

Supplementary report to “Notice on Provision for Losses and Extraordinary Losses
from Business Structural Reforms, and Revised Forecast of Financial Results for Fiscal Year 2018”

Progress of Medium-Term Management Plan and Commencement of Structural Reforms

March 7, 2019





1 Medium-Term Management Plan

Evaluation of Progress & Direction of Structural Reforms

Progress of key objectives in “K” LINE businesses set in the Medium-Term Management Plan are on track, except for Containerships related businesses, mainly because of which “K” LINE expects to record losses in FY2018.

➤ For enhancing further profitability in upcoming final year of Medium-Term Management Plan and years beyond, “K” LINE will carry out “fundamental structural reforms”

Key Objective	Target set in Medium-Term Mgmt Plan	FY2017		FY2018		Need for Structural Reforms
		Evaluation	Progress	Evaluation	Progress	
Financial Indicator	Maintain profit for three consecutive years from FY2017	○	Achieved making profit	×	Significant Loss	<ul style="list-style-type: none"> ● Recognized need for fundamental measures to enhance profitability not only for shorter period but persistently in order to return to profit next year onwards, as well as to execute earlier resumption of dividends payment. ● Needs of review and execution of inconsecutive measures to revive and strengthen the damaged capital base not only by retaining profit consecutively as an immediate challenge
	Achieve 6% ROA (ordinary income) in stable income business, and expand business scale	○	ROA 5.4% Ordinary income from stable business 27.0 bln. yen	○	ROA 5.5% Ordinary income from stable business 26.0bln. yen	
	Ratio of Shareholders' equity - Targeting MID 20%'s	△	Ratio of Shareholders' equity 21%	×	Ratio of Shareholders' equity 19% (Before Provision for Losses/Structural Reforms)	
	Early resumption of dividends	×	No dividend	×	No dividend	
Business Portfolio	Strengthen and expand stable income business	○	Accomplishment of Integration of Containership business (foundation of "ONE"), Sold Heavy Lifter business, Reduced market-exposed fleets	×	Significant Loss because of teething problems occurred immediately after the commencement of the services	<div style="text-align: center;">  </div>
	Develop next generation core business	△	Participate in business for FPSO for oil production in Ghana, Start completed vehicles storage/land transportation services in Chile and Philippines	△	Determination to operationalization of LNG bunkering business	
Advanced Business Management	Strengthen measurement of "Total Business Risk" and quality by sophistication on business risk/return measurement, Introduction of business measurement focusing on capital cost	○	Rollout evaluation of by "K"VaCS/"K"RIC, Support for rebuilding business portfolio/strengthening cooperation	○	Stabilization of steady quantitative evaluation for investment matters (further use of "K"VaCS/"K"RIC) Build up of fundamental base/operation to carry out rebuilding the most suitable business portfolio	<div style="text-align: center;">  </div>

Commencement of "Fundamental Structural Reforms"

2 Structural Reforms Plan

Structural Reforms Outline/Effect

Structural Reforms

Fundamental Profitability Enhancement

Containerships/small and medium sized dry bulkers

Disposal of uneconomical fleets by cancellation of chartering approximately 50 bln. yen
(Approx. 25 fleets scheduled)

Profitability improvement by reducing market-exposed fleets in FY2019 onwards

Implementation of Measures to Strengthen Capital Base (FY2018-FY2019)

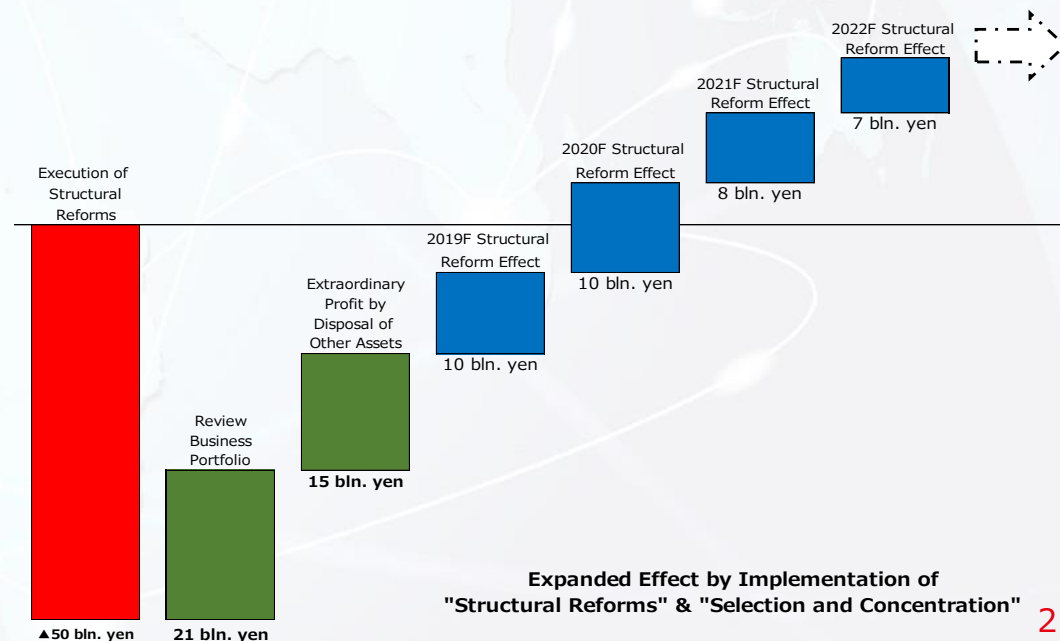
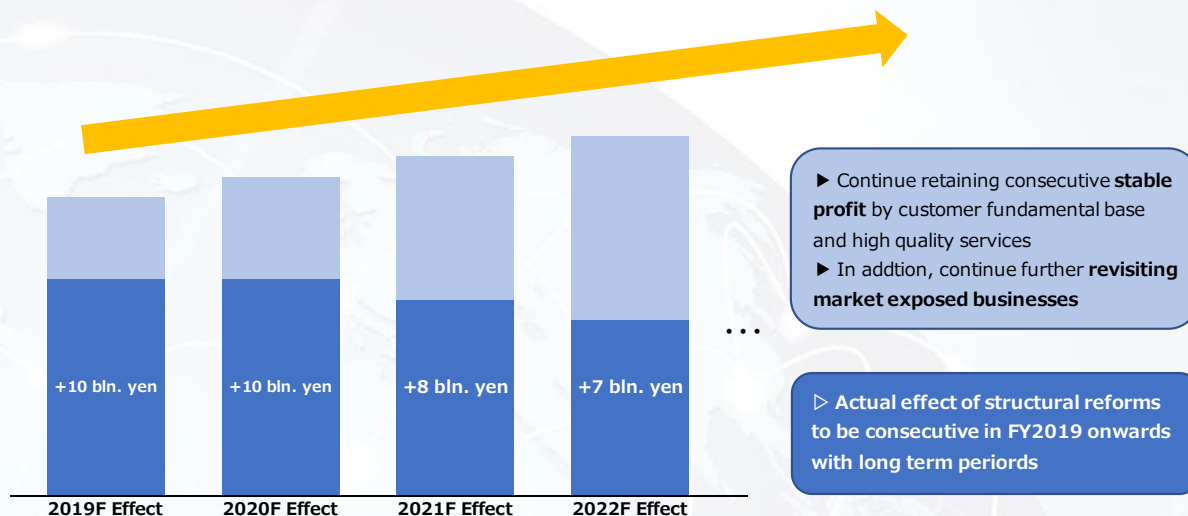
Implementation to reallocate management resources by "Selection and Concentration"

○ Review of Business Portfolio Approx. 21 bln. yen

- ✓Effect by joint domestic port transportation business
- ✓Sale of non-core business assets (real estate)
- ✓Sale of strategic-holding shares

○ Extraordinary profit by disposal of other assets Approx. 15 bln. yen

● Further implementation of measures through "Selection and Concentration"



▶ Management Direction

To tackle following basic direction thoroughly during the final year of medium-term management plan

■ Rebuilding portfolio strategy

– **improvement of profitability by concentration to four business pillars and suitable portfolio**

- ▶ Dry Bulk Business – Expansion of stable income business fleets in Cape-sized sector, Optimization of market exposed fleets in small and medium sized sector
- ▶ Car Carrier Business – Streamline of service network by rationalization of profitability management by services, freight restoration
- ▶ Energy Resource Transport Business – Reorganization of market exposed businesses and initiatives of “Selection and Concentration” by business expansion through business risk/return evaluation
- ▶ Logistics and Affiliated Business – Reformation of the Group’s global network by having “K” LINE LOGISTICS, LTD as core entity and expansion of logistics business in area-based by having external “Know-How”

■ Advanced Business Management and Reinforcement of Strategy by Functions

- ▶ Advanced Business Management – Continuous advanced business management cored by business risk/return evaluation and reallocation of management resources to strengthen capital base
- ▶ Reinforcement of Strategy by Functions – Further quality improvement of customer services and safe vessel operations by having each sales division cross-sectionally with new two organizations launched in the Group

▶ Plan for Financial Foundation Revival

Top priority challenge in reviving the financial foundation after execution of structural reforms and undershooting in profit plan

- ▶ Tackle of expansion of stable Ratio of Shareholders’ Equity through reallocation of management resources to strengthen capital base with “Selection and Concentration” and improved profitability with structural reforms
- ▶ Achievement of rebalance of business risk and acceptable risk (Ratio of Shareholders’ Equity) through advanced business management

※ Detailed plans including quantitative targets will be drawn up and announced during FY2019 in due course.