Management Plan
Financial Highlights for FY2016

April 28, 2017
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Financial Highlights
For FY2016
## A-1 Results for FY2016

### Financial Highlights for FY2016

#### Consolidated Results

<table>
<thead>
<tr>
<th>Business segment operating revenue/ordinary income</th>
<th>FY2016 Results</th>
<th>Previous Estimate as of Jan. 2017</th>
<th>FY2015 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q</td>
<td>2Q</td>
<td>3Q</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>244.6</td>
<td>246.6</td>
<td>269.8</td>
</tr>
<tr>
<td>Operating income</td>
<td>▲ 14.8</td>
<td>▲ 11.6</td>
<td>▲ 8.3</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>▲ 22.5</td>
<td>▲ 13.6</td>
<td>▲ 0.8</td>
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<tr>
<td>Net income attributable to owners of parent</td>
<td>▲ 26.8</td>
<td>▲ 23.7</td>
<td>▲ 4.1</td>
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<tr>
<td>Exchange Rate</td>
<td>¥111.12</td>
<td>¥103.50</td>
<td>¥106.13</td>
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<tr>
<td>Bunker oil price</td>
<td>$208</td>
<td>$246</td>
<td>$279</td>
</tr>
</tbody>
</table>

#### Business segment operating revenue/ordinary income

<table>
<thead>
<tr>
<th>Business</th>
<th>FY2016 Results</th>
<th>Previous Estimate as of Jan. 2017</th>
<th>FY2015 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q</td>
<td>2Q</td>
<td>3Q</td>
</tr>
<tr>
<td>Containership Business</td>
<td>Operating Revenues</td>
<td>122.2</td>
<td>124.7</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>▲ 12.3</td>
<td>▲ 8.7</td>
</tr>
<tr>
<td>Bulk Shipping Business</td>
<td>Operating Revenues</td>
<td>109.2</td>
<td>108.6</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>▲ 7.3</td>
<td>▲ 6.2</td>
</tr>
<tr>
<td>Offshore Energy E&amp;P Support &amp;Heavy Lifter</td>
<td>Operating Revenues</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>▲ 1.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Other</td>
<td>Operating Revenues</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Adjustments</td>
<td>Operating Revenues</td>
<td>▲ 1.2</td>
<td>▲ 3.3</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>▲ 1.2</td>
<td>▲ 3.3</td>
</tr>
<tr>
<td>Total</td>
<td>Operating Revenues</td>
<td>244.6</td>
<td>246.6</td>
</tr>
<tr>
<td></td>
<td>Ordinary income</td>
<td>▲ 22.5</td>
<td>▲ 13.6</td>
</tr>
</tbody>
</table>

#### Main Financial Indicators

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital</td>
<td>355.4</td>
<td>219.5</td>
</tr>
<tr>
<td>Interest bearing liability</td>
<td>525.2</td>
<td>550.5</td>
</tr>
<tr>
<td>CF from operating activities</td>
<td>39.6</td>
<td>▲ 43.9</td>
</tr>
<tr>
<td>CF from Investment activities</td>
<td>▲ 29.6</td>
<td>▲ 24.9</td>
</tr>
<tr>
<td>DER(%)</td>
<td>148%</td>
<td>251%</td>
</tr>
<tr>
<td>NET DER(%)</td>
<td>80%</td>
<td>160%</td>
</tr>
<tr>
<td>Equity Ratio(%)</td>
<td>32%</td>
<td>21%</td>
</tr>
</tbody>
</table>

#### Main extraordinary Loss

- Containership Business Restructuring ▲ 50.9
- Bulk Shipping Business Structural Reforms ▲ 19.7
- Offshore Energy E&P Support &Heavy Lifter ▲ 14.2

#### Dividend

With much regret, we decided against paying a year-end dividend in FY2016, given our net loss result and the urgency in improving our financial structure.
A-2 Results for FY2016
Ordinary income Year on Year change

### Key Factor: Ordinary income FY2016 vs FY2015

#### FY2016 Key notes
- **Containership**
  - Despite recovery signs in 2H, rates trended at record-low level
  - Faster shift to pursue of profits at scale
- **Dry Bulk**
  - Oversupply limits rate upticks but entered recovery from 2H
- **Car Carrier**
  - Shipment to resource-rich countries continues to sag, and it will be a while before they recover
- **LNG Carrier and Oil Tanker**
  - Stable operating rates, mainly LNG carrier, VLCC, and LPG carrier
  - Tough condition in offshore and heavy lifter on crude oil price trend

#### FY2016 Counter measures
- **Containership**
  - Three major Japanese carriers to integrate containership business from FY2018
- **Dry Bulk**
  - Implemented structural reforms in FY2015-FY2016 to reduce market exposure
- **Impairment & Loss Allowance**
  - Containership
    - Loss on impairment of fixed assets & loss related to charter contracts – ¥39.5bln
  - Expenditure for business restructuring – ¥11.4bln
  - Loss on impairment of fixed assets Offshore Energy E&P Support and Heavy Lifter Segment Dry Bulk Business

### Market rate in FY2015 and FY2016: Comparison

#### Containership
- **North America outbound freight index**
  - FY2015: 91, FY2016: 75, ▲16
- **Europe outbound freight index**
  - FY2015: 47, FY2016: 47, -

#### Dry Bulk
- **CAPE**
  - FY2015: $7,250, FY2016: $9,450, ▲$2,200
- **PANAMAX**
  - FY2015: $5,100, FY2016: $6,900, ▲$1,800
- **HANDYMAX**
  - FY2015: $6,250, FY2016: $7,350, ▲$1,100
- **SMALL HANDY**
  - FY2015: $4,900, FY2016: $6,050, ▲$1,150

#### Oil Tanker
- **VLCC (Middle East-Japan)**
  - FY2015: $68,000, FY2016: $33,500, ▲$34,500
- **AFRAMAX (South Asia-Japan)**
  - FY2015: $33,000, FY2016: $14,300, ▲$18,700
- **Clean Tanker (11,000mt) (middle east-Japan)**
  - FY2015: $28,000, FY2016: $12,400, ▲$15,600

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### External Factor
- **Exchange Rate**
  - ▲¥3.1bln
- **Bunker Oil Price**
  - ▲¥44bln
- **Containership Market volatility**
  - ▲¥38bln
- **Dry Bulk cargo volume, Market volatility**
  - ▲3bln

### Negative impact of FY2015 contract
- ▲¥18bln

### Total
- ▲¥55.7

### Cost Saving
- ▲¥20.9bln
- ▲¥9.3bln

### Total: ▲¥38bln + ▲¥20.9bln + ▲¥9.3bln = ▲¥85.9bln

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### Other
- ▲¥3bln

### Total: ▲¥38bln + ▲¥20.9bln + ▲¥9.3bln + ▲¥3bln = ▲¥55.7bln
# Extraordinary Losses and Cost savings by business segment

<table>
<thead>
<tr>
<th></th>
<th>Structural Reform Costs and Extraordinary Losses</th>
<th>Financial Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dry bulk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Structural reforms</td>
<td>FY2015</td>
</tr>
<tr>
<td>Containership</td>
<td>Impairment losses and provision of allowance (*)</td>
<td>▲50.9</td>
</tr>
<tr>
<td>Offshore Energy E &amp; P Support and Heavy lifter</td>
<td>Impairment losses</td>
<td>▲14.2</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>▲34.4</td>
</tr>
</tbody>
</table>

(*): Including fiscal impact in 2017 due to recognizing provision of allowance for loss related to business restructuring which is most likely to arise in the forthcoming years should be listed on the consolidated statement of operations.

## Cost Savings

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Results</th>
<th>VS. original forecast</th>
<th>Achieve ment ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Containership</td>
<td>18.1</td>
<td>21.3</td>
<td>9.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Dry Bulk / Other</td>
<td>2.3</td>
<td>2.8</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18.8</td>
<td>20.9</td>
<td>9.1</td>
<td>11.8</td>
</tr>
</tbody>
</table>

### Notes:
- ▲: Increase
- ▼: Decrease
Estimates for FY2017
## FY2017 Consolidated Estimates

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1H</td>
<td>2H</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>570.0</td>
<td>560.0</td>
</tr>
<tr>
<td>Operating income</td>
<td>11.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>10.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Net income Attributable to owners of the parent</td>
<td>15.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>¥110</td>
<td>¥110</td>
</tr>
<tr>
<td>Bunker oil price</td>
<td>$320</td>
<td>$320</td>
</tr>
</tbody>
</table>

### Key factor assumptions
- **Yen-$ rate assumption**: ¥110/$
- **Bunker oil price assumption**: $320/MT

### Ordinary income estimates sensitivity
- **Yen-$ rate assumption**: each ¥1 weaker (stronger) adds (subtracts) ±¥0.4bln
- **Bunker oil price assumption**: each $10/mt up (down) add (subtract) ±¥0.8bln

### Dividend (annual)
- **Not decided**

Our priority is to stabilize our business base and financial strength. But we aim to resume paying dividends soon.

## FY2017 Estimates by Segment

<table>
<thead>
<tr>
<th>Business</th>
<th>FY2017</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1H</td>
<td>2H</td>
</tr>
<tr>
<td>Containership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>290.0</td>
<td>290.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>11.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Bulk shipping</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>250.0</td>
<td>240.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>3.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Offshore Energy E&amp;P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support and Heavy Lifter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>▲ 1.0</td>
<td>▲ 1.0</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Adjustment</td>
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</tr>
<tr>
<td>Operating Revenue</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>▲ 4.0</td>
<td>▲ 3.0</td>
</tr>
<tr>
<td>Total</td>
<td>570.0</td>
<td>560.0</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>10.0</td>
<td>11.0</td>
</tr>
</tbody>
</table>
Ordinary income Year on Year Change

Ordinary income Year on Year change

(*) Including fiscal impact in 2017 due to recognizing provision of allowance for loss related to business restructuring which is most likely to arise in the forthcoming years should be listed on the consolidated statement of operations.

Market rate in FY2016 and FY2017: Comparison

<table>
<thead>
<tr>
<th>Containership</th>
<th>FY2016 Result</th>
<th>FY2017 Assumption</th>
<th>Disparity</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America outbound freight index</td>
<td>75</td>
<td>81</td>
<td>+6</td>
</tr>
<tr>
<td>Europe outbound freight index</td>
<td>47</td>
<td>57</td>
<td>+10</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Dry bulk</th>
<th>FY2016 Result</th>
<th>FY2017 Assumption</th>
<th>Disparity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPE</td>
<td>$9,450</td>
<td>$15,000</td>
<td>+$5,550</td>
</tr>
<tr>
<td>PANAMAX</td>
<td>$6,900</td>
<td>$10,500</td>
<td>+$3,600</td>
</tr>
<tr>
<td>HANDYMAX</td>
<td>$7,350</td>
<td>$9,000</td>
<td>+$1,650</td>
</tr>
<tr>
<td>SMALL HANDY</td>
<td>$6,050</td>
<td>$7,000</td>
<td>+$950</td>
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<table>
<thead>
<tr>
<th>Oil Tanker</th>
<th>FY2016 Result</th>
<th>FY2017 Assumption</th>
<th>Disparity</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLCC (Middle East-Japan)</td>
<td>$33,500</td>
<td>$32,000</td>
<td>▲$1,500</td>
</tr>
<tr>
<td>AFRAMAX (South Asia-Japan)</td>
<td>$14,300</td>
<td>$18,000</td>
<td>+$3,700</td>
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<tr>
<td>Clean Tanker(11,000mt) (middle east-Japan)</td>
<td>$12,400</td>
<td>$17,500</td>
<td>+$5,100</td>
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Cost Saving Original Target

<table>
<thead>
<tr>
<th>Original Target</th>
<th>1H target</th>
<th>2H target</th>
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</thead>
<tbody>
<tr>
<td>Containership Route Rationalization</td>
<td>14.5</td>
<td>7.5</td>
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<tr>
<td>Operating cost saving</td>
<td></td>
<td>7.1</td>
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<tr>
<td>Cost Savings</td>
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<td></td>
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<tr>
<td>Earning improvement</td>
<td></td>
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<tr>
<td>Dry Bulk/Other</td>
<td>4.7</td>
<td>2.6</td>
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<tr>
<td>Total</td>
<td>19.2</td>
<td>10.1</td>
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</table>

Exchange Rate

<table>
<thead>
<tr>
<th>(¥/¥)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yen ¥1/$ ewearer</td>
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</tr>
<tr>
<td>¥109</td>
<td>¥110</td>
</tr>
<tr>
<td>$265</td>
<td>$320</td>
</tr>
</tbody>
</table>

Cost saving

(¥bln) Total : +44.3
Management Plan

28th April 2017
Management Plan

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)

- C-6: Basic Policy
- C-7-1: 1. Rebuilding Portfolio Strategy
- C-7-2: 2. Rebuilding Portfolio Strategy (by Business Segments)
- C-8: Advanced management and Strategy
- C-9-1: ESG Measures - 1. Corporate Governance System
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- C-12-5: Logistics Business
- C-12-6: Car Carrier Business
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

- **Demand**
- **Supply**
- **Baltic Dry Index (BDI)**

- (unit: million deadweight tons)
- 6,000
- 8,000
- 0
- 2,000
- 4,000
- 6,000
- 8,000

- **FY2000**
- **FY2002**
- **FY2004**
- **FY2006**
- **FY2008**
- **FY2010**
- **FY2012**
- **FY2014**
- **FY2016**

- **Strong demand**
- **Global financial crisis (GFC)**
- **Oversupply**
- **Market slump**
- **By Oversupply**
Stable business developed; need to take steps based on emerging risks in market-sensitive businesses and issues in new business expansion

**Stable business**

- Differentiate based on high service quality
- Secure stable business

**Ordinary income from stable business**

- FY2016 ¥25.0 billion

**Market-sensitive business**

- Emerging risk of overinvestment
- Shareholders’ equity erosion

**Response and Countermeasures**

- Containership business
  - Three major Japanese carriers to integrate containership businesses
  - Impairment Loss & Loss allowances
- Dry bulk business (mid/small-sized)
  - Executed structural reform 35 vessels (FY2015-FY2016)

**New business**

- Contribute to stable revenue and increasing corporate value
  - Drillship business
- Earnings slump, shareholders’ equity erosion
  - Heavy Lifter Business
- Structural Reform
  - Offshore Energy E&P Support Business

**Target**

- 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

**Target**

- Containerships (sensitive to rate volatility), vessels without contracts and Dry bulk carriers (mainly small and mid-sized vessels), some Oil tankers (product tankers, etc.)
C-3 Management Plan
Strengths: Analysis based on Historical Perspective

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;

<table>
<thead>
<tr>
<th>Engineering</th>
<th>Excellent shipping services</th>
<th>Global network</th>
<th>Human resource diversity</th>
</tr>
</thead>
</table>
| E.g.; Eco-friendly flagship “Drive Green Highway” | • 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 Principles and Vision

Corporate Principle

~ K: 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
- A fair way of business
- Relentless efforts to achieve innovation
- Respecting humanity
- Contributing to society
- Fostering trust from society
- Generating new values
- Corporate culture that respects individuality and diversity

We have gone back to the basics to reassess our vision by putting the customer first.
Build a business portfolio resilient against market rate swings

Murky global economic outlook
Mild growth in logistics demand
Tonnage oversupply to persist

“K” Line Group

Achieve growth via technological and business model innovation
Maximize our strengths to ensure competitiveness

Diversifying demand from customers
Mission to conserve the environment
Social change via technological innovation
Global network demand
More business consolidations and tie-ups across various industries
Mission to be the best logistics infrastructure

C-5 Management Plan
Business Environment for Shipping and Logistics, Future Policy
Medium-term Management Plan

「Revival for Greater Strides」

_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
C-7-1 Medium-term Management Plan

Rebuilding Portfolio Strategy

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

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

Present shape

New business
- Stable Business
  - Asset base ¥500 billion
  - Ordinary income ¥25.0 billion
  - ROA (ordinary income) 5.0%

Containership business
- Stabilize revenues via merger

market-sensitive business
- Reduce market-sensitive business

New business
- Develop next-gen core business

Stable Business
- Increase Stable Business

Containership business (equity-method affiliate)
- Market-sensitive business

What we aim to become

Rebuilding Portfolio Strategy

18
## Policies for each Business

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

<table>
<thead>
<tr>
<th>Business</th>
<th>Policy Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dry Bulk Business</strong></td>
<td>Expand fleet with fixed contracts; mainly cape size carriers, electric coal carriers, and wood chip carriers</td>
</tr>
<tr>
<td></td>
<td>Reduce market-exposed core fleet, mainly small/mid-sized vessels</td>
</tr>
<tr>
<td><strong>LNG Carrier and Tanker Business</strong></td>
<td>LNG Carrier - Expand project-linked vessels</td>
</tr>
<tr>
<td></td>
<td>Enter energy value chain for LNG/LPG demand creation</td>
</tr>
<tr>
<td></td>
<td>Expand stable oil tanker fleet, mainly VLCCs/LPG vessels</td>
</tr>
<tr>
<td><strong>Offshore Energy E&amp;P Support Business</strong></td>
<td>Execute structural reforms to stabilize offshore business</td>
</tr>
<tr>
<td></td>
<td>Generate steady profit in new businesses</td>
</tr>
<tr>
<td><strong>Containership Business</strong></td>
<td>Improve profitability and business stability via THE Alliance</td>
</tr>
<tr>
<td></td>
<td>Improve service quality and business competitiveness via successful integration in 2018</td>
</tr>
<tr>
<td><strong>Logistics Business</strong></td>
<td>Expand forwarding business by bolstering our global network centered on “K” Line Logistics</td>
</tr>
<tr>
<td></td>
<td>Expand local logistics in developing regions, centered on Asia where we have strength, and expand other areas</td>
</tr>
<tr>
<td><strong>Car Carrier Business</strong></td>
<td>Add large-sized vessels / expand volume of high &amp; heavy cargoes / improve operational efficiency</td>
</tr>
<tr>
<td></td>
<td>Expand auto-mobile logistics business with a solid customer base</td>
</tr>
</tbody>
</table>
C-8 Medium-term Management Plan

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
Corporate governance initiatives

1st Stage Governance reform
- Executive officer system (2006)
- Established single-year term system for board appointments (2009)
- Recruited outside directors to join our Board of Directors (2009)

2nd Stage Review governance system
- Governance system reforms
- Nominating Advisory Committee & Remuneration Advisory Committee
- Corporate governance guidelines

3rd Stage Clarified executive officer system
- Stronger Board monitoring
- Unit supervisory system
- Evaluating board effectiveness
- Added independent outside directors

Formulate global compliance policy

Shareholders’ Meeting
- Audit & Supervisory Board
- Board of Directors
- Executive Officers’ Meeting

Nominating Advisory Committee
Remuneration Advisory Committee

Containerships, Car Carriers, Port Business, Logistics, Affiliated Business Promotion Unit
Dry bulk and Energy Transportation Unit
Corporate Unit
Information System Unit
Marine Sector, Technical and Environmental Affairs Unit
C-9-2 Medium-term Management Plan

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)
### Fleet Planning and Investment Plans

#### Number of key fleet vessels (trend)

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

(▲) Increase fleet based on contracts
(▲) Reduce market-sensitive fleet

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

---

### 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)

- **¥15 bln**
  - Strategic investment framework
- **¥30 bln**
  - Fleet restructuring, including replacements
- **¥35 bln**
  - Environment-related investment
- **¥80 bln**
  - TOTAL

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.
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

<table>
<thead>
<tr>
<th>Dry bulk T/C rates</th>
<th>FY2015 results</th>
<th>FY2016 1-4Q</th>
<th>FY2016 results</th>
<th>FY2017 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q results</td>
<td>2Q results</td>
<td>3Q results</td>
<td>4Q results</td>
</tr>
<tr>
<td>CAPE</td>
<td>$7,250</td>
<td>$6,700</td>
<td>$8,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>PANAMAX</td>
<td>$5,100</td>
<td>$4,900</td>
<td>$5,800</td>
<td>$8,700</td>
</tr>
<tr>
<td>HANDYMAX</td>
<td>$6,250</td>
<td>$5,800</td>
<td>$7,000</td>
<td>$8,400</td>
</tr>
<tr>
<td>SMALL HANDY</td>
<td>$4,900</td>
<td>$4,800</td>
<td>$5,800</td>
<td>$7,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Oil tankers on spot market (WS*)</th>
<th>FY2015 results</th>
<th>FY2016 1-4Q</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q results</td>
<td>2Q results</td>
<td>3Q results</td>
</tr>
<tr>
<td><strong>VLCC (Middle East-Japan)</strong></td>
<td>66</td>
<td>60</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>$68,000</td>
<td>$42,000</td>
<td>$16,000</td>
</tr>
<tr>
<td><strong>AFRAMAX (South Asia-Japan)</strong></td>
<td>117</td>
<td>101</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>$33,000</td>
<td>$18,600</td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>Clean tanker 110kmt (Middle East-Japan)</strong></td>
<td>108</td>
<td>88</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>$28,000</td>
<td>$14,400</td>
<td>$14,500</td>
</tr>
</tbody>
</table>
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

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

<table>
<thead>
<tr>
<th>Upstream</th>
<th>Mid-stream</th>
<th>Downstream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drillships</td>
<td>OIL FPSO</td>
<td>LNG Carriers</td>
</tr>
<tr>
<td>semi-submersible rigs</td>
<td>MOPU</td>
<td>Crude oil Tankers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LPG Carriers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Petroleum product Tankers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LNG FSRU</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LNG/LPG fueled Vessels</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>FY2015 Results</th>
<th>FY2016 1Q results</th>
<th>FY2016 2Q results</th>
<th>FY2016 3Q results</th>
<th>FY2016 4Q results</th>
<th>FY2017 Results</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue (¥bbln)</td>
<td>614.9</td>
<td>122.2</td>
<td>124.7</td>
<td>134.5</td>
<td>137.6</td>
<td>519.0</td>
</tr>
<tr>
<td>Ordinary income (¥bbln)</td>
<td>▲ 10.0</td>
<td>▲ 12.3</td>
<td>▲ 8.7</td>
<td>▲ 2.9</td>
<td>▲ 7.6</td>
<td>▲ 31.5</td>
</tr>
<tr>
<td>Freight rate trends</td>
<td>Asia-North America</td>
<td>91</td>
<td>73</td>
<td>71</td>
<td>76</td>
<td>81</td>
</tr>
<tr>
<td>FY08 1Q = 100</td>
<td>Asia-Europe</td>
<td>47</td>
<td>40</td>
<td>47</td>
<td>54</td>
<td>47</td>
</tr>
<tr>
<td>Lifting (10,000 TEU)</td>
<td>Asia-North America</td>
<td>89.8</td>
<td>23.3</td>
<td>26.6</td>
<td>26.4</td>
<td>23.5</td>
</tr>
<tr>
<td></td>
<td>Asia-Europe</td>
<td>40.6</td>
<td>10.0</td>
<td>10.4</td>
<td>10.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Capacity (10,000 TEU)</td>
<td>Asia-North America</td>
<td>100.9</td>
<td>26.5</td>
<td>27.7</td>
<td>27.0</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>Asia-Europe</td>
<td>49.7</td>
<td>11.4</td>
<td>11.7</td>
<td>11.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Utilization (%)</td>
<td>Asia-North America</td>
<td>89%</td>
<td>88%</td>
<td>96%</td>
<td>97%</td>
<td>91%</td>
</tr>
<tr>
<td></td>
<td>Asia-Europe</td>
<td>82%</td>
<td>88%</td>
<td>89%</td>
<td>91%</td>
<td>96%</td>
</tr>
</tbody>
</table>
C-12-5 Medium-term Management Plan
Logistics Business

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

Step 1 Strengthen responsiveness to customers
- Retain trust of customers via careful response to them across the “K” Line Group as a whole

Step 2 Expand local logistics
- Further expand know-how and record from starting Businesses in Thailand and other parts of Asia

Step 3 Organically connect with network
- Leverage our ability to propose Solutions that harness the entire Group’s assets and distribution network
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

<table>
<thead>
<tr>
<th>Total units carried (1,000 units)</th>
<th>FY2015 Results</th>
<th>FY2016</th>
<th>FY2017 1H forecast</th>
<th>FY2017 2H forecast</th>
<th>FY2017 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outbound</td>
<td>1,156</td>
<td>265</td>
<td>261</td>
<td>296</td>
<td>250</td>
</tr>
<tr>
<td>Homebound</td>
<td>247</td>
<td>47</td>
<td>50</td>
<td>48</td>
<td>36</td>
</tr>
<tr>
<td>Others</td>
<td>1,060</td>
<td>289</td>
<td>283</td>
<td>312</td>
<td>286</td>
</tr>
<tr>
<td>Intra-Europe</td>
<td>685</td>
<td>170</td>
<td>154</td>
<td>155</td>
<td>203</td>
</tr>
<tr>
<td>Total units carried</td>
<td>3,149</td>
<td>771</td>
<td>748</td>
<td>811</td>
<td>776</td>
</tr>
<tr>
<td>Number of operation vessels</td>
<td>102</td>
<td>100</td>
<td>97</td>
<td>95</td>
<td>94</td>
</tr>
</tbody>
</table>
Value for our Next Century