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

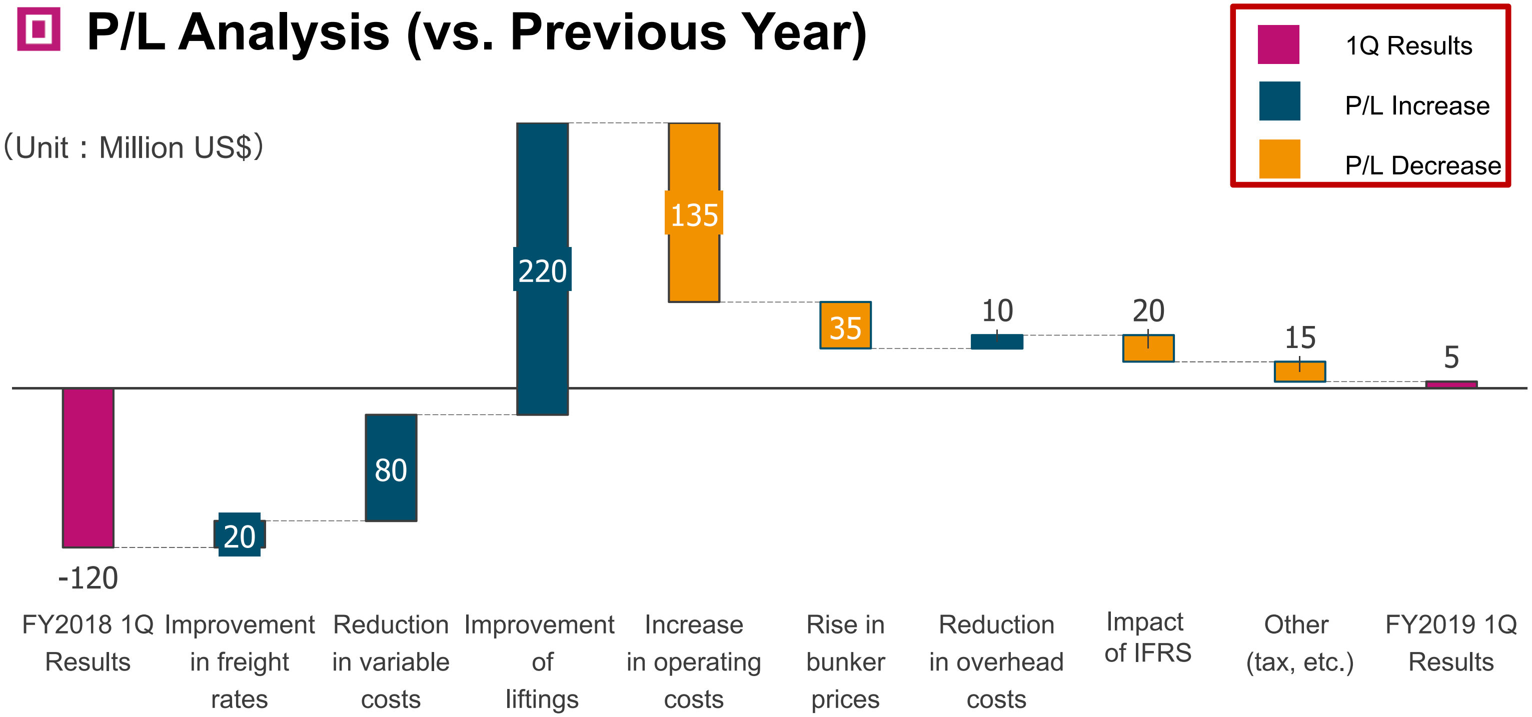
Profit/loss turned up at a higher pace than estimated, achieving a surplus in 1Q.

（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)

（Unit：Million US$）



- 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$)

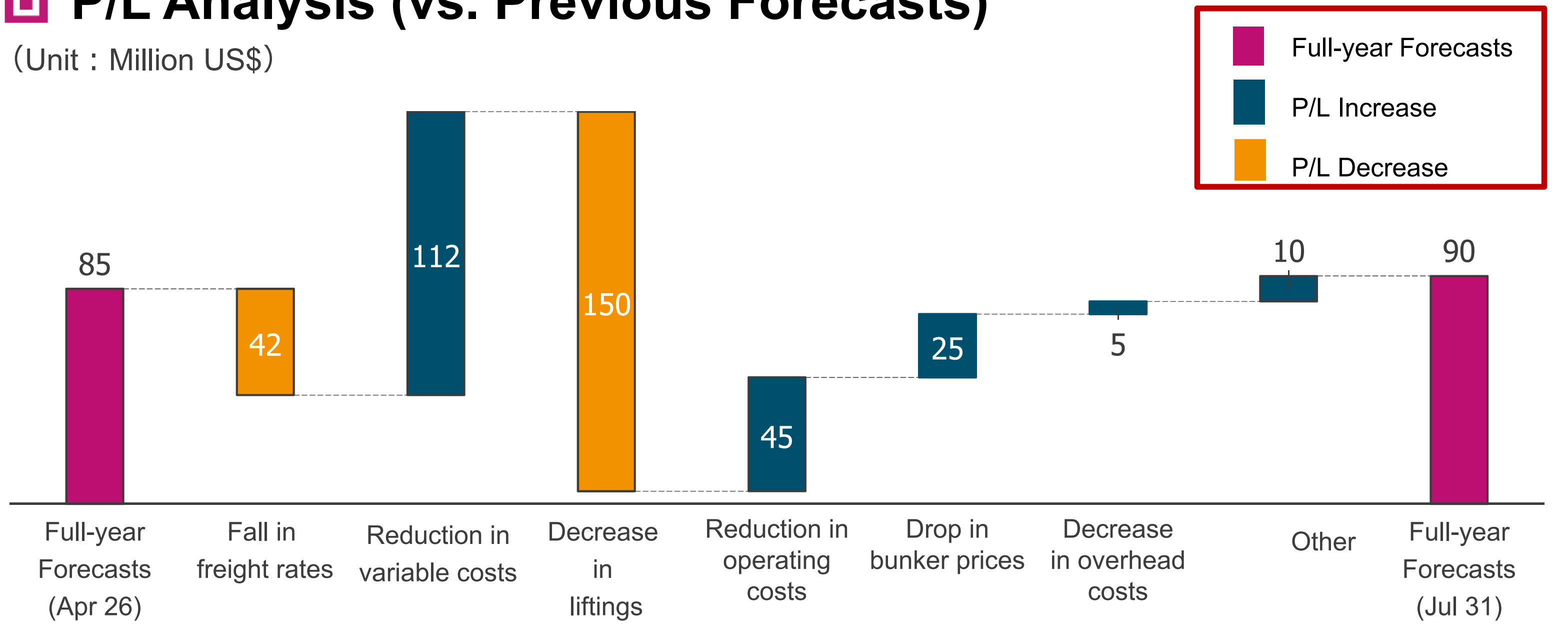
	FY2019 Previous Forecasts			FY2019 Latest Forecasts					Full Year	
	1H Forecasts	2H Forecasts	Full Year Forecasts	1Q Results	2Q Forecasts	1H Forecasts	2H Forecasts	Full Year Forecasts	Change (Mil US$)	Change (%)
Revenue	6,417	6,306	12,723	2,875	3,214	6,089	6,306	12,395	-328	-2.6%
Profit/Loss	123	-38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

ONE
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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

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