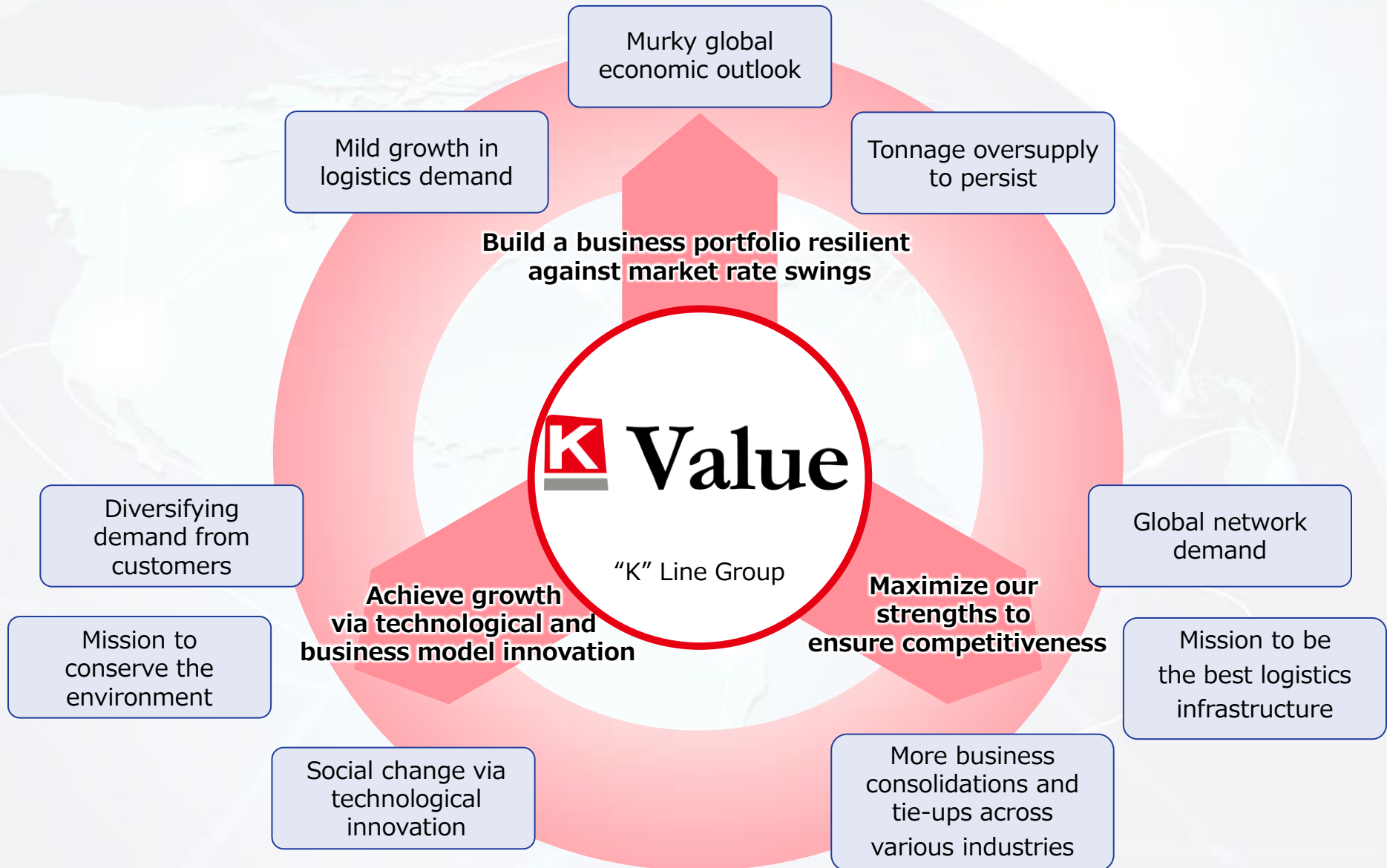
■ Vision

Our aim is to become an important infrastructure for global society, and to be the best partner with customers by providing the high-quality logistics services based on customer first policy.

Values the “K” Line Group’s prizes

- | | |
|---|---|
| ■ Providing reliable and excellent services | Contributing to society |
| ■ A fair way of business | Fostering trust from society |
| ■ Relentless efforts to achieve innovation | Generating new values |
| ■ Respecting humanity | Corporate culture that respects individuality and diversity |

➔ We have gone back to the basics to reassess our vision by putting the customer first.



Medium-term Management Plan

「*Revival for Greater Strides*」

K Value for our Next Century
(FY2017-FY2019)



▶ “K” Line Group’s aiming future with corporate principle and vision

A total marine transport and logistics company in growing fields supported by customers

- by competitiveness with high-quality service
- by creating value under newly-adopted advanced risk management and governance systems

**The three years to FY2019 (100th anniversary of our foundation)
is the period we make “Revival for Greater Strides”.**

Our priority initiatives are as follows;

1 Rebuilding Portfolio Strategy

2 Advanced management and Strategy

3 ESG initiatives

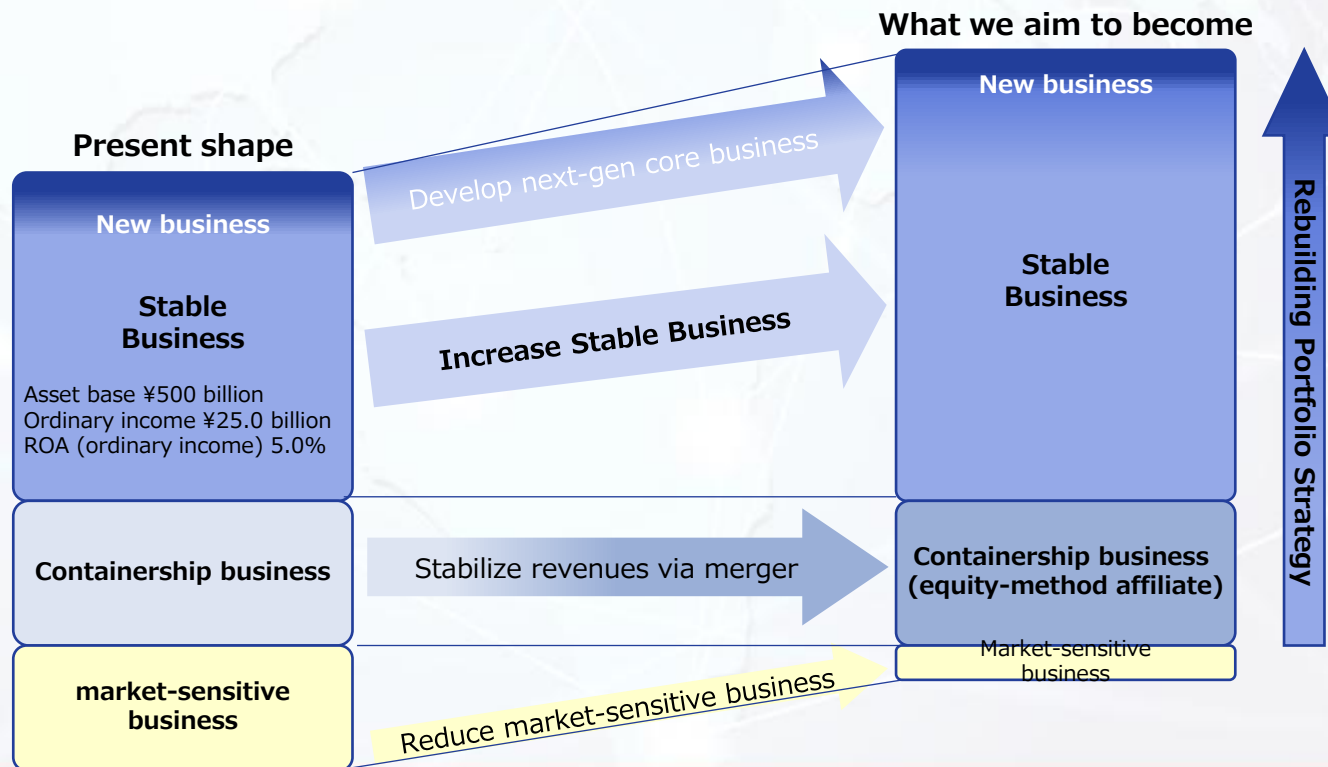
1 Rebuilding Portfolio Strategy

Develop Stable Business

- Improve and expand stable medium/long-term contracts
- Successful integration of containership business
- Reduce market-sensitive business
- Cost savings

Develop New Core business

- Develop logistics & car distribution & energy value chain
- Create markets and services via technological and business model innovation



1 Rebuilding Portfolio Strategy (by Business Segments)

Policies for each Business

Expand Stable Business and develop Next-gen core Business with growth potential

Dry Bulk Business

- Expand fleet with fixed contracts; mainly cape size carriers, electric coal carriers, and wood chip carriers
- Reduce market-exposed core fleet, mainly small/mid-sized vessels

LNG Carrier and Tanker Business

- LNG Carrier - Expand project-linked vessels
- Enter energy value chain for LNG/LPG demand creation
- Expand stable oil tanker fleet, mainly VLCCs/LPG vessels

Offshore Energy E&P Support Business

- Execute structural reforms to stabilize offshore business
- Generate steady profit in new businesses

Containership Business

- Improve profitability and business stability via THE Alliance
- Improve service quality and business competitiveness via successful integration in 2018

Logistics Business

- Expand forwarding business by bolstering our global network centered on "K" Line Logistics
- Expand local logistics in developing regions, centered on Asia where we have strength, and expand other areas

Car Carrier Business

- Add large-sized vessels / expand volume of high & heavy cargoes / improve operational efficiency
- Expand auto-mobile logistics business with a solid customer base

2 Advanced management and Strategies

① Advanced Business Management

Commences from FY2017
(we plan to disclose more on this program at a later date)

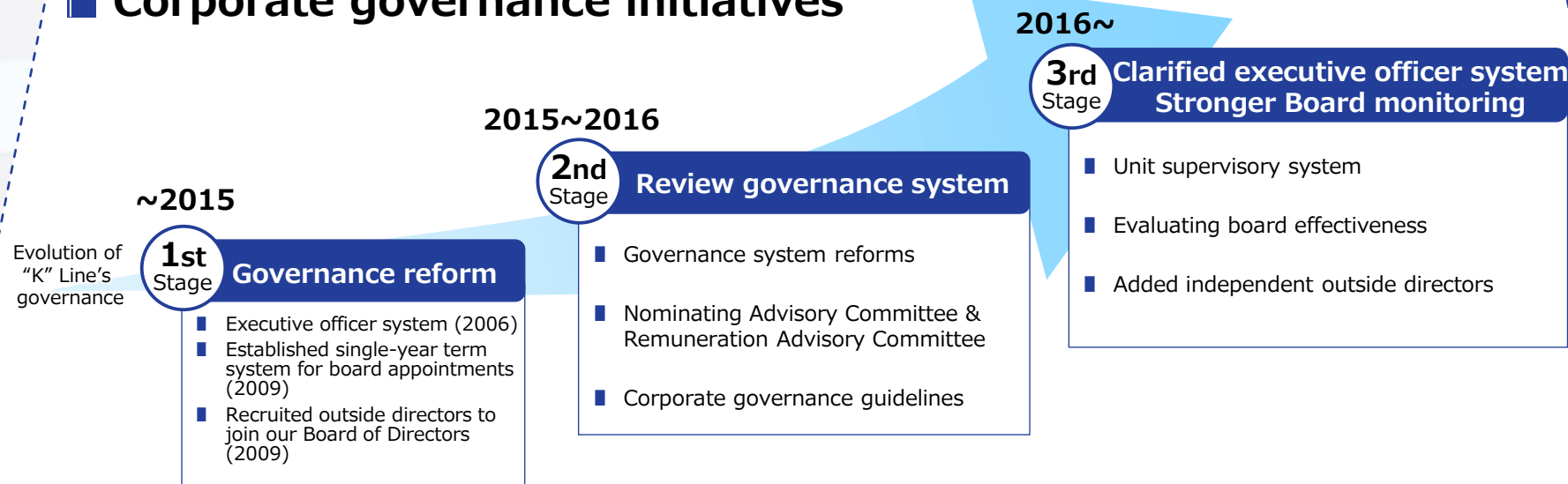
- ▶ Total risk-return management
- ▶ Introduce business assessment with a greater focus on capital costs
- ▶ Introduce PDCA cycle management

② Key Strategies by Function

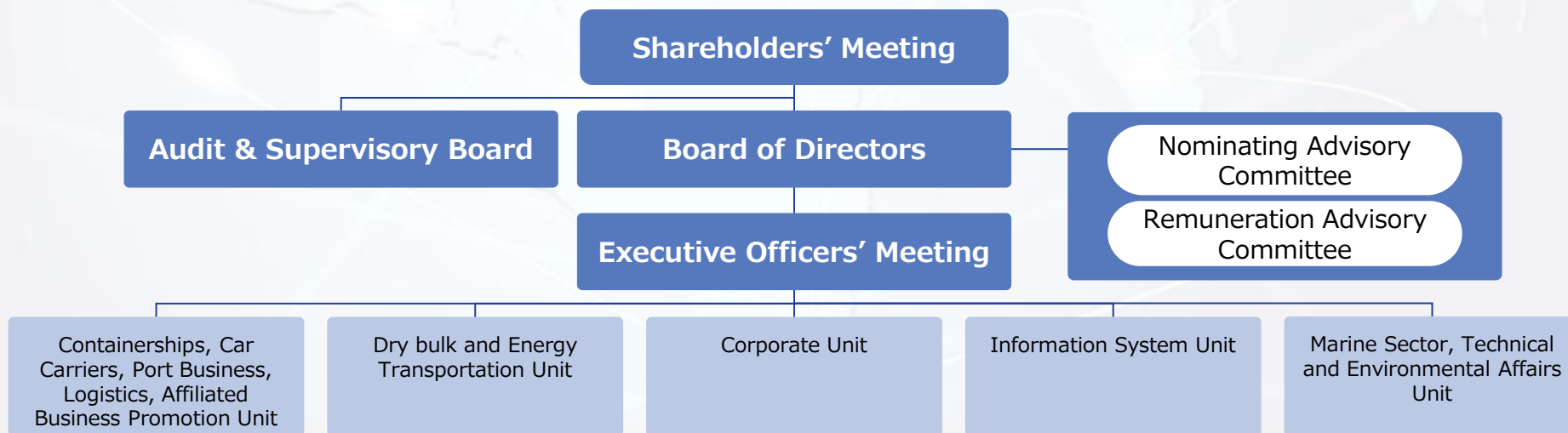
- ▶ Strengthen customer relationship management (CRM)
- ▶ Pursue high-quality service via technological and business model innovation
- ▶ Attract and retain human resources, nurture diversity

3 ESG Measures - 1. Corporate Governance System

Corporate governance initiatives



Formulate global compliance policy



3 ESG Measures - 2. Environmental Measures and CSR

World Leading in Safety Navigation & Cargo Operation

- Keep serious maritime accidents at zero
- Developed and introduced the K-IMS integrated vessel operation and performance management system
- Constructed an energy management system
- Bolster safe navigation hardware via K-DNA guidelines for installing safety equipment

Environment

- Named to Climate A List for 2016 and to the Supplier Engagement Leader Board by CDP
- New interim CO2 reduction target under "K" Line's Environmental Vision 2050 has been certified as a "Science Based Target" (SBT)
- Exhaust gas washing system of eco-flagship Drive Green Highway received certification as a Japanese national flagship
- Group environment management system established

Society

- Bolster stakeholder engagement, vessel tours to promote community engagement, implement volunteer activities
- Devise supply chain guidelines
- Devise and launch a new personnel system aimed at achieving diverse working styles
- Offer diverse training to improve the know-how & skills and foster teamwork of maritime technical personnel via "K" Line Maritime Academy, etc.

K-IMS : Integrated vessel operation and performance management system

K-DNA : Kline Safety Equipment Installation Guidelines (Kline Drive to No Accident)

SBT : Science Based Target – Science Based Target for greenhouse gas reduction

between CDP, UNGC (United Nations Global Compact), WRI (World Resources Institute) and WWF (World Wide Fund for Nature)

C-10 Medium-term Management Plan

Fleet Planning and Investment Plans

Fleet Planning and Investment Plans

Number of key fleet vessels (trend)

	15F	16F	19F	FY2019 vs. FY2015: Disparity
Containerships	63	58	--	--
Dry bulk carriers	225	200	194	▲31
Capesize	88	81	81	▲7
Panamax	104	87	73	▲31
Thermal coal carrier	24	23	31	+7
Wood chip carrier	9	9	9	0
Car carriers	102	93	91	▲11
Tankers	23	22	23	0
LNG carriers	41	42	49	+8
Offshore E&P support	8	8	8	0
Heavy lifter vessels	15	15	15	0
Short sea, coastal, and other	51	48	50	▲1
合計	465	428	430	▲35

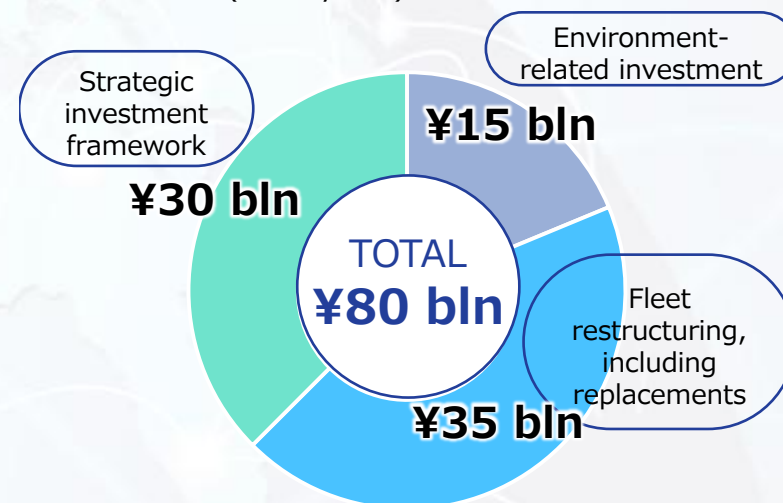
Reduce market-sensitive fleet

Increase fleet based on contracts

Three-year investment plan

(FY2017-FY2019 excludes containership business)

- Careful selection of investments so as to improve financial strength
- Strategic investment framework of ¥30 billion (three years)



Strategic investment framework

In the three years of the “Revival for greater strides” plan, we will carefully screen investments with a focus on improving our financial strength; our strategic investment framework for stable-income and next-gen core businesses has been placed directly.

(*) Total and disparity vs. FY2015 does not include containerships

C-11 Medium-term Management Plan

Target for Key Performance Indicators

▶ Long-term target (mid-2020s)

- **Achieve ROA (ordinary income) of 6%, ROE of double digits**
 - Foster both growing fields and stable-income foundation via advanced management
- **Shareholders' equity: ¥400 billion**
 - Verify benefits from containership business merger, plan to reset
- **Dividend policy – Return to a stable dividend policy**

▶ Medium-term Management Plan (FY2017-FY2019)

- **Maintain profit for three consecutive years from FY2017**
- **Achieve 6% ROA (ordinary income) in stable business, and expand business scale**
 - ➡ **Ordinary income from stable business in FY2019: over ¥30 billion**
- **Ratio of Shareholders' equity – Targeting mid 20%'s**
- **Dividend policy – Our priority is to stabilize our business base and financial strength.**
We are aiming to resume paying dividends soon.

Business Strategy



C-12-1 Medium-term Management Plan

Dry bulk Business

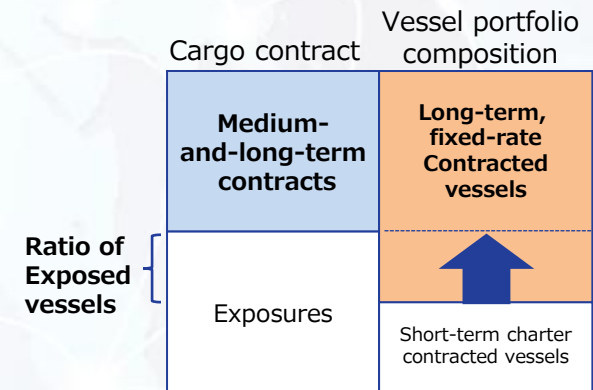
FY2016 results

- Supply-demand gap still in place despite uptick in freight rates from historic slump
- Large vessels: Limited upside in rates despite firmness in China-bound cargo volumes of iron ore and coal
- Small/mid-sized vessels: iron ore and cereal demand is up and still recovering but oversupply to persist

Rebuilding Portfolio Strategy (Initiatives from FY2017)

- Expand stable-income vessels
 - ▶ Add vessels with medium-and-long- term contracts, centering on iron ore and coal, based on a global, top-notch, long-term customer base
 - ▶ Reduce vessels with too-high fixed costs, which are mostly small/mid-sized vessels
- Develop next-gen core businesses
 - ▶ Respond to needs to reduce eco-footprint via LNG-fueled and LPG-fueled carriers

Rebalance vessel portfolio toward fixed-rate contracts



Dry bulk T/C rates	FY2015 results	FY2016 1-4Q					FY2016 results	FY2017		
		1Q results	2Q results	3Q results	4Q results	1H forecast		2H forecast	FY2017 forecast	
CAPE	\$7,250	\$6,700	\$8,000	\$12,000	\$11,000	\$9,450	\$14,000	\$16,000	\$15,000	
PANAMAX	\$5,100	\$4,900	\$5,800	\$8,700	\$8,200	\$6,900	\$10,000	\$11,000	\$10,500	
HANDYMAX	\$6,250	\$5,800	\$7,000	\$8,400	\$8,100	\$7,350	\$9,000	\$9,000	\$9,000	
SMALL HANDY	\$4,900	\$4,800	\$5,800	\$7,000	\$6,600	\$6,050	\$7,000	\$7,000	\$7,000	

C-12-2 Medium-term Management Plan

LNG Carrier Business and Tanker Business

FY2016 results

- ▶ LNG carriers
 - ▶ With dexterity, operate a fleet of stable-income vessels with medium-and-long-term contracts
 - ▶ Completed new PRACHI vessel for India's Petronet LNG
- ▶ Oil tanker
 - ▶ With dexterity, operate a fleet of stable-income vessels, mainly VLCC and LPG carriers, with medium-and-long-term contracts

Rebuilding Portfolio Strategy (Initiatives from FY2017)

- Expand stable-income vessels
 - ▶ LNG carriers
 - ▶ Build up stable-income fleet by securing more medium-and-long-term contracts (57 vessels in medium term)
 - ▶ Oil tanker
 - ▶ Expand medium-and-long-term contracts via vessel replacements and achieving new business opportunities
 - ▶ Shrink market-exposed business

Oil tankers on spot market (WS*)	FY2015 results	FY2016 1-4Q					FY2017		FY2017 forecast
		1Q results	2Q results	3Q results	4Q results	FY2016 results	1H forecast	2H forecast	
VLCC (Middle East-Japan)	66	60	37	70	69	59	72	77	75
	\$68,000	\$42,000	\$16,000	\$48,000	\$28,000	\$33,500	\$31,000	\$33,000	\$32,000
AFRAMAX (South Asia-Japan)	117	101	75	97	115	97	134	137	136
	\$33,000	\$18,600	\$10,000	\$15,000	\$13,500	\$14,300	\$18,000	\$18,000	\$18,000
Clean tanker 110kmt (Middle East-Japan)	108	88	91	75	107	90	136	145	141
	\$28,000	\$14,400	\$14,500	\$9,500	\$11,000	\$12,400	\$17,000	\$18,000	\$17,500

FY2016 results

- ▶ Ocean support vessel
 - Flagging spot rates owing to weakness in offshore E&P development and sagging crude oil prices
- ▶ Drillships
 - Earn stable income through steady operation of vessels via long-term contracts
- ▶ Heavy lifters
 - Contain erosion in net income, despite weak trend in spot rates, via fleet size rationalization
 - Recognize business impairment losses as part of structural reform



- OIL FPSO : Floating production, storage, and offloading (FPSO) unit for crude oil
- LNG FSRU : LNG floating production, storage and offloading unit (LNG-FPSO)

Rebuilding Portfolio Strategy (Initiatives from FY2017)

- **Expand stable-income vessels**
 - ▶ Offshore support vessels (K Line Offshore AS)
 - Structural reforms, cost cuts, and foreign exchange countermeasures to stabilize earnings
 - ▶ Drillship business
 - This has become a stable-income business via a high utilization approach to navigation and operation
- **Develop next-gen core businesses**
 - ▶ Advance initiatives for an energy value chain by collaborating with top-notch partners and harnessing our know-how and technologies
 - ▶ Create a new division for new businesses relating to gas liquefaction
 - Demonstrate our overall power via collaboration with our partners

Target	FSRU, LNG small-batch transport, LNG fuel supply business, offshore LNG power generation etc.
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C-12-4 Medium-term Management Plan Containership Business

FY2016 results

- In 1H, earnings slumped sharply as cargo activity flagged due to slowing in Europe, China, and EMs versus the year-earlier level
- 2H saw continued losses as the supply-demand gap persisted despite bottoming in spot freight rates and slot utilization rates and a pickup in tone

Initiatives for FY2017

- Long-term contracts have improved y on y on bottoming of spot freight rates but amid the persisting supply-demand gap, spot rates must be monitored
- Promote bolstering of high-margin specialty cargo, reduce costs, proceed with fleet rationalization, and respond to clear-cut further slowing that coincides with seasonal factors
- Provide a stronger network by responding to customer needs via THE Alliance
- Strengthen vessel competitiveness via completion of three 14,000-TEU containerships

Rebuilding Portfolio Strategy

- Bolster business competitiveness and improve service quality via successful merger of three major Japanese marine transport companies
 - Improve margins and business stability via deployment of management resources as a core Group business

➔ We plan to disclose a business plan for merged containership business at a later date when we finish devising and thoroughly vetting it

	FY2015 Results	FY2016					FY2017
		1Q results	2Q results	3Q results	4Q results	results	Forecast
Operating revenue (¥bln)	614.9	122.2	124.7	134.5	137.6	519.0	580.0
Ordinary income (¥bln)	▲ 10.0	▲ 12.3	▲ 8.7	▲ 2.9	▲ 7.6	▲ 31.5	19.0
Freight rate trends							
Asia-North America	91	73	71	76	81	75	81
FY'08 1Q = 100							
Asia-Europe	47	40	47	47	54	47	57
Lifting (10,000 TEU)							
Asia-North America	89.8	23.3	26.6	26.4	23.5	99.7	102.3
Asia-Europe	40.6	10.0	10.4	10.6	10.9	41.8	47.6
Capacity (10,000 TEU)							
Asia-North America	100.9	26.5	27.7	27.0	25.8	107.0	113.4
Asia-Europe	49.7	11.4	11.7	11.6	11.3	46.0	50.3
Utilization (%)							
Asia-North America	89%	88%	96%	97%	91%	93%	90%
Asia-Europe	82%	88%	89%	91%	96%	91%	95%

FY2016 results

- Launch Vietnam freezer warehouse business
- Expand Thai warehouse
- Launch cargo handling business for ports in India

Rebuilding Portfolio Strategy (Initiatives from FY2017)

- Expand stable-income businesses
 - ▶ Expand forwarding business by bolstering and restructuring our global network centered on “K” Line Logistics
 - ▶ Expand local logistics businesses in Asia, where we expect growth
- Develop next-gen core businesses
 - ▶ Harness the Group’s know-how to invest in and support growth fields
 - ▶ Provide high-value-added transport solutions based transport know-how and IT technologies we have honed for many years
 - ▶ Extend buyers’ consolidation by responding to high-variety, small-batch production trends



C-12-6 Medium-term Management Plan

Car Carrier Business

FY2016 results

- Cargo shipped to Europe/US is rising gradually with overall volumes trending firm
- Transport demand for cargo heading to resource-rich countries has sagged on low crude prices and China's slowing economy

Rebuilding Portfolio Strategy (Initiatives from FY2017)

- Expand stable-income vessels
 - ▶ Sector-trusted by customers, a pleasing business expansion
 - ▶ Maximize our strengths such as transport service quality, operational quality, advanced IT, etc.
 - ▶ Improve fleet operation and allocation, add large, next-gen carriers with +7,500 vehicle capacity, and expand base of competitiveness harnessing know-how in safe cargo transport
 - ▶ Expand strategic basis for competitive advantage in both Pacific and Atlantic regions
- Develop next-gen core businesses
 - ▶ Go further in pursuit of total services by expanding built-up car distribution business
 - ▶ Achieve transport method that reduces eco-footprint such as LNG-fueled carriers

Total units carried (1,000 units)	FY2015 Results	FY2016					FY2017		FY2017 forecast
		1Q results	2Q results	3Q results	4Q results	Results	1H forecast	2H forecast	
Outbound	1,156	265	261	296	250	1,071	550	548	1,099
Homebound	247	47	50	48	36	181	99	94	194
Others	1,060	289	283	312	286	1,171	676	661	1,337
Intra-Europe	685	170	154	155	203	682	450	457	907
Total units carried	3,149	771	748	811	776	3,106	1,775	1,760	3,535
Number of operation vessels	102	100	97	95	94	94			



K Value for our Next Century