

First Quarter Financial Results for Fiscal Year Ending March 2020, and Revised Forecast for Entire Fiscal Year

July 31, 2019

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**(Attachment)
Ocean Network Express
Financial Results for FY2019 1st Quarter and
Forecast for FY2019**

1. Overview of 1st Quarter Results for FY Ending March 2020



► Revenues

Revenue decreased vs. same period last year due to the sales of subsidiary shares as a part of business portfolio revision.

► Recurring profit / loss

Air Cargo/Logistics/Bulk Shipping decreased in profit vs. same period last year, but Liner Business returned to profitability.

► Extraordinary Profit / Loss

Recorded profit due to the sale of real estate. Also recorded loss on early termination and returning of two chartered-in vessels.

< Review of 1Q >

- Liner Profitability improved by ONE's increasing Liftings/Utilization, and NYK's liner business termination cost already disappeared.
- Air Cargo Increased utilization, but the demand declined due to the trade friction between the US and China.
- Logistics Contract logistics performed steadily, but Ocean / Air freight forwarding decreased handling volume. Recorded lower profit than previous year.
- Bulk Shipping Recorded lower profit than previous year.
Energy and Car transport is robust but lower dry bulk market due to production stoppage in Brazil and Western Australia.

Summary of 1Q Results

1Q Result



NYK LINE
NIPPON YUSEN KAISHA

- Increased profit significantly at each income level
- Decreased in revenues vs. same period last year due to the sales of subsidiary shares etc.

(Billions of yen)	FY Ending Mar 2019							FY Ending Mar 2020	Year-on-year
	1Q	2Q	1H	3Q	4Q	2H	Full-Year	1Q	
Revenue	464.8	450.7	915.6	468.9	444.6	913.6	1,829.3	406.4	-58.4
Operating Income	-8.1	3.9	-4.1	8.7	6.5	15.2	11.0	5.4	13.5
Recurring Profit	-6.6	-2.4	-9.0	5.6	1.3	6.9	-2.0	6.4	13.0
Net Income Attributable to Owners of the Parent Company	-4.5	-5.2	-9.7	1.0	-35.7	-34.7	-44.5	9.1	13.7
Exchange rate	¥ 108.10	¥ 110.87	¥ 109.48	¥ 113.43	¥ 110.28	¥ 111.86	¥ 110.67	¥ 110.73	+ ¥ 2.63
Bunker Oil Prices	\$395.94	\$443.36	\$419.65	\$478.90	\$451.74	\$465.32	\$442.49	\$438.21	+\$42.27

1Q Comparison by Industrial SEGs

1Q Result



NYK LINE
NIPPON YUSEN KAISHA

- ▶ Liner profit increased significantly as ONE returned to profitability & Liner business termination cost disappeared.
- ▶ Air Cargo, Logistics and Bulk Shipping decrease in revenue and profit vs. same period last year.

	Industrial Segment	FY Ending Mar 2019						FY Ending Mar 2020	Change from Previous forecast	
	(Billions of Yen)	1Q	2Q	1H	3Q	4Q	2H	Full-year	1Q	
Global Logistics	Liner	80.1	70.0	150.2	67.9	68.2	136.1	286.3	51.9	-28.2
		-16.6	-2.2	-18.8	-5.8	-1.6	-7.5	-26.4	1.9	18.5
	Air Cargo	21.7	7.4	29.1	13.1	14.5	27.6	56.7	17.7	-3.9
		-1.6	-6.2	-7.9	-4.2	-3.7	-7.9	-15.9	-4.4	-2.7
	Logistics	130.4	135.3	265.7	137.3	122.7	260.0	525.8	117.7	-12.6
		1.3	1.9	3.2	3.8	0.6	4.4	7.7	-0.0	-1.3
	(Total)	232.3	212.7	445.0	218.3	205.4	423.8	868.9	187.4	-44.8
		-16.9	-6.5	-23.5	-6.3	-4.6	-11.0	-34.6	-2.5	14.4
	Bulk Shipping	206.5	208.1	414.6	218.4	208.2	426.6	841.3	195.1	-11.3
		10.4	5.4	15.8	10.6	7.2	17.9	33.7	9.2	-1.2
Others	Real Estate	1.8	1.9	3.8	1.8	1.9	3.8	7.6	1.8	-0.0
		0.7	0.7	1.4	0.6	0.6	1.3	2.7	0.7	0.0
	Other	43.5	46.6	90.1	50.1	47.8	97.9	188.1	39.7	-3.8
		0.9	-0.3	0.5	1.9	0.5	2.4	3.0	0.7	-0.1
	Elimination/ Unallocation	-19.4	-18.6	-38.0	-19.9	-18.7	-38.7	-76.7	-17.7	1.6
		-1.7	-1.6	-3.3	-1.2	-2.4	-3.6	-7.0	-1.7	-0.0
Consolidated	464.8	450.7	915.6	468.9	444.6	913.6	1,829.3	406.4	-58.4	
	-6.6	-2.4	-9.0	5.6	1.3	6.9	-2.0	6.4	13.0	

Analysis of Change in Recurring Profit between FY Ending Mar 2019 and FY Ending Mar 2020

1Q Result



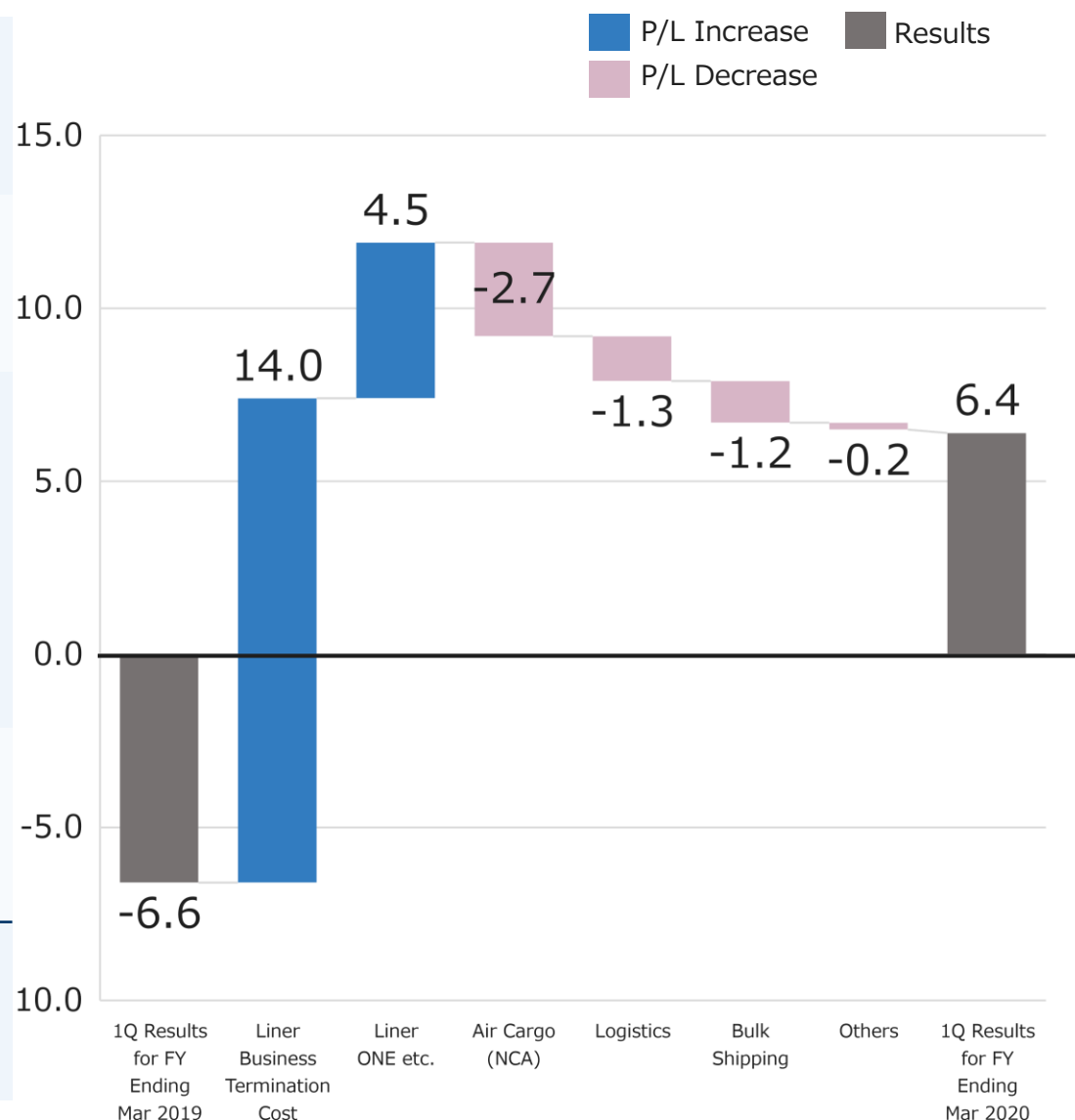
NYK LINE
NIPPON YUSEN KAISHA

Analysis by factors

Yen Appreciation	0.2	¥110.73/\$, Appreciated by ¥2.63
Higher Bunker Oil	-0.3	\$438.21/MT Increased by \$42.27
Market Effects, etc	6.2	
Foreign Exchange Profit / Loss	-2.1	
Others	9.0	NYK's liner business termination cost in FY Ending Mar 2019 (+14.0)
Total	13.0	

Analysis by Segment

(Billions of Yen)





- ▶ Decreased in revenue vs. previous forecast, but maintain previous forecast in profit.
 - Liner Upward revision.
Improved profitability in 1Q, but decrease freight / liftings of Asia-Europe trade in 2Q. Expect 2H to recover in line with the previous forecast.
 - * The forecast is based on the assumption that overseas terminals remain at NYK because the transfer period to ONE is not fixed yet.
 - Air Cargo Downward revision.
Decrease the cargo volume due to the market deterioration.
 - Logistics Downward revision.
Decrease the handling volume significantly in forwarding business.
 - Bulk Shipping Upward revision.
 - Dry Bulk Affected by market deterioration in 1Q, but maintain full-year forecast in profit due to improvement of the supply/demand gap.
 - Energy VLCC & petroleum market expect to recover as demand picks up in 2H.
 - Car Carrier Cargo movement robust to Europe and intra-Asia.
- ▶ Extraordinary profit / loss : Plan to conduct early termination and returning of chartered-in vessels and asset liquidation.
- ▶ Dividend: Maintain the current plan. JPY 40/share for the year.
(mid-term JPY 20/share, year-end JPY 20/share)

Summary of Forecast for FY Ending March 2020

Forecast



NYK LINE
NIPPON YUSEN KAISHA

(Billions of Yen)	FY Ending March 2019 (Result)					FY Ending Mar 2020 (Forecast)				Year-on year	Change from previous forecast (Full-year)
	1H		2H		Full- year	1H		2H	Full- year		
	1Q	2Q	3Q	4Q		1Q (Result)	2Q				
Revenue	915.6		913.6		1,829.3	836.5		863.5	1,700.0	-129.3	-30.0
	464.8	450.7	468.9	444.6		406.4	430.1				
Operating Income	-4.1		15.2		11.0	13.0		21.5	34.5	23.5	-3.5
	-8.1	3.9	8.7	6.5		5.4	7.6				
Recurring Profit	-9.0		6.9		-2.0	18.0		19.0	37.0	39.0	0.0
	-6.6	-2.4	5.6	1.3		6.4	11.6				
Net Income Attributable to Owners of the parent company	-9.7		-34.7		-44.5	9.0		17.0	26.0	70.5	0.0
	-4.5	-5.2	1.0	-35.7		9.1	-0.1				

Exchange Rate	¥ 108.10	¥ 110.87	¥ 113.43	¥ 110.28	¥ 110.67	¥ 110.73	¥ 105.00	¥ 105.00	¥ 106.43	- ¥ 4.24
Bunker Oil Prices	\$395.94	\$443.36	\$478.90	\$451.74	\$442.49	\$438.21	\$430.00	\$370.00	\$402.05	-\$40.44
							Low Sulphur Bunker Oil Prices	\$570.00	\$570.00	

► Sensitivity on Recurring Profit

Exchange Rate : Approx. 0.24 billion increase per ¥1/\$ depreciation

Bunker Oil Prices : Approx. 0.3 billion increase per \$10/MT decrease

1Q Comparison by Industrial SEGs

Forecast



NYK LINE
NIPPON YUSEN KAISHA

Industrial Segment (Billions of Yen)		FY Ending March 2019 (Result)					FY Ending Mar 2020 (Forecast)					Year-On Year	
		1Q	2Q	1H	2H	Full-Year	1Q (Result)	2Q	1H	2H	Full-Year		
Global Logistics	Liner	80.1	70.0	150.2	136.1	286.3	51.9	53.0	105.0	102.0	207.0	-79.3	
		-16.6	-2.2	-18.8	-7.5	-26.4	1.9	6.1	8.0	1.0	9.0	35.4	
	Air Cargo	21.7	7.4	29.1	27.6	56.7	17.7	23.3	41.0	47.0	88.0	31.3	
		-1.6	-6.2	-7.9	-7.9	-15.9	-4.4	-3.6	-8.0	-5.0	-13.0	2.9	
	Logistics	130.4	135.3	265.7	260.0	525.8	117.7	131.2	249.0	262.0	511.0	-14.8	
		1.3	1.9	3.2	4.4	7.7	-0.0	2.0	2.0	4.0	6.0	-1.7	
	(Total)	232.3	212.7	445.0	423.8	868.9	187.4	207.5	395.0	411.0	806.0	-62.9	
		-16.9	-6.5	-23.5	-11.0	-34.6	-2.5	4.6	2.0	0.0	2.0	36.6	
	Bulk Shipping	Bulk Shipping	206.5	208.1	414.6	426.6	841.3	195.1	201.8	397.0	410.0	807.0	-34.3
			10.4	5.4	15.8	17.9	33.7	9.2	9.3	18.5	21.5	40.0	6.3
Others	Real Estate	1.8	1.9	3.8	3.8	7.6	1.8	1.6	3.5	4.0	7.5	-0.1	
		0.7	0.7	1.4	1.3	2.7	0.7	0.2	1.0	1.5	2.5	-0.2	
	Other	43.5	46.6	90.1	97.9	188.1	39.7	40.8	80.5	84.0	164.5	-23.6	
		0.9	-0.3	0.5	2.4	3.0	0.7	0.2	1.0	-0.5	0.5	-2.5	
	Elimination/ Unallocation	-19.4	-18.6	-38.0	-38.7	-76.7	-17.7	-21.7	-39.5	-45.5	-85.0	-8.3	
		-1.7	-1.6	-3.3	-3.6	-7.0	-1.7	-2.7	-4.5	-3.5	-8.0	-1.0	
	Consolidated	464.8	450.7	915.6	913.6	1,829.3	406.4	430.1	836.5	863.5	1,700.0	-129.3	
		-6.6	-2.4	-9.0	6.9	-2.0	6.4	11.6	18.0	19.0	37.0	39.0	

※ (Upper) Revenue (Lower) Recurring Profit

Forecast by Industrial SEGs For FY Ending March 2020

Forecast



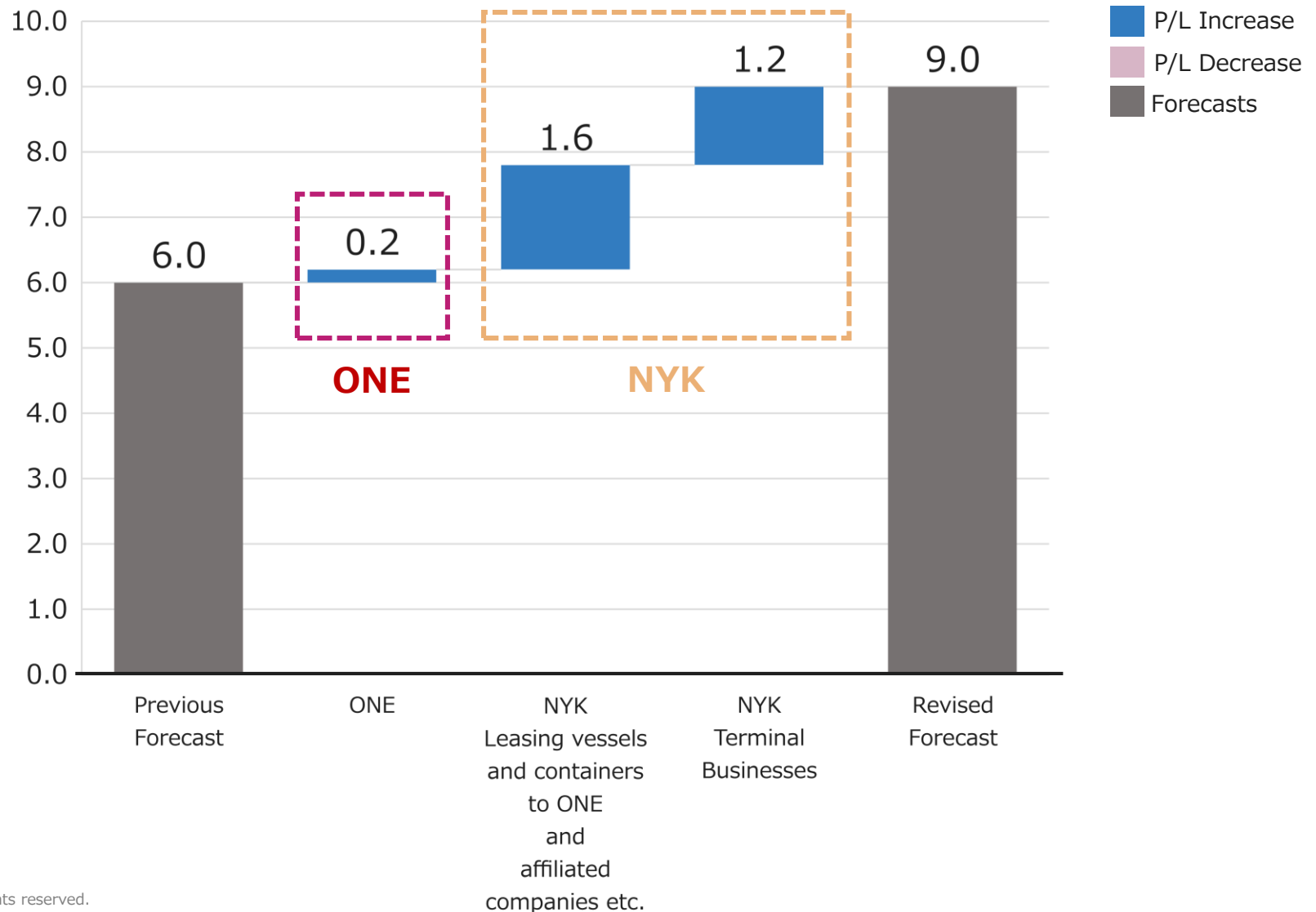
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	Industrial Segment (Billions of Yen)	Previous Forecast			Revised Forecast			Change Full-Year			Trend of Recurring Profit/loss (vs previous forecast)
		1H	2H	Full-Year	1H	2H	Full-Year	1H	2H	Full-Year	
Global Logistics	Liner	105.0	102.0	207.0	105.0	102.0	207.0	0.0	0.0	0.0	Container Shipping ➡
		5.5	0.5	6.0	8.0	1.0	9.0	2.5	0.5	3.0	
	Air Cargo	49.0	49.0	98.0	41.0	47.0	88.0	-8.0	-2.0	-10.0	Terminal ➡
		-2.0	-4.0	-6.0	-8.0	-5.0	-13.0	-6.0	-1.0	-7.0	
	Logistics	267.0	273.0	540.0	249.0	262.0	511.0	-18.0	-11.0	-29.0	Ocean Freight Forwarding ➡
		3.5	4.5	8.0	2.0	4.0	6.0	-1.5	-0.5	-2.0	
	(Total)	421.0	424.0	845.0	395.0	411.0	806.0	-26.0	-13.0	-39.0	Air Freight Forwarding ➡
		7.0	1.0	8.0	2.0	0.0	2.0	-5.0	-1.0	-6.0	
Bulk Shipping	Bulk Shipping	395.0	408.0	803.0	397.0	410.0	807.0	2.0	2.0	4.0	Logistics ➡
		13.5	22.5	36.0	18.5	21.5	40.0	5.0	-1.0	4.0	
Others	Real Estate	3.5	4.0	7.5	3.5	4.0	7.5	0.0	0.0	0.0	Coastal Shipping etc. ➡
		1.0	1.5	2.5	1.0	1.5	2.5	0.0	0.0	0.0	
	Other	82.0	83.0	165.0	80.5	84.0	164.5	-1.5	1.0	-0.5	Dry Bulk ➡
		0.0	-1.0	-1.0	1.0	-0.5	0.5	1.0	0.5	1.5	
	Elimination /Allocation	-45.0	-45.5	-90.5	-39.5	-45.5	-85.0	5.5	0.0	5.5	Energy ➡
		-4.0	-4.5	-8.5	-4.5	-3.5	-8.0	-0.5	1.0	0.5	
	Consolidated	856.5	873.5	1,730.0	836.5	863.5	1,700.0	-20.0	-10.0	-30.0	Car Carrier ➡
		17.5	19.5	37.0	18.0	19.0	37.0	0.5	-0.5	0.0	



1. Liner Trade Previous Forecast vs Revised Forecast

(Billions of Yen)





► 2. Air Cargo Transportation (NCA)

	FY Ending Mar 2019					Full- Year	FY Ending Mar 2020 (Forecast)				Change from previous forecast (Full-year)
	1H		2H		1H		2H	Full- Year			
	1Q	2Q	3Q	4Q	1Q (Result)				2Q		
Revenue (Billions of yen)	29.1		27.6		56.7	41.0		47.0	88.0	-10.0	
	21.7	7.4	13.1	14.5		17.7	23.3				
Recurring Profit (Billions of Yen)	-7.9		-7.9		-15.9	-8.0		-5.0	-13.0	-7.0	
	-1.6	-6.2	-4.2	-3.7		-4.4	-3.6				
Chargeable Weight (1,000 tons)	148		128		276	215		236	451	-14	
	112	36	57	71		93	122				
Volume (RTK) (mil.ton kilo)	855		722		1,576	1,188		1,272	2,460	-332	
	671	183	306	416		529	659				
Capacity (ATK) (mil.ton kilo)	1,222		1,148		2,370	1,869		1,834	3,703	-73	
	944	278	489	659		894	975				
YIELD FY09/3 1Q=100	90		90		90	86		87	86	0	
	94	79	95	85		88	85				
MOPS US\$ per bbl	\$88		\$80		\$84	\$82		\$85	\$84	-\$6	
	\$87	\$89	\$83	\$77		\$80	\$85				



▶ 2. Air Cargo Transportation (NCA)

- ◆ Flight Operation : All eight 747-8Fs operated as originally expected.
Started utilizing additional code share space with Atlas Air.
(Plan to commence the next aircraft in 2Q)

- ◆ Recurring Profit: Make downward adjustment -¥7.0 billion (vs previous forecast)

★ Air Cargo Transportation From Japan (April to June)
Total 239,845t / YoY -26%
(According to Jafa reports)

1H : -¥6.0 billion
Transportation demand has declined due to the trade friction between US and China.
Volume (RTK) -17% (1,429 ⇒ 1,188mil.ton kilo)
Cargo volume (Electronic devices & Manufacturing Equipment etc.) mainly from Japan and China has significantly decreased.

2H : -¥1.0 billion
Expect cargo demand recovery to some extent in the peak-season.
Volume (RTK) -7% (1,364 ⇒ 1,272mil.ton kilo)

- ◆ Improvement Measures: Flexible flight operations
 - Adjusting the number of flights on cargo demand
 - Optimizing fleet allocation and space utilization



3. Logistics

		FY Ending Mar 2018 (Result)	FY Ending Mar 2019 (Result)					FY Ending March 2020 (Forecast)				Change from previous forecast (Full-year)
			1H		2H		Full- Year	1H		2H	Full- Year	
		Full- Year	1Q	2Q	3Q	4Q		1Q (Result)	2Q			
Ocean Export	TEU (1,000 TEUs)	780	419		397		815	391		385	776	-135
		203	216	207	190	191		200				
	Year-on Year	1%	4%		-3%		5%	-7%		-3%	-5%	-15%
			5%	3%	-2%	-4%		-6%	-7%			
Air Export	Weight (1,000 tons)	375	190		189		380	176		189	365	-43
		94	97	101	88	83		93				
	Year-On Year	2%	4%		-1%		1%	-8%		0%	-4%	-11%
			2%	6%	-4%	2%		-11%	-4%			

- Ocean Freight Forwarding: Transportation demand from China to the U.S. dropped significantly in relation to the trade friction. Cargo volume in intra-Asian trade is sluggish.
- Air Freight Forwarding : Cargo movement was slow in Asia, mainly for exports from Japan. Improved margin by reducing procurement costs.
- Logistics : Improving profitability in Europe.
It will take some time to improve profitability in North America/South Asia.



► 4. Bulk Shipping – 1) Market Trend and forecast :

		FY Ending Mar 2019 (Result)					FY Ending Mar 2020 (Forecast)				Previous forecast (Full- year)
		1Q	2Q	3Q	4Q	Full-Year	1Q (Result)	2Q	2H	Full-Year	
Dry Bulk Carrier	BDI	1,258	1,603	1,357	791	1,252	994	1,664	1,373	1,351	1,317
	Cape (5TC)	14,928	22,054	15,822	8,628	15,358	11,363	22,000	16,500	16,591	16,000
	Panamax (Pac)	10,741	10,444	10,777	7,218	9,795	8,602	12,750	11,000	10,838	10,800
	Handymax (Pac)	11,467	10,718	9,527	7,935	9,912	7,593	9,500	12,000	10,217	11,000
	Handy (Pac)	8,684	7,932	7,718	5,609	7,486	6,254	7,000	8,750	7,689	8,125
Tanker	VLCC	9,076	13,966	45,351	27,840	24,058	12,565	22,500	42,500	30,016	35,000

※Dry Bulk Charter Market (Spot Time Charter) 5TC = 5 Trade Average Pac = Pacific Round Voyage Unit : \$/day

- Dry Bulk Affected by 1Q market deterioration, but full-year forecast unchanged.
- Energy Sluggish demand in 1H, but expect cargo demand picks up in 2H.



► 4. Bulk Shipping – 2) Car Carrier

	FY Ending March 2019 (Result)					FY Ending Mar 2020 (Forecast)				Change from previous forecast (Full-year)
	1H		2H		Full-Year	1H		2H	Full-Year	
	1Q	2Q	3Q	4Q		1Q (Result)	2Q			
All Trade (10,000 cars)	168		172		340	162		160	322	10
	87	81	86	86		79	83			
Year-on year	-6%		-7%		-6%	-4%		-7%	-5%	3%
	-1%	-11%	-8%	-5%		-9%	2%			

- Cargo movement was strong to North America and intra-Asia. Shipping volume increased more than the previous forecast.
- Optimized vessel allocation and operations in the trilateral transportation.



OCEAN NETWORK EXPRESS

Financial Results for FY2019 1st Quarter and Forecast for FY2019

JUL.31, 2019

1Q Results and Comparison with Previous Year

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

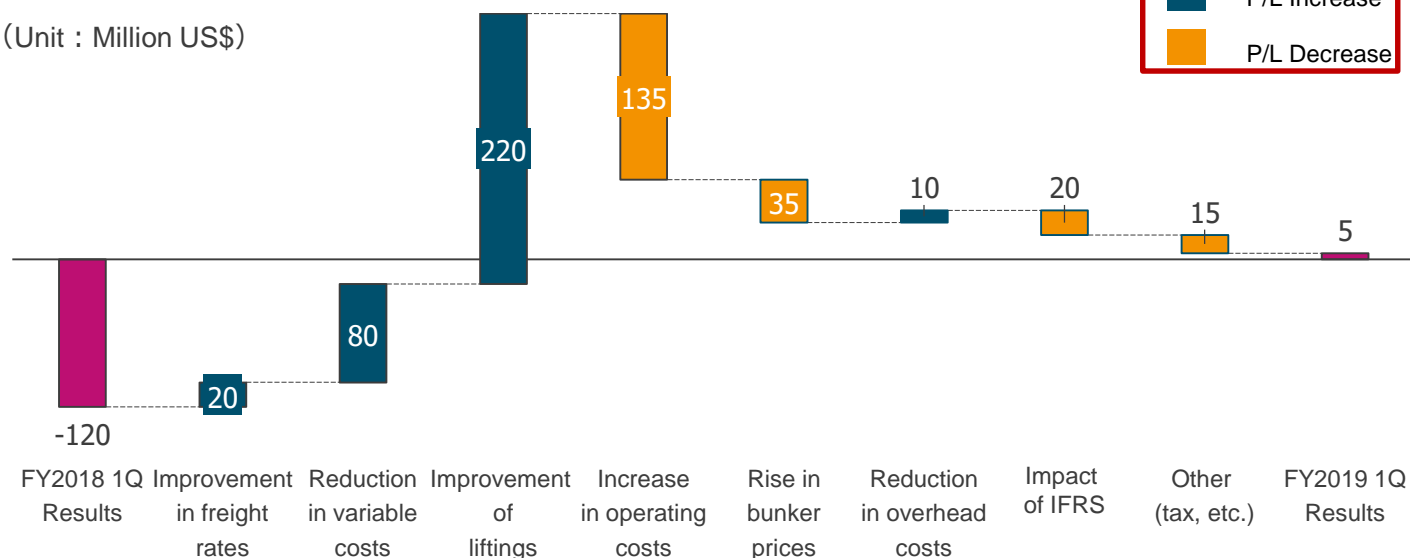
(Unit : Million US\$)

	FY2018	FY2019	1Q	
	1Q Results	1Q Results	Change	Change (%)
Revenue	2,066	2,875	809	39.1%
Profit/Loss	-120	5	125	-

Bunker Price (US\$/MT)	\$407	\$432	\$25
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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.

Ocean Network Express

Liftings/Utilization /Freight Index

(Unit: 1,000TEU)

Liftings / Utilization by Trades		FY2018							FY2019
		1Q Results	2Q Results	3Q Results	4Q Results	1H Results	2H Results	Full Year Results	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							FY2019
		1Q Results	2Q Results	3Q Results	4Q Results	1H Results	2H Results	Full Year Results	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

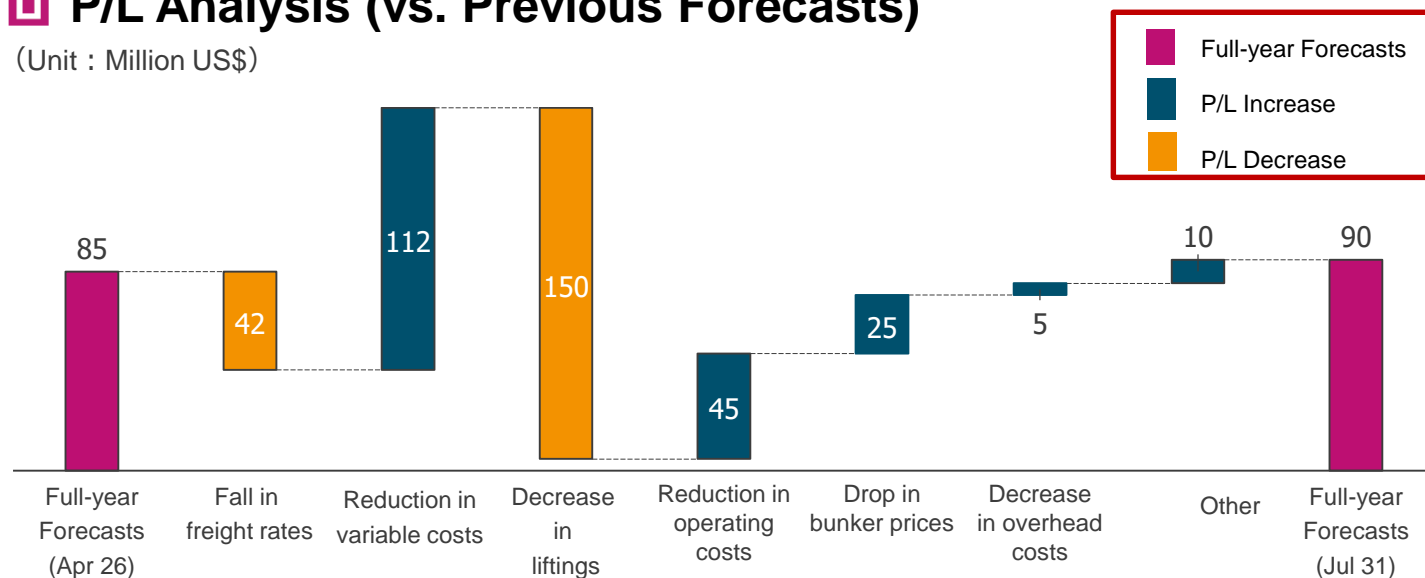
- ❑ Asia-North America Eastbound: Freight rates for long-term contracts improved after they were concluded at the same level as the assumption at the beginning of the year. This impact has started to be reflected on the P/L since May. Freight rates in the spot market remained firm, but cargo movement 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.

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.

	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	

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

(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 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



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