# Financial Highlights
# Brief Report for
# FY2019

11th May 2020

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K"LINE 川崎汽船株式会社

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# Financial Highlights for FY2019



# Financial Results for FY2019

"K" LINE 川崎汽船株式会社

## Consolidated Results for FY2019

(billion yen)

| | FY2019 1Q | FY2019 2Q | FY2019 1H | FY2019 3Q | FY2019 4Q | FY2019 2H | FY2019 Total (a) | FY2018 Total (b) | (a)-(b) |
|---|---|---|---|---|---|---|---|---|---|
| Operating Revenues | 183.3 | 189.1 | 372.4 | 194.8 | 168.1 | 362.9 | 735.3 | 836.7 | - 101.4 |
| Operating Income | 4.1 | 7.0 | 11.1 | 10.6 | - 14.8 | - 4.2 | 6.8 | -24.7 | 31.6 |
| Ordinary Income | 2.7 | 10.7 | 13.4 | 11.2 | - 17.1 | - 6.0 | 7.4 | -48.9 | 56.3 |
| Net Income Attributable to Owners of Parent | 7.8 | 8.5 | 16.3 | 8.9 | - 20.0 | - 11.0 | 5.3 | -111.2 | 116.5 |
| Exchange Rate(￥/$) | ¥110.73 | ¥107.63 | ¥109.18 | ¥108.79 | ¥109.35 | ¥109.07 | ¥109.13 | ¥110.67 | -¥1.54 |
| Bunker Price(/MT) | $443 | $437 | $440 | $455 | $542 | $496 | $467 | $450 | $17 |

| | | FY2019 1Q | FY2019 2Q | FY2019 1H | FY2019 3Q | FY2019 4Q | FY2019 2H | FY2019 Total (c) | FY2018 Total (d) | (c)-(d) |
|---|---|---|---|---|---|---|---|---|---|---|
| Dry Bulk | CAPE | $11,350 | $29,400 | $20,400 | $21,950 | $4,500 | $13,250 | $16,800 | $15,350 | +$1,450 |
| | PANAMAX | $9,500 | $16,050 | $12,800 | $11,550 | $5,700 | $8,650 | $10,700 | $10,500 | +$200 |
| | HANDYMAX | $8,200 | $12,300 | $10,250 | $10,600 | $6,550 | $8,600 | $9,400 | $10,450 | -$1,050 |
| | SMALL HANDY | $6,100 | $8,450 | $7,300 | $8,100 | $4,500 | $6,300 | $6,800 | $8,100 | -$1,300 |
| Tanker | VLCC | $13,900 | $27,750 | $20,800 | $96,750 | $87,050 | $91,900 | $56,350 | $26,400 | +$29,950 |
| | AFRAMAX | $12,650 | $10,000 | $11,300 | $27,700 | $22,650 | $25,200 | $18,250 | $11,450 | +$6,800 |

## Key Financial Indicator

(billion yen)

| | FY2019 (e) | FY2018 (f) | (e)-(f) |
|---|---|---|---|
| Equity Capital | 101.1 | 103.6 | -2.5 |
| Interest-bearing liability | 543.5 | 550.2 | -6.8 |
| DER | 538% | 531% | 7% |
| NET DER | 423% | 393% | 30% |
| Equity Ratio | 11%(*) | 11%(*) | 0% |

(*) 15%, including the subordinated loan with 50% equity credit from a rating agency

## Dividends

With much regret, we decided not to pay year-end dividends in FY2019, given the urgency in improving our financial structure and the stabilization of our business base.

# Financial Results for FY2019 by Segment

"K" LINE 川崎汽船株式会社

## Consolidated Results for FY2019 by Segment

(billion yen)

| Business Segment (Upper row : Operating Revenues) (Lower row : Ordinary Income) | FY2019 1Q | 2Q | 1H | 3Q | 4Q | 2H | Total (g) | FY2018 Total (h) | (g)-(h) |
|---|---|---|---|---|---|---|---|---|---|
| Dry Bulk | 55.5 | 60.8 | 116.3 | 65.6 | 51.9 | 117.5 | 233.8 | 273.8 | -40.0 |
| | - 0.4 | 0.6 | 0.2 | 3.8 | 0.1 | 3.9 | 4.1 | 4.4 | -0.4 |
| Energy Resource Transport | 20.5 | 23.3 | 43.8 | 21.2 | 19.7 | 40.9 | 84.7 | 88.7 | -4.0 |
| | 1.8 | 2.8 | 4.6 | 3.1 | 2.2 | 5.3 | 9.9 | 2.5 | 7.4 |
| Product Logistics | 98.7 | 96.2 | 194.9 | 100.1 | 89.4 | 189.6 | 384.5 | 441.0 | -56.5 |
| | 1.8 | 8.6 | 10.5 | 5.2 | - 18.6 | - 13.4 | - 2.9 | - 49.2 | 46.3 |
| Containership | 24.6 | 24.7 | 49.3 | 26.7 | 26.0 | 52.7 | 102.0 | 135.8 | -33.8 |
| | - 0.4 | 4.0 | 3.6 | 2.0 | - 16.0 | - 14.0 | - 10.4 | - 48.8 | 38.4 |
| ONE as Equity Method Company | 0.2 | 4.2 | 4.5 | 0.3 | - 0.8 | - 0.5 | 4.0 | - 20.1 | 24.1 |
| Other | 8.6 | 8.7 | 17.3 | 7.9 | 7.1 | 15.0 | 32.3 | 33.2 | -0.9 |
| | 0.3 | 0.4 | 0.7 | 0.6 | 0.4 | 1.0 | 1.7 | 1.1 | 0.6 |
| Adjustment | - | - | - | - | - | - | - | - | - |
| | - 0.9 | - 1.7 | - 2.6 | - 1.5 | - 1.3 | - 2.8 | - 5.4 | - 7.8 | 2.4 |
| Total | 183.3 | 189.1 | 372.4 | 194.8 | 168.1 | 362.9 | 735.3 | 836.7 | -101.4 |
| | 2.7 | 10.7 | 13.4 | 11.2 | - 17.1 | - 6.0 | 7.4 | - 48.9 | 56.3 |

## Key Factors by Segment

### Dry Bulk

Although market conditions showed a temporary recovery trend in the first half, cargo movement weakened in the second half, leading to a full-year result of ￥4.1billion yen (Decreased -￥0.4bln Y-o-Y)

### Energy Resource Transport

LNG Carrier and Thermal Coal Carrier Businesses performed well, owing primarily to mid-long chartering contracts and Tanker business optimized its portfolio, leading to a full-year results of ￥9.9bln (Improved +￥7.4bln Y-o-Y)

### Product Logistics

Car Carriers : Secured making profit due to the effects of route rationalization and rate restoration

ONE : In the second year of integration, Containership Business achieved profitability due to strengthened earnings through cargo portfolio improvement as well as flexible void sailings

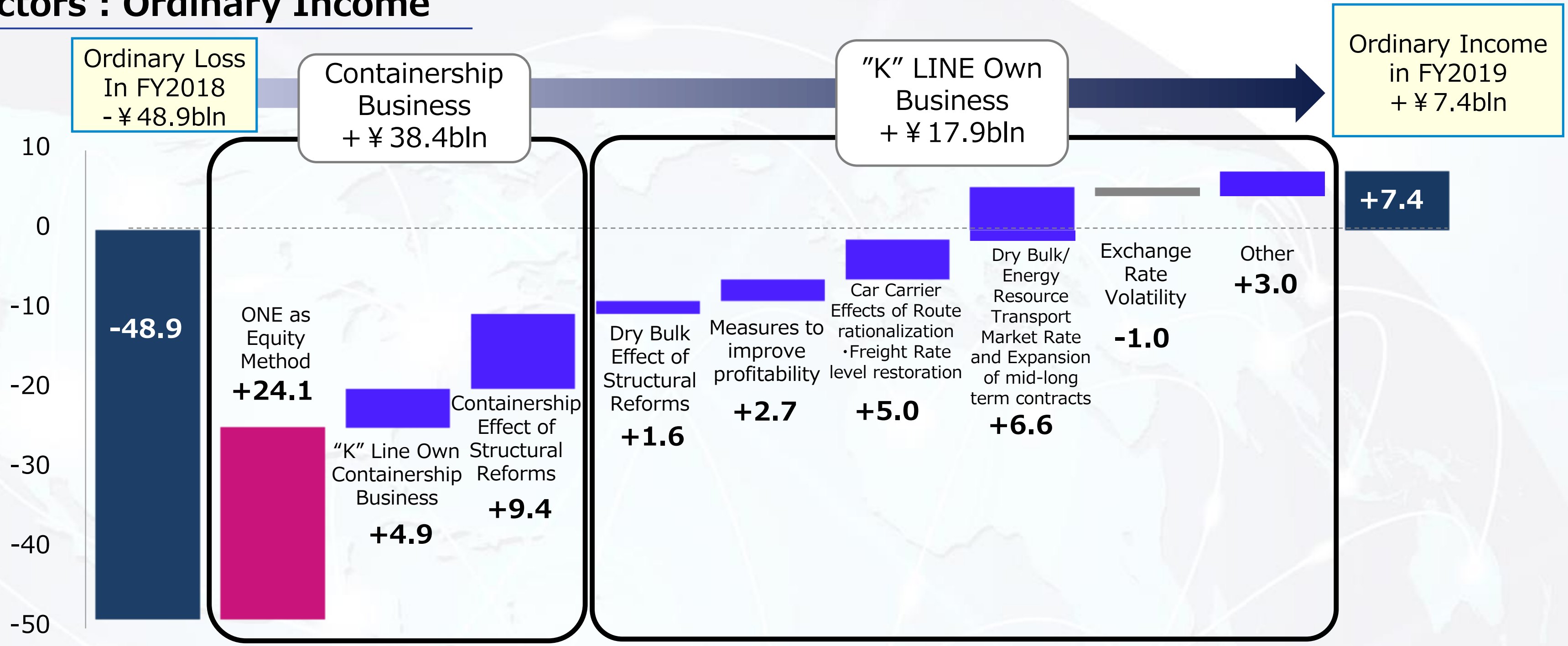
Containership : Full-year results in the business was -￥10.4bln due to (Improved +￥38.4bln Y-o-Y)

Logistics, Short Sea and Coastal : Although cargo volume declined due to U.S.-China trade friction and the spread of the novel coronavirus (COVID-19) infection, "K" Line is performing stably by concentrating on its strong businesses and focusing sales activities on core customers

Full-year results in this segment was -￥2.9bln. (Improved ￥46.3bln Y-o-Y)

# Financial Results for FY2019 – vs. FY2018

## Key Factors : Ordinary Income




## Progress of Measures to improve profitability in FY2019

| Measures to improve profitability in FY2019 | | Results (a) | Target as of Jan (b) | (a)-(b) |
|---|---|---|---|---|
| Dry Bulk | Effective Vessel Allocation/ Most Economical Vessel Operation | 0.5 | 0.5 | - |
| | Vessel Operation Cost reduction/ Further efforts to market procurement | 0.6 | 0.6 | - |
| Energy Resource Transport | Effective Vessel Allocation/ Most Economical Vessel Operation | 0.4 | 0.4 | - |
| | Operation cost reduction | 0.9 | 0.9 | - |
| Product Logistics | Sales Activities | 0.1 | 0.1 | - |
| | Operation cost reduction | 0.2 | 0.2 | - |
| | Total (billion yen) | 2.7 | 2.7 | - |

- **Containership Business**

  Improvement of ¥38.4bln, mainly from equity in profit/loss of ONE and structural reform benefits

- **"K"LINE Own Business**

  Improvement of ¥17.9bln, mainly from route rationalization and rate restoration effects in Car Carrier Business, increase of Dry bulk market, Restructuring portfolio and Expansion of mid-long term contracts in Energy Resource Transport

- **Measures to improve profitability**

  Achieved a full-year effect of ¥2.7bln as expected as of Jan,2020

# A-4 Financial Highlights for FY2019

# Progress of Main Initiatives for FY2019

| Key objective | Business/Tasks | Initiatives | | Progress in FY2019-4Q (※Highlighted in red) |
|---|---|---|---|---|
| Rebuilding Business Portfolio | Dry Bulk | Expansion of Stable Income Business, mainly Capesize vessels | | Expansion of mid-long-term cotracts, maily Capesize<br>・Agreement with Nippon Paper Industries Co. Ltd. on consecutive voyage contract. (in October, 2019)<br>・Conclusion of construction contract for 1 Capesize Carrier (in November, 2019) |
| | | 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 of ¥5.0 bln realized as expected in FY2019. |
| | Energy Resource Transport | Expansion of Stable Income Business, mainly LNG and Thermal Coal Carriers | | Expansion of mid-long-term cotracts, mainly new delivery vessels<br>・Agreement of long-term time charter contrancts with Petronas LNG Ltd. in Malaysia for Newbuilding LNG vessels. (in February,2020) |
| | | Restructuring of market-exposed business and "Selection and Concentration" considering evaluation of business risk-return management. | | Sale of one vessel in unprofitable Offshore Support Vessel Business (in April,2019)<br>3 clean tanker fleet (LRⅡ) redelivered and completion of withdrawal from the product tanker business, which is highly sensitive to market conditions (in May,2019) |
| | 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 | | ONE made profits in FY2019 and achieved a surplus in Full-year results. |
| | Logistics | Deepening our business rooted in individual countries and regions through introduction of external knowhow. | | Establishment of Joint Holding Company by our Three Domestic Harbor Transportation Subsidiaries and completion of partial share transfer of the company to Kamigumi Co., Ltd. (in April)<br>Collaborative projects through the alliance with Kamigumi Co., Ltd., such as effective utilization of management resources, are taking shape, and discussions to further increase synergies are in progress. |
| ESG Initiatives | Environment（E） | Reduction of Environmental load | | “Seawing”, an automated kite system utilizing natural energy to be installed to a large bulk carrier owned by "K"Line. (Disclosed in June, 2019)<br>Concluded ship management agreement with FueLNG for Singapore’s 1st LNG-Bunker vessel (in November,2019)<br>Participation in “$CO_2$-free Hydrogen Energy Supply-chain Technology Research Association (HySTRA) by demonstration of the World’s First Liquefied Hydrogen Carrier（in December,2019) |
| | | Compliance with IMO SOx Regulations | Status of securing regulation-compliant fuel oil | Switchover to compliant fuel oil was completed as originally planned.<br>As for FY2020, engaged in advance procurement and secured a certain ratio in a part of main bunkering areas.<br>Proceeding with further procurement in other main bunkering areas. |
| | | | Installation of SOx Scrubber | Planned installation on about one-tenth of the “K” Line fleet, mainly bigger size vessels for which there are customer requests.New vessels with Sox scrubber are gradually being delivered. |
| | | | Alternative Solution like LNG/LPG etc. | Construction of Next-Generation Environmental-Friendly Car Carrier Fueled by LNG (to be delivered in Autumn,2020) |
| | | | Status of response to cost increases | We are explaining and discussing the fuel oil cost increase with customers to obtain their understanding of an appropriate burden as an environmental cost on their part, and general acceptance was gained. |
| | | External Recognition | | Selected as a component in Socially Responsible Investment (SRI) and ESG indices used all over the world.<br>Awarded CDP’s “A List 2019” on Climate Change―Earning Highest Rating “A” for 4 Consecutive Years (in January,2020) |

# A-5 Financial Highlights for FY2019
# Division Trends (Dry Bulk Segment・Energy Resource Transport Segment)

"K" LINE 川崎汽船株式会社

## Dry Bulk Segment

### Results in FY2019

- Dry bulk market conditions surged in 2Q before slumping in the second half due to weaker transport demand and bad weather

▶ CAPE

Although cargo movements of iron ore surged in the middle of the fiscal year amid a recovery in Brazilian and Western Australian iron ore supply capacity, seaborne cargo movement slumped in the second half due to bad weather in Brazil and Australia

▶ Panamax and Smaller size

Strong first-half performance was buoyed by South American grain shipments, mainly to China, while second-half performance weakened due to sluggish seaborne cargo movement to China

- Strengthening effective operation suitable for the market situation, most economical operation and operation cost savings.

### Transition of Fleet Scale

| | FY2017 | FY2018 | FY2019 |
|---|---|---|---|
| CAPE | 106 | 96 | 89 |
| Panamax and Smaller size | 127 | 103 | 84 |
| Woodchip Carrier | 10 | 10 | 10 |
| **Total** | **243** | **209** | **183** |

## Energy Resource Transport Segment

### Results in FY2019

▶ Tankers

- Shrunk the market exposure due to review of fleet planning including restructuring business portfolio

▶ Thermal Coal Carrier

- Secured stable profits based on mid-long term contracts
- Pursued effective vessel allocation/operation and shrinking market exposure

▶ LNG Carrier

- Secured stable-income by operating fleet with medium-and-long-term contracts

▶ Fuel/Liquefied Gas New Business

- Concluded a ship management agreement for the LNG-Bunkering Vessel (LBV) that FueLNG will own in Singapore
- Participation in "$CO_2$-free Hydrogen Energy Supply-chain Technology Research Association (HySTRA), an association working towards the safe transportation of liquefied hydrogen

▶ FPSO・Drillship・Offshore Support Vessel

- Earned stable income by long-term contract through steady operation of vessels
- Both PSV and AHTS market conditions hit the bottom and improved to some extent

### Transition of Fleet Scale

| | FY2017 | FY2018 | FY2019 |
|---|---|---|---|
| VLCC | 6 | 8 | 6 |
| LPG | 7 | 8 | 5 |
| Other Tankers | 9 | 6 | 6 |
| Thermal Coal Carrier | 23 | 25 | 29 |
| LNG | 44 | 48 | 47 |
| **Total** | **89** | **95** | **93** |

# A-6 Financial Highlights for FY2019

# Division Trends (Product Logistics Segment –Car Carrier/Automotive Logistics/ Logistics)

## Car Carrier

### Results in FY2019

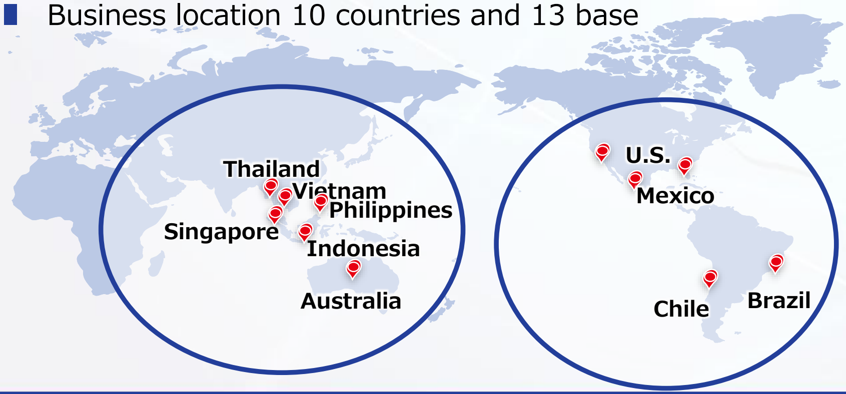
- Total Units Carried : 3,328 thousand units
  - On routes from the Far East, cargo movements were generally stable, and total units carried were mostly in line with expectations. On the other hand, overall total units carried decreased year on year due to rationalization and reorganization of unprofitable routes, mainly in the third-country routes
  - Secured profits by proceeding with a review of fleet size, vessel allocation efficiency

| Total Units Carried (1,000 Unit) | FY2019 | | | | |
|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Results |
| Outbound | 299 | 266 | 280 | 265 | 1,109 |
| Homebound | 64 | 73 | 67 | 49 | 254 |
| Others | 315 | 286 | 291 | 235 | 1,126 |
| Intra-Europe | 231 | 213 | 205 | 190 | 839 |
| Total Units Carried | 909 | 837 | 843 | 739 | 3,328 |
| Number of fleet | 85 | 86 | 84 | 85 | 85 |

## Automotive Logistics

### Results in FY2019

- Total Units Handled to be 2,470 thousand units (FY2019)
- Business location 10 countries and 13 base




## Logistics

### Results in FY2019

- Domestic Logistics
  - While demand for tugboats, air and seaborne cargo declined due to the impact of COVID-19, performance was strong, mainly due to the warehousing business
  - Contribution to profitability improvement from effective utilization of assets due to the alliance with Kamigumi Co., Ltd.
- International Logistics
  - Loading place of the cargo for North America is shifted from China to South East Asia due to U.S.-China trade friction
  - Our international air cargo transport volume declined within Asia and to Europe and North America

### Location in our Logistics

# Forecasts for FY2020 and Initiatives



# Forecasts for FY2020

At the current time, we cannot forecast the extent to which the global spread of the novel coronavirus disease (COVID-19) will impact the global economy and seaborne cargo movements. As a result, we cannot make reasonable forecasts on the Group’s financial results. At the current time, forecasts for FY2020 and dividend payments are undecided.

We are taking a cautious approach to estimating the impact of COVID-19. We will promptly make an announcement when it becomes possible to make reasonable forecasts.

# Outlook for external circumstances

## Downturn in global economic activity, recession

- Estimated 2020 global GDP growth rates : - 3%

Resource : IMF (International Monetary Fund)

## Downturn in seaborne cargo movements and transport demand, primarily for raw materials and finished products, and weaker shipping market conditions

- There is a possibility the impact will be concentrated in the first half of FY2020.

Global Seaborne Trade growth in 2020 (tonne-miles basis) : -4.7%

Resource : Clarksons' latest forecasts

# Impact of COVID-19

## Expected Main Impacts

| Segment (Division) | Main Impacts |
|---|---|
| Dry Bulk | Decline in raw materials transport demand |
| Energy Resource Transport | Decline in offshore oil field development and the related transport demand due to oil price declines |
| Product Logistics (Car Carrier･Logistics) | Weaker demand due to lockdowns in countries around the world |
| Product Logistics (ONE) | Global economic downturn, decrease in consumption appetite |

# Measures in safe operation and service provision (Correspondence to COVID-19)

We maintain safe vessel operations and are prioritizing the safety of vessel crew and Group employees amid the global spread of the infection. We are thoroughly implementing the following measures to ensure that, as an integral part of society's infrastructure, we can maintain stable logistics services.

| | |
|---|---|
| **At sea** | **Measures to secure onboard safety and maintain safe operation**<br>・Thorough implementation of infection prevention on vessels based on a prevention manual, as well as supply of necessary goods, including preventive gear<br>・Ensuring the safety of crew and implementation of crew changes sequentially<br>Because crew changes obstructed due to travel restrictions by lockdowns in various countries, we aim for early improvement of the situation through making approaches to the related governments and organizations<br>・Meticulous care of crew and stand-by crew to ensure safety and maintain high levels of motivation |
| **Onshore** | **Global telework programs to support the continuation of regular business activities**<br>・Implementation of environmental arrangement for telework programs and Maintain regular business activities without big problems at present |

# Countermeasures for the financial results in FY2020 (Correspondence to COVID-19)

- Shrinking our fleet scale and Reduction in fleet operational expenses through vessel allocation rationalization, suspension and laying up of vessels in correspondence with decline in cargo volume
- Securing sufficient liquidity on hand
- Measures to Equity
  - Asset sales including real estate etc
- Overhauling our investment plan
  - Concentration on businesses leveraging “K” Line’s strengths and businesses with future growth potential

Our priority is to control the damage to our financial results in FY2020, therefore we will disclose a new Medium-term Management Plan planned to start in FY2020 after examining the situation of Post-COVID-19 carefully.

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# Financial Results for FY2019 Full-Year

**AS OF APRIL. 30. 2020**

# 1. FY2019 Full –Year Financial Results

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

(Unit: Million US$)

*As of Jan 2020

| | FY2019 | | | | | | | FY2018 | Year on Year | | FY2019 (Previous Forecasts*) | Results to Previous Forecasts | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q Results | 2Q Results | 1H Results | 3Q Results | 4Q Results | 2H Results | Full Year Results | Full Year Results | Change | Change (%) | Full Year Forecasts | Change | Change (%) |
| Revenue | 2,875 | 3,109 | 5,984 | 2,914 | 2,966 | 5,881 | 11,865 | 10,880 | 985 | 9.1% | 11,879 | -14 | -0.1% |
| Profit/loss for the year | 5 | 121 | 126 | 5 | -27 | -22 | 105 | -586 | 691 | - | 81 | 24 | 29.8% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bunker Price (US$/MT) | $432 | $419 | $427 | $417 | $528 | $456 | $441 | $444 | -$3 | $457 | -$15 |

## Full-year results EBIT/EBITDA/Annual Lifting/Annual bunker consumption

- EBIT US$ 422 million
- EBITDA US$ 1,368 million
- Annual Lifting 12,399K TEU
- Annual bunker consumption 4.2 million MT

## Outline

- FY2019 Full-Year: Recorded US$105 million profit. FY2019 action plans achieved targets (Details:Slide2)
- Synergy Effect: (US$1,050 million against FY2015) Achieved one-year in advance (Details:Slide3)
- COVID-19 Impact: Liftings stagnated and extra variable cost incurred, however suppressed fixed cost, and achieved results that are not worse than previously forecasted. (Details: Slide4)
- Liftings, Utilization rate, Imbalance improved, spot market rate was stable, and adoption to MARPOL2020 regulations was smooth. (Details: Slide5)

# 2.FY2019 Full-Year Results Analysis (vs. Previous Year Results)

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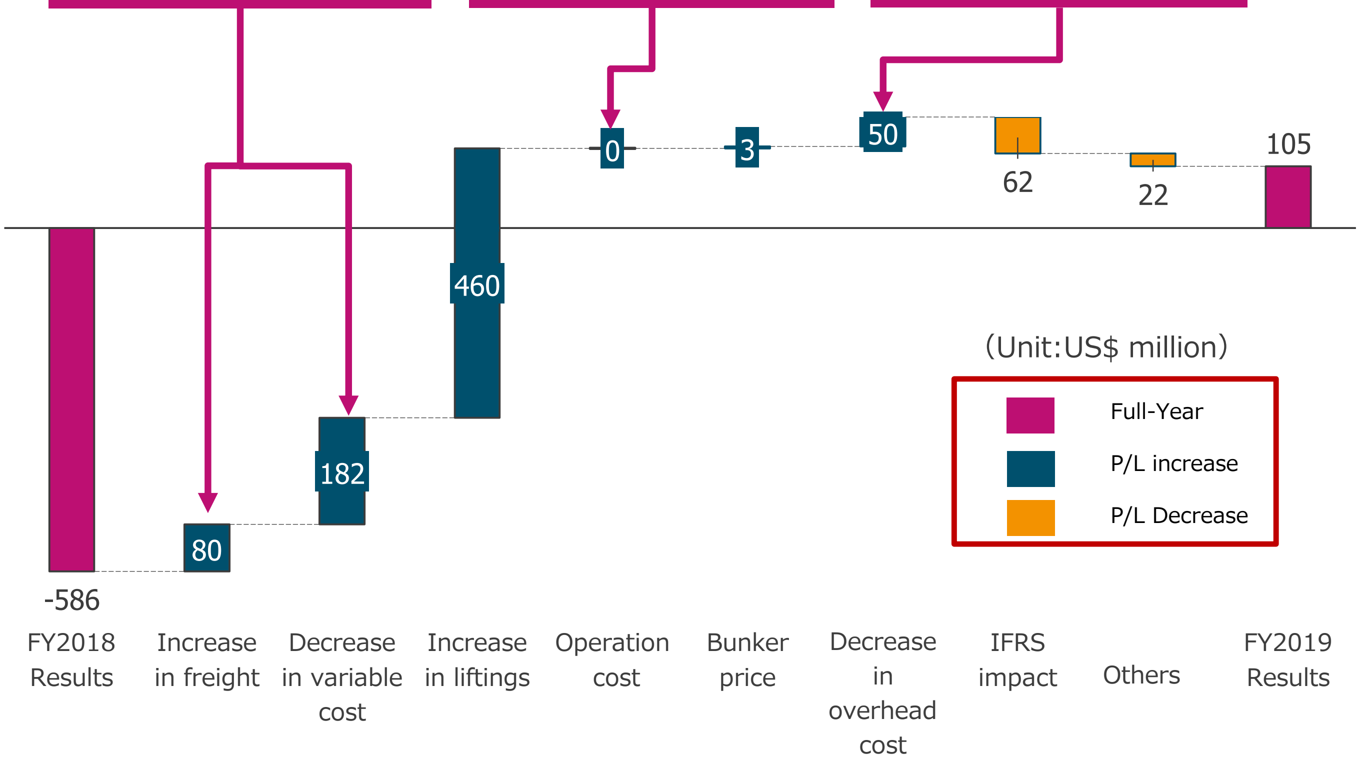
## Full-year results vs. Previous year results

**Action Plans in FY2019**

| Cargo Portfolio Optimization, Reinforcement of Yield Management | Products（Service routes, Allocated vessels) Rationalization | Organization Optimization |
|---|---|---|
| US$190 million per annum | US$260 million per annum | US$50 million per annum |



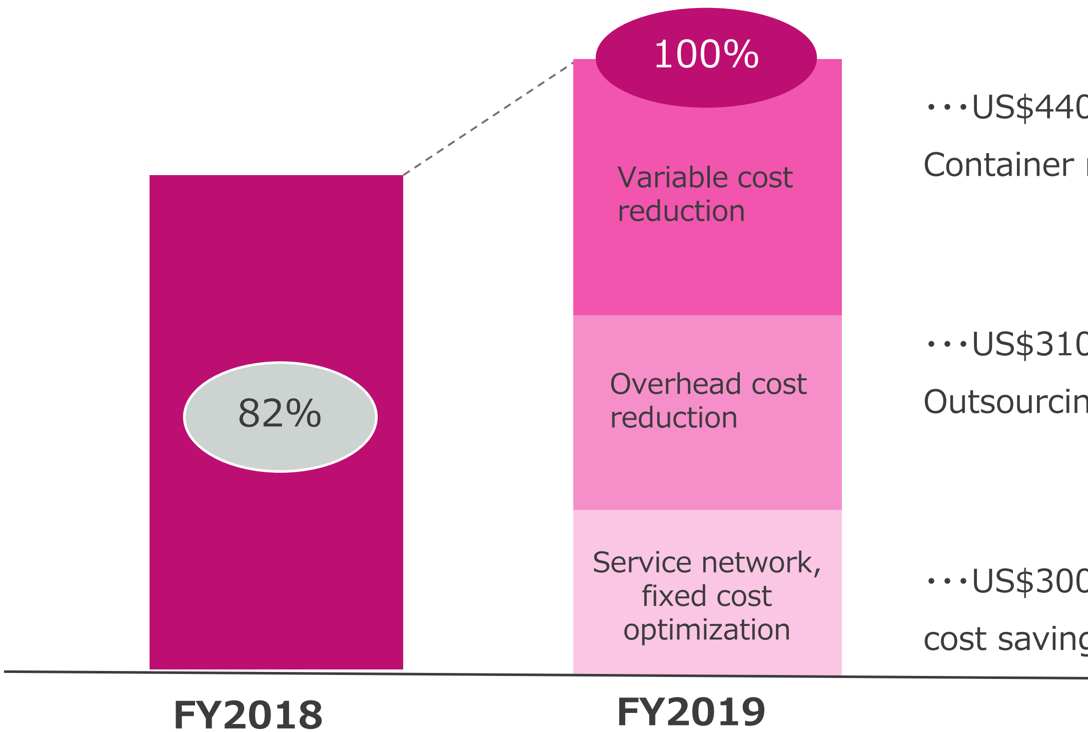

**Total target of US$500 million per annum improvement action plans are achieved as planned.**

- **Freight**: Freight increase including effect of cargo portfolio improvement
- **Variable Cost**: Yield Management reinforcement, cost saving effect etc.
- **Liftings**: Mainly effects from utilization rate improvement, reinforcement of non-dominant leg.
- **Operation cost**: Per unit cost decreased as a result of FY2019 product effect, bunker consumption saving initiatives and so on. On the other hand, cost increased because of service expansion (such as West Asian service and Africa service). Net total fixed cost almost as same amount as last year.
- **Bunker Price**: Increase due to MARPOL 2020 adoption and bunker market fall offset each other, resulting in almost same unit price as last year.
- **Overhead cost**: Decreased as a result of organization optimization.
- **IFRS impact**: IFRS accounting adoption from FY2019.
- **Others:** Increase in Freight Tax due to revenue increase, and so on

# 3.Summary of Synergy Effects

- Against the three-year target of synergy effects amounting US$1,050 million per annum against FY2015 level of the three parent companies before the integration, 82% was realized in the first operating year in FY2018.
- At the beginning of FY2019, further 14% achievement to reach 96% was forecasted, however as a result of expedited decision-making speed and strengthened bargaining power, 100% actualized a year ahead in FY2019.
- From FY2020 onward, ONE will continue to explore further competitiveness beyond the frame of synergy effects.

**Achievement against target**

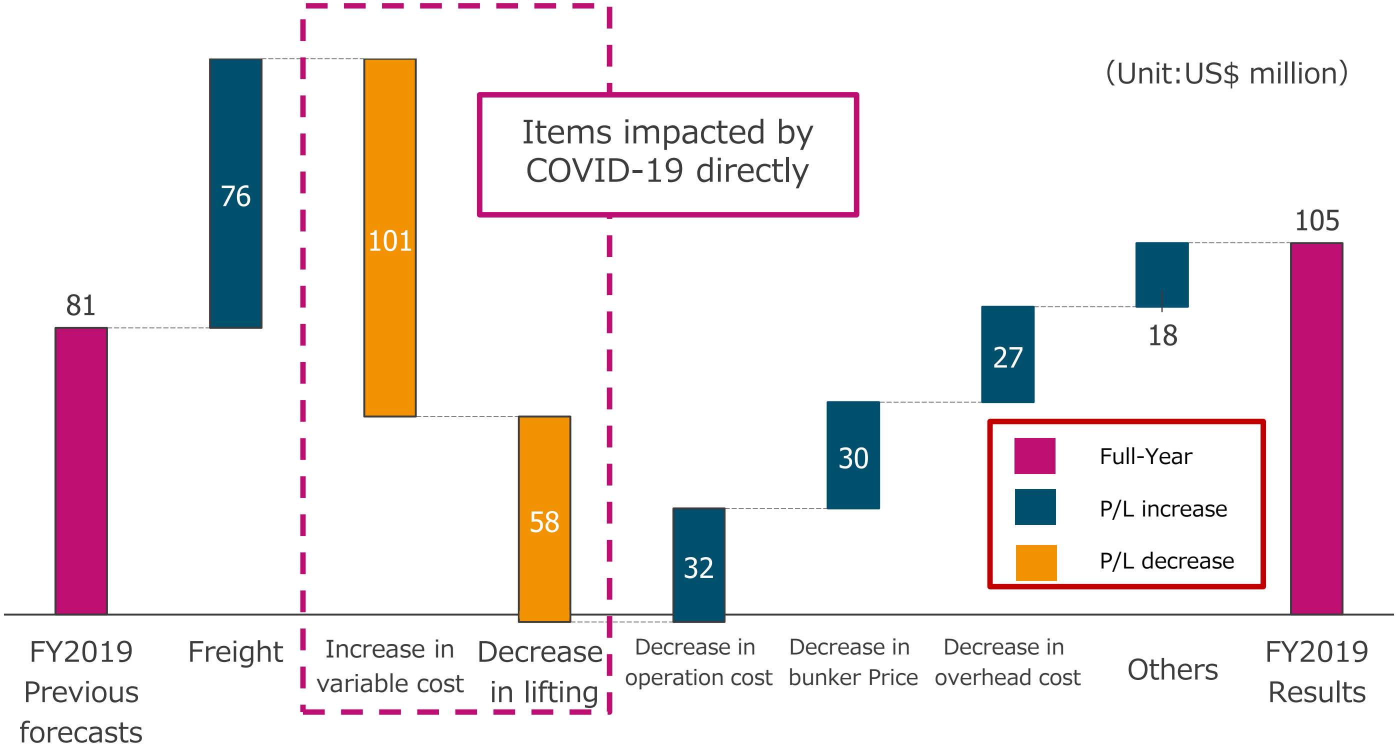



･･･US$440 million: Inland cost, terminal procurement, Container maintenance, repair cost and so on.

･･･US$310 million: IT Synergy, Organization optimization, Outsourcing and so on.

･･･US$300 million: Service network optimization, bunker cost saving

# 4.FY2019 Full-Year Results Analysis (vs. Previous forecasts)




COVID-19 impacted liftings more than previously forecasted after lunar new year. As epidemic spread globally, berth waiting by quarantine reinforcement or operation delay due to shortage of container yard were seen occasionally. Crisis Management Committee was set up in later January headed by CEO, and Business Continuity Plan (BCP) was activated country by country to maintain essential customer service, ship operation, container flow and so on. Extra void sailings were executed to meet decelerating cargo demand. MARPOL2020 regulation came into effect from beginning of this year and ONE Bunker Surcharge (OBS) implementation progressed steadily as planned. Bunker price decrease preceded OBS decrease, on the other hand short term freight rate market was relatively steady, and results ended with an upturn from previous forecasts.

- **Freight** : Short term market level after lunar new year was higher than previously forecasted.
- **Variable Cost**: Effects of COVID-19 such as tighter container storage places and so on (Transitory factor)
- **Liftings**: Due to COVID-19 impact, result was lower than previously forecasted.
- **Operation cost**: Executed additional void sailings to cope with lower demand after lunar new year.
- **Bunker Price**: Lower than previously forecasted.
- **Overhead cost**: Agency cost and IT system cost were less than forecasted.
- **Others**:Impact from exchange rates, IFRS, Freight Tax and so on.

# 5. Liftings, Utilization Rate, Freight Index of Major trades

ONE OCEAN NETWORK EXPRESS

(Unit: 1,000TEU)

| Liftings / Utilization by Trades | | FY2018 Full Year Results | FY2019 1Q Results | 2Q Results | 1H Results | 3Q Results | 4Q Results | 2H Results | Full Year Results |
|---|---|---|---|---|---|---|---|---|---|
| Asia - North America Eastbound | Lifting | 2,664 | 669 | 773 | 1,442 | 665 | 585 | 1,250 | 2,692 |
| | Utilization | 87% | 86% | 94% | 90% | 93% | 92% | 93% | 91% |
| Asia - Europe Westbound | Lifting | 1,687 | 460 | 488 | 947 | 440 | 443 | 882 | 1,830 |
| | Utilization | 88% | 87% | 95% | 91% | 92% | 100% | 96% | 93% |
| Asia - North America Westbound | Lifting | 1,141 | 350 | 310 | 660 | 320 | 331 | 650 | 1,310 |
| | Utilization | 37% | 47% | 37% | 42% | 42% | 49% | 45% | 44% |
| Asia - Europe Eastbound | Lifting | 1,091 | 323 | 328 | 651 | 362 | 325 | 687 | 1,339 |
| | Utilization | 55% | 64% | 64% | 64% | 72% | 67% | 69% | 67% |

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

| Freight Index by Trades | FY2018 Full Year Results | FY2019 1Q Results | 2Q Results | 1H Results | 3Q Results | 4Q Results | 2H Results | Full Year Results |
|---|---|---|---|---|---|---|---|---|
| Asia - North America Eastbound | 104 | 103 | 105 | 104 | 104 | 110 | 107 | 105 |
| Asia - Europe Westbound | 104 | 100 | 101 | 100 | 98 | 111 | 105 | 102 |

(Vs. FY2018) Action plans for P/L improvement emerged. Utilization rates improved, non-dominant leg liftings increased, and trade imbalance became less.
(4th Quarter ) Freight index increased as a result of MARPOL2020 adoption. COVID-19 impacted is till limited.

# 6.FY2020 Full-year forecasts

## Impact of COVID-19

Global economy is rapidly deteriorating due to epidemic expansion, which is seriously impacting global supply chain. Demand is declining in large consumption regions such as Europe, North America, and many other locations, and we have executed considerable scale of void sailings in April. Uncertainties are still increasing for the situation after May.

## Disclosure of FY2020 Full-year forecasts

Situation is changing dynamically and rapidly, and forecasting FY2020 performance reasonably is difficult under current external circumstances and therefore FY2020 full-year forecasts are not yet fixed.

# Reference

ONE
OCEAN NETWORK EXPRESS

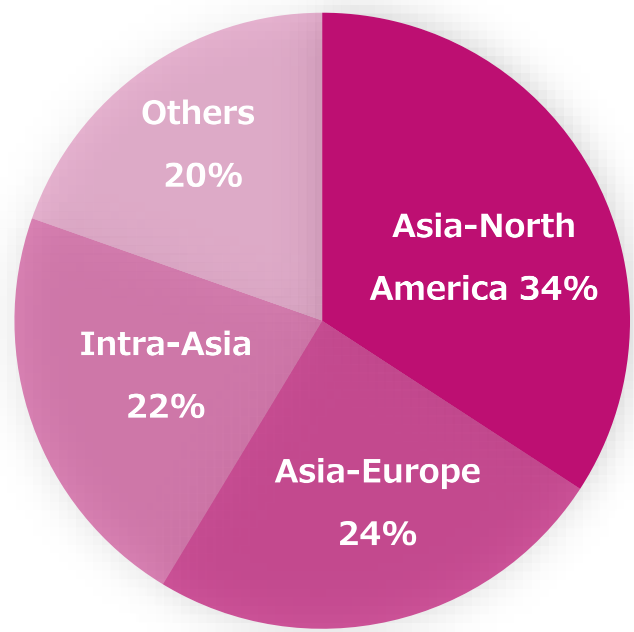
## Fleet Structure

as of end of 4Q

| Size | | 1)As of end Dec 2019 | 2)As of end Mar 2020 | 2)-1) |
|---|---|---|---|---|
| >= 20,000 TEU | Capacity (TEU) | 120,600 | 120,600 | 0 |
| | Vessels | 6 | 6 | 0 |
| 10,500 - 20,000 TEU | Capacity (TEU) | 363,220 | 349,000 | ▲ 14,220 |
| | Vessels | 26 | 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) | 374,655 | 356,811 | ▲ 17,844 |
| | Vessels | 42 | 40 | ▲ 2 |
| 6,000 - 7,800 TEU | Capacity (TEU) | 227,260 | 234,706 | 7,446 |
| | Vessels | 35 | 36 | 1 |
| 5,200 - 6,000 TEU | Capacity (TEU) | 100,910 | 100,910 | 0 |
| | Vessels | 18 | 18 | 0 |
| 4,600 - 5,200 TEU | Capacity (TEU) | 118,480 | 123,372 | 4,892 |
| | Vessels | 24 | 25 | 1 |
| 4,300 - 4,600 TEU | Capacity (TEU) | 71,816 | 71,816 | 0 |
| | Vessels | 16 | 16 | 0 |
| 3,500 - 4,300 TEU | Capacity (TEU) | 34,003 | 29,750 | ▲ 4,253 |
| | Vessels | 8 | 7 | ▲ 1 |
| 2,400 - 3,500 TEU | Capacity (TEU) | 61,125 | 63,671 | 2,546 |
| | Vessels | 23 | 24 | 1 |
| 1,300 - 2,400 TEU | Capacity (TEU) | 11,993 | 12,070 | 77 |
| | Vessels | 7 | 7 | 0 |
| 1,000 - 1,300 TEU | Capacity (TEU) | 9,631 | 8,488 | ▲ 1,143 |
| | Vessels | 9 | 8 | ▲ 1 |
| < 1,000 TEU | Capacity (TEU) | 0 | 0 | 0 |
| | Vessels | 0 | 0 | 0 |
| **Total** | **Capacity (TEU)** | **1,593,793** | **1,571,294** | **▲ 22,499** |
| | **Vessels** | **224** | **222** | **▲ 2** |

## Service Structure

(4Q FY2019 Structure of dominant and non-dominant space)



# Reference

| FY2019 Action Plans | | Target as of beginning of the fisical year (Achieved) |
|---|---|---|
| Cargo Portfolio Optimization, Reinforcement of Yield Management | Cargo portfolio optimization such as inland cargo match back ratio improvement, reinforcement of yield management through improvement of cargo operation efficiency or business process optimization. | US$190 million per annum |
| Products (Service routes, Allocated vessels) Rationalization | Based on operating results of FY2018 as first year of ONE, service network optimization was progressed such as capacity upsize and allocation optimization by pendulum service connecting Europe and US via Asia, launch of in-house feeder services which reduced unit price of fixed cost. Cost saving from bunker cost reduction initiatives are also included here. | US$260 million per annum |
| Organization Optimization | Reduction of overhead cost such as agency cost or IT system usage cost. Initiatives of E-Commerce enhancement, expansion of live chat, introduction of robotics, targeting improvement of customer experience and internal efficiency, have progressed. | US$50 million per annum |

| KEY TOPICS | |
|---|---|
| MARPOL2020 | Effective January 2020, regulation was implemented to limit sulphur content in bunker oil to be 0.5% or less (MARPOL2020). Switching to compliant bunker was smoothly completed. Attention of customers towards environmental issues are high and cost recovery by implementation of bunker surcharge such as OBS was achieved as planned. Retro-fitting of scrubbers is scheduled mainly for core large ships and in future we continue studying best mix of procurement of compliant oil and scrubber retro-fitting. |
| Actualizing Synergy Effects | US$1,050 million of synergy effects were targeted from integration of container business by 3 parent companies. FY2018 was first year after integration and 82% was achieved. At beginning of FY2019, it was forecasted 96% to be achieved in FY2019 and 100% in FY2020, however full 100% ended up to be realized in FY2019. |
| Transfer of Overseas Terminal | Examination for transferring overseas terminal business from each of 3 parent companies to ONE is on going targeting execution in FY2020. |

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# Value for our Next Century