# Financial Highlights
# Brief Report for 2nd Quarter
# FY2019

31st October 2019

# Contents

## A Financial Highlights for 2nd Quarter FY2019



## B Division Trends



## C Ocean Network Express - Financial Results for FY2019 2nd Quarter and Forecasts for FY2019

# Financial Highlights for 2nd Quarter FY2019

# Financial Results for 2nd Quarter FY2019

## Consolidated Results for 2Q FY2019

(billion yen)

| | FY2019 1Q | FY2019 2Q | FY2019 1H (a) | FY2018 1H (b) | (a)-(b) | FY2019 as of Jul 1H (c) | (a)-(c) |
|---|---|---|---|---|---|---|---|
| Operating Revenues | 183.3 | 189.1 | 372.4 | 416.1 | -43.7 | 368.0 | 4.4 |
| Operating Income | 4.1 | 7.0 | 11.1 | -12.3 | 23.4 | 8.0 | 3.0 |
| Ordinary Income | 2.7 | 10.7 | 13.4 | -21.3 | 34.7 | 10.0 | 3.4 |
| Net Income Attributable to Owners of Parent | 7.8 | 8.5 | 16.3 | -24.6 | 40.9 | 7.0 | 9.3 |
| Exchange Rate(￥/$) | ¥110.73 | ¥107.63 | ¥109.18 | ¥109.48 | -¥0.30 | ¥109.33 | -¥0.15 |
| Bunker Price(/MT) | $443 | $437 | $440 | $437 | $3 | $436 | $5 |

| Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income) | FY2019 1Q | FY2019 2Q | FY2019 1H (d) | FY2018 1H (e) | (d)-(e) | FY2019 1H (f) | (d)-(f) |
|---|---|---|---|---|---|---|---|
| **Dry Bulk** | 55.5 | 60.8 | 116.3 | 132.0 | -15.6 | 114.0 | 2.4 |
| | - 0.4 | 0.6 | 0.2 | 2.1 | -1.9 | 1.0 | - 0.8 |
| **Energy Resource Transport** | 20.5 | 23.3 | 43.8 | 42.0 | 1.8 | 42.0 | 1.8 |
| | 1.8 | 2.8 | 4.6 | 1.6 | 3.0 | 3.5 | 1.1 |
| **Product Logistics** | 98.7 | 96.2 | 194.9 | 225.4 | -30.4 | 195.5 | - 0.6 |
| | 1.8 | 8.6 | 10.5 | -23.1 | 33.5 | 8.0 | 2.4 |
| Containership | 24.6 | 24.7 | 49.3 | 75.8 | -26.5 | 49.5 | - 0.2 |
| | - 0.4 | 4.0 | 3.6 | -23.4 | 27.0 | 3.0 | 0.5 |
| ONE as Equity Method Company | 0.2 | 4.2 | 4.5 | -11.5 | 16.0 | 4.3 | 0.2 |
| **Other** | 8.6 | 8.7 | 17.3 | 16.8 | 0.5 | 16.5 | 0.8 |
| | 0.3 | 0.4 | 0.7 | 1.0 | -0.3 | 0.5 | 0.2 |
| **Adjustment** | - | - | - | - | - | - | - |
| | - 0.9 | - 1.7 | - 2.6 | -3.0 | 0.4 | - 3.0 | 0.4 |
| **Total** | 183.3 | 189.1 | 372.4 | 416.1 | -43.7 | 368.0 | 4.4 |
| | 2.7 | 10.7 | 13.4 | -21.3 | 34.7 | 10.0 | 3.4 |

## Key Factors

- Dry Bulk

Posted a loss due to weaker market conditions at the beginning of the year, despite improved profitability resulting from structural reforms

- Energy Resource Transport

Expanded profit due to robust Tanker market conditions, an accumulation of mid-long term contracts, mainly for Thermal Coal and LNG carriers, as well as improvement in profitability on Offshore Support Vessel Business

- Product Logistics

Improved profitability for Car Carriers due to the effects of route rationalization and rate restoration efforts

Improved profitability for Containerships, reflecting improved profitability at ONE, a decrease in temporary costs, and structural reform effects

| | | FY2019 1H (a) | FY2018 1H (b) | (a)-(b) |
|---|---|---|---|---|
| Dry Bulk | CAPE | $20,400 | $18,500 | +$1,900 |
| | PANAMAX | $12,800 | $11,300 | +$1,500 |
| | HANDYMAX | $10,250 | $11,300 | -$1,050 |
| | SMALL HANDY | $7,300 | $8,500 | -$1,200 |
| Tanker | VLCC | $20,800 | $12,600 | +$8,200 |
| | AFRAMAX | $11,300 | $8,200 | +$3,100 |

## Key Financial Indicator

(billion yen)

| | FY2019-2Q (a) | FY2018 (b) | (a)-(b) |
|---|---|---|---|
| Equity Capital | 115.5 | 103.6 | 11.9 |
| Interest-bearing liability | 549.0 | 550.2 | - 1.2 |
| DER | 475% | 531% | -56% |
| NET DER | 373% | 393% | -20% |
| Equity Ratio | 13%(*) | 11% | 2% |

(*) 17%, including the subordinated loan with 50% equity credit from a rating agency

# A-2 Financial Highlights for 2nd Quarter FY2019

# Forecasts for FY2019

## Forecasts for FY2019

(billion yen)

| | FY2019 | | | | | FY2018 | | vs FY2018 | | FY2019 as of Jul | | vs FY2019 as of Jul | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 1H (a) | 2H Forecast | Total (b) | 1H (c) | Total (d) | 1H (a)-(c) | Total (b)-(d) | 1H (e) | Total (f) | 1H (a)-(e) | Total (b)-(f) |
| Operating Revenues | 183.3 | 189.1 | 372.4 | 367.6 | 740.0 | 416.1 | 836.7 | - 43.7 | - 96.7 | 368.0 | 750.0 | 4.4 | - 10.0 |
| Operating Income | 4.1 | 7.0 | 11.1 | - 5.0 | 6.0 | - 12.3 | - 24.7 | 23.4 | 30.8 | 8.0 | 6.0 | 3.1 | - |
| Ordinary Income | 2.7 | 10.7 | 13.4 | - 8.4 | 5.0 | - 21.3 | - 48.9 | 34.7 | 53.9 | 10.0 | 5.0 | 3.4 | - |
| Net Income Attributable to Owners of Parent | 7.8 | 8.5 | 16.3 | - 5.3 | 11.0 | - 24.6 | - 111.2 | 40.9 | 122.2 | 7.0 | 11.0 | 9.3 | - |
| Exchange Rate(￥/$) | ¥110.73 | ¥107.63 | ¥109.18 | ¥107.99 | ¥108.58 | ¥109.48 | ¥110.67 | -¥0.30 | -¥2.09 | ¥109.33 | ¥108.67 | -¥0.15 | -¥0.09 |
| Bunker Price(/MT) | $443 | $437 | $440 | $531 | $485 | $437 | $450 | $3 | $35 | $436 | $556 | $5 | -$71 |

## Key Factors

- Although there are changes between 1H results and 2H forecasts, the forecasts of Operating Income, Ordinary Income and Net Income Attributable to Owners of Parent remain the same as the previous forecasts.

### Key factors Assumption

- Yen-$ rate ￥**109**
- **(2H ¥108)**
- Bunker Price **$485/MT**
  **(2H ＄531/MT)**
- Market assumption
  Please refer to "A-3"

### Estimates Sensitivity (3~4Q･6 months)

- Yen-US$ rate : each ¥1 weaker (stronger) adds (subtracts) ±￥0.23bln
- Bunker price: each $10/mt down (up) adds (subtracts) ±￥0.05bln

*Bunker price sensitivity by ONE is not included.

### Dividends

We recognize resume dividend payment at an early stage as our important management task in our Mid-term management plan. Our priority is also to stabilize our financial strength and keep improving our financial results.
With much regret, we decided not to pay interim dividend and have not decided to pay year-end dividend.

# Forecasts for FY2019 by Segment

## Forecasts for FY2019 by Segment

(billion yen)

| Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income) | FY2019 1Q | FY2019 2Q | FY2019 1H (g) | FY2019 2H Forecast | FY2019 Total (h) | FY2018 1H (i) | FY2018 Total (j) | vs FY2018 1H (g)-(i) | vs FY2018 Total (h)-(j) | FY2019 as of Jul 1H (k) | FY2019 as of Jul Total (l) | vs FY2019 as of Jul 1H (g)-(k) | vs FY2019 as of Jul Total (h)-(l) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Dry Bulk** | 55.5 | 60.8 | 116.3 | 113.7 | 230.0 | 132.0 | 273.8 | - 15.6 | - 43.8 | 114.0 | 223.5 | 2.3 | 6.5 |
| | - 0.4 | 0.6 | 0.2 | 4.8 | 5.0 | 2.1 | 4.4 | - 1.9 | 0.5 | 1.0 | 4.5 | - 0.8 | 0.5 |
| **Energy Resource Transport** | 20.5 | 23.3 | 43.8 | 44.2 | 88.0 | 42.0 | 88.7 | 1.8 | - 0.7 | 42.0 | 91.0 | 1.8 | - 3.0 |
| | 1.8 | 2.8 | 4.6 | 4.4 | 9.0 | 1.6 | 2.5 | 3.0 | 6.5 | 3.5 | 7.0 | 1.1 | 2.0 |
| **Product Logistics** | 98.7 | 96.2 | 194.9 | 195.1 | 390.0 | 225.4 | 441.0 | - 30.4 | - 51.0 | 195.5 | 403.0 | - 0.6 | - 13.0 |
| | 1.8 | 8.6 | 10.5 | - 16.0 | - 5.5 | - 23.1 | - 49.2 | 33.5 | 43.7 | 8.0 | - 3.0 | 2.5 | - 2.5 |
| Containership | 24.6 | 24.7 | 49.3 | 53.7 | 103.0 | 75.8 | 135.8 | - 26.5 | - 32.8 | 49.5 | 106.5 | - 0.2 | - 3.5 |
| | - 0.4 | 4.0 | 3.6 | - 17.1 | - 13.5 | - 23.4 | - 48.8 | 27.0 | 35.3 | 3.0 | - 12.0 | 0.6 | - 1.5 |
| ONE as Equity Method Company | 0.2 | 4.2 | 4.5 | - 2.2 | 2.3 | - 11.5 | - 20.1 | 16.0 | 22.4 | 4.3 | 3.1 | 0.2 | - 0.8 |
| **Other** | 8.6 | 8.7 | 17.3 | 14.6 | 32.0 | 16.8 | 33.2 | 0.5 | - 1.2 | 16.5 | 32.5 | 0.8 | - 0.5 |
| | 0.3 | 0.4 | 0.7 | 0.8 | 1.5 | 1.0 | 1.1 | - 0.3 | 0.4 | 0.5 | 1.5 | 0.2 | - |
| **Adjustment** | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | - 0.9 | - 1.7 | - 2.6 | - 2.4 | - 5.0 | - 3.0 | - 7.8 | - | 2.8 | - 3.0 | - 5.0 | 0.4 | - |
| **Total** | 183.3 | 189.1 | 372.4 | 367.6 | 740.0 | 416.1 | 836.7 | - 43.7 | - 96.7 | 368.0 | 750.0 | 4.4 | - 10.0 |
| | 2.7 | 10.7 | 13.4 | - 8.4 | 5.0 | - 21.3 | - 48.9 | 34.7 | 53.9 | 10.0 | 5.0 | 3.4 | - |

## Key Factors by Segment

- Dry Bulk

Profitability at the prior-year level expected as market conditions have maintained firm after slumping since the second half of the previous fiscal year.

- Energy Resource Transport

Year-on-year growth in income is expected to continue in the second half mainly as a result of the robust Tanker market conditions and the strong performance of stable-income businesses.

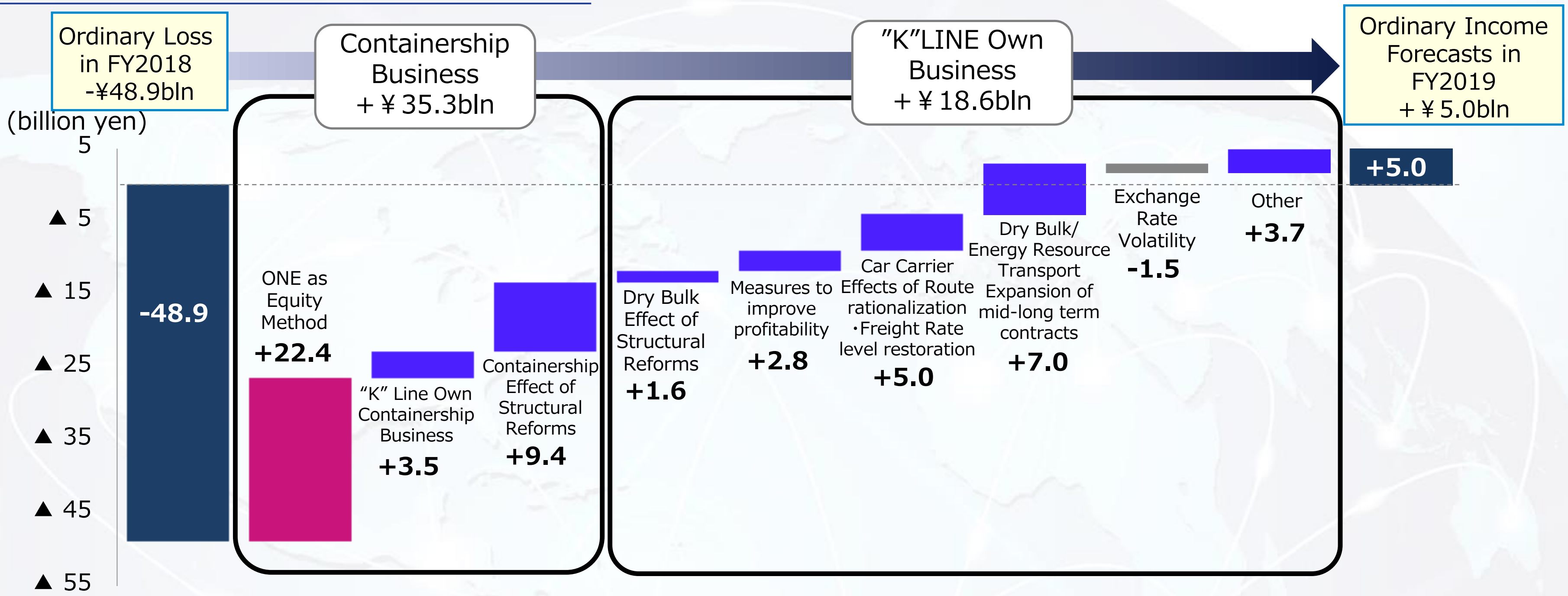
- Product Logistics

Increasing profitability compared with the previous year due to ONE's profit improvement, structural reform effects of Containership, and profit improvement of Car Carriers.

| | | FY2019 1H | FY2019 2H Forecast | FY2019 Total (a) | FY2018 1H | FY2018 2H | FY2018 Total (b) | (a)-(b) |
|---|---|---|---|---|---|---|---|---|
| Dry Bulk | CAPE | $20,400 | $22,000 | $21,200 | $18,500 | $12,200 | $15,350 | +$5,850 |
| | PANAMAX | $12,800 | $12,250 | $12,500 | $11,300 | $9,700 | $10,500 | +$2,000 |
| | HANDYMAX | $10,250 | $11,500 | $10,900 | $11,300 | $9,600 | $10,450 | +$450 |
| | SMALL HANDY | $7,300 | $8,500 | $7,900 | $8,500 | $7,600 | $8,100 | -$200 |
| Tanker | VLCC (Middle East/Japan) | $20,800 | $30,000 | $25,400 | $12,600 | $40,200 | $26,400 | -$1,000 |
| | AFRAMAX (South Asia/Japan) | $11,300 | $19,000 | $15,150 | $8,200 | $14,700 | $11,450 | +$3,700 |

# A-4 Financial Highlights for 2nd Quarter FY2019
# Latest Forecasts for FY2019 – vs. Financial Results for FY2018

## Key Factors : Ordinary Income




## Progress of Measures to improve profitability in FY2019

| Measures to improve profitability in FY2019 | | Forecast (a) | Target as of Jul (b) | (a)-(b) |
|---|---|---|---|---|
| Dry Bulk | Effective Vessel Allocation/ Most Economical Vessel Operation | 0.5 | 0.5 | - |
| | Vessel Operation Cost reduction/ Further efforts to market procurement | 0.6 | 0.6 | - |
| Energy Resource Transport | Effective Vessel Allocation/ Most Economical Vessel Operation | 0.5 | 0.4 | 0.1 |
| | Operation cost reduction | 0.9 | 0.9 | - |
| Product Logistics | Sales Activities | 0.1 | 0.2 | - 0.1 |
| | Operation cost reduction | 0.2 | 0.2 | - |
| | Total (billion yen) | 2.8 | 2.8 | - |

- Containership Business
  Improvement of ¥35.3bln expected, mainly from equity in profit/loss of ONE and structural reform benefits
- "K"LINE Own Business
  Improvement of ¥18.6bln expected, mainly from route rationalization and rate restoration effects in Car Carrier Business, increase of dry bulk market and Expansion of mid-long term contracts in Energy Resource Transport
- Measures to improve profitability
  Steady achievement with a full-year effect of ¥2.8bln expected

# Progress of Main Initiatives for 2nd Quarter FY2019

| Key objective | Business/Tasks | Initiatives | Progress in FY2019-2Q |
|---|---|---|---|
| Rebuilding Business Portfolio | Dry Bulk | Expansion of Stable Income Business, mainly Capesize vessels | Expansion of mid-long-term cotracts, maily Capesize<br>・ Commencement of long-term consecutive voyage charter contracts with JFE Steel Corporation.<br>Agreement with Nippon Paper Industries Co. Ltd. on consecutive voyage contract. (in October) |
| | | Optimization of core market-exposed fleet like Panamax-smaller-size vessels | Full-year profitability improvement effect of ￥1.6 bln realized as expected, due to structural reforms (charter cancellations) in the previous fiscal year and anticipated in line with expectations |
| | Car Carrier | Benefits of route rationalization through revenue management by route-wise and Improvement of profitability through freight rate restoration | Full-year profit improvement is expected to be ¥5.0 bln in FY2019. |
| | Energy Resource Transport | Expansion of Stable Income Business, mainly LNG and Thermal Coal Carriers | Expansion of mid-long-term cotracts, mainly new delivery vessels<br>・Agreement to establish a new Joint venture shipping company with Taipower and etc. (Disclosed in July)<br>・Delivery of Coal Carriers for Hokuriku Electric Power Company (in July) and Electric Power Development Co., Ltd.(in September) |
| | | Restructuring of market-exposed business and "Selection and Concentration" considering evaluation of business risk-return management. | 3 clean tanker fleet (LRⅡ) redelivered and completion of withdrawal from the product tanker business, which is highly sensitive to market conditions (in May)<br>Sale of one vessel in unprofitable Offshore Support Vessel Business (in April) |
| | Containerships | Measures to loss related to containership chartering | Full-year profitability improvement effect of ￥9.4 bln realized as expected, due to structural reforms (charter cancellations) in the previous fiscal year and anticipated in line with expectations |
| | | Profit improvement by ONE | Achieving a surplus in 1H in FY2019 |
| | Logistics | Deepening our business rooted in individual countries and regions through introduction of external knowhow. | Establishment of Joint Holding Company by our Three Domestic Harbor Transportation Subsidiaries and completion of partial share transfer of the company to Kamigumi Co., Ltd. (in April)<br>Collaborative projects through the alliance with Kamigumi Co., Ltd., such as effective utilization of management resources, are taking shape, and discussions to further increase synergies are in progress. |
| Restoration of Financial Base | Measures to Strengthen Capital Base | Review of Business Portfolio | |
| | | Strengthening financial Base and maintaining Capital efficiency | Completion of execution of New subordinated loan (￥45.0bln) with equity credit (Evaluation of Equity Credit is 50% by Rating Agency) (in April) |
| Key Strategies by Function | Develop new business models by cooperation with Customers and outsiders | | Commencing Joint Research and Analysis and Market Conditions with artificial intelligence (AI)<br>(Joint cooperation with The National Institute of Maritime,Port and Aviation Technology/ Hiroshima University / Marubeni Corporation) (Disclosed in October) |
| ESG Initiatives | Environment （E) | Reduction of Environmental load | “Seawing”, an automated kite system utilizing natural energy to be installed to a large bulk carrier owned by "K"Line. (Disclosed in June)<br>Joint Approval in Principle (AIP) for New Concept Design of LNG-fuelled Ore Carrier with Namura Shipbuilding Co., Ltd. (in August) |
| | | External Recognition | Selected as a component in Socially Responsible Investment (SRI) and ESG indices used all over the world.<br>「FTSE4 Good Index Series」(Consecutive 17 years),<br>「Dow Jones Sustainability Indices（DJSI）Asia Pacific Index」(Consecutive 9 years) etc. |

# Compliance with IMO SOx Regulations

"K" LINE 川崎汽船株式会社

## Proceeding smoothly with a response to global SOx sulfur oxides) regulations taking effect in January 2020 with a policy of maintaining smooth vessel operation and minimizing the economic impact and comply with regulations

| Immediate response | | Situation of progress |
|---|---|---|
| ① Usage of regulation-compliant fuel oil | Status of securing regulation-compliant fuel oil | Engaged in advance procurement and secured a certain ratio in main bunkering areas. Proceed with further procurement through the end of the year.<br>Trials of usage on multiple vessel types completed.<br>Switchover to compliant fuel oil has begun for some vessels and is progressing on schedule. |
| | Status of response to cost increases | For fuel switching, attempting to reduce costs by devising switching techniques and utilizing additives(Sludge dispersant).<br>We are explaining and discussing the fuel oil cost increase with customers to obtain their understanding of an appropriate burden as an environmental cost on their part, and general acceptance has been gained. |
| ② Installation of SOx Scrubber | | Planned installation on a portion of the "K" Line fleet, mainly bigger size vessels for which there are customer requests.<br>New vessels with Sox scrubber are gradually being delivered. |

# Division Trends



# B-1 Division Trends
# Dry Bulk Segment

## Results in 1H FY2019

- Dry Bulk market conditions recovered from a slump at the start of the fiscal year. Marine transport demand was firm, particularly cargo shipments to China. Vessel off-hire increased for installation of equipment to meet environmental regulations (SOx scrubber installation), which alleviated excess vessel supply.
- Capesize

  The trend was upward at the later first half accompanying strong crude steel production in China and recovery of iron ore cargo movements from Brazil.
- Panamax and Smaller size

  Strong performance on higher demand for long-haul shipments of grain produced in South America driven by the impact of U.S.-China trade friction.
- Strengthening effective operation suitable for the market situation and most economical operation including measures to improve profitability.

### Transition of Dry Bulk Fleet Scale

| | FY2017 | FY2018 | FY2019 2Q |
|---|---|---|---|
| CAPE | 106 | 96 | 94 |
| Panamax and Smaller size | 127 | 103 | 94 |
| Woodchip Carrier | 10 | 10 | 10 |
| **Total** | **243** | **209** | **198** |

### FY2019 : Dry Bulk Market Exposure

| | |
|---|---|
| CAPE | 11% |
| Panamax and Smaller size | 14% |
| Woodchip Carrier | 6% |

## Initiatives for 3Q FY2019 onwards

- Strengthen our profitability not affected by market volatility through improvement profitability measures like vessel operation effectiveness, expansion of stable business by mid-long term contracts and cost savings etc.
- Expanding customer base and creating new business by improvement of transportation/service quality and reduction of environmental load

| Dry Bulk Market | FY2018 | | | | | FY2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Results | 1Q | 2Q | 2H Forecast | Forecast |
| CAPE | $14,950 | $22,000 | $15,800 | $8,650 | $15,350 | $11,350 | $29,400 | $22,000 | $21,200 |
| PANAMAX | $10,500 | $12,150 | $12,350 | $6,950 | $10,500 | $9,500 | $16,050 | $12,250 | $12,500 |
| HANDYMAX | $11,050 | $11,600 | $11,500 | $7,600 | $10,450 | $8,200 | $12,300 | $11,500 | $10,900 |
| SMALL HANDY | $8,800 | $8,250 | $9,250 | $6,000 | $8,100 | $6,100 | $8,450 | $8,500 | $7,900 |

# B-2 Division Trends
## Energy Resource Transport Segment – Tanker/Thermal Coal Carrier

"K" LINE 川崎汽船株式会社

### Results in 1H FY2019

- Tanker
  - VLCC market conditions surged towards the end of the first half due to tanker attacks in the Gulf of Oman and application of U.S. sanctions against some major shipowners.
  - For LPG vessels, exports from the U.S. rose, ton-miles increased, the market conditions continued to trend at high levels.
- Thermal Coal Carrier
  - Secured stable profits based on mid-long term contracts
  - Pursued effective vessel allocation/operation and shrinking market exposure

### Transition of Tanker and Thermal Coal Carrier Fleet Scale

| | FY2017 | FY2018 | FY2019 2Q |
|---|---|---|---|
| VLCC | 6 | 8 | 7 |
| LPG Carrier | 7 | 8 | 5 |
| Other Tankers | 9 | 6 | 6 |
| Thermal Coal Carrier | 23 | 25 | 29 |
| **Total** | **45** | **47** | **47** |

### Initiatives for 3Q FY2019 onwards

- Tankers
  - VLCC and LPG fleet maintained smooth operation based on mid-long term.
  - Exposure associated with contract renewal was controlled through extension of charter contracts on a medium-term fixed basis and utilization of FFAs (futures trading)
- Thermal Coal Carrier
  - Maintain expansion of stable income business by medium-and-long-term contracts continuingly
  - Strengthen our profitability not affected by market volatility through improvement of vessel operation effectiveness

### FY2019 : Tanker and Thermal Coal Carrier Fleet Market Exposure

| | |
|---|---|
| VLCC | 8% |
| LPG Carrier | 20% |
| Other Tankers | 67% |
| Thermal Coal Carrier | 10% |

| Tanker Market (WS) | FY2018 | | | | | FY2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Results | 1Q | 2Q | 2H Forecast | Forecast |
| VLCC | 45 | 53 | 88 | 56 | 61 | 41 | 55 | 64 | 55 |
| (Middle East/Japan) | $10,050 | $15,150 | $49,800 | $30,550 | $26,400 | $13,900 | $27,750 | $30,000 | 25,400 |
| AFRAMAX | 87 | 103 | 133 | 102 | 106 | 99 | 91 | 125 | 110 |
| (South Asia/Japan) | $7,000 | $9,350 | $16,350 | $13,000 | $11,450 | $12,650 | $10,000 | $19,000 | 15,150 |

# B-3 Division Trends

## Energy Resource Transport Segment
## –LNG Carrier/Liquefied Gas Business/Energy E&P Support Business

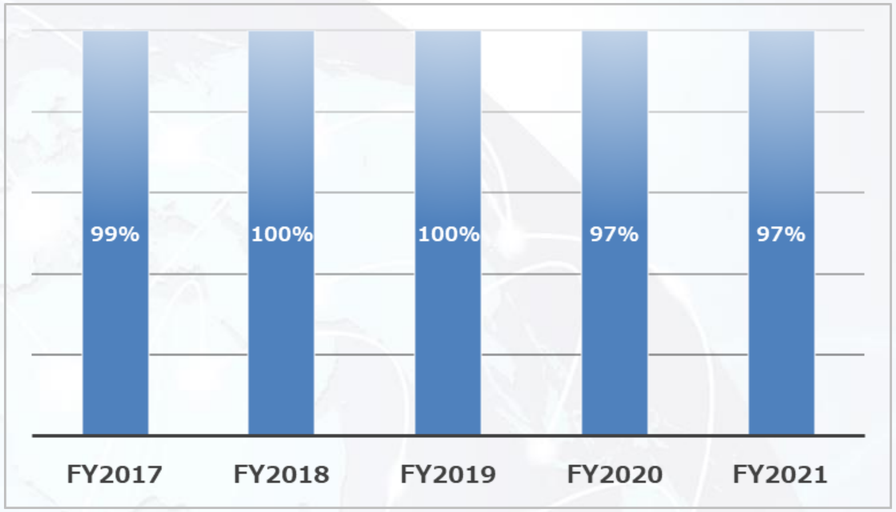
### Results in 1H FY2019

- LNG Carrier
  - Secured stable-income by operating fleet with medium-and-long-term contracts
- FPSO・Drillship
  - Earned stable income by long-term contract through steady operation of vessels
- Offshore Support Vessel
  - Both PSV and AHTS market conditions hit the bottom and improved to some extent.

### Initiatives for 3Q FY2019 onwards

- LNG Carrier
  - Build up stable-income business by securing more medium-and-long-term contracts
- Liquefied Gas New Business
  - Create demand for LNG/LPG fuel vessels and expand LNG bunkering supply sites in line with the customer strategy following the Ise Bay project
- FPSO・Drillship
  - Keep operating as a stable-income business via a high utilization
- Offshore Support Vessel
  - Stabilize earnings most recently and promote structural reforms with consideration of market situation

### LNG Carrier - Contract Covered Ratio




### Transition of LNG Carrier Fleet Scale

| FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|
| 44 | 48 | 48 | 47 | 45 |

# B-4 Division Trends
# Product Logistics Segment – Car Carrier / Automotive Logistics Business

## Results in 1H FY2019

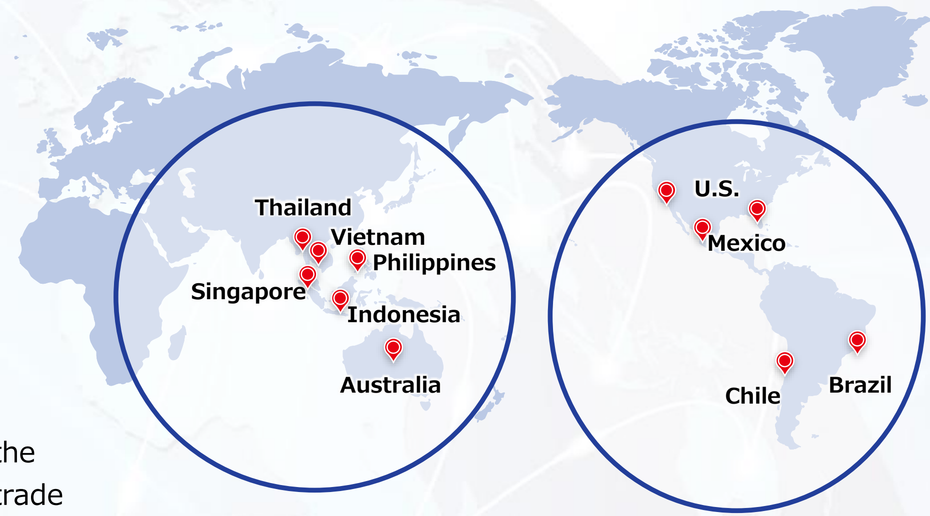
- Total Units Carried ：1,746 thousand units

・On routes from the Far East, cargo movements were generally stable, and total units carried were mostly in line with expectations. On the other hand, overall total units carried decreased year on year due to rationalization and reorganization of unprofitable routes, mainly in the third-country routes.

・Secure profits by proceeding with a review of fleet size, vessel allocation efficiency.

## Expansion of Automotive Logistics Business

- Total Units Handled to be 2,750 thousand units (FY2019)
- Business location 10 countries and 13 base




## Initiatives for 3Q FY2019 onwards

- Total Units Carried : 1,640 thousand units
  - There are risks of a decline in demand for marine transport due to the uncertainties in the global economic outlook caused by U.S.-China trade disputes and Brexit, along with economic instability in some areas of South America and slower sales in Australia.
- Aim to further strengthen the earnings foundation by vessel allocation efficiency.

| Total units carried (1,000 units) | FY2018 | | | | | FY2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Results | 1Q | 2Q | 2H | Forecast |
| Outbound | 297 | 267 | 303 | 307 | 1,174 | 299 | 266 | 546 | 1,111 |
| Homebound | 63 | 69 | 59 | 48 | 240 | 64 | 73 | 130 | 267 |
| Others | 373 | 349 | 338 | 263 | 1,324 | 315 | 286 | 565 | 1,166 |
| Intra-Europe | 254 | 173 | 227 | 226 | 881 | 231 | 213 | 399 | 843 |
| Total units carried | 987 | 858 | 927 | 845 | 3,617 | 909 | 837 | 1,640 | 3,386 |
| Number of Fleet | 93 | 93 | 92 | 90 | 90 | 85 | 86 | 84 | 84 |

# Product Logistics Segment – Car Carrier / Automotive Logistics Business

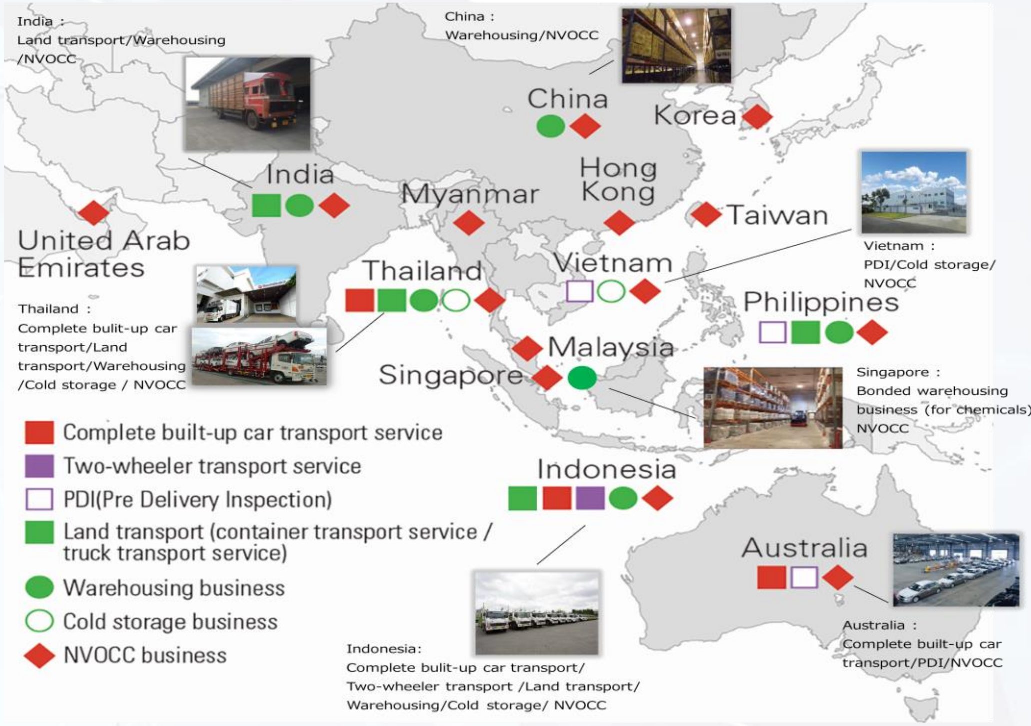
"K" LINE 川崎汽船株式会社

## Results in 1H FY2019

- Domestic Logistics
  - Strong results, mainly from tugboat / land and sea multimodal transport / warehousing
  - Contribution to profitability improvement from effective utilization of assets due to the alliance with Kamigumi Co., Ltd.

- International Logistics
  - Strong demand for marine transport to the U.S. even with shipment origin switched to Southeast Asia and Central America due to the effect of U.S.-China trade friction.
  - Air cargo volume declined year on year for semiconductor manufacturing equipment within Asia and motors (generic machine engines) to Europe and the U.S.

## Location in our Logistics Business




## Initiatives for 3Q FY2019 onwards

- "K" LINE keeps focusing on constructing our global network to stay keen on customers' base and needs.

  Individual Target
  - Restructuring of its global network by "K" LINE Logistics, a group's logistics company, as a core company in the Logistics business sector.
  - Improving our cargo sales and marketing on Land and Sea multimodal transportation by utilizing our group's service
  - Expand the customer base of Buyer's Consolidation Business and deepen the business rooted in individual countries and regions, including development of Cold Storage Business
  - Improving "K" LINE's service quality for logistics of project cargoes.
  - Promote group-wide interaction/utilization of human resources

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# Financial Results for FY2019 2ND Quarter and Forecasts for FY2019

**31,OCT.2019**

# FY2019 2nd Quarter Results and P/L Analysis-1

## 2Q Results and Comparison with Previous Forecasts

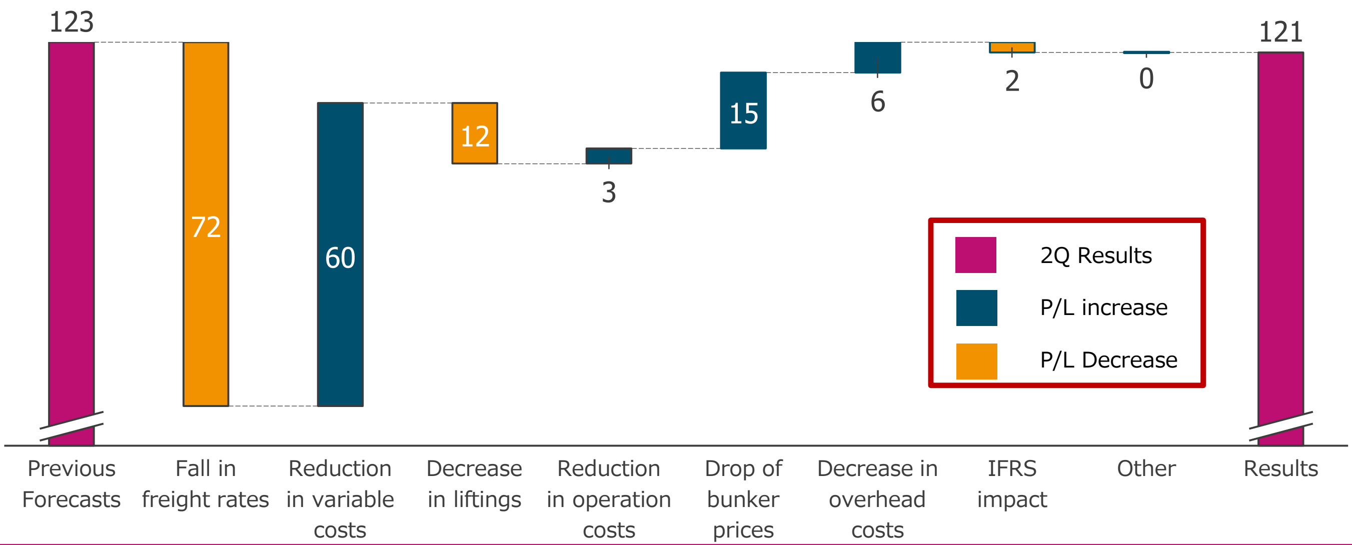
Profit achieved close to previous forecasts. Freight rates and liftings did not achieve latest expectation, mainly due to U.S.-China trade issues and deteriorated supply-demand balance in Europe trade. Meanwhile cost reduction and drops in bunker prices contributed to positively.

(Unit: Million US$) *as of July 2019

| | FY2019 Previous Forecasts* | | | FY2019 | | | 2Q Results to Previous Forecasts* | |
|---|---|---|---|---|---|---|---|---|
| | 1Q Results | 2Q Forecasts | 1H Forecasts | 1Q Results | 2Q Results | 1H Results | Change (Mil US$) | Change (%) |
| Revenue | 2,875 | 3,214 | 6,089 | 2,875 | 3,109 | 5,984 | -105 | -3.3% |
| Profit /Loss | 5 | 123 | 128 | 5 | 121 | 126 | -2 | -1.9% |
| Bunker Price (US$/MT) | $432 | $432 | $432 | $432 | $419 | $427 | -$13 | |

## P/L Analysis (vs. Previous Forecasts)

(Unit: Million US$)




- Freight Rates: Below expectations for Asia-North America trade. The spot market on Asia-Europe trade was sluggish.
- Variable Costs: Reduced due to cargo portfolio optimization and cost saving initiatives.
- Liftings: Did not reach the target for Intra-Asia and Asia-North America trades.
- Operation Costs : In line with previous forecasts.
- Overhead Costs : Reduced IT cost.
- IFRS impact and Other : In line with previous forecasts.

# FY2019 2nd Quarter Results and P/L Analysis-2

## 2Q Results and Comparison year over year basis

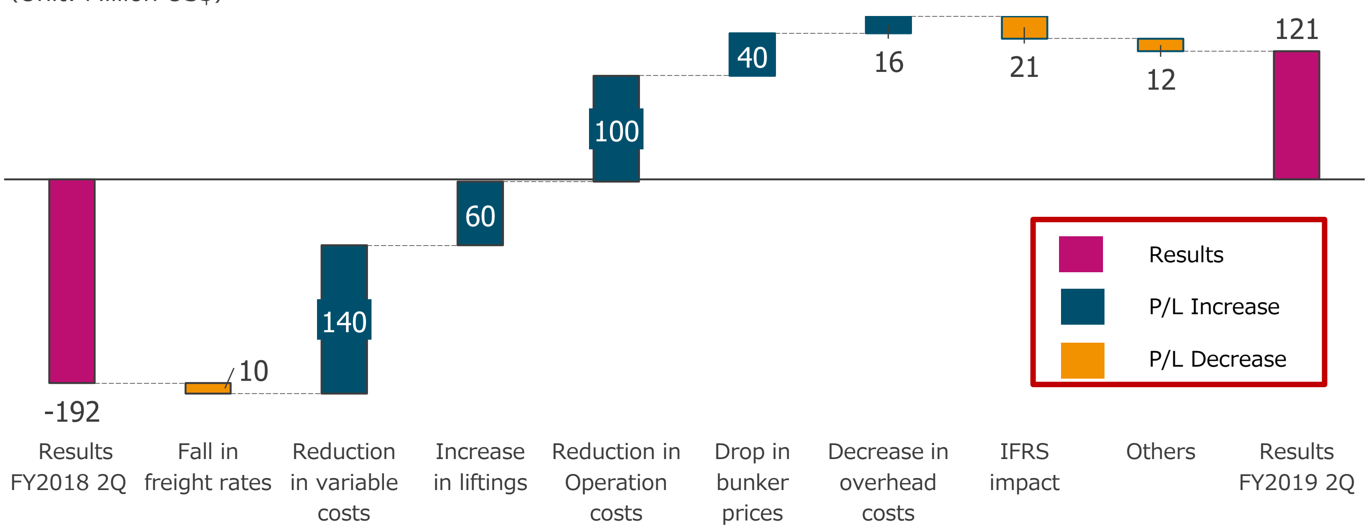
As a result of service stabilization, liftings increased across all trades. In addition, reduction in variable costs, fixed costs and overhead costs achieved, resulting in US$313 million improvement to profit of US$121 million. Freight rates of Asia-North America trade have improved; on the other hand, Asia-Europe trade was sluggish as there was no peak season rate hike due to deteriorated supply-demand balance.

(Unit: Million US$)

| | FY2018 | | | FY2019 | | | 2Q Results to FY2018 | |
|---|---|---|---|---|---|---|---|---|
| | 1Q Results | 2Q Results | 1H Results | 1Q Results | 2Q Results | 1H Results | Change (Mil US$) | Change (%) |
| Revenue | 2,066 | 2,963 | 5,030 | 2,875 | 3,109 | 5,984 | 146 | 4.9% |
| Profit /Loss | -120 | -192 | -311 | 5 | 121 | 126 | 313 | - |
| Bunker Price (US$/MT) | $407 | $457 | $434 | $432 | $419 | $427 | -$38 | |

## P/L Analysis (vs. Previous year)

(Unit: Million US$)




- Freight Rates : Improvement for Asia-North America, Transatlantic, Intra-Asia trades. Asia-Europe trades worsened.
- Variable costs : Accelerated cargo portfolio optimization as well as cost saving initiatives.
- Lifting: Improvement as a result of service stabilization.
- Operating Costs : Reduced by product optimization and bunker saving activities.
- Overhead Costs : Reduction mainly in IT cost and outsourcing fee.
- IFRS: Impact from adoption of new standard on leases.
- Others : Foreign exchange impact and increment in freight tax due to increase in freight income.

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# Liftings/Utilization/Freight Index

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(Unit: 1,000TEU)

| Liftings / Utilization by Trades | | FY2018 1Q Results | FY2018 2Q Results | FY2018 3Q Results | FY2018 4Q Results | FY2018 1H Results | FY2018 2H Results | FY2018 Full Year Results | FY2019 1Q Results | FY2019 2Q Results | FY2019 1H Results |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Asia - North America Eastbound | Lifting | 530 | 761 | 746 | 627 | 1,291 | 1,374 | 2,664 | 669 | 773 | 1,442 |
| | Utilization | 73% | 90% | 95% | 88% | 82% | 92% | 87% | 86% | 94% | 90% |
| Asia - Europe Westbound | Lifting | 312 | 478 | 442 | 455 | 790 | 897 | 1,687 | 460 | 488 | 947 |
| | Utilization | 73% | 90% | 92% | 92% | 82% | 92% | 88% | 87% | 95% | 91% |
| Asia - North America Westbound | Lifting | 218 | 285 | 320 | 318 | 502 | 639 | 1,141 | 350 | 310 | 660 |
| | Utilization | 33% | 33% | 40% | 43% | 33% | 41% | 37% | 47% | 37% | 42% |
| Asia - Europe Eastbound | Lifting | 194 | 263 | 315 | 320 | 457 | 634 | 1,091 | 323 | 328 | 651 |
| | Utilization | 48% | 47% | 62% | 63% | 48% | 62% | 55% | 64% | 64% | 64% |

(Unit: 100 = average freight rates as of FY2018 1Q)

| Freight Index by Trades | FY2018 1Q Results | FY2018 2Q Results | FY2018 3Q Results | FY2018 4Q Results | FY2018 1H Results | FY2018 2H Results | FY2018 Full Year Results | FY2019 1Q Results | FY2019 2Q Results | FY2019 1H Results |
|---|---|---|---|---|---|---|---|---|---|---|
| Asia - North America Eastbound | 100 | 101 | 108 | 105 | 101 | 107 | 104 | 103 | 105 | 104 |
| Asia - Europe Westbound | 100 | 106 | 100 | 107 | 104 | 104 | 104 | 100 | 101 | 100 |

# FY2019 Full-year Forecasts and P/L Analysis

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## FY2019 Full-year Forecasts and Comparison with Previous Forecasts

Spot freight rates assumption revised downward due to concern on further slowdown of global economy. Deployment of winter service plan with additional service frequency reduction to prepare for seasonal demand decrease, mainly on Asia-North America and Asia-Europe trades. Targeting further improvement in our competitiveness by continuing cargo portfolio optimization plus cost saving initiatives.

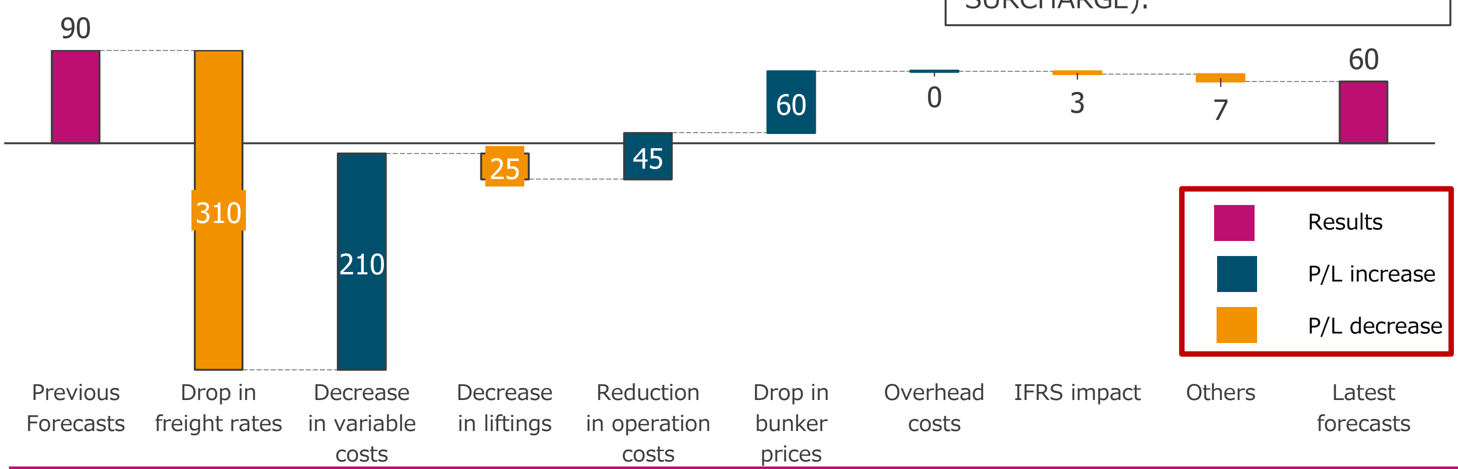
(Unit: Million US$) *as of July 2019

| | FY2019 Previous Forecasts* | | | | | FY2019 | | | | | Full Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q Results | 2Q Forecasts | 1H Forecasts | 2H Forecasts | Full Year Forecasts | 1Q Results | 2Q Results | 1H Results | 2H Forecasts | Full Year Forecast | Change (Mil US$) | Change (%) |
| Revenue | 2,875 | 3,214 | 6,089 | 6,306 | 12,395 | 2,875 | 3,109 | 5,984 | 6,125 | 12,109 | -286 | -2.3% |
| Profit/Loss | 5 | 123 | 128 | -38 | 90 | 5 | 121 | 126 | -66 | 60 | -30 | -33.2% |
| Bunker Price (US$/MT) | $432 | $432 | $432 | $533 | $483 | $432 | $419 | $427 | $508 | $469 | -$14 | |

## P/L Analysis (vs. Previous Forecasts)

(Unit: Million US$)

Bunker Sensitivity : **±US$2MIL** per US$10/MT, quarterly basis
*Bunker cost increase by MARPOL2020 implementation shall be recovered by OBS(ONE BUNKER SURCHARGE).




- ❑ Freight Rates: Reflect spot freight rates deterioration.
- ❑ Variable Costs: Reviewed according to recent Portfolio Optimization and Cost Saving Initiatives.
- ❑ Liftings : Expect contribution from 2 updated services launched (Middle East – Africa, India – Europe) while reflecting deceleration of demand growth for Asia-North America and Intra-Asia trade.
- ❑ Operation Costs : Reflect reduction from the winter service plan in Asia-North America and Asia-Europe trades.
- ❑ Bunker Price: Corresponding to MARPOL 2020 regulation. Bunker price assumption is updated reflecting recent market.

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# Updates on Action Plans

## Action Plans in FY2019

| | |
|---|---|
| Cargo Portfolio Optimization, Reinforcement of Yield Management | Improvement in profitability by cargo portfolio optimization is smoothly developing as forecast at the beginning of the year. Projected improvement of US$190 million per year as targeted is steadily materializing along with accelerating operational efficiency plus business process improvement as well as cost management. |
| Products（Service Routes/Allocated vessels）Rationalization | Products rationalization effects in FY2019(Improvements: US$195 million per year) and fuel saving effects (Improvements: US$65 million per year) are smoothly developing. In second half, launching Middle East/India to Africa service and East India to Europe service, targeting growth in emerging markets. THE ALLIANCE fixed winter service plan to correspond with demand changes in second half. Alliance members, including Hyundai Merchant Marine(HMM), analyzing FY2020 product for more competitiveness. |
| Organization Optimization | Overhead cost reduction target US$50 million annually is on track. |
| Synergy Effects | 82% of the target for synergistic effects of US$1,050 million/year was achieved in FY2018, the first year after integration. The targets – 96% in FY2019, the second year, and 100% in FY2020, the third year – remain unchanged. |
| Compliance with MARPOL2020 Regulation | Procurement of regulation-compliant fuels is being completed. Bunkering of compliant oil starts from the third quarter. Additional cost for compliance will be recovered by BUNKER SURCHARGE such as OBS. Customers' awareness towards environmental issue are increasing, and customers are fully understanding this regulatory compliance. Installation of scrubber is under study in some larger ships, and we are studying most competitive and optimal combination of compliant oil and scrubber installation, taking market situation into consideration. |
| Transfer of Overseas Terminal Business | Targeting a transfer from each of the parent companies in FY2019. |

# (Reference) Fleet Structure/Service Structure

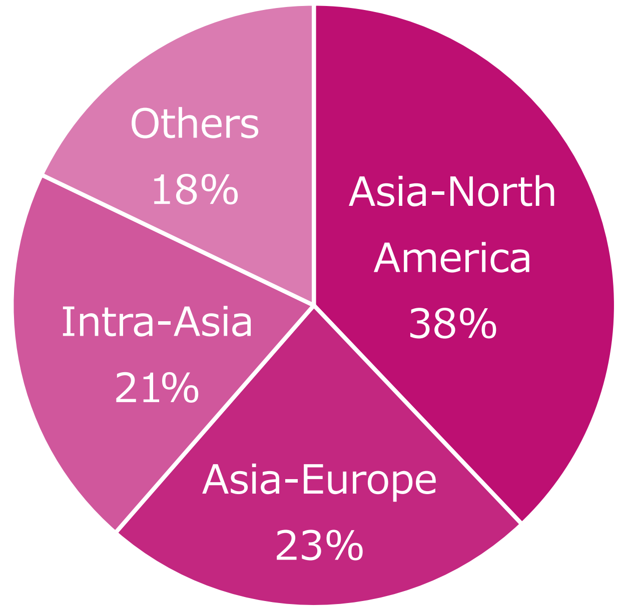
## Fleet Structure

as of end of 2Q

| Size | | 1)As of end June. 2019 | 2)As of end Sep. 2019 | 2)-1) |
|---|---|---|---|---|
| >= 20,000 TEU | Capacity (TEU) | 120,600 | 120,600 | 0 |
| | Vessels | 6 | 6 | 0 |
| 10,500 - 20,000 TEU | Capacity (TEU) | 349,220 | 363,220 | 14,000 |
| | Vessels | 25 | 26 | 1 |
| 9,800 - 10,500 TEU | Capacity (TEU) | 100,100 | 100,100 | 0 |
| | Vessels | 10 | 10 | 0 |
| 7,800 - 9,800 TEU | Capacity (TEU) | 365,941 | 374,655 | 8,714 |
| | Vessels | 41 | 42 | 1 |
| 6,000 - 7,800 TEU | Capacity (TEU) | 234,404 | 233,752 | ▲ 652 |
| | Vessels | 36 | 36 | 0 |
| 5,200 - 6,000 TEU | Capacity (TEU) | 89,998 | 89,998 | 0 |
| | Vessels | 16 | 16 | 0 |
| 4,600 - 5,200 TEU | Capacity (TEU) | 133,204 | 123,597 | ▲ 9,607 |
| | Vessels | 27 | 25 | ▲ 2 |
| 4,300 - 4,600 TEU | Capacity (TEU) | 67,384 | 71,816 | 4,432 |
| | Vessels | 15 | 16 | 1 |
| 3,500 - 4,300 TEU | Capacity (TEU) | 25,472 | 34,003 | 8,531 |
| | Vessels | 6 | 8 | 2 |
| 2,400 - 3,500 TEU | Capacity (TEU) | 50,216 | 52,916 | 2,700 |
| | Vessels | 19 | 20 | 1 |
| 1,300 - 2,400 TEU | Capacity (TEU) | 13,261 | 12,082 | ▲ 1,179 |
| | Vessels | 8 | 7 | ▲ 1 |
| 1,000 - 1,300 TEU | Capacity (TEU) | 7,471 | 9,644 | 2,173 |
| | Vessels | 7 | 9 | 2 |
| < 1,000 TEU | Capacity (TEU) | 1,402 | 698 | ▲ 704 |
| | Vessels | 2 | 1 | ▲ 1 |
| **Total** | **Capacity (TEU)** | **1,558,673** | **1,587,081** | **28,408** |
| | **Vessels** | **218** | **222** | **4** |

## Service Structure

(FY2019 2Q Round space basis)



"K" LINE 川崎汽船株式会社

# Value for our Next Century