Financial Highlights
Brief Report for 2nd Quarter
FY2018

31st Oct 2018

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Financial Results for 2nd Quarter FY2018

"K" LINE 川崎汽船株式会社

Consolidated Results for 2Q FY2018

(billion yen)

	FY2018 1Q	FY2018 2Q	FY2018 1H (a)	Year-on-Year Comparison FY2017 1H (b)	Year-on-Year Comparison (a)-(b)	vs FY2018 1H as of Jul 1H (c)	vs FY2018 1H as of Jul (a)-(c)	vs FY2018 1H as of Oct 16th 1H (d)	vs FY2018 1H as of Oct 16th (a)-(d)
Operating Revenues	212.2	204.0	416.1	578.9	▲ 162.8	411.5	4.6	415.0	1.1
Operating Income	▲ 13.4	1.0	▲ 12.3	6.2	▲ 18.6	▲ 10.0	▲ 2.3	▲ 13.5	1.2
Ordinary Income	▲ 17.1	▲ 4.2	▲ 21.3	11.1	▲ 32.5	▲ 12.0	▲ 9.3	▲ 23.0	1.7
Net Income Attributable to Owners of Parent	▲ 19.3	▲ 5.3	▲ 24.6	13.2	▲ 37.8	▲ 15.0	▲ 9.6	▲ 26.5	1.9
Exchange Rate (¥/$)	¥108.10	¥110.87	¥109.48	¥111.20	▲¥1.72	¥108.48	¥1.00		
Bunker Price ($/MT)	$414	$459	$437	$324	$113	$441	▲$4		

Business Segment		FY2018 1Q	FY2018 2Q	FY2018 1H (a)	Year-on-Year Comparison FY2017 1H (b)	Year-on-Year Comparison (a)-(b)	vs FY2018 1H as of Jul 1H (c)	vs FY2018 1H as of Jul (a)-(c)
Dry Bulk	Operating Revenues	64.6	67.3	132.0	118.5	13.4	127.5	4.5
	Ordinary Income	0.4	1.7	2.1	▲ 1.2	3.3	1.0	1.1
Energy Resource Transport	Operating Revenues	20.2	21.8	42.0	36.4	5.6	43.0	▲ 1.0
	Ordinary Income	0.3	1.3	1.6	1.7	▲ 0.0	1.0	0.6
Product Logistics	Operating Revenues	119.1	106.3	225.4	402.3	▲ 177.0	224.0	1.4
	Ordinary Income	▲ 16.8	▲ 6.3	▲ 23.1	12.5	▲ 35.5	▲ 12.0	▲ 11.1
Containership	Operating Revenues	44.5	31.3	75.8	250.7	▲ 174.9	74.1	1.7
	Ordinary Income	▲ 16.2	▲ 7.2	▲ 23.4	3.9	▲ 27.3	▲ 13.2	▲ 10.3
ONE as Equity method company	Ordinary Income	▲ 4.3	▲ 7.2	▲ 11.5	▲ 1.1	▲ 10.4	▲ 1.5	▲ 10.0
Others	Operating Revenues	8.3	8.5	16.8	21.6	▲ 4.8	17.0	▲ 0.2
	Ordinary Income	0.4	0.6	1.0	1.9	▲ 1.0	0.5	0.5
Adjustment	Operating Revenues	-	-	-	-	-	-	-
	Ordinary Income	▲ 1.4	▲ 2	▲ 3	▲ 3.7	0.8	▲ 2.5	▲ 0.5
Total	Operating Revenues	212.2	204.0	416.1	578.9	▲ 162.8	411.5	4.6
	Ordinary Income	▲ 17.1	▲ 4.2	▲ 21.3	11.1	▲ 32.5	▲ 12.0	▲ 9.3

Main Factors

- Dry Bulk Business :
  Made a profit better than our expectation due to steady market situation
- Equity in earnings/loss from ONE :
  Sharp downturn due to lower lifting and increasing costs caused by operational teething problems
- Car Carrier Business : 1st half results declined due to decrease in operational productivities and cargo volume volatility etc.

(※) Analysis/Comparison of FY2018-1H is based on new business segment from FY2018. Ordinary Income of Containership business in FY2017-1H based on previous segment is +¥7.2bln and Y-o-Y increase and decrease is ▲¥30.6bln.

Main Financial Indicators

(billion yen)

	FY2017 (a)	FY2018 2Q (b)	(b)-(a)
Equity Capital	217.0	207.7	▲ 9.3
Interest-bearing liability	570.6	576.1	5.5
DER (%)	263%	277%	14%
NET DER (%)	170%	208%	38%
Equity Ratio (%)	21%	20%	▲1%

		FY2017 1H (a)	FY2018 1H (b)	(b)-(a)
Dry Bulk	CAPE	$13,400	$18,500	+$5,100
	PANAMAX	$9,600	$11,300	+$1,700
	HANDYMAX	$8,950	$11,300	+$2,350
	SMALL HANDY	$7,350	$8,500	+$1,150
Tanker	VLCC (Middle East/Japan)	$15,400	$12,600	▲$2,800
	AFRAMAX (South Asia/Japan)	$9,300	$8,200	▲$1,100
	Clean Tanker (110,000MT) (Middle East/Japan)	$10,450	$9,650	▲$800

A-2 Financial Highlights for 2nd Quarter FY2018
Forecasts for FY2018

Consolidated Forecasts for FY2018

(billion yen)

	FY2018					FY2018 as of Jul			Comparison with FY2018 as of Jul			FY2017	
	1Q	2Q	1H (a)	2H (b)	Total (c)	1H (d)	2H (e)	Total (f)	1H (a)-(d)	2H (b)-(e)	Total (c)-(f)	Total (j)	Total (c)-(j)
Operating Revenues	212.2	204.0	416.1	403.9	820.0	411.5	363.5	775.0	4.6	40.4	45.0	1,162.0	▲ 342.0
Operating Income	▲ 13.4	1.0	▲ 12.3	7.3	▲ 5.0	▲ 10.0	15.0	5.0	▲ 2.3	▲ 7.7	▲ 10.0	7.2	▲ 12.2
Ordinary Income	▲ 17.1	▲ 4.2	▲ 21.3	▲ 6.7	▲ 28.0	▲ 12.0	17.0	5.0	▲ 9.3	▲ 23.7	▲ 33.0	2.0	▲ 30.0
Net Income Attributable to Owners of Parent	▲ 19.3	▲ 5.3	▲ 24.6	4.6	▲ 20.0	▲ 15.0	22.0	7.0	▲ 9.6	▲ 17.4	▲ 27.0	10.4	▲ 30.4
Exchange Rate (¥/$)	¥108.10	¥110.87	¥109.48	¥111.26	¥110.37	¥108.48	¥110.00	¥109.24	¥1.00	¥1.26	¥1.13	¥111.19	▲¥0.82
Bunker Price ($/MT)	$414	$459	$437	$495	$466	$441	$460	$451	▲$4	$35	$15	$349	$117

Key factor assumption

- Yen-$ rate assumption ▶ **¥110**
- Bunker price assumption ▶ **$466/MT**

($495/MT in 2H)

Ordinary Income Estimates Sensitivity (3Q～4Q 6months basis)

- Yen-US$ rate :
each ¥1 weaker (stronger) adds (subtracts)
▶ ±¥0.22bln
- Bunker price:
each $10/mt down (up) adds (subtracts)
▶ ±¥0.02bln

*Bunker price sensitivity by ONE is not included.

Dividends

Interim – No dividend
Year-end (Est) – No dividend

Considering to downturn revision of result forecasts for FY2018, with much regret, we decided not to pay not only interim but also year-end dividends in FY2018.

	FY2018 as of Oct 16th		Comparison with FY2018 as of Oct 16th	
	1H (g)	Total (h)	1H (a)-(g)	Total (c)-(h)
Operating Revenues	415.0	815.0	1.1	5.0
Operating Income	▲ 13.5	▲ 6.0	1.2	1.0
Ordinary Income	▲ 23.0	▲ 29.5	1.7	1.5
Net Income Attributable to Owners of Parent	▲ 26.5	▲ 21.5	1.9	1.5

		Previous Forecast as of Jul 2018			Latest Forecast FY2018			(b)-(a)
		1H	2H	Forecast(a)	1H	2H	Forecast(b)	
Dry Bulk	CAPE	$16,000	$22,000	$19,000	$18,500	$21,700	$20,100	+$1,100
	PANAMAX	$12,500	$13,500	$13,000	$11,300	$13,500	$12,400	▲$600
	HANDYMAX	$10,500	$11,500	$11,000	$11,300	$12,000	$11,650	+$650
	SMALL HANDY	$9,000	$9,500	$9,250	$8,500	$9,500	$9,000	▲$250
Tanker	VLCC (Middle East/Japan)	$14,250	$15,000	$14,600	$12,600	$23,200	$17,900	+$3,300
	AFRAMAX (South Asia/Japan)	$11,000	$11,000	$11,000	$8,200	$10,700	$9,400	▲$1,600
	Clean Tanker (110,000MT) (Middle East/Japan)	$12,000	$12,000	$12,000	$9,650	$12,000	$10,800	▲$1,200

Forecasts for FY2018 by Segment

Consolidated Forecasts for FY2018 by Segment

(billion yen)

Business Segment		FY2018					FY2018 as of Jul			Comparison with FY2018 as of Jul			FY2017	
		1Q	2Q	1H (a)	2H (b)	Total (c)	1H (d)	2H (e)	Total (f)	1H (a)-(d)	2H (b)-(e)	Total (c)-(f)	Total (j)	Total (c)-(j)
Dry Bulk	Operating Revenues	64.6	67.3	132.0	141.0	273.0	127.5	115.5	243.0	4.5	25.5	30.0	248.9	24.1
	Ordinary Income	0.4	1.7	2.1	4.4	6.5	1.0	5.0	6.0	1.1	▲ 0.6	0.5	▲0.1	6.6
Energy Resource Transport	Operating Revenues	20.2	21.8	42.0	45.0	87.0	43.0	44.5	87.5	▲ 1.0	0.5	▲ 0.5	75.4	11.6
	Ordinary Income	0.3	1.3	1.6	0.9	2.5	1.0	2.0	3.0	0.6	▲ 1.1	▲ 0.5	0.4	2.1
Product Logistics	Operating Revenues	119.1	106.3	225.4	199.6	425.0	224.0	186.0	410.0	1.4	13.6	15.0	798.6	▲373.6
	Ordinary Income	▲ 16.8	▲ 6.3	▲ 23.1	▲ 8.4	▲ 31.5	▲ 12.0	11.5	▲ 0.5	▲ 11.1	▲ 19.9	▲ 31.0	5.8	▲37.3
Containership	Operating Revenues	44.5	31.3	75.8	52.2	128.0	74.1	42.5	116.7	1.7	9.7	11.4	487.8	▲359.8
	Ordinary Income	▲ 16.2	▲ 7.2	▲ 23.4	▲ 9.1	▲ 32.5	▲ 13.2	6.6	▲ 6.6	▲ 10.3	▲ 15.7	▲ 26.0	▲8.3	▲24.2
ONE as Equity method company	Ordinary Income	▲ 4.3	▲ 7.2	▲ 11.5	▲ 9.3	▲ 20.7	▲ 1.5	5.2	3.8	▲ 10.0	▲ 14.5	▲ 24.5	▲7.1	▲13.6
Others	Operating Revenues	8.3	8.5	16.8	18.2	35.0	17.0	17.5	34.5	▲ 0.2	0.7	0.5	39.1	▲4.1
	Ordinary Income	0.4	0.6	1.0	0.5	1.5	0.5	0.5	1.0	0.5	-	0.5	3.0	▲1.5
Adjustment	Operating Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-
	Ordinary Income	▲ 1.4	▲ 1.6	▲ 3.0	▲ 4.0	▲ 7.0	▲ 2.5	▲ 2.0	▲ 4.5	▲ 0.5	▲ 2.0	▲ 2.5	▲7.1	0.1
Total	Operating Revenues	212.2	204.0	416.1	403.9	820.0	411.5	363.5	775.0	4.6	40.4	45.0	1,162.0	▲342.0
	Ordinary Income	▲ 17.1	▲ 4.2	▲ 21.3	▲ 6.7	▲ 28.0	▲ 12.0	17.0	5.0	▲ 9.3	▲ 23.7	▲ 33.0	2.0	▲30.0

[Main Key Factors]

- Dry Bulk – Full-year results forecasts to be improved due to firm market conditions besides both effectiveness by suitable vessel allocation and measures to improve profitability.
- Energy Resource Transport –Smooth fleet operation by LNG carriers, LPG carriers and Thermal Coal carriers based on mid-and-long-term contracts
  –As a whole segment, full-year results forecasts to be declined slightly compared with previous forecast due to some negative market impact to Offshore support vessel and a part of Tankers.
- Product Logistics –Containership Business : Even though completion of the temporary losses in "K" Line own Containership Business, full-year results forecasts to be ▲￥32.5bln due to sharp downturn of equity in loss from ONE. (To be described in the back of the page)
  –Car Carrier Business : Cargo lifting in the route from Asia remains firm as our forecast, but decrease in operational productivities due to lower cargo liftings than our forecast in Central and South America /Australia/Middle East routes. Due to economy downturn in South America and decrease in operational productivities in the route from Europe, as a whole segment, full-year results forecasts to be declined.

(※) Analysis/Comparison of both FY2018 and FY2017 are based on new business segment from FY2018. Ordinary Income of Containership business in FY2017 based on previous segment is ▲￥1.1bln and Y-o-Y increase and decrease is ▲￥31.4bln.

A-4 Financial Highlights for 2nd Quarter FY2018
Latest Forecasts for FY2018 - vs. Assumption as of July 2018

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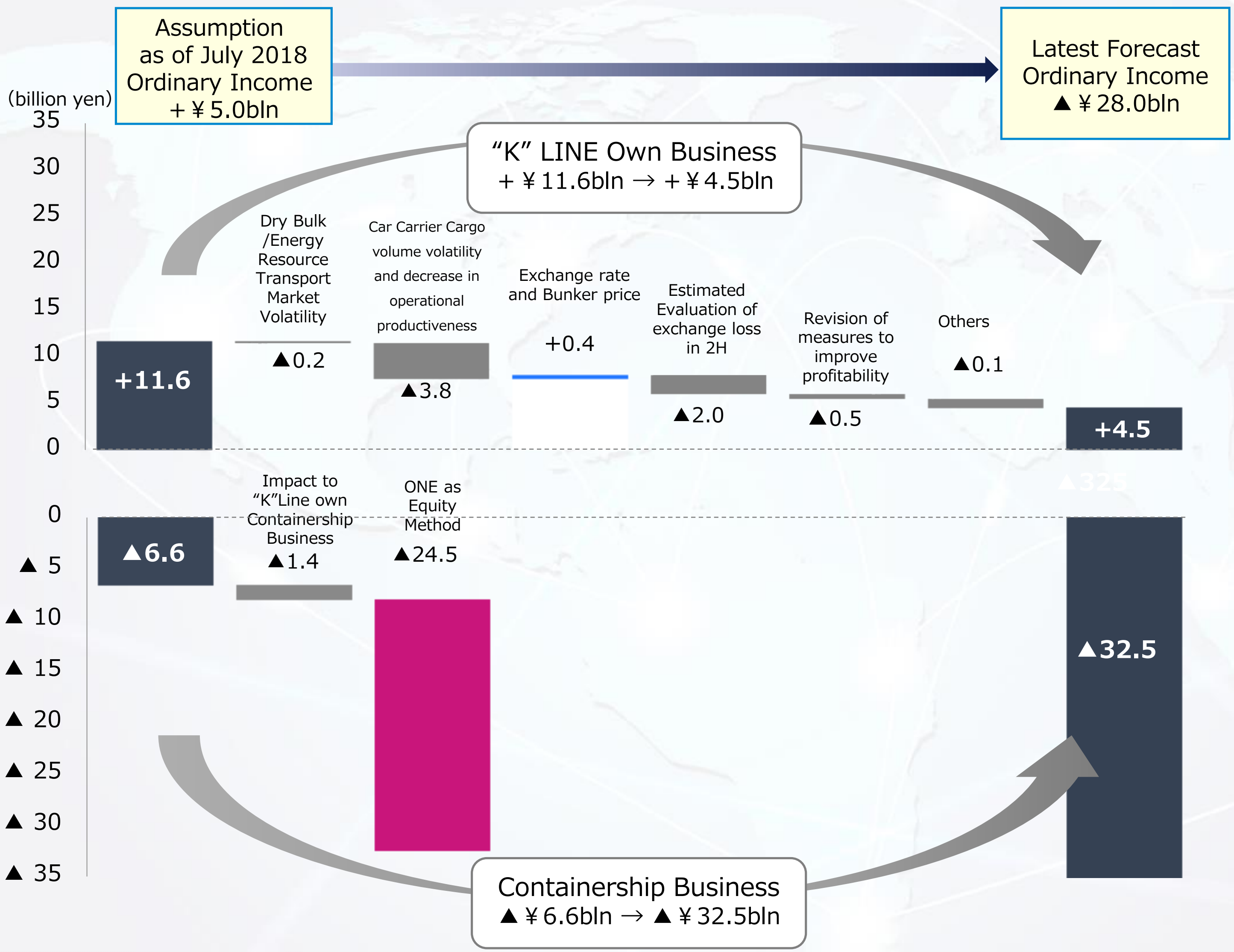
Key Factors : Ordinary Income



[Remarks]

- Evaluation of exchange loss : Estimated amounts of evaluation loss by assumption ￥110 in the end of FY2017
- Revision of measures to improve profitability

Reduction of Remaining fixed costs

(Progress is as originally planned, but planned amount is revised from ￥2.5bln to ￥2.0bln with review of items to accelerate cost reduction)

		Plannedin FY2018 1Q (a)	Latest Forecast (b)	(b)-(a)
Dry Bulk	Effective Vessel Allocation/ Most Economical Vessel Operation	0.5	0.6	0.1
	Vessel Operation Cost reduction/Further efforts to market procurement	0.4	0.3	▲0.1
Product Logistics	Effective Vessel Allocation/ Most Economical Vessel Operation	0.6	0.5	▲0.1
	Sales/Operation cost reduwtion	0.1	0.1	0.0
Network Optimization	Accelerate remaining fixed cost reduction	0.4	0.2	▲0.2
Others	Other SG&A cost reduction	0.4	0.3	▲0.1
	Total (billion yen)	2.5	2.0	▲0.5

- Impact to "K"Line own Containership Business :

Amounts impact of "K" Line own Containership Business like overseas terminals due to lower liftings by ONE and the temporary losses increased ▲0.4blin compared with the previous estimate figure in FY2018 1Q.

(Final figure is ▲￥11.9bln)

Detailed Progress of Management plan & Initiatives for FY2018 2H

Initiatives for onward

Item	Tasks	Situation	Contents of Initiatives
Business Portfolio Management Policy	ONE's Profit Improvement	✓ Integration synergy effect emerged as expected ✓ Drop in Lifting/Utilization and Shortfall of Product Cost Saving	▷ Action Plans for Profit Improvement (Stabilization and Recovery from Teething Problems+Action Plans toward Restructuring in FY2019) ⇒ Please see P.22~P.23.
Emergency Important Tasks	Car Carrier Business	✓ Cargo volume to resource rich coutries/oil-producing countries lower than our forecast however, we secured business and revenue scale to some extent. ✓ Latin America Coast Shuttle Service－Influenced by Argentina economy etc The route from Europe－Decline in profits by decrease in operational productivities	▷ Implement reformation including route rationalization in Latin America East Coast Shuttle service and suspension of the route service from Europe（From FY2018 2H) ▷ Initiatives for raising freight levels and route rationalization more focusing on profitability towards FY2019 ⇒ Total expected improvement effect to be ￥5.0~6.0bln per year.
	Initiatives for Selection and Concentration	✓ Implement of rebuilding Business Portfolio by "Selection and Concentration" to look toward the future "K"LINE Business	▷ Ongoing initiatives for business selection and rebuild business portfolio to concentrate on Dry Bulk・Car Carrier・Energy Transport・Logistics as four pillars business and value-added improvement.
Ongoing policies of Management plan	O Strengthen and Expansion of Stable income business ： New acquision of mid-long term contracts/Shrinking of market-exposed fleet/Implement cost savings/Restructure by sold non-core assets etc O Development of Next-gen core Business ： Strengthen initiatives for build-up business by collaboration of development of new business model in addition to LNG Bunkering vessel Business O Sulphur Oxides (SOx) Regulation from 2020 : Usage of low sulfer fuel oil and new scheme collecting such costs to be introduced		
Key Strategies by Function	Development of new business models	Setting up organization to promote our initiatives for CRM/Environment/Digitalization ● Corporate Marketing Strategy Division － Aiming to providing suitable solution utilizing our transportation technology and high-quality transportaion service focusing on customer base ● AI/Digitalization Promotion Division － Aiming to providing addevalue for stakeholders by improving our services and productivity through technology as AI/IoT ● Environment・Technology Committee －Promoting measures to contribute social sustainable growth by corresponding to Environment Regulation like SOx regulation etc.	
Advanced Business Management	O Strengthen cooperation for rebuilding business portfolio by advanced business management focusing on the capital cost (Use "K"VaCS/"K"RIC effectively) O Support initiatives for by Sophistication of Business risk/return measurement and "Selection and Concentration"		
ESG Initiatives	O Enhaucement of Risk Management (Strengthen Management system by finding signs using risk management list and setting important initiatives issues in each fiscal year) O Deepening initiatives for Group Environmental Promotion System-［DRIVE GREEN NETWORK］ O Acquistion of objective evaluation by maintenance and expansion of third-party evaluation/Selection （Consecutive selection of FTSE4Good/Dow Jones Sustainability Asia Pacific Index etc)		

Division Trends

Dry Bulk Segment

FY2018 1H Results

- Dry Bulk market maintain bullish trend at a relatively high level due to a moderate increase in transport demand
  - Capesize
    Market conditions were affected by iron ore export volume fluctuation from Brazil, but as a whole, the market situation maintained steady.
  - Panamax and Smaller size
    Although there was concern about the influence of US-China trade disputes, cargo movements such as grain / coal / minor bulk were steady, and overall the market situation of upward trend
- Strengthening effective operation suitable for the market situation and most economical operation including measures to improve profitability.

Transition of Dry Bulk Fleet Scale

	FY2016	FY2017	FY2018-2Q
CAPE	95	106	114
Panamax and Smallersize	130	127	112
Woodchip Carrier	11	10	10
Total	**236**	**243**	**236**

FY2018 : Dry Bulk Market Exposure

	Previous Forecast As of Jul 2018	Latest Forecast As of Sep 2018
CAPE	9%	6%
Panamax and Smallersize	32%	20%
Woodchip Carrier	0%	0%

Initiatives for FY2018 3Q onward

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

Dry Bulk Market	FY2017					FY2018			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Forecast
CAPE	$12,200	$14,600	$23,350	$12,900	$15,750	$14,950	$22,000	$21,700	$20,100
PANAMAX	$9,000	$10,200	$12,000	$11,500	$10,650	$10,500	$12,150	$13,500	$12,400
HANDYMAX	$8,700	$9,200	$10,700	$10,600	$9,800	$11,050	$11,600	$12,000	$11,650
SMALL HANDY	$7,300	$7,400	$9,350	$8,500	$8,150	$8,800	$8,250	$9,500	$9,000

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

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FY2018 1H Results

- **Tanker**
  - Supply-demand gap was expanded due to over-supplied and market remained low level
  - VLCC ad LPG fleet maintained smooth operation based on mid-long term.
- **Thermal Coal Carrier**
  - Maintained smooth operation by mid-long term contracts
  - 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	4
Thermal Coal Carriers	24	23	24
Total	**46**	**45**	**44**

(*Forecast)

Initiatives for FY2018 3Q onward

- **Tanker**
  - Strengthening stable income by expansion of mid-long contracts by vessel replacement and developing new contracts (1 LPG vessel to be delivered in FY2018)
  - Reduce market exposure by shrinking index-linked vessels.
- **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

FY2018 : Tanker Fleet Market Exposure

	Previous Forecast Beginning of FY2018	Latest Forecast As of Sep 2018
VLCC	31%	31%
LPG	19%	13%
Other Tankers	75%	75%
Thermal Coal Carriers	15%	6%

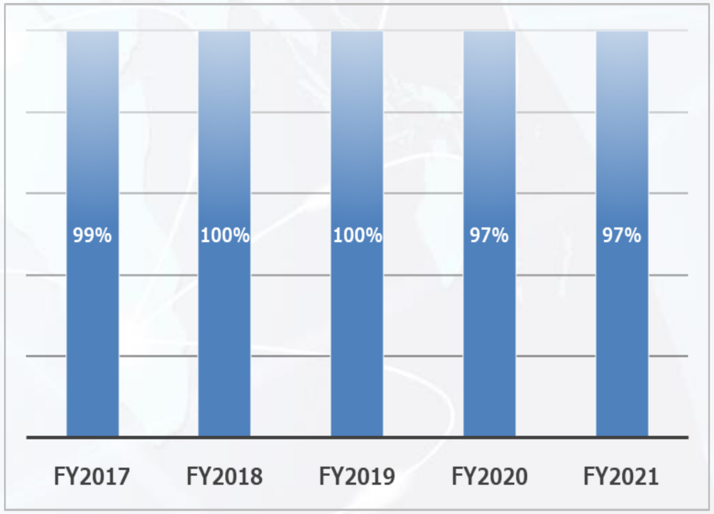
Tanker Market (WS)	FY2017					FY2018			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H	Forecast
VLCC	57	45	62	41	51	45	53	64	58
(Middle East/Japan)	$19,800	$11,000	$20,350	$9,200	$15,000	$10,050	$15,150	$23,200	$17,900
AFRAMAX	99	93	110	83	96	87	103	109	102
(South Asia/Japan)	$10,200	$8,350	$7,500	$5,700	$7,900	$7,000	$9,350	$10,700	$9,400
Clean Tanker(110,000MT)	92	112	117	95	104	94	100	104	101
(Middle East/Japan)	$8,700	$12,200	$11,350	$11,200	10,900	$9,350	$9,900	$12,000	$10,800

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

FY2018 1H Results

- **LNG Carrier**
  - Secured stable-income by operating fleet with medium-and-long-term contracts
- **Liquefied Gas New Business**
  - Kawasaki Kisen Kaisha, Ltd., Chubu Electric Power Co., Inc., Toyota Tsusho Corporation, and Nippon Yusen Kabushiki Kaisha have agreed to launch the LNG Bunkering business in Japan.
  - The joint venture company established by the above four companies has ordered an LNG Bunkering Vessel from Kawasaki Heavy Industries, Ltd.
- **Energy E&P Support Vessel**
  - 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 owing to weakness in offshore E&P development

LNG Carrier - Contract Covered Ratio



Initiatives for FY2018 3Q onward

- **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**
  - Creating demands for LNG/LPG fuel vessel and expanding LNG bunkering supply spots based on the customer strategy following the Ise Bay project.
  - Initiatives for participating in Offshore power generation/FSRU business in Gas to Power Sector based on the partnership with our High-value customers
- **Energy E&P Support Vessel**
  - Secure stable-income by maintaining 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

Transition of LNG Carrier Fleet Scale

FY2017	FY2018	FY2019	FY2020	FY2021
44	47	47	45	44

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

FY2018 1H Results

- Total Units Carried : 1,845 thousand units（YoY about 7% Increase）
  - Cargo lifting maintained good shape in the route from Asia to North America
  - Reduction of total units handling in the Intra-Europe by the impact of the change of fuel consumption test standard.
- FY2018 1H & FY Results
  - Transportation volume lower than initial assumption in the route from Asia to Latin America / Australia / Middle East
  - In the Atlantic regions, business performance to be declined due to economy downturn in South America and decrease in operational productivities in the route from Europe

- Expansion of Automotive Logistics Business
  - Total Units Handled 2,550 thousand units (FY2018)
  - Business location 9 countries and 10 base

Initiatives for FY2018 3Q onward

- Total Units Carried :
  - Expect steady trend for cargo movements from F.E.Asia to Europe/North America, and in Atlantic regions.
  - Cargo movements for Middle East and other oil-producing countries/ resource rich countries will take time to be recovered.
- Implementation of route rationalization and suspension in Latin America East Coast Shuttle service and the route from Europe
- Strengthen our earnings base through raising freight levels an route rationalization more focusing on profitability.
- Taking advantage of the competitiveness of as 15 large 7,500-unit car carriers, also working to increase High and Heavy cargoes, conduct business management with a focus on strengthening the earnings base

Total units carried (1,000 units)	FY2017					FY2018			
	1Q	2Q	3Q	4Q	Results	1Q	2Q	2H Forecast	Forecast
Outbound	264	250	288	277	1,079	307	288	659	1,254
Homebound	48	46	54	47	194	63	69	119	251
Others	362	324	384	307	1,375	363	329	705	1,396
Intra-Europe	213	225	223	249	909	254	173	438	866
Total units	887	844	948	879	3,557	987	858	1,921	3,766
Number of Fleet	94	94	91	95	95	93	93		

Product Logistics Segment – Logistics Business

FY2018 1H Results

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

▶ Domestic Logistics

Whole cargo movement was firm. The impact of natural disasters such as heavy rain and earthquakes is limited due to the fact that the new warehouse has started business and new orders for machine installation in the customer's factory.

▶ International Logistics

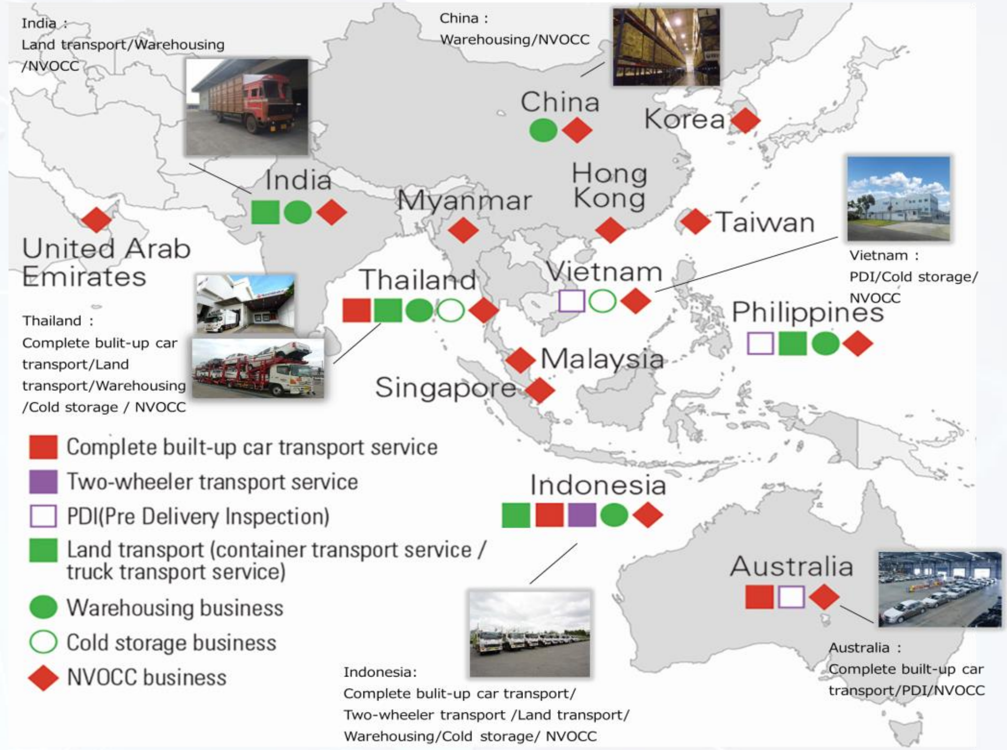
Air Cargo sector maintained firm cargo volume especially of semiconductors.

Bullish trend due to increased demand for e-commerce related cargo

Expanding localized International logistics business by new investment in Thailand and Indonesia

Decreased profit due to restructuring Group's global network after the integration of containership business, organization reform and up-front expenditure by IT system investment

Logistics location



Initiatives for FY2018 3Q onward

- "K" LINE keeps focusing on constructing our global network to waste no effort to stay keen on customers' base and needs.

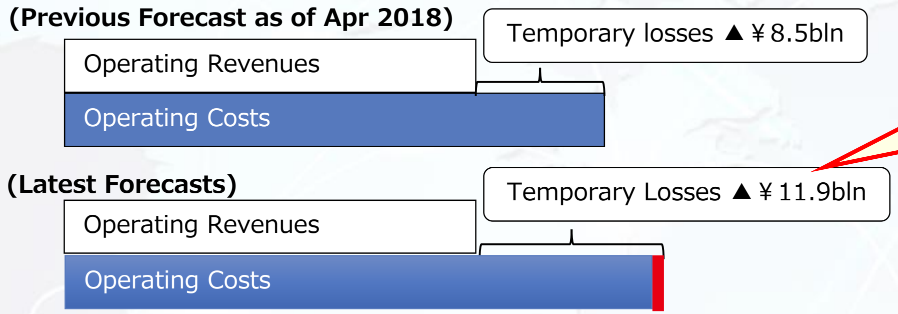
Individual Target

- 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 new service (RORO service between Shimizu and Oita)
- Deepening of more localized logistics services in each country and region and expanding customer base in Buyer's consolidation business including developing on Cold Storages in Asia.
- Improving "K" LINE's service quality for logistics of project cargoes.
- Promoting on interaction and optimization of human resources within the Group.

Product Logistics Segment – Containership Business

"K" Line own Containership Business - The situation of temporary losses related to the integration of Containership Business

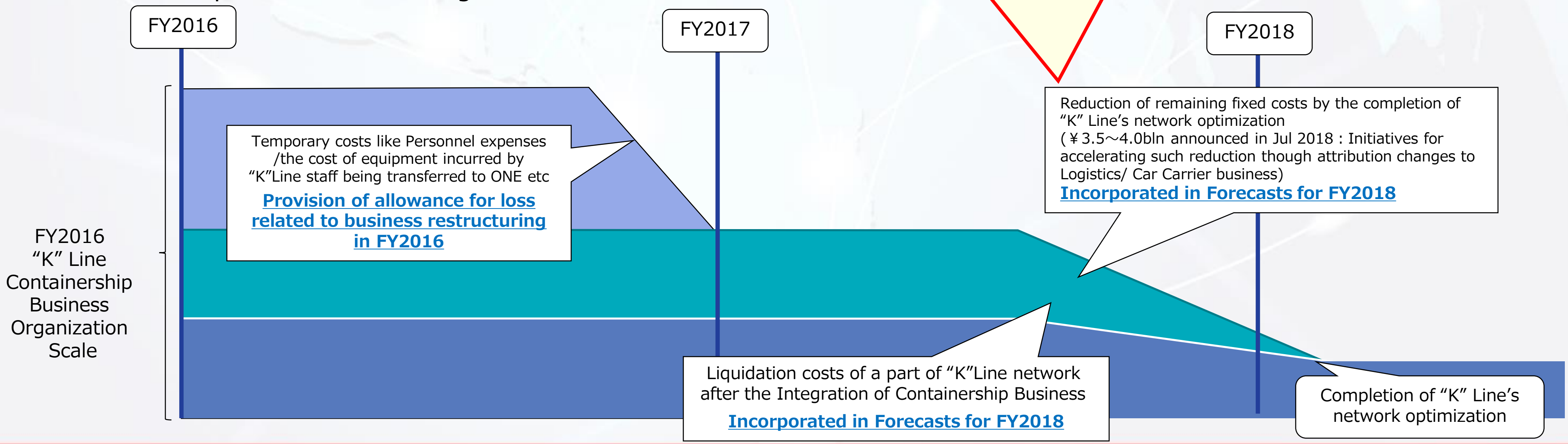
- Operation profit/losses : the temporary losses in "K" Line own Containership business
  — Increased the temporary losses in FY2018 such as operation costs like inland/Railway costs and handling costs of empty container



The Final figure of temporary losses in "K" Line own Containership Business in FY2018 is ▲￥11.9bln

- Cost to Optimize Organization
  : Cost changes regarding "K"Line staff being transferred to ONE and optimization "K"Line global network

Reduction of remaining fixed costs is good in shape.
The effect by acceleration of such reduction (Measures to improve profitability) will be full-scale implementation in FY2018 2H.



OCEAN NETWORK EXPRESS

Financial Results for FY2018 1st Half

Oct. 31, 2018

FY2018 1st Half and Full Year Overview

OCEAN NETWORK EXPRESS

Profit/Loss Summary

FY2018 1st Half Summary: The 1st half net result after tax is a −US$311 million loss. We are recovering from the initial negative impact of reduced liftings and a drop in the loading factor in Q1 due to teething problems during the start-up period. However, liftings were lower than our target level. In addition, we experience higher costs for returning empty containers to Asia as the result of a larger impact due to a slower recovery on the non-dominant leg.

FY2018 Full Year Overview: Customer service issues were fully resolved in Q1, and all of our sales staff have been actively engaging customers to regain support. We are in the process of making a full recovery of lifting volume. The cost-saving effect in bunker and others are however less than our expectations. As a result, we expect a −US$600 million net loss, −US$710 million from previous forecast of US$110 million profit.

Progress of Synergy from integration

Annual integration synergy of US$1,050 million are steadily emerging. As of FY2018, it will reach 75% against originally budgeted 60%, which is 5% less than the forecast of 80% as of Q1 closing as a result of a drop in liftings.

FY2018 1st Half Results

FY2018 1st Half Results and Full-year Forecast

(Unit: Million US$) *As of Jul 2018

	FY2018 Previous Forecasts*					FY2018 Latest Forecasts					Full Year	
	Q1 Results	Q2 Forecast	H1 Forecast	H2 Forecast	Full Year Forecast	Q1 Results	Q2 Results	H1 Results	H2 Forecast	Full Year Forecast	Change	Change (%)
Revenue	2,066	3,376	5,442	6,812	12,254	2,066	2,963	5,030	5,970	11,000	-1,254	-10.2%
Profit/Loss	-120	82	-38	147	110	-120	-192	-311	-289	-600	-710	-
Bunker Price (US$/MT)	$407.00	$468.00	$440.00	$468.00	$454.00	$407.00	$457.00	$434.00	$466.00	$451.00	-$3.00	

- **Sensitivity on Profit/Loss :**
  Bunker Price ± US$ 16 Million, per US$10/MT (for 6 months/Max)

- **The timing to transfer terminal businesses from each of three parent companies to ONE remains unchanged (planned in Q4)**

Lifting/Utilization/Freight Index

Liftings/Utilization by Trade

(Unit: 1,000TEU)

Liftings/Utilization by Trade		FY2018 Q1 Results	FY2018 Q2 Results	FY2018 H1 Results
Asia - North America Eastbound	Liftings	530	761	1,291
	Utilization	73%	90%	82%
Asia – Europe Westbound	Liftings	312	478	790
	Utilization	73%	90%	82%
Asia - North America Westbound	Liftings	218	285	502
	Utilization	33%	33%	33%
Asia – Europe Eastbound	Liftings	194	263	457
	Utilization	46%	47%	47%

Freight Index

(Unit：100＝FY2018 Q1 freight average)

Freight Index by Trade	FY2018 Q1 Results	FY2018 Q2 Results	FY2018 H1 Results
Asia - North America Eastbound	100	101	101
Asia – Europe Westbound	100	106	104

Outlook

Asia-North America Eastbound:

Both lifting and utilization in Q2 recovered from initial negative impact caused by teething problems during the start-up period in Q1. We are maintaining the utilization by reducing frequencies as necessary during the lower demand periods in H2. Freight has being maintained on the high side after the summer season as a result of rush demand towards the calendar year end.

Asia – Europe Westbound

Lifting and Utilization are recovering in Q2, as well as Asia-North America trade, with the same level of utilization expected in H2. Freight recovered in Q2, however showed the downward trend after peak in August. Flexible planning of blank sailing based on the demand trend is now underway.

Asia - North America Westbound/Asia - Europe Eastbound

Lifting and utilization are steadily recovering. Although utilization results in Q2 are at the same level as Q1, lifting is overall improving as result of sales enhancement. Freight level is expected to be steady.

FY18 Q2 P/L Analysis

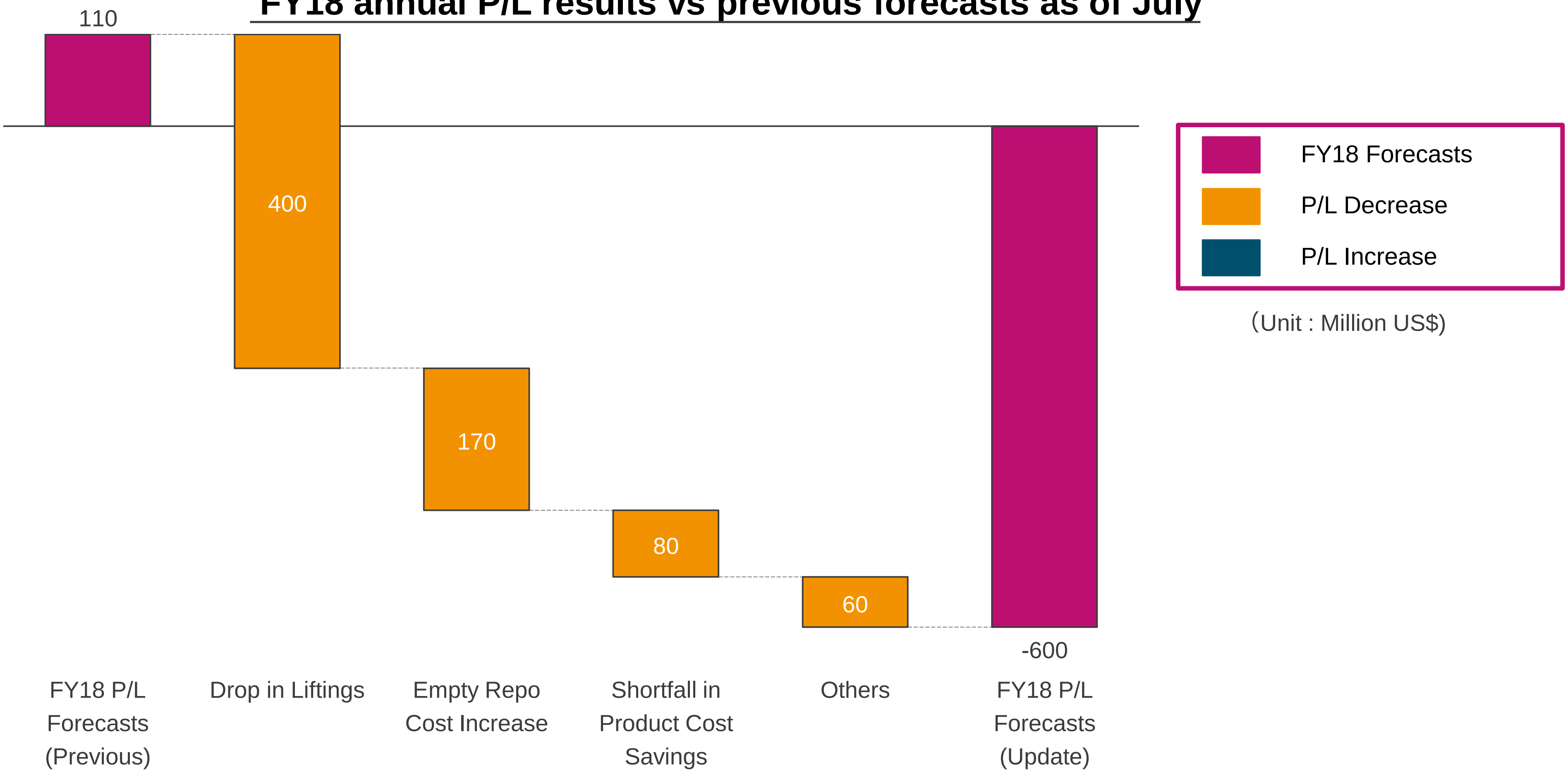
Q2 results deteriorated by US$274 million from the previous forecast of US$82 million in black ink to US$192 million in the red as a result of the initial volume shortfall, empty container repositioning cost increases and a shortfall in original product cost saving expectations.

FY18 Q2 P/L result vs Previous forecast as of Jul

FY18 Annual P/L Analysis

Annual results deteriorated by US$710 million from the previous forecasts of US$110 million positive to US$600 million negative as a result of the original volume shortfall, empty repositioning cost increases, and less product cost savings than originally envisaged.

FY18 annual P/L results vs previous forecasts as of July



(Unit : Million US$)

FY18 Annual P/L Variance Analysis

ONE
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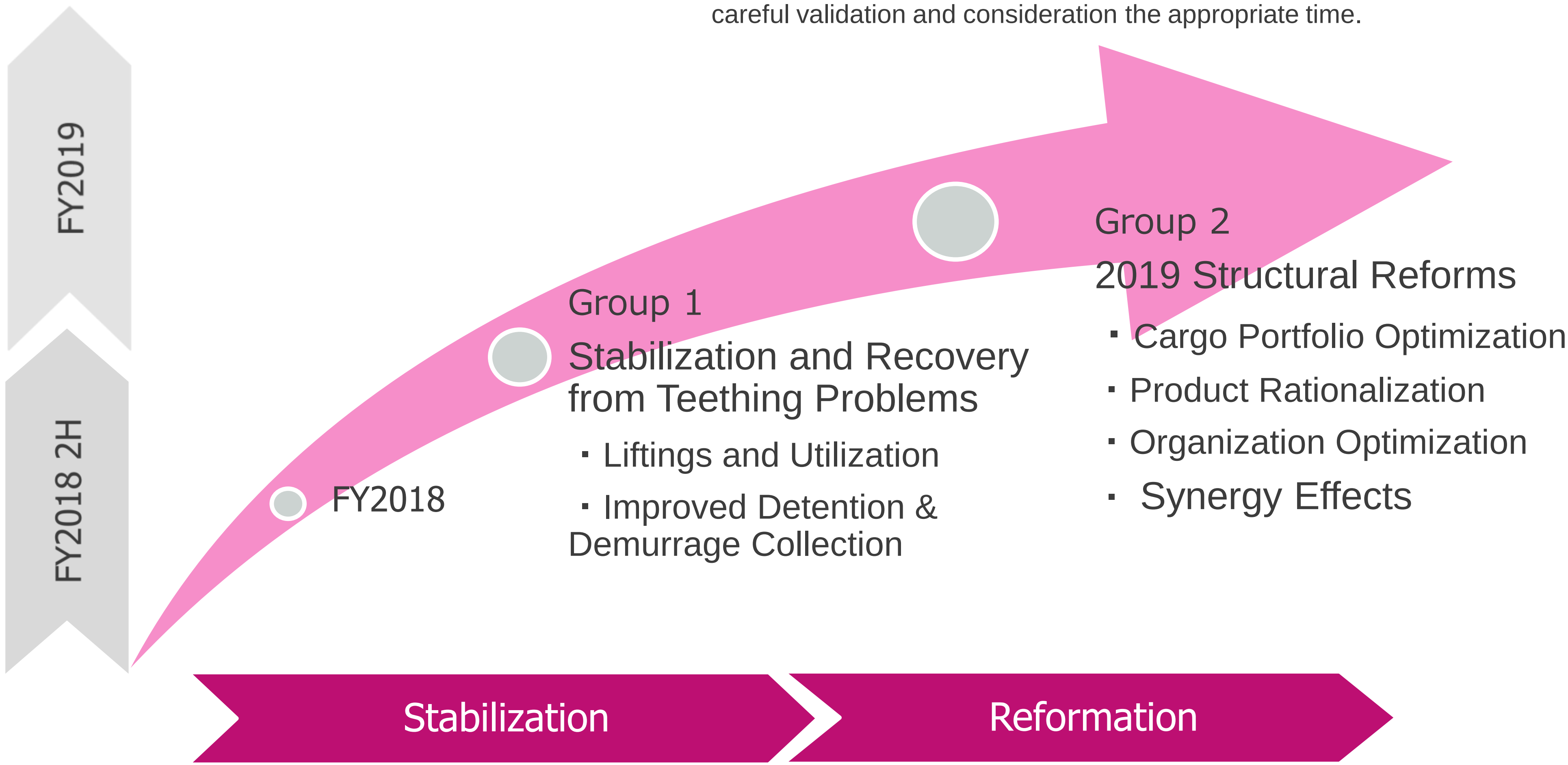
Variance Factor Analysis

Drop in Liftings	Although the teething issues in Q1 now are fully resolved, lifting volume could not finally catch-up to original target. The utilization of major trades, North America and Europe, remained between 80% to 85% in H1. Current utilization recovery to the 90% level is backed by strong demand. The liftings on the non-dominant leg could not catch up to lifting increment on the dominant leg, which caused an increased imbalance, but the overall situation is now improving.
Empty Repositioning Cost Increase	Lower liftings and utilization on the non-dominant leg caused more imbalance compared to our original expectation in the cost of repositioning empty containers from inland North America and Europe to Asia.
Shortfall in Product Cost Savings	The product cost saving target of US$240 Million was announced in Q1 closing, subsequently revised to US$160 million, in consideration of higher-than-expected bunker consumption due to port congestion in China and unexpected higher incidence of adverse seasonal weather conditions.
Others	Feeder related costs, slot cost settlement with partners, and outsourcing costs additionally incurred above original expectations.

Action Plans for Profit Improvement

Establish an organization that can tolerate market volatility by stabilizing initial setup challenges and accomplishing significant structural reformation.

※Planning to review the business plan of subsequent fiscal year after careful validation and consideration the appropriate time.



Action Plans for Improvement-2

Stabilization and Recovery from Teething Problems

Group 1	Recovery of Liftings	After recovery from initial teething problems, customers are now receiving full service quality. We continuously enhance our customer service and sales capabilities by utilizing eCommerce and all other capabilities, to regain reliability for our customers and push up lifting volume.
Group 1	Enhancement of Detention & Demurrage Collection	Enhance detention & demurrage collection by increasing visibility and process improvements including detailed collection status monitoring.

Action Plans toward Restructuring in FY2019

Group 2	Cargo Portfolio Optimization	Improve profit by optimizing match back cargo plans. Optimize cargo portfolio through tender negotiations for next season.
Group 2	Product Rationalization	Further enhance network product to improve, overall service coverage and unit cost competitiveness. Especially on advancing the bunker saving project, which was launched since the ONE setup, in terms of not only cost saving but also to reduce environmental burdens.
Group 2	Organization Optimization	The inflated general and administration cost such as outsourcing costs due to teething problems have been resolved. Both organization and system structure are optimized for increased efficiency and competitiveness by overall structural enhancements.
Group 2	Synergistic Effects	With lifting volume recovery, the synergy effect will emerge 80% in the FY2019, the second year after integration, as per the original announcement. The synergy effect in FY2020, the third year after integration, is also expected to be at 100% as per the original plan.

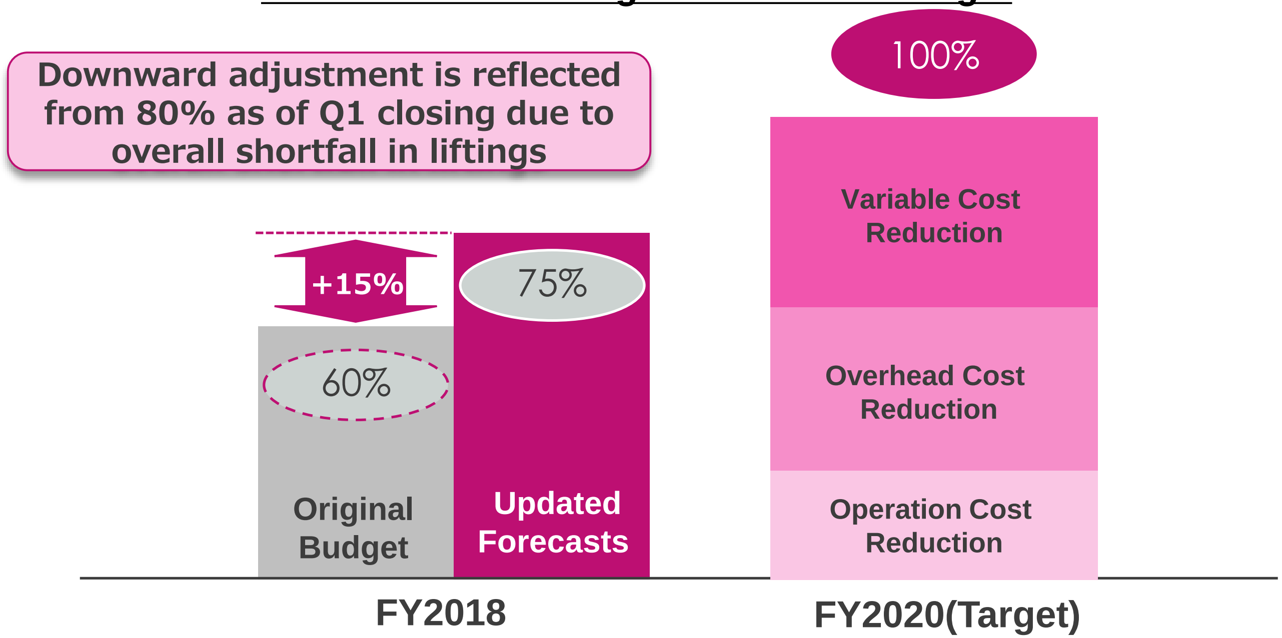
Integration Synergy Update

From Initial integration synergy forecast of US$1,050 million, 75% of the synergistic effects is expected to emerge for the 1st year (originally budgeted 60% and was expected to be 80% as of Q1 closing).

- **Break-down of the synergistic effect US$1,050 million is as follows.**

  - Variable Cost Reduction ・・・US$430 million：Rail, Truck, Feeder, Terminal, Equipment, etc.
  - Overhead Cost Reduction ・・・US$370 million：IT cost, Rationalization of organization, Outsourcing, etc.
  - Operation Cost Reduction ・・・US$250 million：Bunker consumption, product rationalization, etc.

Achievement ratio against the initial target



Fleet Structure

As of end of Q2	Size		Combined
	>= 20,500 TEU	Capacity (TEU)	120,600
		Vessels	6
	10,500 - 20,500 TEU	Capacity (TEU)	293,000
		Vessels	21
	9,800 - 10,500 TEU	Capacity (TEU)	100,100
		Vessels	10
	7,800 - 9,800 TEU	Capacity (TEU)	348,380
		Vessels	39
	6,000 - 7,800 TEU	Capacity (TEU)	254,393
		Vessels	39
	5,200 - 6,000 TEU	Capacity (TEU)	107,822
		Vessels	19
	4,600 - 5,200 TEU	Capacity (TEU)	127,952
		Vessels	26
	4,300 - 4,600 TEU	Capacity (TEU)	76,214
		Vessels	17
	3,500 - 4,300 TEU	Capacity (TEU)	33,928
		Vessels	8
	2,400 - 3,500 TEU	Capacity (TEU)	61,573
		Vessels	23
	1,300 - 2,400 TEU	Capacity (TEU)	16,993
		Vessels	10
	1,000 - 1,300 TEU	Capacity (TEU)	6,516
		Vessels	6
	< 1,000 TEU	Capacity (TEU)	2,812
		Vessels	4
	Total	**Capacity(TEU)**	**1,550,283**
		Vessels	**228**

Value for our Next Century