Financial Highlights
Brief Report for 1st Quarter
FY2019

31st July 2019

Contents

Financial Highlights for 1st Quarter FY2019

Financial Results for 1st Quarter FY2019

"K" LINE 川崎汽船株式会社

Consolidated Results for 1Q FY2019

(billion yen)

	FY2019 1Q (a)	FY2018 1Q (b)	(a)-(b)
Operating Revenues	183.3	212.2	-28.9
Operating Income	4.1	-13.4	17.5
Ordinary Income	2.7	-17.1	19.8
Net Income Attributable to Owners of Parent	7.8	-19.3	27.1
Exchange Rate(￥/$)	¥110.73	¥108.10	¥2.63
Bunker Price(/MT)	$443	$414	$29

Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income)	FY2019 1Q (a)	FY2018 1Q (b)	(a)-(b)
Dry Bulk	55.5	64.6	-9.1
	-0.4	0.4	-0.8
Energy Resource Transport	20.5	20.2	0.3
	1.8	0.3	1.5
Product Logistics	98.7	119.1	-20.4
	1.8	-16.8	18.6
Containership	24.6	44.5	-19.9
	-0.4	-16.2	15.8
ONE as Equity Method Company	0.2	-4.3	4.5
Other	8.6	8.3	0.3
	0.3	0.4	-0.1
Adjustment	-	-	-
	-0.9	-1.4	0.5
Total	183.3	212.2	-28.9
	2.7	-17.1	19.8

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 an accumulation of mid-long term contracts, mainly for Thermal Coal and LNG carriers, as well as improvement in market conditions
- 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 1Q (a)	FY2018 1Q (b)	(a)-(b)
Dry Bulk	CAPE	$11,350	$14,950	▲$3,600
	PANAMAX	$9,500	$10,500	▲$1,000
	HANDYMAX	$8,200	$11,050	▲$2,850
	SMALL HANDY	$6,100	$8,800	▲$2,700
Tanker	VLCC	$13,900	$10,050	+$3,850
	AFRAMAX	$12,650	$7,000	+$5,650

Key Financial Indicator

(billion yen)

	FY2019-1Q (a)	FY2018 (b)	(a)-(b)
Equity Capital	111.9	103.6	8.3
Interest-bearing liability	567.5	550.2	17.3
DER	507%	531%	-24%
NET DER	399%	393%	6%
Equity Ratio	12%(*)	11%	1%

(*) 16%, including the subordinated loan with 50% equity credit from a rating agency

Forecasts for 1st half & FY2019

Forecasts for 1st half & FY2019

(billion yen)

	FY2019					FY2018		vs FY2018		FY2019 as of Apr		vs FY2019 as of Apr	
	1Q	2Q Forecast	1H (a)	2H Forecast	Total (b)	1H (c)	Total (d)	(a)-(c)	(b)-(d)	1H (e)	Total (f)	(a)-(e)	(b)-(f)
Operating Revenues	183.3	184.7	368.0	382.0	750.0	416.1	836.7	-48.2	-86.8	378.0	760.0	-10.0	-10.0
Operating Income	4.1	4.0	8.0	-2.0	6.0	-12.3	-24.7	20.4	30.8	8.0	6.0	-	-
Ordinary Income	2.7	7.3	10.0	-5.0	5.0	-21.3	-48.9	31.3	54.0	10.0	5.0	-	-
Net Income Attributable to Owners of Parent	7.8	-0.8	7.0	4.0	11.0	-24.6	-111.2	31.6	122.2	6.0	11.0	1.0	-
Exchange Rate(￥/$)	¥110.73	¥107.93	¥109.33	¥108.00	¥108.67	¥109.48	¥110.67	-¥0.15	-¥2.00	¥109.17	¥108.58	¥0.16	¥0.09
Bunker Price(/MT)	$443	$428	$436	$677	$556	$437	$450	-$2	$106	$491	$584	-$56	-$28

Key Factors

- Maintain the profit levels expected at the beginning of the fiscal year for operating income and the other income items on a full-year basis despite variation in the timing of recording of operating revenues, as well as gain or loss on asset disposal for continued implementation of selection and concentration.
- Although extraordinary income was recorded from sales of assets and liquidation of a Containership Business affiliate in 1Q, the 2Q forecast conservatively includes extraordinary loss on liquidation and other items.

Key factor assumption

- Yen-$ rate ￥**109**
- Bunker Price **$556/MT**
- Market assumption

  Please refer to “A-3”

Estimates Sensitivity (2~4Q·9 months)

- Yen-US$ rate : each ¥1 weaker (stronger) adds (subtracts) ±￥0.42bln
- Bunker price: each $10/mt down (up) adds (subtracts) ±￥0.03bln

*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.

Forecasts for 1st half & FY2019 by Segment

Forecasts for 1st half & FY2019 by Segment

(billion yen)

Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income)	FY2019 1Q	FY2019 2Q Forecast	FY2019 1H (g)	FY2019 2H Forecast	FY2019 Total (h)	FY2018 1H (i)	FY2018 Total (j)	vs FY2018 (g)-(i)	vs FY2018 (h)-(j)	FY2019 1H (k)	FY2019 Total (m)	vs FY2019 (g)-(k)	vs FY2019 (h)-(m)
Dry Bulk	55.5	58.5	114.0	109.5	223.5	132.0	273.8	-18.0	-50.4	118.0	229.0	-4.0	-5.5
	- 0.4	1.4	1.0	3.5	4.5	2.1	4.4	-1.1	0.0	0.5	4.0	0.5	0.5
Energy Resource Transport	20.5	21.5	42.0	49.0	91.0	42.0	88.7	0.0	2.3	43.0	92.0	-1.0	-1.0
	1.8	1.7	3.5	3.5	7.0	1.6	2.5	1.9	4.5	3.5	7.0	-	-
Product Logistics	98.7	96.8	195.5	207.5	403.0	225.4	441.0	-29.9	-38.0	201.0	407.0	-5.5	-4.0
	1.8	6.2	8.0	- 11.0	- 3.0	-23.1	-49.2	31.1	46.2	8.0	-3.0	-	-
Containership	24.6	24.9	49.5	57.0	106.5	75.8	135.8	-26.3	-29.3	54.2	111.3	-4.7	-4.8
	- 0.4	3.4	3.0	- 15.0	- 12.0	-23.4	-48.8	26.5	36.8	4.0	-11.0	-1.0	-1.0
ONE as Equity Method Company	0.2	4.1	4.3	- 1.3	3.1	-11.5	-20.1	15.8	23.2	4.1	2.8	0.2	0.2
Other	8.6	7.9	16.5	16.0	32.5	16.8	33.2	-0.3	-0.7	16.0	32.0	0.5	0.5
	0.3	0.2	0.5	1.0	1.5	1.0	1.1	-0.5	0.3	0.5	1.5	-	-
Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
	- 0.9	- 2.1	- 3.0	- 2.0	- 5.0	-3.0	-7.8	-	2.8	-2.5	-4.5	-0.5	-0.5
Total	183.3	184.7	368.0	382.0	750.0	416.1	836.7	-48.2	-86.8	378.0	760.0	-10.0	-10.0
	2.7	7.3	10.0	- 5.0	5.0	-21.3	-48.9	31.3	54.0	10.0	5.0	0.0	0.0

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.

- Product Logistics

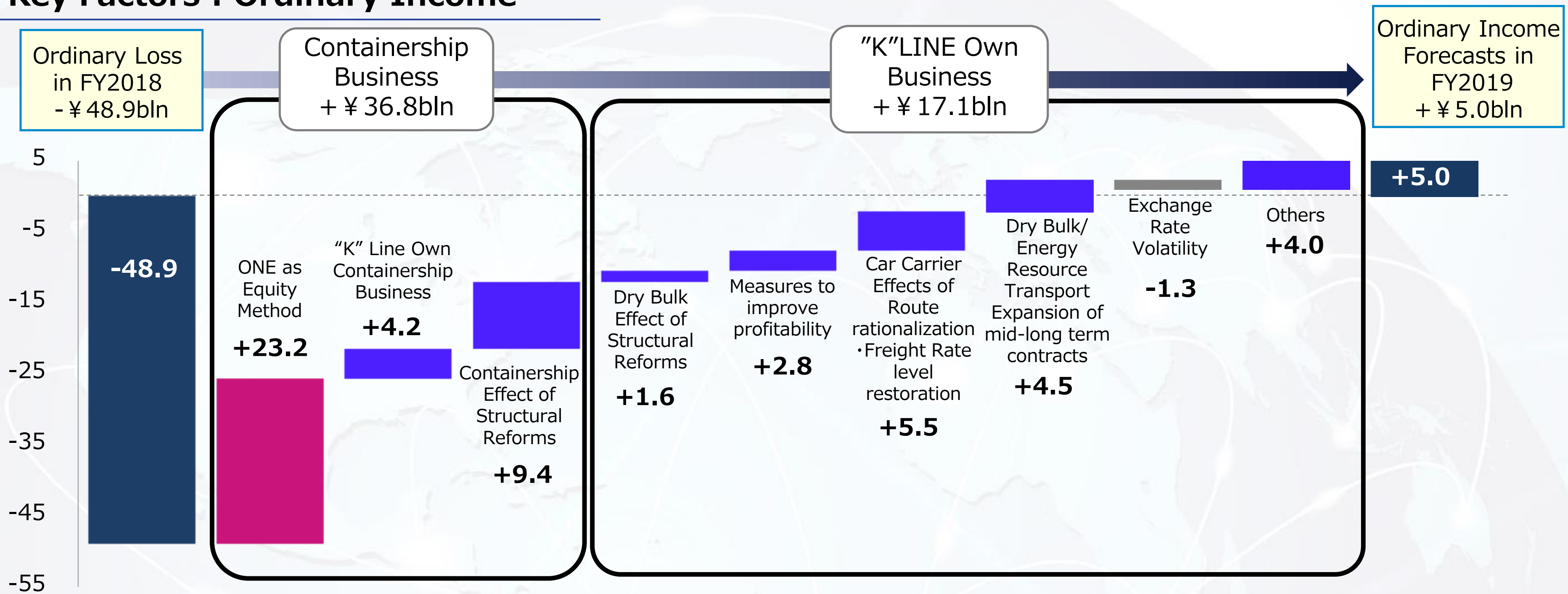
  Increasing profitability compared with the previous year due to ONE's profit improvement, structural reform effects of Containership, and profit improvement of Car Carriers.

		FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Total (a)	FY2018 1H	FY2018 2H	FY2018 Total (b)	(a)-(b)
Dry Bulk	CAPE	$17,200	$21,000	$19,100	$18,500	$12,200	$15,350	+$3,750
	PANAMAX	$11,500	$11,250	$11,400	$11,300	$9,700	$10,500	+$900
	HANDYMAX	$9,700	$11,000	$10,350	$11,300	$9,600	$10,450	▲$100
	SMALL HANDY	$7,550	$8,500	$8,000	$8,500	$7,600	$8,100	▲$100
Tanker	VLCC (Middle East/Japan)	$17,500	$30,000	$23,750	$12,600	$40,200	$26,400	▲$2,650
	AFRAMAX (South Asia/Japan)	$14,200	$17,000	$15,600	$8,200	$14,700	$11,450	+$4,150

A-4 Financial Highlights for 1st 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 amount (b)	(a)-(b)
Dry Bulk	Effective Vessel Allocation/ Most Economical Vessel Operation	0.5	0.5	-
	Vessel Operation Cost reduction/ Further efforts to market	0.6	0.6	-
Energy Resource Transport	Effective Vessel Allocation/ Most Economical Vessel Operation	0.4	0.4	-
	Operation cost reduction	0.9	0.9	-
Product Logistics	Sales Activities	0.2	0.2	-
	Operation cost reduction	0.2	0.2	-
	Total (billion yen)	2.8	2.8	-

- Containership Business
  Improvement of ¥36.8bln expected, mainly from equity in profit/loss of ONE and structural reform benefits
- "K"LINE Own Business
  Improvement of ¥17.1bln 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

A-5 Financial Highlights for 1st Quarter FY2019
Progress of Rebuilding Portfolio and Restoration of Financial Base

Key objective	Business/Tasks	Initiatives	Progress in FY2019-1Q
Rebuilding Business Portfolio	Dry Bulk	Expansion of Stable Income Business, mainly Capesize vessels	Expansion of mid-long-term cotracts, maily Capesize ・Commencement of long-term bauxite transportation contracts with Emirates Global Aluminium from June. (Transportation quantity is 5mil tonnes per year)
		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 ¥5.5 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 ・3 LNG carriers delivered in prior period and 8 Thermal coal carriers delivered in previous and current period ・Agreement to establish a new Joint venture shipping company with Taipower and etc. (Disclosed in July)
		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) 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	Acheving a surplus in 1Q in FY2019 (Refer to P.15 onward)
	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) 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)

Compliance with IMO Regulations

Proceeding 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. Trials of usage on multiple vessel types completed.
	Status of response to cost increases	For fuel switching, attempt to reduce costs by devising switching techniques and utilizing additives(Sludge dispersant). We are explaining and discussing the fuel oil cost increase with customers to obtain their understanding of bearing a reasonable burden as an environmental cost.
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

Division Trends



Dry Bulk Segment

Results in 1Q FY2019

- Dry Bulk market conditions followed a recovery trend against a backdrop of higher marine transport demand, mainly for cargo to China.
  - Capesize

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

    Market conditions were generally stable, except for when they weakened due to vessels being temporarily concentrated in the Atlantic basin following the start of full-scale grain transport from South America.
- Strengthening effective operation suitable for the market situation and most economical operation including measures to improve profitability.

Initiatives for 2Q 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

	FY2017	FY2018	FY2019 1Q
CAPE	106	96	94
Panamax and Smaller size	127	103	95
Woodchip Carriers	10	10	10
Total	**243**	**209**	**199**

FY2019 : Dry Bulk Market Exposure

CAPE	13%
Panamax and Smaller size	25%
Woodchip Carriers	0%

Dry Bulk Market	FY2018					FY2019			
	1Q	2Q	3Q	4Q	Results	1Q	1H Forecast	2H Forecast	Forecast
CAPE	$14,950	$22,000	$15,800	$8,650	$15,350	$11,350	$17,200	$21,000	$19,100
PANAMAX	$10,500	$12,150	$12,350	$6,950	$10,500	$9,500	$11,500	$11,250	$11,400
HANDYMAX	$11,050	$11,600	$11,500	$7,600	$10,450	$8,200	$9,700	$11,000	$10,350
SMALL HANDY	$8,800	$8,250	$9,250	$6,000	$8,100	$6,100	$7,550	$8,500	$8,000

Energy Resource Transport Segment – Tanker/Thermal Coal Carrier

Results in 1Q FY2019

- Tanker
  - For VLCC, despite a temporary recovery in market conditions in response to tanker attacks in the Gulf of Oman, vessel over-supply made market conditions generally weak.
  - For LPG vessels, exports from the U.S. rose, ton-miles increased, and market conditions improved.
- Thermal Coal Carrier
  - Secured stable profits based on mid-long term contracts
  - Pursued effective vessel allocation/operation and shrinking market exposure

Initiatives for 2Q FY2019 onwards

- Tanker
  - 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

Transition of Tanker and Thermal Coal Carrier Fleet Scale

	FY2017	FY2018	FY2019 1Q
VLCC	6	8	7
LPG	7	8	7
Other Tankers	9	6	6
Thermal Coal Carriers	23	25	27
Total	**45**	**47**	**47**

FY2019 : Tanker and Thermal Coal Carrier Fleet Market Exposure

VLCC	21%
LPG	14%
Other Tankers	67%
Thermal Coal Carriers	10%

Tanker Market (WS)	FY2018 1Q	FY2018 2Q	FY2018 3Q	FY2018 4Q	FY2018 Results	FY2019 1Q	FY2019 1H Forecast	FY2019 2H Forecast	FY2019 Forecast
VLCC	45	53	88	56	61	41	44	65	55
(Middle East/Japan)	$10,050	$15,150	$49,800	$30,550	$26,400	$13,900	$17,500	$30,000	$23,750
AFRAMAX	87	103	133	102	106	99	105	127	116
(South Asia/Japan)	$7,000	$9,350	$16,350	$13,000	$11,450	$12,650	$14,200	$17,000	$15,600

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

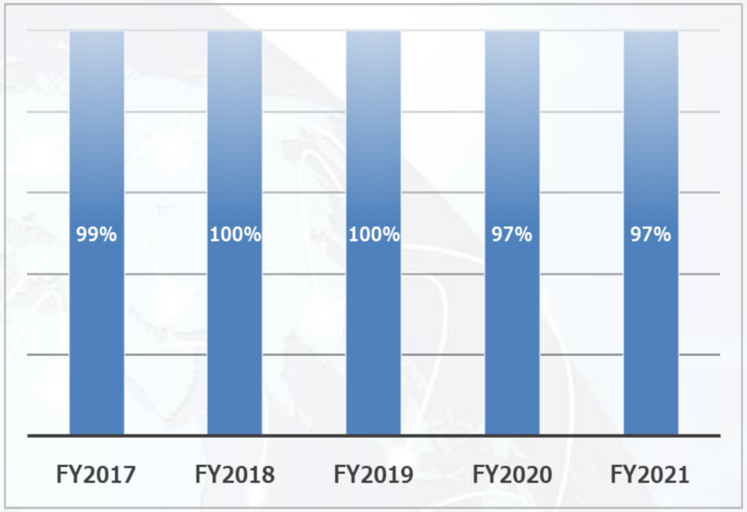
Results in 1Q FY2019

- 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
  - PSV market conditions improved due to a tight supply and demand balance, while AHTS market conditions remained weak.

Initiatives for 2Q 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 1Q FY2019

- Total Units Carried : 913 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 route.

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

Initiatives for 2Q FY2019 onwards

- Total Units Carried : 2,561 thousand units
  There is concern about the risk of a downturn in marine transport demand, resulting from U.S. tariff increases, in addition to uncertainty about the outlook for the world economy due to the trade dispute between the U.S. and China, Brexit, and other factors.
- Aim to further strengthen the earnings foundation by continuing to review the route network and pursuing rate restoration and vessel allocation efficiency.

Expansion of Automotive Logistics Business

- Total Units Handled to be 2,450 thousand units (FY2019)
- Business location 9 countries and 10 base

Total units carried (1,000 units)	FY2018					FY2019			
	1Q	2Q	3Q	4Q	Results	1Q	1H Forecast	2H Forecast	Forecast
Outbound	297	267	303	307	1,174	299	566	563	1,129
Homebound	63	69	59	48	240	64	130	110	240
Others	373	349	338	263	1,324	315	607	605	1,212
Intra-Europe	254	173	227	226	881	235	449	444	893
Total units carried	987	858	927	845	3,617	913	1,752	1,722	3,474
Number of Fleet	93	93	92	90	90	85	85	84	84

※Amended the result figure of Intra-Europe in FY2018.

Product Logistics Segment – Logistics Business

Results in 1Q FY2019

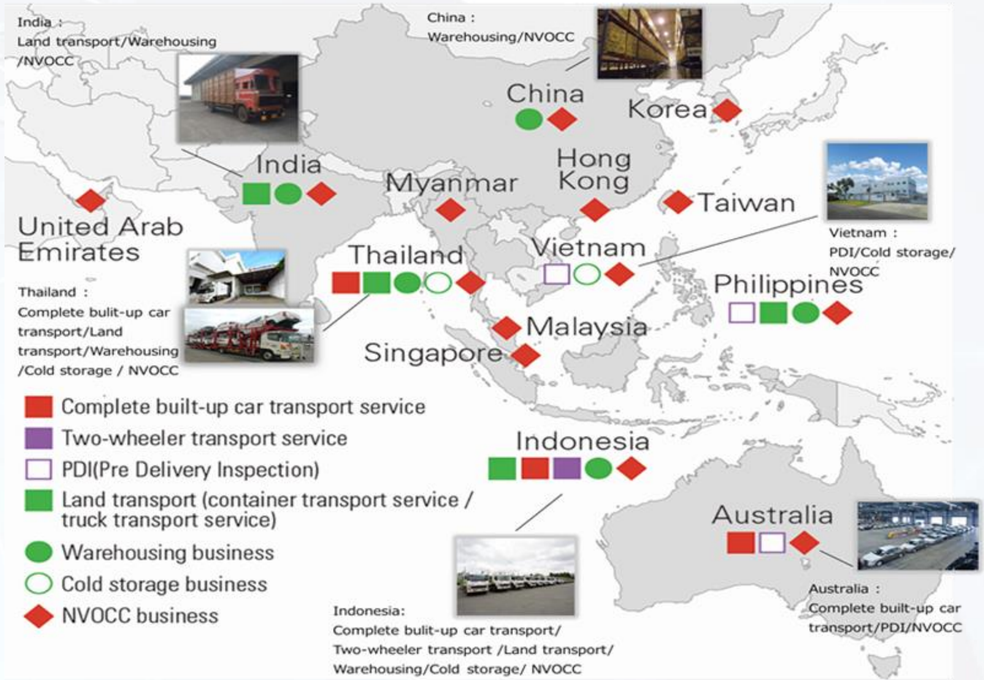
- Domestic Logistics

・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

・Year-on-year decrease in cargo movements in the air cargo sector, especially semiconductor manufacturing facilities
・Decreases in international air cargo handling and e-commerce-related cargo volume from China to the U.S. due to the impact of trade friction between the two countries

Location in our Logistics Business



Initiatives for 2Q 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

ONE

OCEAN NETWORK EXPRESS

Financial Results for FY2019 1st Quarter and Forecast for FY2019

JUL.31, 2019

FY2019 1st Quarter Results and P/L Analysis

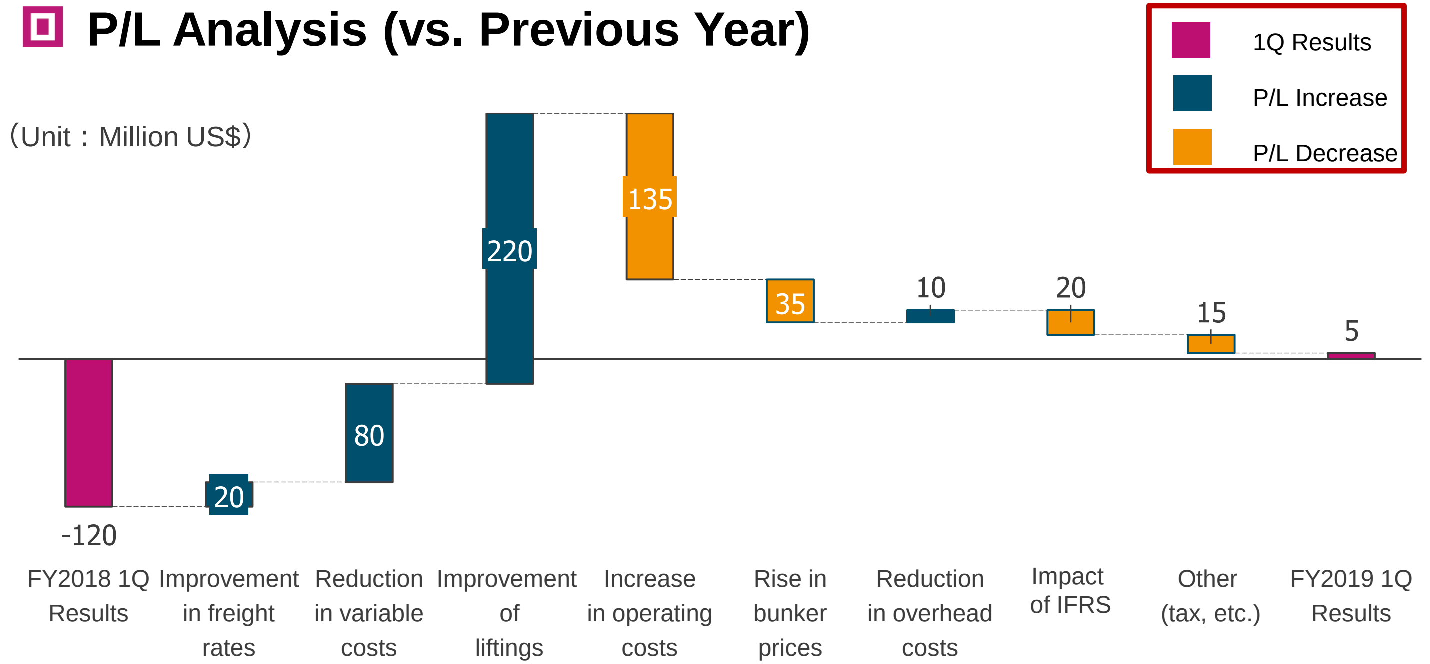
1Q Results and Comparison with Previous Year

Profit/loss turned up at a higher pace than estimated, achieving a surplus in 1Q.

（Unit：Million US$）

	FY2018 1Q Results	FY2019 1Q Results	1Q Change	1Q Change (%)
Revenue	2,066	2,875	809	39.1%
Profit/Loss	-120	5	125	-
Bunker Price (US$/MT)	$407	$432	$25	

P/L Analysis (vs. Previous Year)



- Freight rates: Improved in North America, South America, and Asia. Deteriorated in Europe.
- Variable costs: Profitability improved thanks to reduction in unit variable costs such as terminal and inland costs, due to improved portfolio (explained on pg.5) and efforts on cost reduction.
- Liftings: Improved significantly with stabilized services. Another reason for the improvement was the impact of gradual service commencement during the same period of the previous year, when the company began operations.
- Operating costs: Total operating costs increased from the same period of the previous year when services commenced in a gradual manner, despite a drop in unit prices as planned due to an effort on product rationalization (explained on pg.5) and reduced expenditures for bunker oil.
- Overhead costs: Agency costs and IT costs decreased.
- International Financial Reporting Standards (IFRS): Impact of the new standard on leases
- Others: Impact of an increase in freight tax due to increases in freight income.

Liftings/Utilization /Freight Index

(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
Asia - North America Eastbound	Lifting	530	761	746	627	1,291	1,374	2,664	669
	Utilization	73%	90%	95%	88%	82%	92%	87%	86%
Asia - Europe Westbound	Lifting	312	478	442	455	790	897	1,687	460
	Utilization	73%	90%	92%	92%	82%	92%	88%	87%
Asia - North America Westbound	Lifting	218	285	320	318	502	639	1,141	350
	Utilization	33%	33%	40%	43%	33%	41%	37%	47%
Asia - Europe Eastbound	Lifting	194	263	315	320	457	634	1,091	323
	Utilization	48%	47%	62%	63%	48%	62%	55%	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
Asia - North America Eastbound	100	101	108	105	101	107	104	103
Asia - Europe Westbound	100	106	100	107	104	104	104	100

- Asia-North America Eastbound: Freight rates for long-term contracts improved after they were concluded at the same level as the assumption at the beginning of the year. This impact has started to be reflected on the P/L since May. Freight rates in the spot market remained firm, but cargo movement stayed stagnant, because of factors such reduced shipments by some customers due to the additional U.S. tariffs on Chinese goods. Service frequency was reduced by 12 sailings, which was not planned at the beginning of year, in an effort to maintain utilization.
- Asia-Europe Westbound: The freight rate market hovered at the same low level as last year because supply grew faster than demand, though overall demand was relatively strong. Service frequency was reduced by five sailings to minimize the downturn in utilization.
- Asia-North America Westbound/Asia-Europe Eastbound: On Asia-North America Westbound routes, liftings and utilization remained stable and recorded their highest quarterly figures, despite unstable trade conditions. On Asia-Europe Eastbound routes, liftings remained stable recording their highest quarterly figure, but the freight rate level was stagnant because supply grew faster than demand.

FY2019 Full-year Forecasts and P/L Analysis

FY2019 Full-year Forecasts and Comparison with Previous Forecasts

The forecast of profit/loss for 1H calls for a slight improvement, mainly reflecting a greater 1Q improvement than the forecast at the beginning of the year and deterioration in the Europe route in 2Q. The forecast of 2H is unchanged.

（Unit：Million US$）

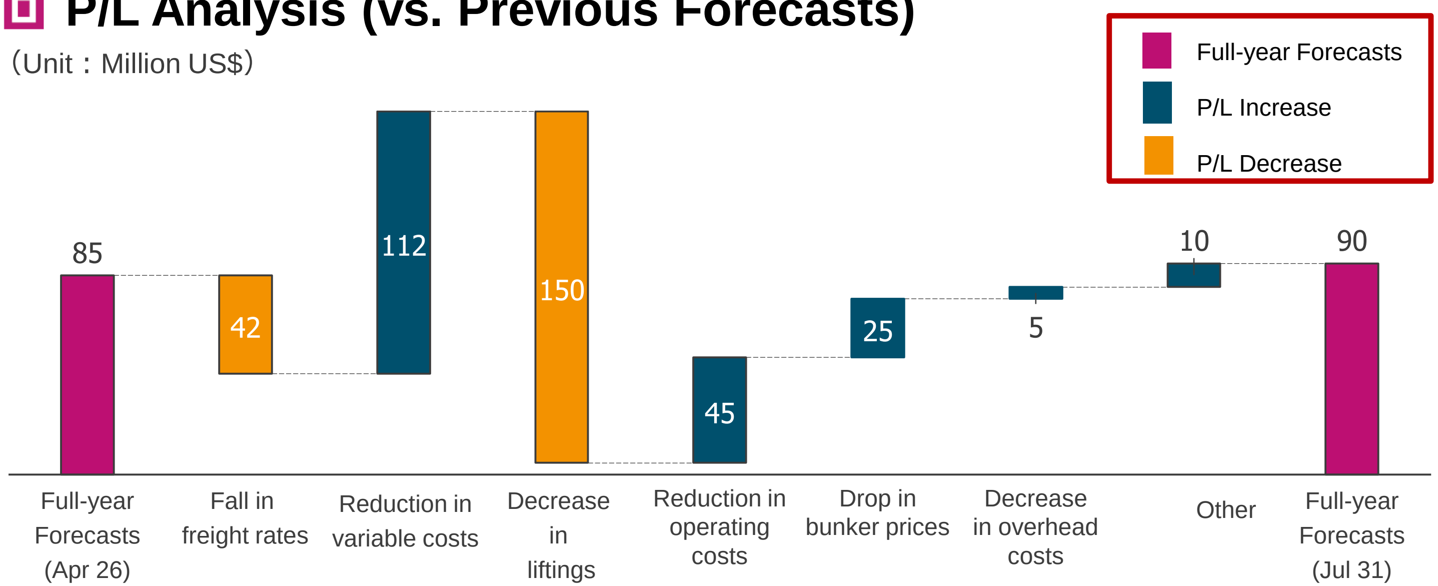
	FY2019 Previous Forecasts			FY2019 Latest Forecasts					Full Year	
	1H Forecasts	2H Forecasts	Full Year Forecasts	1Q Results	2Q Forecasts	1H Forecasts	2H Forecasts	Full Year Forecasts	Change (Mil US$)	Change (%)
Revenue	6,417	6,306	12,723	2,875	3,214	6,089	6,306	12,395	-328	-2.6%
Profit/Loss	123	-38	85	5	123	128	-38	90	5	5.9%
Bunker Price (US$/MT)	$445	$533	$488	$432	$432	$432	$533	$483	-$5	

Sensitivity on Profit/Loss : **±US$ 2Million per US$10/MT per Quarter**

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

P/L Analysis (vs. Previous Forecasts)

（Unit：Million US$）



- ❑ Freight rates: Reflected mainly the deterioration on the Europe route.
- ❑ Variable Costs: Anticipating a decrease in unit variable costs and improvement in profitability, the same as 1Q, by reflecting the impact of portfolio rationalization and the effects of cost reduction.
- ❑ Reduction of operating costs: Additional reduction of service frequencies was implemented because growth in demand has not matched the forecast at the beginning of the year. Planned product rationalization and fuel saving is progressing in line with the initial assumption.
- ❑ Liftings: Reflecting a decrease in demand that has occurred in 1Q and 2Q so far, mainly on Europe/North America/Asia routes. Anticipating that overall worldwide demand growth for the full year will stay around 3%.
- ❑ Overhead costs: Decrease in agency fees and IT costs.

Action Plans

Action Plans in FY2019

Cargo Portfolio Optimization	Negotiated the long-term contracts for North America upon scrutiny of profitability of the product for FY2019 by customer and route. As a result, they were concluded at the target level. Projecting an improvement of US$190 million per year as estimated at the beginning of the year. Unit variable cost dropped due to additional cost reduction efforts as projected.
Product (routes/allocated vessels) Rationalization	Reallocation of vessels through service reforms for FY2019 was completed in June: For THE Alliance (THEA), the start of pendulum on North America-Europe routes, launch of larger containerships on some routes, and review of ports of call (Impact: +about US$120 million/year); other than THEA, rationalization on West-Asia routes, suspension of unprofitable routes, launch of larger vessels on these routes, and expansion of independent feeder networks (Impact: +about US$75 million/year), and improvement through fuel saving efforts (Impact: +about US$65 million/year). Such positive financial impacts will be yielded through the fiscal year. THEA agreed to HMM's participation starting in April 2020 and started preparation for more competitive service network
Organization Optimization	Promote optimization of organization and systems to establish a more efficient, more competitive organizational structure through a review of the overall organization. Actions in organizational optimization including enhancement of E-commerce and introduction of technologies such as robotics are underway. The measures to improve the P/L by US$50 million/year are in progress as projected at the beginning of the year.
Synergistic Effects	82% of the target for synergistic effects of US$1,050 million/year was achieved in FY2018, the first year after the integration. The targets—96% in FY2019, the second year, and 100% in FY2020, the third year—are unchanged.
Compliance with MARPOL 2020 Regulation	Measures to protect the environment and comply with regulations are progressing steadily. We see strong prospects for securing an adequate supply of regulation-compliant fuels by the time the regulations take effect. Preparing to install scrubbers on some larger vessels, targeting the industry's average installation percentage as the benchmark. Transport costs will increase significantly due to compliance with regulations. The shift of additional costs to freight rates is unavoidable. We have fully explained the issue to our customers, and already acquired agreement in all long-term contracts continuing past the end of 2019 for cost recovery by means such as the ONE Bunker Surcharge (OBS). Expecting to take the same actions in year-end negotiations.
Transfer of Overseas Terminal Business	Targeting an early transfer from each of the parent companies in FY2019.

Ocean Network Express

Fleet Structure

OCEAN NETWORK EXPRESS

Size		1) As of end Mar 2019	2)As of end June 2019	2)-1)
>= 20,500 TEU	Capacity(TEU)	120,600	120,600	0
	Vessels	6	6	0
10,500 - 20,500 TEU	Capacity(TEU)	335,220	349,220	14,000
	Vessels	24	25	1
9,800 - 10,500 TEU	Capacity(TEU)	100,100	100,100	0
	Vessels	10	10	0
7,800 - 9,800 TEU	Capacity(TEU)	331,036	365,941	34,905
	Vessels	37	41	4
6,000 - 7,800 TEU	Capacity(TEU)	254,900	234,404	▲ 20,496
	Vessels	39	36	▲ 3
5,200 - 6,000 TEU	Capacity(TEU)	89,998	89,998	0
	Vessels	16	16	0
4,600 - 5,200 TEU	Capacity(TEU)	132,488	133,204	716
	Vessels	27	27	0
4,300 - 4,600 TEU	Capacity(TEU)	71,816	67,384	▲ 4,432
	Vessels	16	15	▲ 1
3,500 - 4,300 TEU	Capacity(TEU)	29,690	25,472	▲ 4,218
	Vessels	7	6	▲ 1
2,400 - 3,500 TEU	Capacity(TEU)	60,952	50,216	▲ 10,736
	Vessels	23	19	▲ 4
1,300 - 2,400 TEU	Capacity(TEU)	16,993	13,261	▲ 3,732
	Vessels	10	8	▲ 2
1,000 - 1,300 TEU	Capacity(TEU)	6,449	7,471	1,022
	Vessels	6	7	1
< 1,000 TEU	Capacity(TEU)	2,106	1,402	▲ 704
	Vessels	3	2	▲ 1
Total	Capacity(TEU)	1,552,348	1,558,673	6,325
	Vessels	224	218	▲ 6

Value for our Next Century