Financial Highlights
Brief Report for
FY2018

26th Apr 2019

Contents

Financial Highlights for FY2018

Financial Results for FY2018

"K" LINE 川崎汽船株式会社

Consolidated Results for FY2018

(billion yen)

	FY2018 1Q	2Q	1H	3Q	4Q	2H	Total (a)	FY2018 as of Jan 2019 Total (b)	(a)-(b)	FY2018 as of Mar 7,2019 Total (c)	(a)-(c)
Operating Revenues	212.2	204.0	416.1	222.4	198.2	420.6	836.7	840.0	-3.3	840.0	-3.3
Operating Income	-13.4	1.0	-12.3	3.0	-15.5	-12.4	-24.7	-5.0	-19.7	-21.0	-3.7
Ordinary Income	-17.1	-4.2	-21.3	-6.1	-21.5	-27.6	-48.9	-28.0	-20.9	-46.0	-2.9
Net Income Attributable to Owners of Parent	-19.3	-5.3	-24.6	-6.4	-80.2	-86.6	-111.2	-20.0	-91.2	-100.0	-11.2
Exchange Rate(¥/$)	¥108.10	¥110.87	¥109.48	¥113.43	¥110.28	¥111.86	¥110.67	¥110.35	¥0.32		
Bunker Price($/MT)	$414	$459	$437	$490	$437	$464	$450	$429	$21		

		FY2018 1Q	2Q	1H	3Q	4Q	2H	Total (a)	FY2018 as of Jan 2019 Total (b)	(a)-(b)
Dry Bulk	CAPE	$14,950	$22,000	$18,500	$15,800	$8,650	$12,200	$15,350	$16,900	-$1,550
	PANAMAX	$10,500	$12,150	$11,300	$12,350	$6,950	$9,700	$10,500	$12,100	-$1,600
	HANDYMAX	$11,050	$11,600	$11,300	$11,500	$7,600	$9,600	$10,450	$11,500	-$1,050
	SMALL HANDY	$8,800	$8,250	$8,500	$9,250	$6,000	$7,600	$8,100	$9,000	-$900
Tanker	VLCC (Middle East/Japan)	$10,050	$15,150	$12,600	$49,800	$30,550	$40,200	$26,400	$25,200	+$1,200
	AFRAMAX (South Asia/Japan)	$7,000	$9,350	$8,200	$16,350	$13,000	$14,700	$11,450	$12,100	-$650
	Clean Tanker 110,000MT (Middle East/Japan)	$9,350	$9,900	$9,650	$19,750	$20,650	$20,200	$14,900	$12,800	+$2,100

Key Financial Indicator

(billion yen)

	FY2018 (a)	FY2017 (b)	(a)-(b)
Equity Capital	103.6	217.0	-113.4
Interest-bearing liability	550.2	570.6	-20.4
DER (%)	531%	263%	268%
NET DER (%)	393%	170%	223%
Equity Ratio (%)	11% (※)	21%	-10%

Year-end dividend

With much regret, we decided not to pay not year-end dividends in FY2018 as previously announced, given the urgency in improving our financial structure and the stabilization of our business base.

※ In the case of taking "Implementation of Measures to Strengthen Capital Base" and "New subordinated loan with equity credit" in the beginning of FY2019 into account, such ratio to be regarded as 16%.

Financial Results for FY2018 by Segment

"K" LINE 川崎汽船株式会社

Consolidated Results for FY2018 by Segment

(billion yen)

Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income)	FY2018 1Q	FY2018 2Q	FY2018 1H	FY2018 3Q	FY2018 4Q	FY2018 2H	FY2018 Total (a)	FY2018 as of Jan 2019 Total (b)	(a)-(b)
Dry Bulk	64.6	67.3	132.0	76.8	65.0	141.9	273.8	279.0	-5.2
	0.4	1.7	2.1	1.4	0.9	2.4	4.4	6.0	-1.6
Energy Resource Transport	20.2	21.8	42.0	23.4	23.3	46.7	88.7	87.0	1.7
	0.3	1.3	1.6	0.3	0.6	0.9	2.5	3.0	-0.5
Product Logistics	119.1	106.3	225.4	113.7	102.0	215.7	441.0	439.0	2.0
	-16.8	-6.3	-23.1	-6.7	-19.5	-26.1	-49.2	-33.0	-16.2
Containership	44.5	31.3	75.8	31.8	28.1	59.9	135.8	135.5	0.3
	-16.2	-7.2	-23.4	-8.0	-17.4	-25.4	-48.8	-35.0	-13.8
ONE as Equity method company	-4.3	-7.2	-11.5	-6.6	-2.1	-8.7	-20.1	-19.9	-0.2
Other	8.3	8.5	16.8	8.5	7.9	16.4	33.2	35.0	-1.8
	0.4	0.6	1.0	0.1	0.1	0.1	1.1	1.5	-0.4
Adjustment	-	-	-	-	-	-	-	-	-
	-1.4	-1.6	-3.0	-1.2	-3.6	-4.8	-7.8	-5.5	-2.3
Total	212.2	204.0	416.1	222.4	198.2	420.6	836.7	840.0	-3.3
	-17.1	-4.2	-21.3	-6.1	-21.5	-27.6	-48.9	-28.0	-20.9

Main Factors

- Dry Bulk

Market conditions deteriorated temporarily, mainly for Cape-size vessels, due to the dam-break in Brazil and other factors, resulting in a downward revision of -¥1.6bln to full-year results

- Energy Resource Transport

Although performance was strong owing to steady operations bolstered by mid-long term contracts, results were offset by a temporary increase in operational expenses, resulting in +¥2.5bln for full year (-￥0.5bln decrease from as of Jan 2019)

- Product Logistics

ONE's full-year results surpassed the targets announced in 3Q, but the full-year equity in earnings/loss of ONE was slightly revised downward due to exchange rates evaluation.

Containership Business's full-year results were revised downward -¥48.8bln due to the provision for loss related to containerships chartering contracts

Product logistics segment's full-year results were revised downward -￥49.2bln (-￥16.2bln decrease from as of Jan 2019)

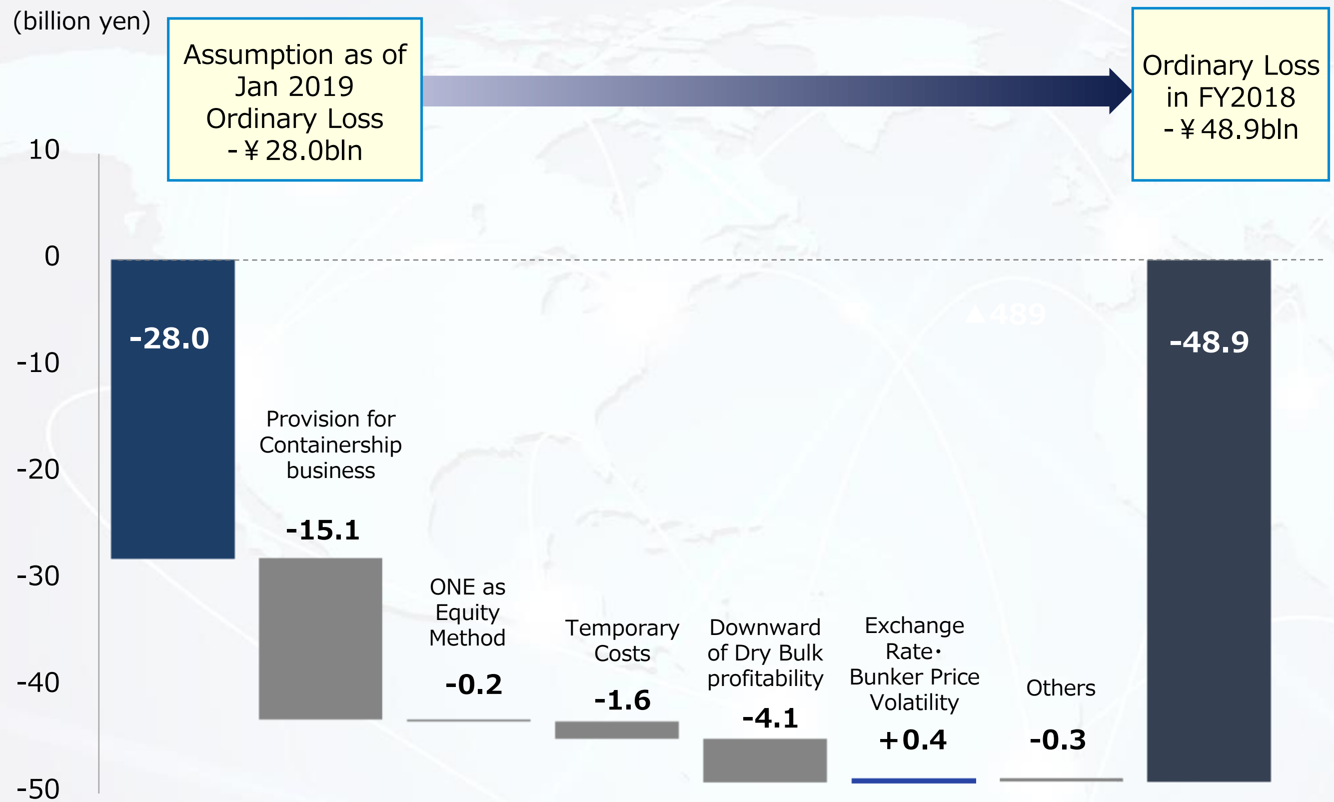
- Adjustment

Downturn by temporary costs like financial cost incurred in Head Quarter: Such Full-year impact was -￥7.8bln. (-￥2.3bln decrease from as of Jan 2019)

Financial Results for FY2018 - vs. Assumption as of Jan 2019

"K" LINE 川崎汽船株式会社

Key Factors: Ordinary Income



Progress of Measures to improve profitability		Planned in FY2018 3Q (a)	Results (b)	(a)-(b)
Dry Bulk	Effective Vessel Allocation/ Most Economical Vessel Operation	0.7	0.7	0.0
	Vessel Operation Cost reduction/ Further efforts to market procurement	0.3	0.3	0.0
Product Logistics	Effective Vessel Allocation/ Most Economical Vessel Operation	0.6	0.7	0.1
	Sales/Operation cost reduction	0.1	0.1	0.0
Network Optimization	Accelerate remaining fixed cost reduction	0.2	0.2	-
Others	Other SG&A cost reduction	0.3	0.3	-
	Total (billion yen)	2.2	2.3	0.1

- Measures to improve profitability
  The results of measures to improve profitability was +￥0.1bln better than our plan and the effect of￥2.3bln was accomplished throughout the fiscal year.

Comparison with last forecast in FY2018-3Q

- Provision for loss related to containership chartering contracts incurred in FY2019
- Downward of profitability of Dry Bulk segment due to recent lower market
- Incurred temporary costs.

Progress of Management Plan in FY2018

Management Plan in FY2018 (2nd year at the end)

- The key business initiatives are generally progressing as planned; however, the operating income target was not achieved due mainly to issues in Containership Business
- Efforts will be redoubled to address the key issues of improving profitability, restoring the significantly eroded equity capital, reducing dependency on market-sensitive business, and increasing the ratio of stable-income business

Key Objective	Target set in Medium-Term Management Plan	FY2017 Evaluation	FY2017 Progress	FY2018 Evaluation	FY2018 Progress
Financial Indicator	Maintain profit for three consecutive years from FY2017	○	Achieved making profit	×	Net loss posted as a result of an operating loss, due mainly to Containership Business, and structural reform-related expenses
	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 5.7% Ordinary income from stable business 27.0bln. Yen
	Ratio of Sharefolders' equity - Targeting MID 20%'s	△	Ratio of Sharefolders' equity 21%	×	Ratio of Sharefolders' equity ：11 % ※ In the case of taking "Implementation of Measures to Strengthen Capital Base" and "New subordinated loan with equity credit" into account, such ratio to be estimated as 16%.
	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 by ONE because of teething problems occurred immediately after the commencement of the services and Postpone of transfer oveaseas terminal business
	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
Key Strategies by Function	Develop new business models by cooperation with Customers and outsiders	○	Strengthened Group Total Logistics system to enhance CRM and launched initiatives for specific projects Strengthened human resources development program to respond to new demand	○	Newly founded organization to promote initiatives corresponding to CRM/Environment/Digitalization - Corporate Marketing Strategy Division/AI・Digitalization Promotion Division/Environment Technology Committee
ESG Initiatives	Strengthen Corporate Governance	○	Implemented thorough risk management under the purview of the Risk Management Committee and improved reporting to Board of Directors Strengthened Unit Supervisory System	○	Strengthened risk management (used a company-wide risk management ledger with comprehensive information and implemented continual management system with important initiatives established for each year)
	Initiative for Environment	○	7,500RT large-scale car carrier has been awarded as recipient of "Ship of the Year 2016" Deepening "K"Line Group Environmental Promotion System-「DRIVE GREEN NETWORK」	○	Awarded CDP' s "A List" the top rating on climate change for consecutive three years Awarded "Panama Green Shipping Award 2019"

A-5 Financial Highlights for FY2018

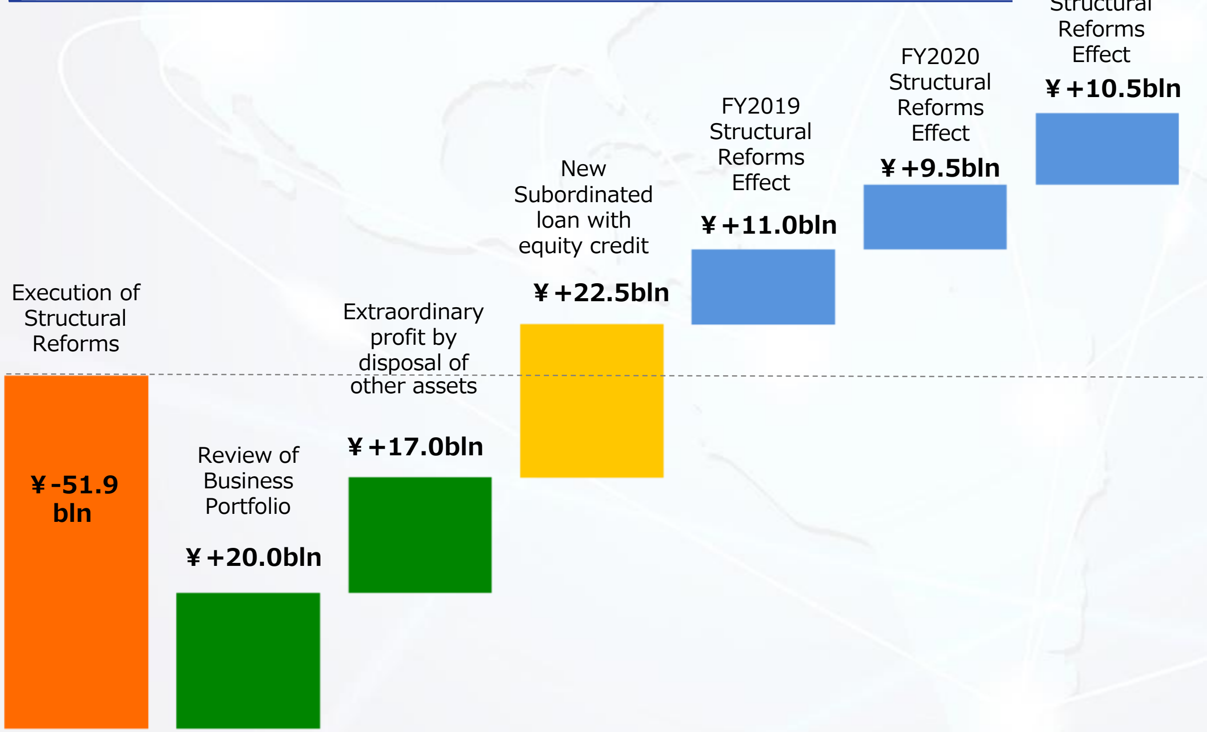
Structural Reforms Results in FY2018 / Implementation of Measures to Strengthen Capital Base

Structural Reforms Results in FY2018

(billion yen)

	Number of fleet as target	FY2018 Structural Reforms Amounts (as Extraordinary Loss)	Effect Amounts for FY2019
Dry Bulk	6	- 6.9	1.6
Containership	17	- 45.0	9.4
Total	23	- 51.9	11.0

Implementation Effects by 「Structural Reforms」, 「"Selection and Concentration"」 and other measures



Structural Reforms in FY2018

- Cancelled contracts for 6 vessels in the dry bulk fleet and 17 vessels in the Containerships
- Structural reform expenses rose compared to the targets, but benefits from the reforms will be higher than previously announced targets (on Mar 7th ,2019) in FY2019 and beyond

※The structural reform benefits will not be limited to one year, but instead will provide continuous benefits to higher profitability

- (Additional measure)

Recognition of provision for loss related to containership chartering

Effects for return to profit in FY2019

▶ Implementation to reallocate management resources by "Selection and Concentration"

○ Review of Business Portfolio <u>Approx. ￥20.0bln</u>

✓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 <u>Approx. ￥17.0 bln</u>

○ Strengthen financial Base and maintain Capital efficiency

Execution of New subordinated loan with equity credit <u>Approx. ￥22.5 bln</u>

Forecasts for FY2019

Forecasts for FY2019

Consolidated Forecasts for FY2019

(billion yen)

	FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Total (a)	FY2018 Total (b)	FY2018 (a)-(b)
Operating Revenues	378.0	382.0	760.0	836.7	-76.7
Operating Income	8.0	-2.0	6.0	-24.7	30.7
Ordinary Income	10.0	-5.0	5.0	-48.9	53.9
Net Income Attributable to Owners of Parent	6.0	5.0	11.0	-111.2	122.2
Exchange Rate(¥/$)	¥109.17	¥108.00	108.58	¥110.67	¥-2.09
Bunker Price($/MT)	$491	$677	$584	$450	$134

Market Rate Assumption

		FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Total (a)	FY2018 Total (b)	FY2018 (a)-(b)
Dry Bulk	CAPE	$13,000	$21,000	$17,000	$15,350	+$1,650
	PANAMAX	$11,250	$11,250	$11,250	$10,500	+$750
	HANDYMAX	$10,500	$11,000	$10,750	$10,450	+$300
	SMALL HANDY	$8,500	$8,500	$8,500	$8,100	+$400
Tanker	VLCC	$20,000	$30,000	$25,000	$26,400	-$1,400
	AFRAMAX	$17,000	$17,000	$17,000	$11,450	+$5,550

Key factor assumption

- Yen-$ rate・Bunker price ¥109・$584/MT

Estimates Sensitivity (FY2019)

- Yen-US$ rate : each ¥1 weaker (stronger) adds (subtracts) ±¥0.54bln
- 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, but we have not decided to pay both mid-term and year-end dividends.

Consolidated Forecasts for FY2019 by Segment

(billion yen)

Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income)	FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Total (a)	FY2018 Total (b)	FY2018 (a)-(b)
Dry Bulk	118.0	111.0	229.0	273.8	- 44.8
	0.5	3.5	4.0	4.4	- 0.4
Energy Resource Transport	43.0	49.0	92.0	88.7	3.3
	3.5	3.5	7.0	2.5	4.5
Product Logistics	201.0	206.0	407.0	441.0	- 34.0
	8.0	-11.0	-3.0	- 49.2	46.2
Containership	54.2	57.0	111.3	135.8	- 24.5
	4.0	-15.0	-11.0	- 48.8	37.8
ONE as Equity method company	4.1	-1.3	2.8	- 20.1	23.0
Other	16.0	16.0	32.0	33.2	- 1.2
	0.5	1.0	1.5	1.1	0.4
Adjustment	-	-	-	-	-
	- 2.5	- 2.0	- 4.5	- 7.8	3.3
Total	378.0	382.0	760.0	836.7	- 76.7
	10.0	- 5.0	5.0	- 48.9	53.9

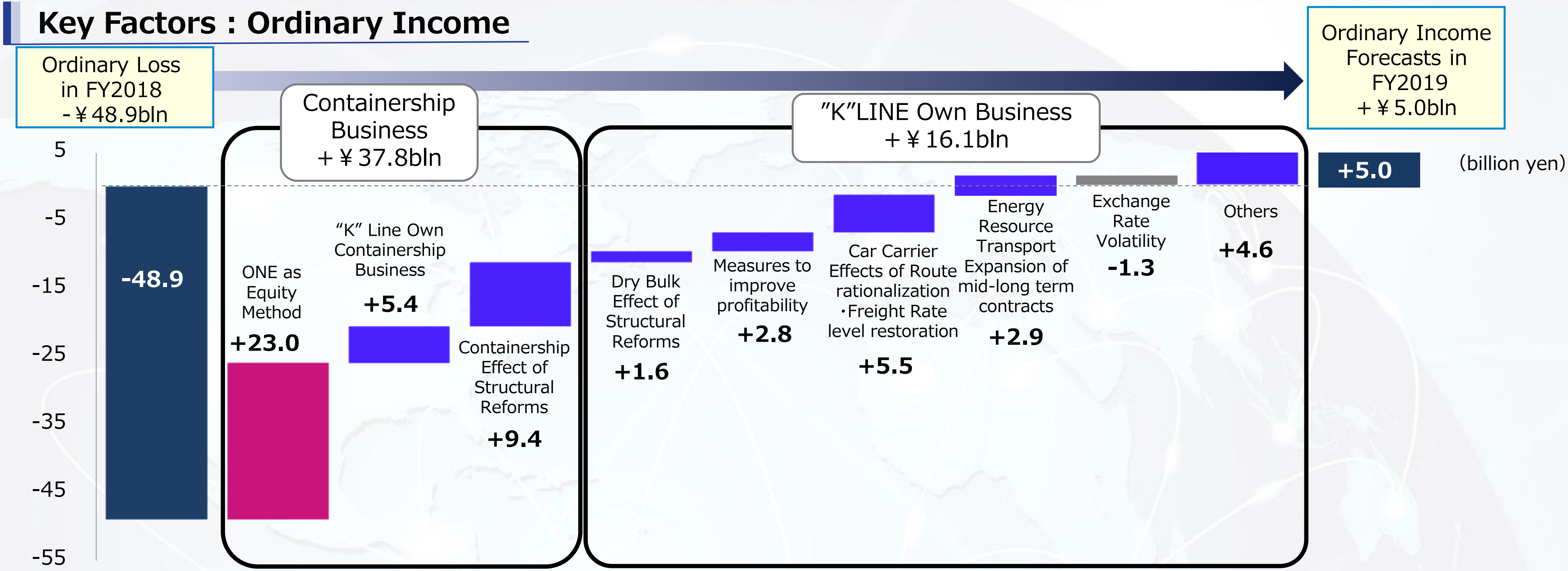
Key Factors

- Dry Bulk: Despite effects of Structural Reforms, expect the same profit level as the previous year due to low market in the beginning of FY2019 and Vessel's Off-Hire by installation of SOx scrubber etc.
- Energy Resource Transport : Improve profitability due to expansion of mid-long term contracts mainly Thermal Coal and LNG carriers
- Product Logistics: Improve profitability of car carrier business through benefits of route rationalization and rate restorations.
  Forecast recognition of provision for loss related to containership chartering to be incurred for FY2020 in FY2019 2H
- Net Income: Forecast transfer of overseas terminal business and sales of other Non-core assets etc in FY2019 2H

B-2 Forecasts for FY2019

Forecasts for FY2019 - vs. Financial Results for FY2018

Key Factors : Ordinary Income



Measures to improve profitability in FY2019

Measures to improve profitability in FY2019		Planned amount
Dry Bulk	Effective Vessel Allocation/ Most Economical Vessel Operation	0.5
	Vessel Operation Cost reduction/ Further efforts to market procurement	0.6
Energy Resource Transport	Effective Vessel Allocation/ Most Economical Vessel Operation	0.4
	Operation cost reduction	0.9
Product Logistics	Sales Activities	0.2
	Operation cost reduction	0.2
	Total (billion yen)	2.8

- Containership Business
  - Anticipating profitability improvement +￥37.8bln mainly ONE as equity method and effect of structural reforms.
- "K"LINE Own Business
  - "Anticipating profitability improvement +￥16.1bln
  - Car Carrier Business is expected to generate full-year improvement of ¥5.5bln, mainly through route rationalization and freight rate restoration in FY2018 2H.
- Improve profitability by pursuing effective vessel allocation, operation and cost reduction even through FY2018.

Objectives for FY2019 onwards and next Medium-Term Management Plan

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

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.**

Division Trends



C-1 Division Trends
Dry Bulk Segment

Results in FY2018

- Although market conditions turned sluggish due to supply-side pressure linked to the completion of VLOCs and the impact of accidents occurring in various regions around the world in the second half of the fiscal year, Dry bulk market conditions showed recovery due to overall year-on-year improvement in the vessel supply-demand balance.
  - Capesize
    1st Half : The market was bolstered by iron ore cargo movements from Brazil.
    2nd Half: The market was soft trend due to such incidents as the iron ore freight train accident in Australia and the dam-break in Brazil
  - Panamax and Smaller size
    The market was softened temporarily during a sudden decline in demand for Capesize vessels and Chinese coal import Restriction in winter, however, market condition were bolstered by steady grain from South America, coal exported to India, and minor bulk cargo movements.
- Strengthening effective operation suitable for the market situation and most economical operation including measures to improve profitability.

Initiatives for 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

Transition of Dry Bulk Fleet Scale

	FY2016	FY2017	FY2018
CAPE	95	106	96
Panamax and Smallersize	130	127	103
Woodchip Carriers	11	10	10
Total	236	243	209

FY2019 : Dry Bulk Market Exposure

CAPE	14%
Panamax and Smallersize	26%
Woodchip Carriers	0%

Dry Bulk Market	FY2017	FY2018					FY2019		
	Result	1Q	2Q	3Q	4Q	Results	1H Forecast	2H Forecast	Forecast
CAPE	$15,750	$14,950	$22,000	$15,800	$8,650	$15,350	$13,000	$21,000	$17,000
PANAMAX	$10,650	$10,500	$12,150	$12,350	$6,950	$10,500	$11,250	$11,250	$11,250
HANDYMAX	$9,800	$11,050	$11,600	$11,500	$7,600	$10,450	$10,500	$11,000	$10,750
SMALL HANDY	$8,150	$8,800	$8,250	$9,250	$6,000	$8,100	$8,500	$8,500	$8,500

Energy Resource Transport Segment – Tanker/Thermal Coal Carrier

Results in FY2018

- Tanker
  - Market conditions were weak through early autumn, but recovered to a level above breakeven point after entering the winter demand season.
  - VLCC and LPG fleet maintained smooth operation based on mid-long term.
- Thermal Coal Carrier
  - Secured Stable profits based on mid-long term
  - Pursued effective vessel allocation/operation and shrinking market exposure

Transition of Tanker and Thermal Coal Carrier Fleet Scale

	FY2016	FY2017	FY2018
VLCC	7	6	8
LPG	6	7	8
Other Tankers	9	9	6
Thermal Coal Carriers	24	23	24
Total	**46**	**45**	**46**

Initiatives for FY2019 onwards

- Tanker
  - Strengthening stable income by expansion of mid-long contracts by vessel replacement and developing new contracts (Delivered 2 VLCC and 1 LPG vessels in FY2018)
  - VLCC and LPG fleet maintained smooth operation based on mid-long term.
- 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	21%
LPG	40%
Other Tankers	75%
Thermal Coal Carriers	27%

Tanker Market (WS)	FY2017 Results	FY2018 1Q	FY2018 2Q	FY2018 3Q	FY2018 4Q	FY2018 Results	FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Forecast
VLCC	51	45	53	88	56	61	47	65	56
(Middle East/Japan)	$15,000	$10,050	$15,150	$49,800	$30,550	$26,400	$20,000	$30,000	$25,000
AFRAMAX	96	87	103	133	101	106	127	127	127
(South Asia/Japan)	$7,900	$7,000	$9,350	$16,350	$13,000	$11,450	$17,000	$17,000	$17,000
Clean Tanker (110,000MT)	104	94	100	135	115	111			
(Middle East/Japan)	10,900	$9,350	$9,900	$19,750	$20,600	$14,900			

C-3 Division Trends
Energy Resource Transport Segment –LNG Carrier/Liquefied Gas New Business/Energy E&P Support Business

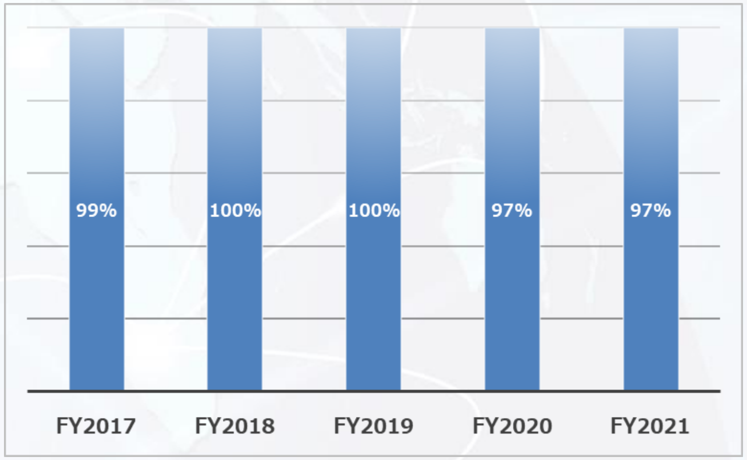
Results in FY2018

- **LNG Carrier**
  - Secured stable-income by operating fleet with medium-and-long-term contracts
- **Liquefied Gas New Business**
  - "K" LINE, together with Chubu Electric Power, Toyota Tsusho, and Nippon Yusen, has decided to launch an LNG bunkering business covering Ise Bay.
  - A joint venture company established by the above four companies, including "K" LINE, has ordered an LNG bunkering vessel from Kawasaki Heavy Industries
- **FPSO**
  - The contracts to participate in owning and chartering business for FPSO for Oil production in Ghana come into force effect. (15 years chartering contract)
- **Drillship**
  - Earned stable income by long-term contract through steady operation of vessels
- **Offshore Support Vessel**
  - Flagging spot rates more than our expectation due to weakness in offshore E&P development
  - Evaluation loss was recorded due to a weak Norwegian krone.

Initiatives for FY2019 onwards

- **LNG Carrier**
  - Build up stable-income business by securing more medium-and-long-term contracts
  - Considering business risks/returns for medium-term contract demands
- **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**
  - Keep operating as a stable-income business via a high utilization
- **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

Product Logistics Segment – Car Carrier / Automotive Logistics Business

Results in FY2018

- Total Units Carried : 3,669 thousand units

・Despite the impact of a temporary decrease in shipments due to natural disasters in Japan and lower sales in some areas of South America and other regions, total units carried increased by approximately 3% year on year.

- Results in FY2018-4Q

・Strengthen measures to raise operational efficiency and reduce fuel costs

・Implement route consolidation and fuel efficiency measures on routes from Europe to improve operational efficiency

Initiatives for FY2019 onwards

- Total Units Carried : 3,473 thousand units

・Cargo movements from Asia to Europe and North America, as well as Intra-Europe movements, are expected to be almost on par with the previous year.

※ There is downside risks like U.S. tariff issues, Brexit and other factors

・Cargo movements for Middle East and other oil-producing countries/resource rich countries will take time to be recovered.

Expansion of Automotive Logistics Business

- Total Units Handled 2,380 thousand units (FY2018)
- Business location 10 countries and 11 base

- Aim for more progress in rate restoration and vessel allocation efficiency to improve the earnings foundation.
- Leverage the competitive advantage of operating 15 large 7,500-unit car carriers, work to increase the volume of high and heavy cargoes
- Maintain flexibility on fleet size to respond to trade structure change and market volatility risk.

Total units carried (1,000 units)	FY2017	FY2018					FY2019		
	Results	1Q	2Q	3Q	4Q	Results	1H Forecast	2H Forecast	Forecast
Outbound	1,079	297	267	303	307	1,174	584	563	1,147
Homebound	194	63	69	59	48	240	115	110	225
Others	1,375	373	349	338	263	1,324	615	605	1,220
Intra-Europe	909	251	227	228	226	932	438	443	881
Total units carried	3,557	984	911	928	845	3,669	1,752	1,721	3,473
Number of fleet	95	93	93	92	90	90	89	84	84

Product Logistics Segment – Logistics Business

"K" LINE 川崎汽船株式会社

Results in FY2018

- Successful to achieve year-on-year growth in revenue and profit for Logistics business as a whole.

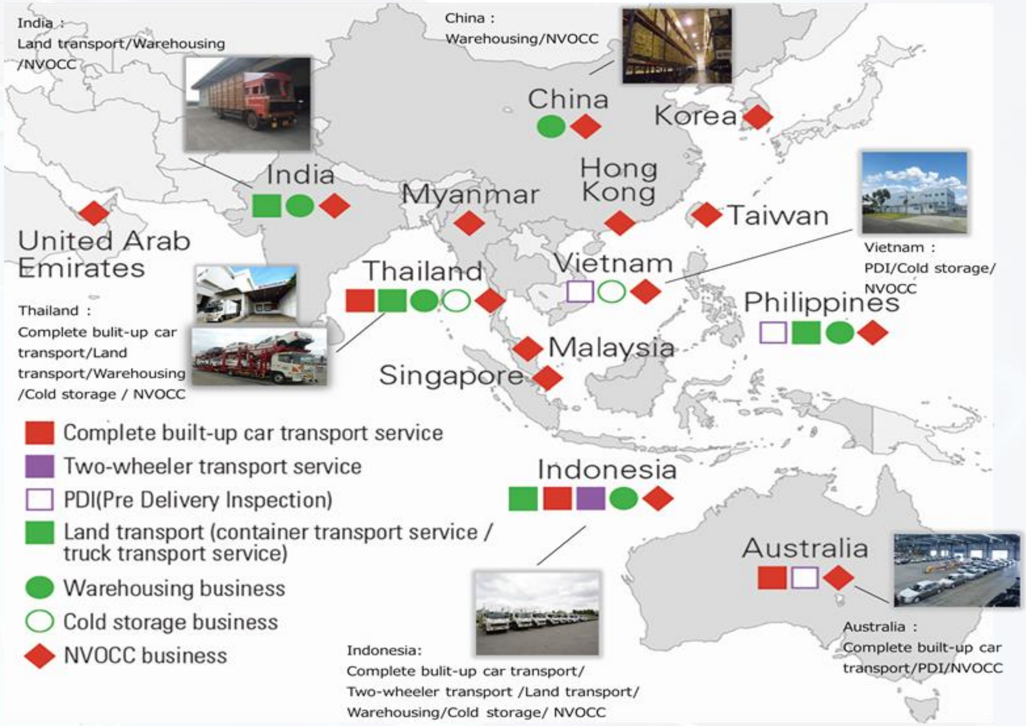
▶ <u>Domestic Logistics</u>

・Overall cargo movements were firm. Profitability improved thanks to the start of operation of a new warehouse and the receipt of a new order for machine installation in a customer's plant.

▶ <u>International Logistics</u>

・Air Cargo sector maintained firm cargo volume especially of semiconductors.
・Bullish trend due to increased demand for e-commerce related cargo
・Expanding localized International logistics business in Thailand and Indonesia and Philippines.
・Costs were incurred due to logistics network restructuring, organizational reform, and investment in IT systems after integration of Containership Business.

Location in our Logistics Business



Initiatives for FY2019 onwards

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

<u>Individual Target</u>

- 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 new service (RORO service between Shimizu and Oita)
- 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

Product Logistics Segment – Containership Business

“K” Line own Containership Business

- Operation profit/losses :

The temporary losses in “K” Line own Containership business (Operation costs increase like inland/Railway costs and handling costs of empty container etc.) has completed within FY2018.

In FY2019 and beyond, the primary businesses will be ship-owning and domestic terminals.

Regarding the provision for loss related to containerships chartering recognized in FY2018, even if benefits are realized in FY2019, a further provision will be recognized in FY2019 2H for that in FY2020.

- Network Optimization :

Cost changes regarding transfer of containerships operation and “K”Line staff transfer to ONE has been completed.

Progress of remaining fixed cost reduction have been good in shape regarding “K” Line’s network optimization after the integration of containership business.

Cost reduction target as of the beginning of FY2018

FY2018 Results : Additional cost reduction was ¥1.4bln and this figure was higher than we expected in the beginning of FY2018.
FY2019 Forecasts : Expected reduction of ¥2.3 bln compared with FY2018.

We have good prospect for cost reduction of ¥3.7 bln compared with the beginning of FY2018

➡ Company-wide initiatives are starting to ensure that benefits of remaining costs reduction are generated as early as possible in FY2019.

OCEAN NETWORK EXPRESS

Financial Results for FY2018 Full-year

APR.26,2019

Ocean Network Express

FY2018 Full-year Financial Results

OCEAN NETWORK EXPRESS

FY2018 4Q/Full-year Results and Comparison with Previous Forecasts

(Unit: Million US$) *As of Jan 2019

	FY2018(Previous Forecasts*)					FY2018(Results)					Full Year	
	1H Results	3Q Results	4Q Forecasts	2H Forecasts	Full Year Forecast	1H Results	3Q Results	4Q Results	2H Results	Full Year Results	Change	Change (%)
Revenue	5,030	3,025	2,830	5,855	10,885	5,030	3,025	2,826	5,851	10,880	-5	-0.0%
Profit/loss for the year	-311	-179	-104	-283	-594	-311	-179	-96	-275	-586	8	1.3%

Bunker Price (US$/MT)	$434	$487	$413	$451	$443	$434	$487	$420	$454	$444	$1

Liftings/Utilization/Freight Index

(Unit: 1,000TEU)

Liftings / Utilization by Trades		FY2018				
		1H Results	3Q Results	4Q Results	2H Results	Full Year Results
Asia - North America Eastbound	Lifting	1,291	746	627	1,374	2,664
	Utilization	82%	95%	88%	92%	87%
Asia - Europe Westbound	Lifting	790	442	455	897	1,687
	Utilization	82%	92%	92%	92%	88%

(Indices when gross average freight rate on each route for FY2018 1Q is set at 100.)

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

Overview by Route for Q4

- Asia-North America Eastbound: As trade after the Chinese New Year was relatively weak due in part to a backlash downturn from the earlier rush demand ahead of additional U.S. tariffs on China, additionally reduced frequencies of our service even in March. Freight rates slightly declined from Q3 due to a decrease in demand.
- Asia-Europe Westbound: Though freight rates for long-term contracts improved upon renewal in January, and the spot rate held steadily toward Chinese New Year. Liftings declined in the off season after the Chinese New Year as in past years, and from then on, the spot freight rate market declined towards the end of Q4.
- Asia-North America Westbound/Asia-Europe Eastbound: Utilization on Asia-North America Westbound routes continued to show a trend toward improvement. The level of utilization on Asia-Europe Eastbound, which significantly recovered in Q3, remained steady during Q4.

Ocean Network Express

FY2018 Annual P/L Analysis (vs. Previous Forecasts)

Freight rates remained slightly higher than the assumption on Asia-North America and South America routes. Measures to enhance collection of Detention and Demurrage achieved higher-than-anticipated results. Operating costs were reduced by additionally decreasing the number of sailings in response to dropping demand after the Chinese New Year. Liftings on some routes such as Asia-North America service did not reach the target due to lower-than-anticipated cargo demand. Bunker prices rose higher than the assumption.

FY2019 Full-year Forecasts

FY2019 Full-year Forecasts and comparison with previous fiscal year

(Unit: US$ million)

	FY2018			FY2019			Full Year	
	H1 Results	H2 Results	Full Year Results	H1 Forecasts	H2 Forecasts	Full Year Forecasts	Change	Change (%)
Revenue	5,030	5,851	10,880	6,417	6,306	12,723	1,843	16.9%
Profit/Loss	-311	-275	-586	123	-38	85	671	-
Bunker Price（US$/MT）	$434	$454	$444	$445	$533	$488	$44	

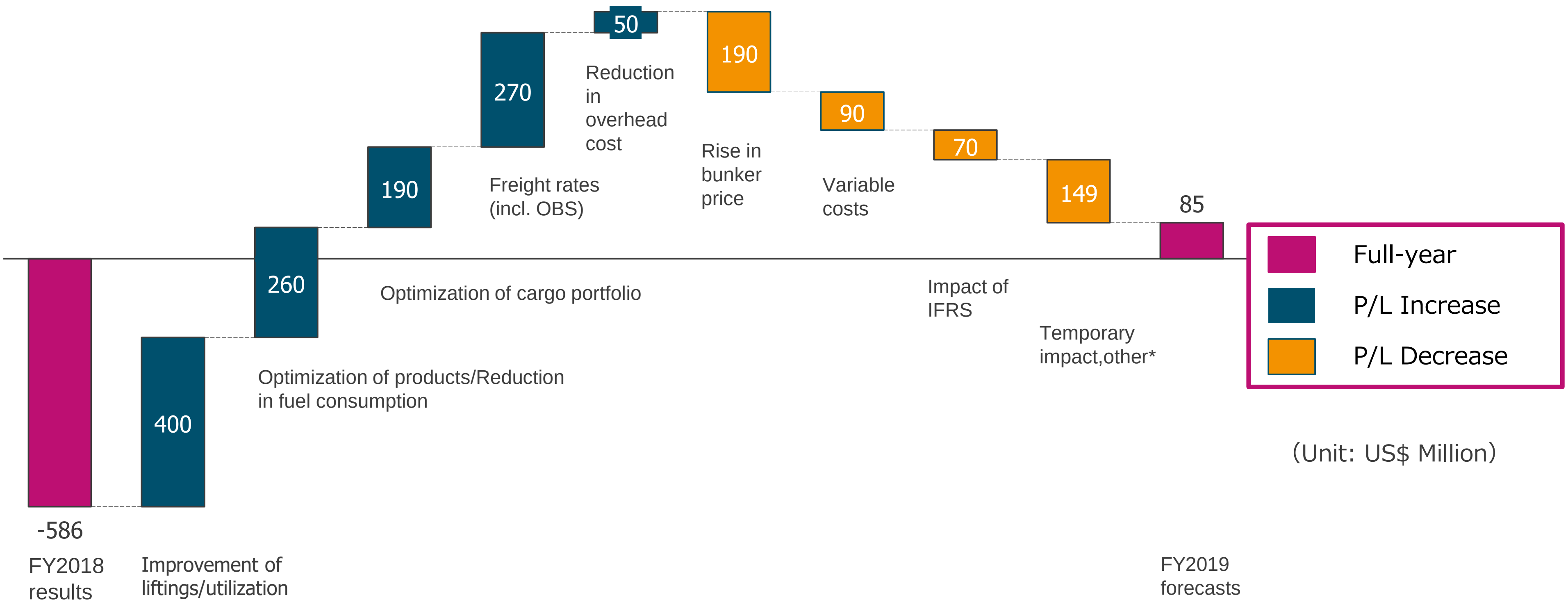
- **Sensitivity on Profit/Loss :**
  <u>±US$ 7Million</u> per US$10/MT per Quarter

※Bunker cost increase by MARPOL2020 implementation shall be recovered by OBS (ONE Bunker Surcharge)

Overview

Targeting a return to profitability of US$85 million for full-year FY2019, from minus US$586 million for full-year FY2018 results. Projecting a 4% increase globally in both supply and demand. Profit is expected to gradually recover throughout H1, with the improved lifting, which will recover to the pre-integration level throughout FY2019. The progress of product rationalization completing end May and renewal of North American contracts up to May are reflected. Targeting an early transfer of overseas terminal business from each of the parent companies in FY2019.

FY2019 Annual P/L Analysis (vs. FY2018 Results)

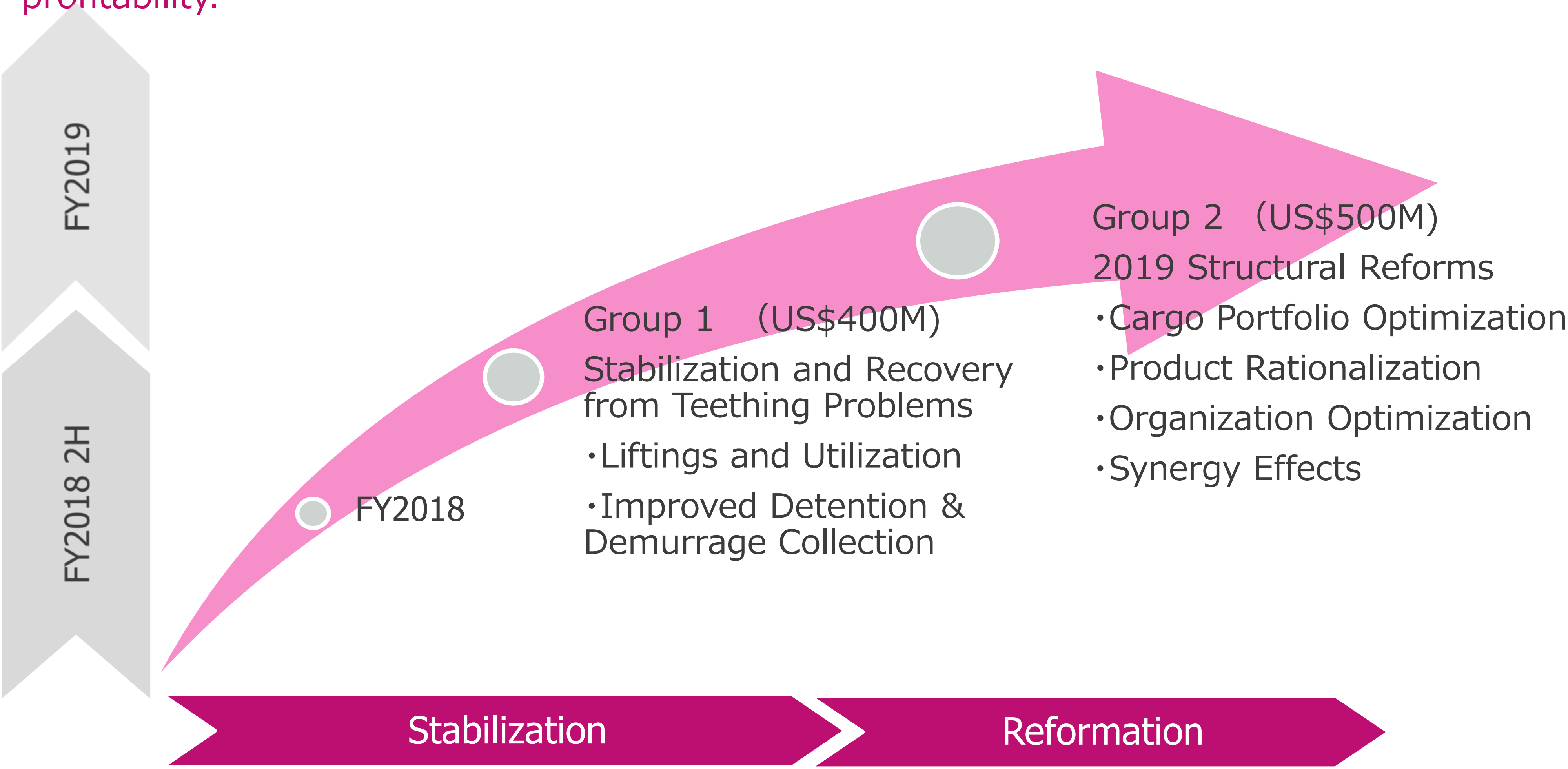


Liftings that dropped due to teething problem at commencement of services in FY2018 have been restored. Operating costs will be reduced by optimizing products. Measures will be taken to improve revenue and reduce expenditures such as improving the cargo portfolio, reducing fuel oil costs, and cutting overhead costs. The negotiations for long-term contracts are reflected in the assumption for freight rates. It is anticipated that an increase in bunker prices due to MARPOL 2020 regulations will be offset by the ONE Bunker Surcharge (OBS). In addition, variable costs are expected to rise in line with anticipated inflation. The impact of the new lease accounting standard IFRS, which will be adopted starting in FY2019, is taken into account.

* Temporary impact such as deferment of variable costs to other periods due to commencement of services

Action Plans for Profit Improvement - 1/2

Establish an organization that can tolerate market volatility by stabilizing initial setup challenges and accomplishing significant structural reformation. Targeting to return into profitability.



Action Plans for Profit Improvement - 2/2

Stabilization and Recovery from Teething Problems

Group 1	Recovery of Liftings and Utilization	Utilization almost reached pre-integration levels as a result of flexibly reducing service frequencies. Liftings, which dropped at commencement of services in FY2018, recovered throughout H2, and the level that can be achieved in FY2019, is reflected in the forecasts.
Group 1	Enhancement of Detention & Demurrage Collection	Collection of Detention & Demurrage remained higher than the target.

Action Plans in FY2019

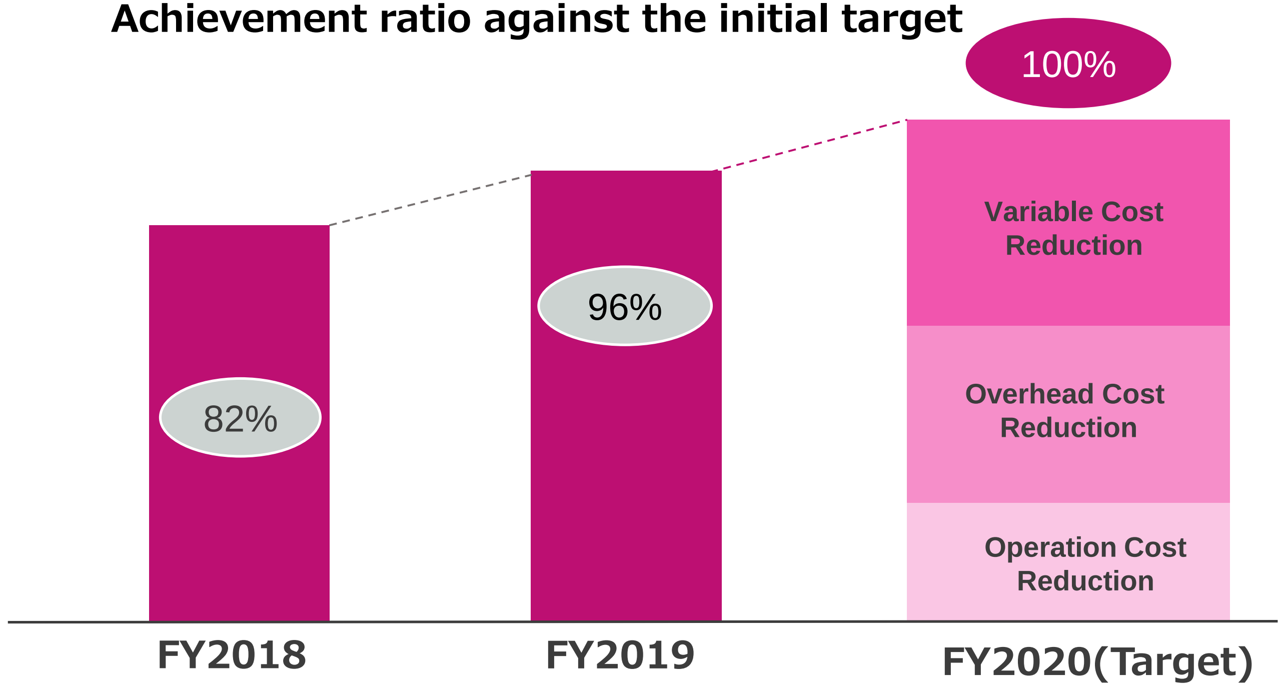
Group 2	Cargo Portfolio Optimization	Improve profit by optimizing the combination of fronthaul and backhaul cargoes. Efforts to restructure the cargo portfolio are in progress. The effects of U.S. contract renewals are reflected in the forecasts from May.
Group 2	Product Rationalization	Shifting to the product system for FY2019, such as Europe-Transpacific(TP) Pendulum (Upsize and optimization effect for overlapping sector), TP East Cost or Asian services rationalization, launch of own feeder services in Asia and Europe and so on will be almost completed by the end of May. Its improvement effect is reflected in the forecasts. Continue initiatives on reduction of fuel consumption as a major project from the viewpoint of reducing our environmental impact in addition to cost reduction.
Group 2	Organization Optimization	Further optimize organization and systems toward the establishment of a more efficient, more competitive structure, by reviewing the overall organization. Study measures to save labor in operations by strengthening e-commerce and introducing robotics and other technologies.
Group 2	Synergistic Effects	82% of the synergistic effects emerged in FY2018, the first year after the integration. The targets — achieving 96% in FY2019, the second year, and100% in FY2020, the third year after the integration—are unchanged.

Integration Synergy Update

From the initial integration synergy forecast of US$1,050 million, 82% of the synergistic effects emerged in the first fiscal year. The effects are expected to increase by 14% to reach 96% in FY2019. The target for FY2020 is unchanged.

- Break-down of the synergistic effect US$1,050 million is as follows :
  - Variable Cost Reduction ・・・US$430M : Rail, Truck Feeder, Terminal Equipment, etc.
  - Overhead Cost Reduction ・・・US$370M : IT cost, Rationalization of Organization, Outsourcing, etc.
  - Operation Cost Reduction ・・・US$250M : Bunker Consumption, Product Rationalization, etc.

Achievement ratio against the initial target



Fleet Structure

OCEAN NETWORK EXPRESS

as of end of 4Q

Size		1)FY2018 Prospect as of begining of FY2018	2)FY2018 Result	3)FY2019 Prospect	3)-2)
>= 20,500 TEU	Capacity(TEU)	120,600	120,600	120,600	0
	Vessels	6	6	6	0
10,500 - 20,500 TEU	Capacity(TEU)	321,000	335,220	349,000	13,780
	Vessels	23	24	25	1
9,800 - 10,500 TEU	Capacity(TEU)	100,100	100,100	160,100	60,000
	Vessels	10	10	16	6
7,800 - 9,800 TEU	Capacity(TEU)	347,598	331,036	348,874	17,838
	Vessels	39	37	39	2
6,000 - 7,800 TEU	Capacity(TEU)	252,168	254,900	221,476	▲ 33,424
	Vessels	39	39	34	▲ 5
5,200 - 6,000 TEU	Capacity(TEU)	89,670	89,998	84,170	▲ 5,828
	Vessels	16	16	15	▲ 1
4,600 - 5,200 TEU	Capacity(TEU)	118,260	132,488	117,933	▲ 14,555
	Vessels	24	27	24	▲ 3
4,300 - 4,600 TEU	Capacity(TEU)	71,816	71,816	71,816	0
	Vessels	16	16	16	0
3,500 - 4,300 TEU	Capacity(TEU)	46,562	29,690	16,912	▲ 12,778
	Vessels	11	7	4	▲ 3
2,400 - 3,500 TEU	Capacity(TEU)	52,992	60,952	53,337	▲ 7,615
	Vessels	20	23	20	▲ 3
1,300 - 2,400 TEU	Capacity(TEU)	18,711	16,993	15,275	▲ 1,718
	Vessels	11	10	9	▲ 1
1,000 - 1,300 TEU	Capacity(TEU)	1,200	6,449	6,449	0
	Vessels	1	6	6	0
< 1,000 TEU	Capacity(TEU)	6,000	2,106	2,810	704
	Vessels	8	3	4	1
Total	Capacity(TEU)	1,546,677	1,552,348	1,568,752	16,404
	Vessels	224	224	218	▲ 6

"K" LINE 川崎汽船株式会社

Value for our Next Century