




New medium-term management plan

 Value for our Next Century

2015/3

 **K** LINE
KAWASAKI KISEN KAISHA, LTD.

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- ▶ **Review of ‘ “K”LINE Vision 100 -Bridge to the Future-’**
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Corporate Principle and Vision



The year of 2019 is the 100th anniversary of the “K” LINE Group. To mark the anniversary, it has revised Corporate Principle and Vision to cope with the next 100 years.

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.

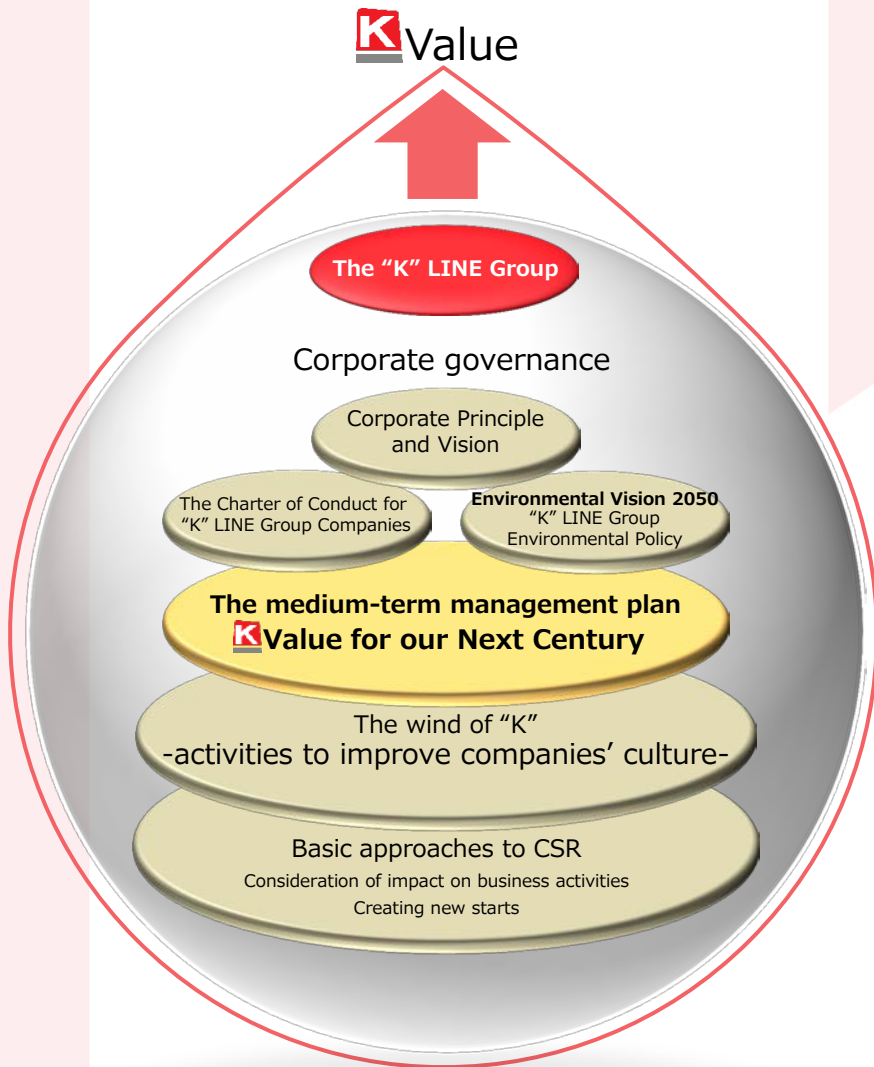
Vision

Concepts that the “K” Line Group pursues in business

- ◆ 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 respect individuality and diversity

We pursue these concepts in our Vision and will progress further to the next stage.

Corporate Principle and Vision



We construct and realize ideas and concepts that the "K" LINE Group values, as seen in the left picture, with Corporate Principle and Vision placing at the center.

- ▶ The Charter of Conduct for "K" LINE Group Companies
- ▶ Environmental Vision 2050 / "K" LINE Group Environmental Policy
- ▶ The medium-term management plan **K** Value for our Next Century
- ▶ The wind of "K": We are rolling out activities to improve the Group's culture and strengthen the business foundation.
- ▶ Basic approaches to CSR

We work for realizing **K** Value and improve our corporate governance.

Review of ‘ “K”LINE Vision 100 ’ -Bridge to the Future-



Review of ‘“K”LINE Vision 100 -Bridge to the Future-’ The priority tasks and evaluation

The priority tasks in the plan “Bridge to the Future”

To cope with the volatile business conditions, we are restructuring the business to expand the stable profit base and establish a structure with resilience to market fluctuations.

- ① **We turned profitable in FY2012.** ◀ With accumulated cost reduction of ¥32.5 billion, which can be compared to the target ¥28.0 billion, we returned to profit in FY2012
- ② **We have nearly achieved the three-year goal of ordinary income.**
 - ◀ Although the market conditions have worsened since we planned and set the target as ¥110 billion, we forecast accumulated ordinary income in three years of ¥109.1 billion.
 - ◀ We saved ¥75 billion costs in three years with structural reform mainly in the containership business.
 - ◀ The dry bulk business and the car carrier business have expanded stable profits.
- ③ **We have improved the financial strength**
 - ◀ The accumulated cash flows for investing activities in three years were managed as minus ¥48 billion.
 - ◀ The free cash flows were accumulated to ¥177 billion, having exceeded the target.
 - ◀ We fell short of the interest-bearing liabilities target, because of fund-raising with subordinated bonds and convertible bonds.
 - ◀ We increased equity capital, equity ratio, and DER more than the targets, accordingly consolidated the financial position.

Expanding a stable profit base to secure cash flows from operating activities

Flexible cash flow management for investing activities while guarding financial stability

Raising equity capital and improving DER

	FY2011	FY2012	FY2014 (target)	FY2014 (forecast)	Comparison between target and forecast, FY2014
Operating revenue (¥ billion)	972	1,135	1,110	1,350	+240
Ordinary income (¥ billion)	▲49	29	60	48	▲12
Net income (¥ billion)	▲41	11	42	25	▲17
EBITDA (¥ billion)	14	105	135	108	▲27
ROA	▲5%	3%	6%	4%	▲2%
Equity capital (¥ billion)	243	341	330	440	+110
Equity ratio	23%	29%	30%	36%	+6%
Interest-bearing liabilities (¥ billion)	593	630	490	535	+45
DER	244%	185%	148%	122%	▲26%
	FY2011	FY2012	Three-year target	Three-year forecast	Comparison between target and forecast
Cash flows from operating activities (¥ billion)	▲3	60	270	225	▲45
Cash flows from investing activities (¥ billion)	▲83	▲27	▲150	▲48	+102
FCF (¥ billion)	▲86	33	120	177	+57
Exchange rate	¥79.06	¥82.33	¥80.00	¥108.56	
Fuel oil price	\$672	\$671	\$650	\$560	
Rating (R&I)	BBB-			BBB	

“Enhancing the financial stability”

“Strengthening the earning power”

Case: reforming the containership business

Initiatives in three years to earn stable revenue with increased resilience in volatile markets

Ordinary income in FY2011 ¥▲39 billion

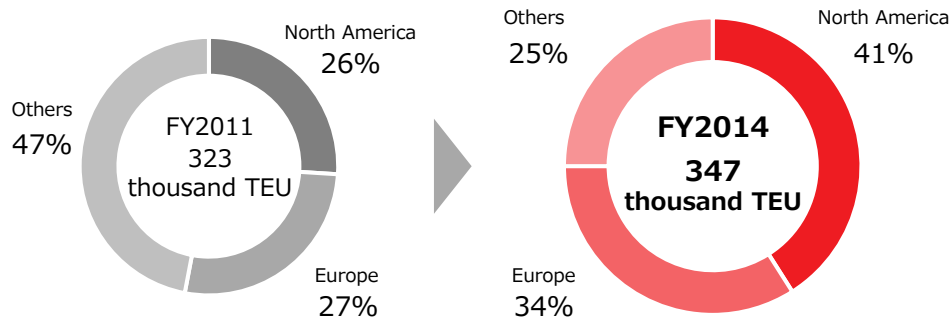
Ordinary income in FY2014 **¥19 billion**

Change in the containership business portfolio

Concentration to the east-west trunk routes using our networks

- ▶ Withdrawal and rationalization of the 13 routes mainly in the north-south courses
- ▶ Efficient shipping route management strategically using the terminals and agency networks of the company

Containership business portfolio (tonnage)



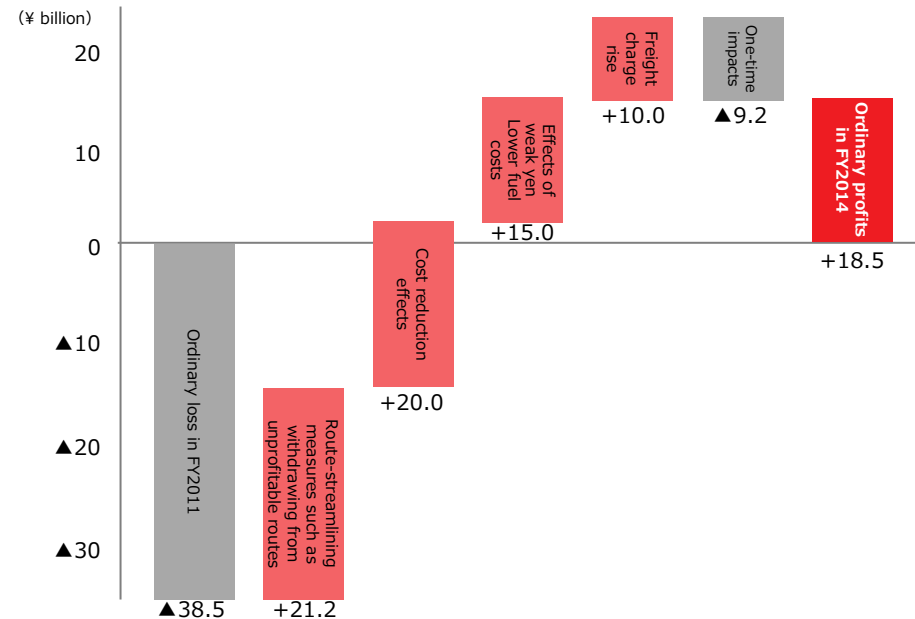
Project to increase and secure profits

- ▶ Diligent marketing strategy considering the market conditions
- ▶ Strengthening profit drivers that are less sensitive to market conditions

Effects of cost reduction and revenue structure reform

- ▶ Reducing ship operation costs, enhancing slow steaming, and optimizing container equipment inventories
- ▶ Increasing high-value-added shipping of cargoes for North America inland and reefer containers
- ▶ Selling a part of real assets to reduce business assets

Towards improvement of revenue in the containership business



New medium-term management plan

 Value for our Next Century



The business environment that we observe



Core themes of the new medium-term management plan

Stability by improving financial strength

- ▶ Equity ratio of 40% in FY2017, achieving the target of interest-bearing liabilities reduction
- ▶ Maintaining the free cash flow in the black, equity ratio of 40%, and DER of 80% to keep stability

Further business growth based on financial soundness

- ▶ Managing portfolio to minimize risk
- ▶ Improving the system that brings stable business profits with increased resilience in volatile markets
- ▶ Strategic investment to expand in growing sectors

Dialogues and collaboration with stakeholders to grow consistently and raise corporate value

- ▶ Collaboration with stakeholders in fulfilling corporate social responsibility
- ▶ Returning profits to shareholders based on a stable dividend policy

Stability by improving financial strength



Securing stability by improving financial strength

Steps towards FY2019

Strengthening business growth based on financial soundness

The
2nd
step

- ▶ Managing portfolio to minimize risk
- ▶ Improving the system that brings stable business profits with increased resilience in volatile markets
- ▶ Strategic investment to expand in growing sectors

Business development under the basic policy that targets equity ratio of 40% and DER of 80%

Stability by improving financial strength

- ▶ Equity ratio of 40% in FY2017, achieving the target of interest-bearing liabilities reduction

The highest priority task

Securing and improving strength that is necessary to cope with the volatile shipping business conditions.


The
1st
step

- Flexible management of investing activities to keep positive free cash flows
- Securing stability by raising equity capital
- Continuously reducing interest-bearing liabilities (The FY2017 target is ¥460 billion.)

Securing stability by improving financial strength

 Value for our Next Century

Targets of the new medium-term management plan:  Value for our Next Century

	Forecast for 2014	Target for 2017	Target for 2019  100th anniversary
Operating revenue (¥ billion)	1,350	1,400	1,500
Ordinary income (¥ billion)	48	60	85
Net income (¥ billion)	25	45	more than 60
EBITDA (¥ billion)	108	130	150
ROE	6%	8~9%	more than 10%
Equity capital (¥ billion)	440	510	600
Equity ratio	36%	40%	40%
Interest-bearing liabilities (¥ billion)	535	460	480
DER	122%	80~90%	80%
NET DER	78%	60%	55%
Cash flows from operating activities (¥ billion)	77	98	120
Cash flows from investing activities (¥ billion)	▲ 22	▲ 70	▲ 80
Exchange rate	¥ 108.56	¥ 110.00	¥ 110.00
Fuel oil price (Per MT)	\$ 560	\$ 500	\$ 500

Further business growth based on financial soundness

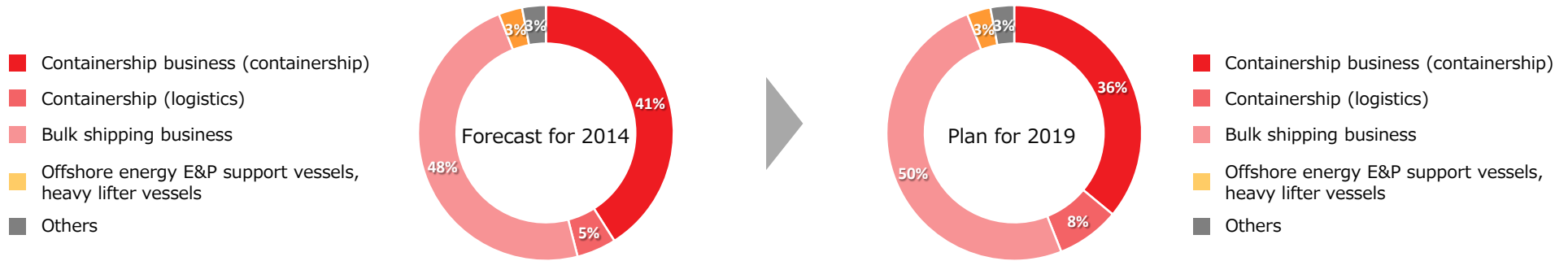


Further business growth based on financial soundness

Managing portfolio to minimize risk

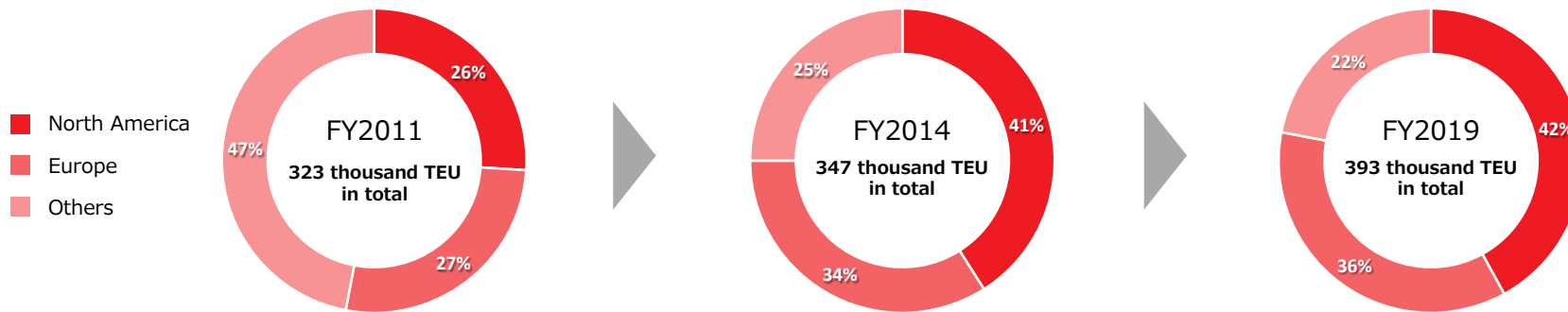
Sales per business category (forecast for 2014 ⇒ plan for 2019)

Note: These figures exclude slot exchange fees of about ¥90 billion per year in the containership alliance.



We will create the operation portfolio by expanding Bulk shipping business and Logistics business in a proper balance.

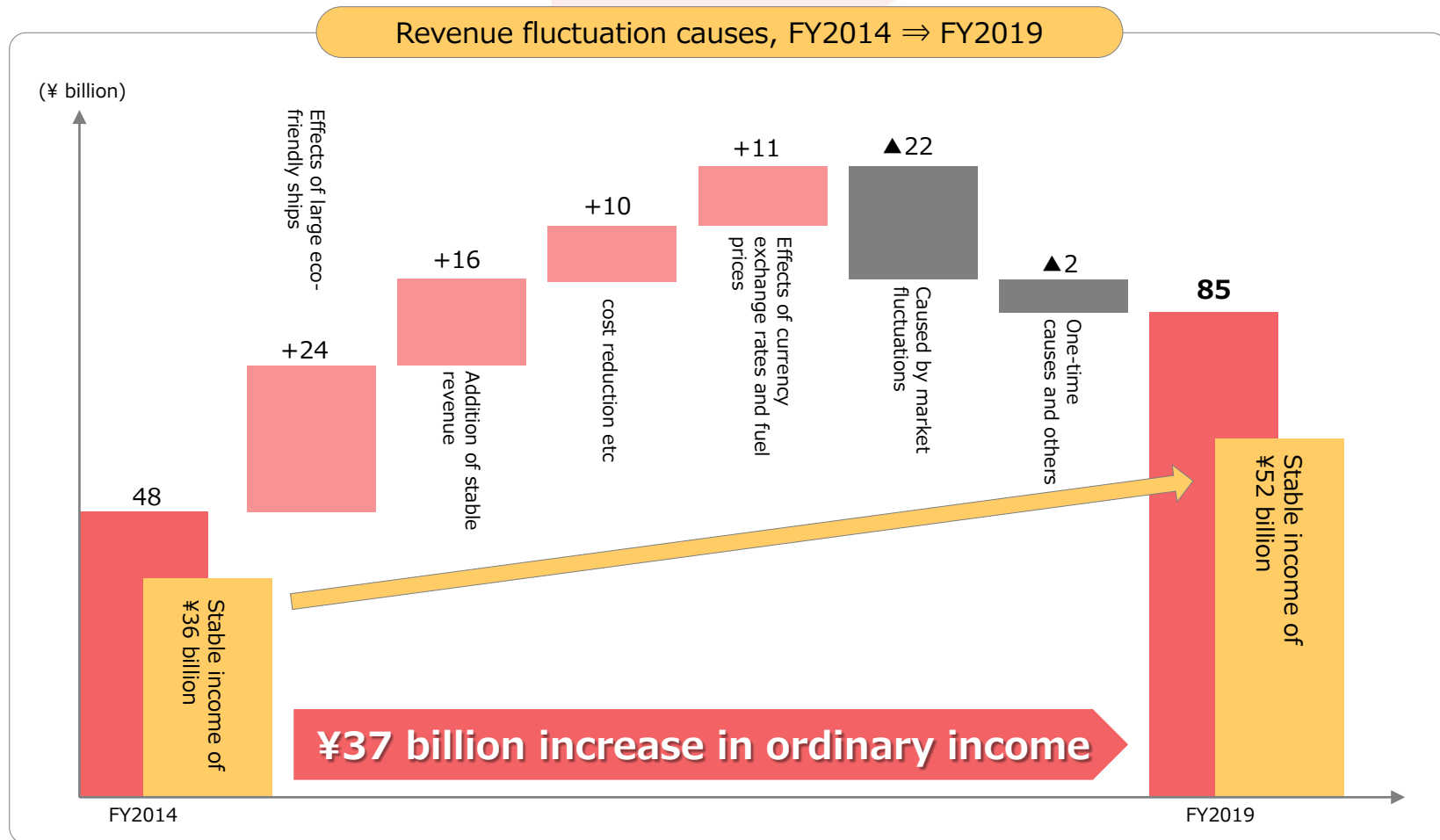
Business by route <based on tonnage> (result of 2011 ⇒ forecast for 2014 ⇒ plan for 2019)



Conducting business under the strategy of focusing on the east-west routes, in which we have competitive advantage, with the benefit of alliance and energy-efficient large ships

Further business growth based on financial soundness

- ◆ Improving the system that brings stable business profits with increased resilience in volatile markets
- ◆ Strategic investment to expand in growing sectors



Further business growth based on financial soundness

- ◆ Improving the system that brings stable business profits with increased resilience in volatile markets
- ◆ Strategic investment to expand in growing sectors

Fleet Upgrading Plan

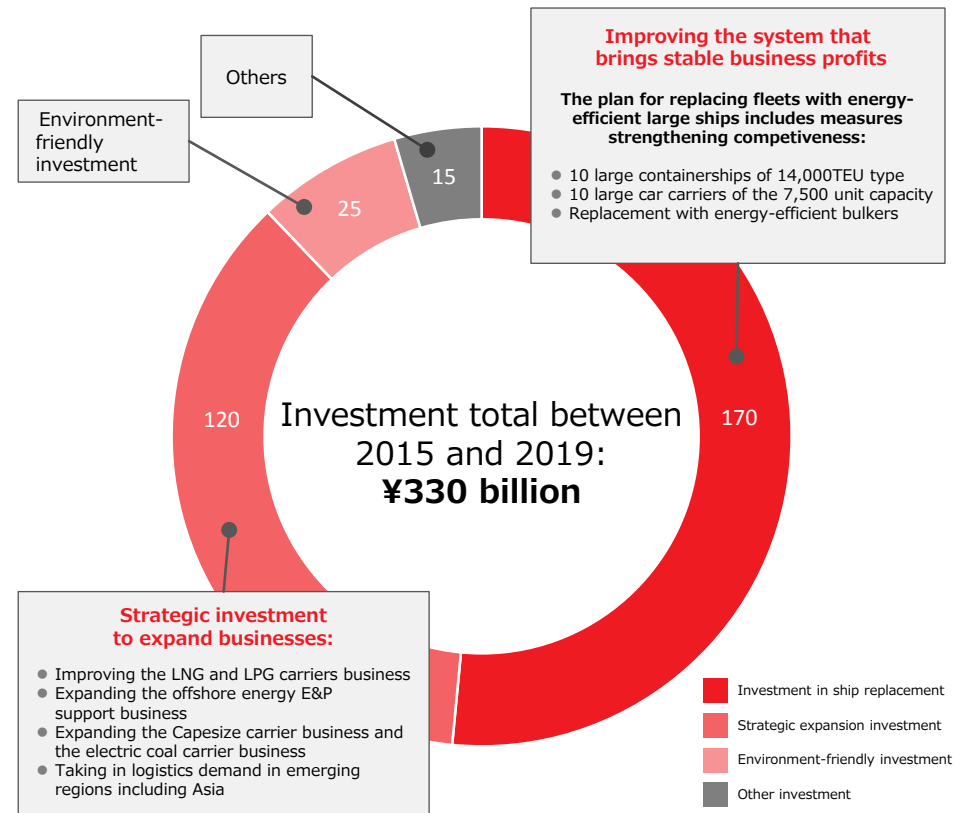
Number of key fleets	The end of FY2014	The end of FY2017	The end of FY2019
Containerships	70	66	61
Dry bulk carriers	218	226	239
Capesize carriers	85	89	100
Over-Panamax(Electric coal carrier)/Panamax	69	71	75
Others	64	66	64
Car carriers	96	95	98
Tanker	25	26	24
LNG carriers	43	47	61
Offshore energy E&P support vessels/ Heavy lifter vessels	24	25	26
Others	50	54	55
Total	526	539	564

*The number of LNG carriers includes carriers owned by other companies

Strategic investment targets



Investment plan

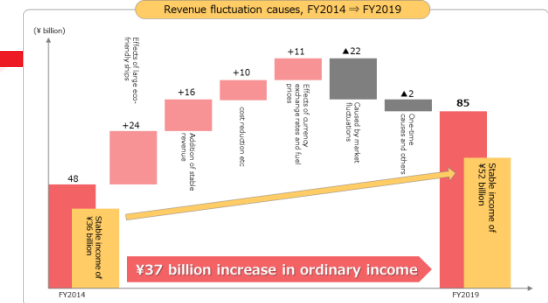


*Investment in ship replacement and other investment represent net investment including asset disposal

Further business growth based on financial soundness

- ◆ Improving the system that brings stable business profits with increased resilience in volatile markets
- ◆ Strategic investment to expand in growing sectors

K Value for our Next Century



Initiatives in each segment

Improving the system that brings stable business profits

▶ Containership Business

- Strategies of focusing on the east-west routes, in which we have competitive advantage
- Maximizing the benefits of alliance and energy-efficient large ships
- New operation system project (for improving customer service and business efficiency)
- Turning the business into a profit center by building our high-standard terminals

▶ Logistics Business

- Expanding the business to grow further

▶ Dry Bulk Business

- Raising profits steadily by securing medium to long-term contracts and avoiding exposure
- Acquiring more competitiveness by replacing ships with energy-efficient newest models

▶ Car Carrier Business

- Acquiring more competitiveness by introducing energy-efficient large ships
- Corresponding to changes and diversification in trading and expanding high & heavy cargo carriers businesses

▶ LNG Carrier Business and Tanker Business

- Raising profits steadily in the oil tanker service business by securing medium to long-term contracts

▶ Heavy Lifter Business

- Improving profits based on expanding the heavy lifter business

▶ Short Sea and Coastal Business

- Initiatives in the offshore support vessels business and strengthening the coastal liner and ferry services
- Improving profits in the short sea ship business

Expanding businesses with strategic investment

▶ LNG Carrier Business and Tanker Business

- Upgrading LNG and LPG ships based on medium to long-term contracts

▶ Offshore Energy E&P Support Business

- Expanding businesses using our know-how and networks based on the offshore operation

▶ Dry Bulk Business

- Expanding the Capesize carrier business by securing medium to long-term contracts with consideration of market trends
- Expanding the electric coal carrier business.

▶ Logistics Business

- Taking in logistics businesses in Asian and other economies
- Enhancing car shipping and cold chain businesses basically with our networks
- Short sea cargo, coastal, and river shipping businesses in the Southeast Asian region

Dialogues and collaboration with stakeholders to grow consistently and raise corporate value



Dialogues and collaboration with stakeholders to grow consistently and raise corporate value

- ▶ Focusing on dialogues and collaboration with stakeholders by proactive information disclosure
- ▶ Strengthening corporate governance to secure growth and improve corporate value
- ▶ Setting an ROE target: more than 10% in FY2019
- ▶ Returning profits to shareholders based on a stable dividend policy
 - In addition, aiming to share profit exceeding a designated level, based on total return ratio

Stable dividend



Total return ratio
in line with
the profit level



Dialogues and collaboration with stakeholders to grow consistently and raise corporate value

The Group's basic approaches to CSR: "Consideration of impact on business activities", "Creating new starts"

Environment conservation

Environmental Vision 2050 *

As a world-leading shipping company, "K" LINE defines goals for 2050 in four priority tasks in **Environmental Vision 2050** with the aim of "securing blue seas for tomorrow".



Navigating for Sustainability

*The detail of Environmental Vision 2050 will be announced separately.

Dialogues and collaboration with stakeholders to grow consistently and raise corporate value

The Group's basic approaches to CSR: "Consideration of impact on business activities", "Creating new starts"

Safe operation

Maintaining the world-leading safe operation

▶ "K" LINE Group's initiatives

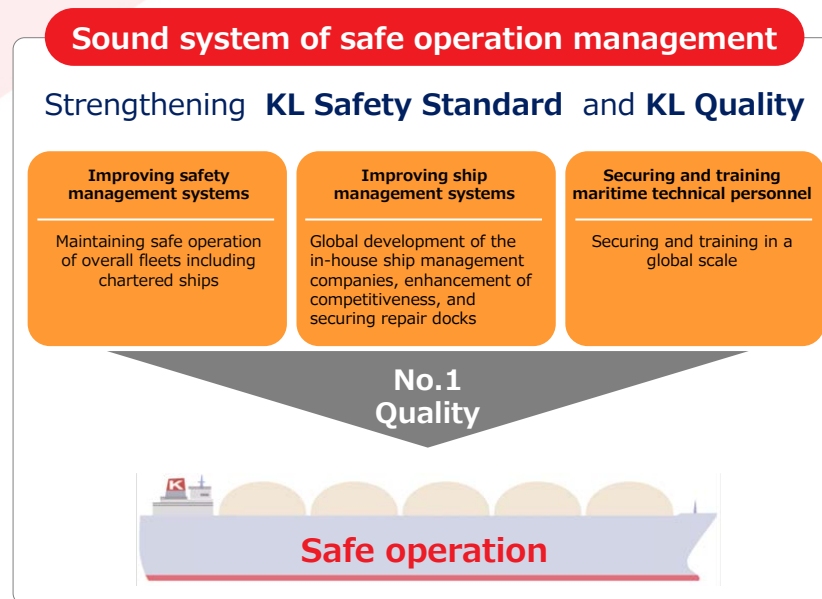
- Thorough implementation of safe ship operation with collaboration of Group companies and chartered shipowners
- Periodical ship inspection to improve the operation quality
- Fleet-wide implementation of safe operation practices by developing technologies in fuel management and slow steaming

Human resource cultivation

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

▶ Global initiatives of the "K" LINE Group

- Nurturing individuals who have professional knowledge and high management skills as well as integrity
- Maintaining the corporate culture that appreciates mutual respect, freedom, and vigor; the traits enable each employee to use their ability proactively and allow the company to overcome difficulties and grow continuously.
- Creating the environment where employees share what the company should be in the future and keep nurturing new abilities
- Establishing efficient business procedures that bring maximum results with minimum effort; accordingly, employees can enjoy both work and life.





Value for our Next Century