＜Market & Industry Outlook＞

Q.1.

You explained that the containership industry has entered into a new paradigm. How do you think ONE can enhance its attractiveness amongst its peers? And how will ONE be in the new paradigm context?

A.1.

We have moved away from this significant industry with many players with different catch-up strategies, and we have seen this consolidation taking place.
The competition is probably now more rational and more logical in the way that it behaves. Thankfully, today in terms of asset deployments and type of ships that are being deployed in terms of scale, all three alliances and all seven major carriers have a similar economic base. The key part for ONE is to continue to focus on ensuring that it has cost-competitiveness but thinking more about being innovative so it can develop itself in a more differentiated way to be more focused on its customers. Of course, customers expect a cost-efficient service, but at the same time, they are also looking for reliability, consistency in quality of service and being much more closely aligned with digital products and services in the future. I think ONE's setup was good timing in terms of coming together as we have fully overcome our start-up issues and are starting to operate at a good level of efficiency. And there are more projects through digitalization, innovation and through further cost-management to improve our margins in the longer term as we move into a continuously more profitable industry and become a stable and profitable player within that industry.

＜ONE's Business Strategy＞

Q.2.

Regarding long-term strategy, do you plan to either order or charter more vessels for capacity expansion? And what are your thoughts regarding your service portfolio going forward? Would you like to move away from the somewhat larger East-West trade and focus more on either North-South trade or Intra-Asia trade, for example?

A.2.

We think that the overall demand situation for the next one or two years will probably be in the 3 to 4% bracket in line with analysts' projections. Therefore, we have a positive view but do not see a major spike up in growth for East-West trade. While cargo movement

between China-US is down, we are offsetting that through more South East Asia-US and US-South East Asia cargoes. Our Intra-Asia trade is actually quite significant. In the slide on page 13, we showed 21% of our capacity deployed in Intra-Asia trade with 56 services per week. We define Intra-Asia as being from Japan down to New Zealand as well as across to the Middle East. We think that there are some markets growing quicker than others in those areas, and as Asia-North America trade is affected by present global tariff situation, we may see more Intra-Asia trade activity under the surface as the supply chain tries catching up with changes in sourcing and supplying. Overall, we will probably place some new vessel orders in the future but doing so in line with steady and long-term global economic and trade growth.

Q.3.

Regarding your short-term forecast and guidance made for this fiscal year, can you elaborate just a little bit more about the key assumptions, particularly market freight rates? Market rates have been trending up somewhat over the last month or so since you gave that guidance. Is that in line with your expectations?

A.3.

In terms of market freight rates, we saw quite a slowdown during the September-October period. We think that is partly related to the economic slowdown in China's exports to the USA and Europe being relatively quiet during that period. But in November we saw a signs of a pickup. The vessels are starting to load cargo in Asia that will arrive after the holiday period in Europe and North America in terms of Christmas and New Year. We are starting to move up to the peak period for shipments leading up to Chinese New Year and expect that patterns in the next 6~8 weeks will continue to see further strengthening in freight rates which frankly is in line with our expectations.

Q.4.

In comparison between your company and European shipping companies, what are your advantages and disadvantages? For example, compared with MAERSK, how do you recognize the difference in gross margin rate? And also, how can you catch up with them?

A.4.

You have seen the results for 1st half of FY2019 from all major shipping companies except MSC. And you have also probably seen results of 3rd quarter (CY basis) for most other carriers as well and are able to benchmark well against our company. You can see that we have regained load factor capability in line with the market that also shows how our 2nd quarter results of 121 million US dollars profit compares. The key point is that our result is genuine net profit and is purely liner business results. We do not include any 3PL (third party logistics) activity and any terminal activity in that result. If you benchmark that against the other carriers, I feel results are not too bad. Of course, we have to continue showing ongoing progress in the quarters and years to come before we can say that we are truly competitive against other major shipping companies.

MAERSK had better results in the third quarter (CY basis) showing quite an improvement from the first and second quarters. From what we can see, this does not have so much to do with their integration strategy but probably more related to their fuel cost-saving efficiencies that they brought in recently. Historically, Asian and Japanese carriers have struggled against the big Europeans because they were always able to deploy bigger ships and be one step ahead as a result of such big ship deployment. But I think that is really changing now. For the reasons I explained, the ability of the big three Europeans to deploy bigger ships with superior slot cost capabilities is not so easy now is in comparison with Hapag-Lloyd, our company and other Asian carriers.

As ONE, we are very focused on being a pure full-container load, end-to-end container shipping company and we have no plans at this stage to diversify out of that model or to look at other value-added services. We are sticking very closely to focusing on our business model, consistently trying to execute and ensure that we will achieve more and more cost savings and be as efficient as possible.

Q.5.

Considering ONE's next year guidance, can we expect any effect from Hyundai Merchant Marine (HMM) joining your Alliance from next April or that of Ultra-large containership (ULCS) deployment?

A.5.

Hyundai Merchant Marine (HMM) becomes a member of The Alliance from next April and will also deploy new tonnage including twelve 23,000-TEU type ULCSs in the Asia-Europe trade

within THE Alliance. It will be of benefit to THE Alliance because it will give us about an additional 15% capacity in scale which will also be beneficial to ONE.

As you can see, The Ocean Alliance and 2M have more of the 20,000-TEU type ULCS service loops deployed in the Asia-Europe trade. While our 14,000-TEU type ULCSs are quite efficient, 20,000-TEU type ULCS have a slight efficiency improvement over the 14,000-TEU type. We already have one 20,000-TEU type ULCS service loop which ONE and Hapag Lloyd are jointly deploying. By bringing HMM in, we will be able to offer a 2nd 20,000-TEU type ULCS service loop which will give us a more cost-competitive situation in the market than we previously had. HMM had been involved in the consortium before and MOL and NYK also had worked with them as a partner in the G6 Alliance. They are fully signed up with THE Alliance which will be beneficial and cooperative in the working of our Alliance, enabling us to continuously maintain quick decision-making and efficient deployments.

Q.6.

Regarding cost competitiveness shown in slide on page 17, you are considering enhancing ship size portfolio with more competitive ULCS. From the standpoint of finance, how do you plan to deploy such fleet? Do you plan to charter them or purchase and own such vessels by yourself? As you also plan to explore the emerging North-South trade, will you need new fleet for providing those services?

A.6.

In terms of the slide on page 13, our three parent companies made some quite good investments. We recently took delivery of some new 20,000-TEU type and 14,000-TEU type ULCSs in July this year which completes that new building project. However, we are continuing to study future newbuilding projects and are looking at different ship sizes and types for potential future ordering by our own technical team in our Singapore GHQ.

In terms of new vessel orders, we will do so in a logical way, trying to optimize the cascade benefits for ONE. Whether or not to own or charter ships, we are flexible to both models. What is clear, however, is that any new ships that we own or charter for the long-term would be on the balance sheet of GHQ as our operating company in Singapore.

In the future, our three shareholders will not be ordering or owning ships nor chartering them to us.

In terms of the Intra-Asia market, we are not in any formal alliance. We have 56 services by ourselves and operate some of them exclusively. In other markets, particularly in the Indian

sub-continent trades or Middle East trade where larger ship sizes are required, we are working with alliance partners. So far, our strategy in Intra-Asia trade has been to organically grow and develop our own network capability, but if we do not have sufficient scale to work with more partners, we can deploy large-size ships in that particular market. And I think that the organic growth model will continue to be our key focus for the time being.

<Industrial Hot Topics>

Q.7.

In related to usage of compliant-fuel due to MARPOL 2020 Regulation from January, why do you think that you can transfer the additional fuel cost to your customers in spot market? As spot market rates fell after rising in the first week of November, it is my view that market supply-demand has rather weakened.

And could you tell us how we can understand that you have been successful in cost recovery on the spot market?

A.7.

For all of our fixed contract cargo which is over one month, we have been successful in ensuring that there is cost recovery in those contracts. The cargo of less than one month refers to the spot market where we offer a fixed rate for generally two or four week period. When we offer that rate, fuel costs will be reflected in the rate offered. From January 1st, we would expect to increase our spot freight rates and we believe that can happen. And of course, the early Chinese New Year in 2020 is naturally going to help maintain supply-demand equilibrium. Therefore, we can ensure that we achieve cost recovery in the spot market.

After that, we have to wait and see how the overall supply-demand position is for the spot market and the overall operational cost of ships will increase. In case supply-demand is not so strong and we cannot recover extra fuel costs from the spot market, then we will have to review our capacity management and our ability to be able to deploy the full capacity.

You have visibility to the spot market through the SCFI(Shanghai Shipping Exchange Index) and you can see what is the FEU (40 foot equivalent unit) rate for Shanghai to USA or Shanghai to Europe. If SCFI goes up compared with the same period of 2019 by at least US$200 to US$250 dollars per FEU, then it will give you an indication as to whether carriers have been successful or not in terms of recovering their additional fuel costs.

Q.8.

In terms of SOx scrubber installation, your competitors have moved a little bit earlier. What are your thoughts about strategy of scrubber installation in regular dry-dock period? Besides, in terms of pricing in spot market freight rates going into January, how do you think competitive dynamics will work for those shipping companies that have installed scrubbers? Do you worry about under-cutting the market or keeping rates low given their lower cost structure in this phase?

A.8

The first point is that the market average that fitted scrubbers will be 7% before the first of January 2020 and therefore the remaining 93% will use regulation-compliant fuels. However, 100% of our fleet will utilize regulation-compliant fuels from 1st of January. So, we will catch up with market average during fiscal year 2020 in line with our dry docks. Due to quite a high spread between low-sulfur fuels and high-sulfur fuels in the current market, it does look as if we made the right call by fitting scrubbers initially.

However, let me make two points: One is that we are still in the early days. Markets are still changing over from high-sulfur fuels to low-sulfur fuels and our experience is that there is plenty of low-sulfur fuels available. In fact, there is a shortage of high-sulfur fuels in some market so we had to change some bunkering plans in the last six weeks. This means that the oil supplier industry is moving quite quickly to supply low-sulfur fuels so that they do not get caught with stocks of high-sulfur fuels.

Secondly, not in all cases but in majority of cases, installation of scrubbers is taking more time than expected due to some technical issues. In Asia, installation of scrubbers took about 56 days on average. As we work with our dry-docks, we are planning to ensure that we do not have such technical difficulties. There are vessels still waiting to get into shipyards that have missed their scrubber slots. That makes supply market quite tight at the moment and chartering market for large-sized vessels on average are pretty much sold out in terms of availability of vessel chartering. Of course, there is the capex around purchase and installation of the scrubber with a longer fitting period. When scrubber is installed, cost is about three and a half million US dollars for a new-order vessel and over 5 million in case of the retrofit. At the end of the day, these investments will have to be reflected in either a higher charter rate payable to the vessel owner or taken that capex hit themselves and depreciate it over the next two or three years.

So far, we have not seen evidence of any predatory pricing by those carriers which have fitted scrubbers at this stage. At this moment, we will have to just wait and see how that

situation develops. But generally, 93% of the fleet will be operating with regulation-compliant fuels and therefore the freight market will be fully impacted by the higher cost of doing so.