

ONE

OCEAN NETWORK EXPRESS

Financial Results for FY2019 2ND Quarter and
Forecasts for FY2019

31,OCT.2019

2Q Results and Comparison with Previous Forecasts

Profit achieved close to previous forecasts. Freight rates and liftings did not achieve latest expectation, mainly due to U.S.-China trade issues and deteriorated supply-demand balance in Europe trade. Meanwhile cost reduction and drops in bunker prices contributed to positively.

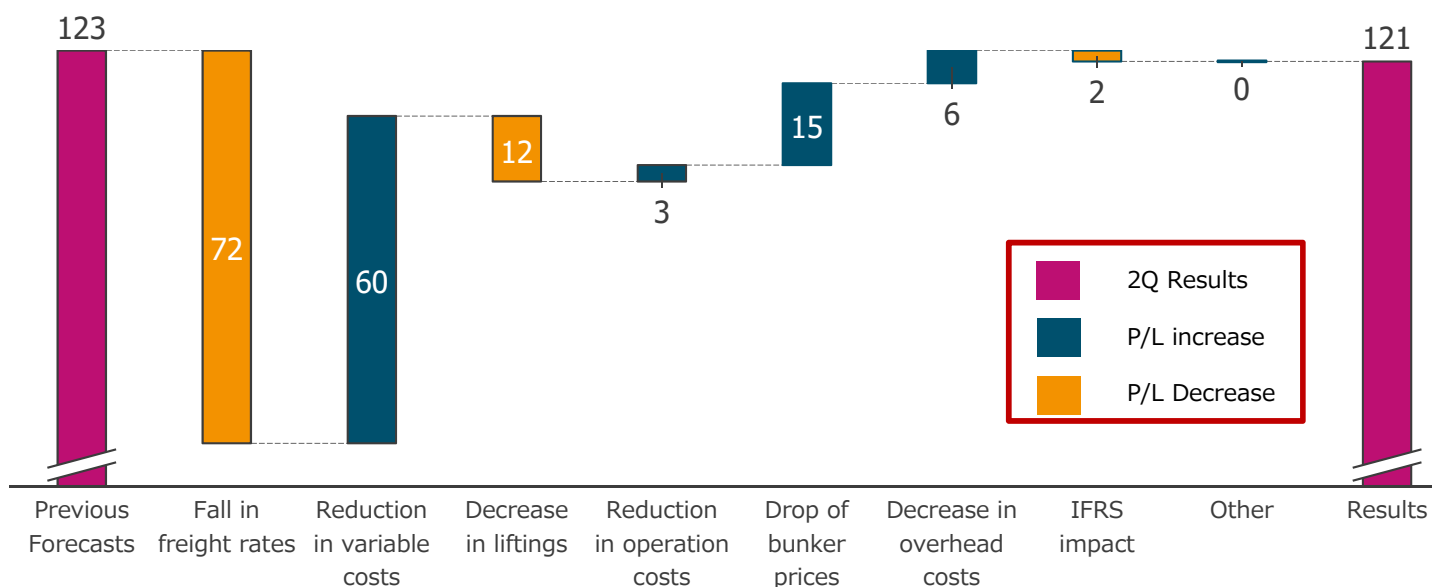
(Unit: Million US\$)

*as of July 2019

	FY2019 Previous Forecasts*			FY2019			2Q Results to Previous Forecasts*	
	1Q Results	2Q Forecasts	1H Forecasts	1Q Results	2Q Results	1H Results	Change (Mil US\$)	Change (%)
Revenue	2,875	3,214	6,089	2,875	3,109	5,984	-105	-3.3%
Profit /Loss	5	123	128	5	121	126	-2	-1.9%
Bunker Price (US\$/MT)	\$432	\$432	\$432	\$432	\$419	\$427	-\$13	

P/L Analysis (vs. Previous Forecasts)

(Unit: Million US\$)



- Freight Rates: Below expectations for Asia-North America trade. The spot market on Asia-Europe trade was sluggish.
- Variable Costs: Reduced due to cargo portfolio optimization and cost saving initiatives.
- Liftings: Did not reach the target for Intra-Asia and Asia-North America trades.
- Operation Costs : In line with previous forecasts.
- Overhead Costs : Reduced IT cost.
- IFRS impact and Other : In line with previous forecasts.

Ocean Network Express FY2019 2nd Quarter Results and P/L Analysis-2



2Q Results and Comparison year over year basis

As a result of service stabilization, liftings increased across all trades. In addition, reduction in variable costs, fixed costs and overhead costs achieved, resulting in US\$313 million improvement to profit of US\$121 million. Freight rates of Asia-North America trade have improved; on the other hand, Asia-Europe trade was sluggish as there was no peak season rate hike due to deteriorated supply-demand balance.

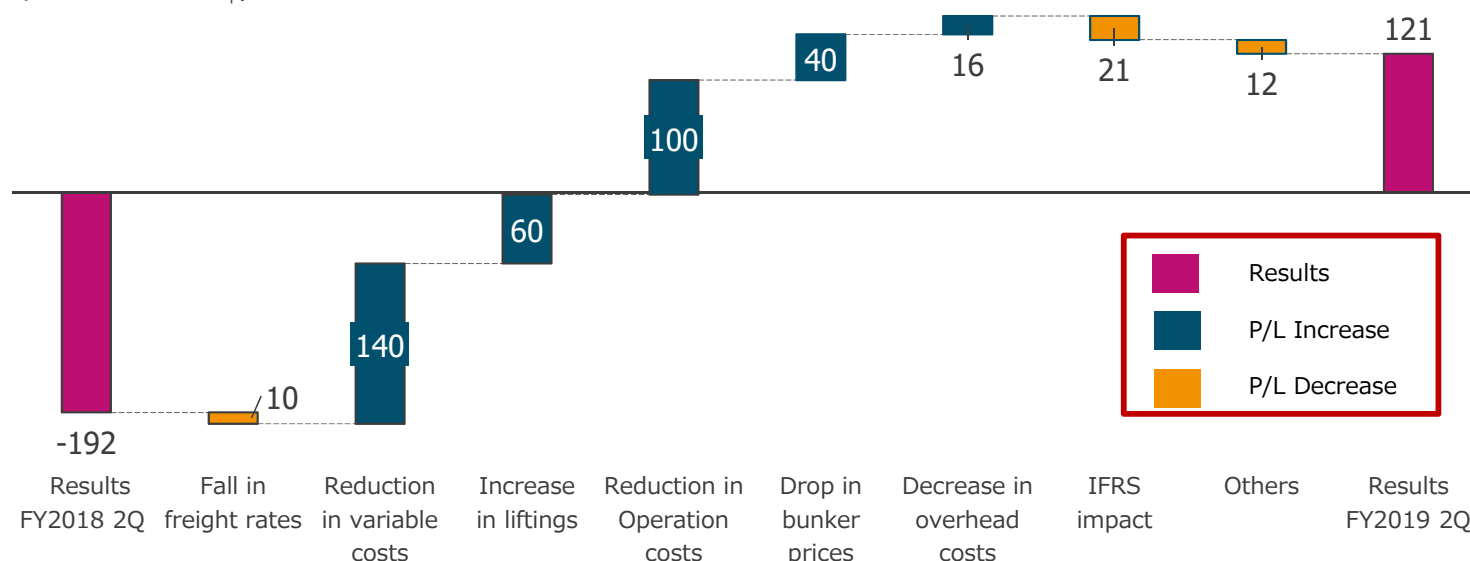
(Unit: Million US\$)

	FY2018			FY2019			2Q Results to FY2018	
	1Q Results	2Q Results	1H Results	1Q Results	2Q Results	1H Results	Change (Mil US\$)	Change (%)
Revenue	2,066	2,963	5,030	2,875	3,109	5,984	146	4.9%
Profit /Loss	-120	-192	-311	5	121	126	313	-

Bunker Price (US\$/MT)	\$407	\$457	\$434	\$432	\$419	\$427	-\$38
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P/L Analysis (vs. Previous year)

(Unit: Million US\$)



- ❑ Freight Rates : Improvement for Asia-North America, Transatlantic, Intra-Asia trades. Asia-Europe trades worsened.
- ❑ Variable costs : Accelerated cargo portfolio optimization as well as cost saving initiatives.
- ❑ Lifting: Improvement as a result of service stabilization.
- ❑ Operating Costs : Reduced by product optimization and bunker saving activities.
- ❑ Overhead Costs : Reduction mainly in IT cost and outsourcing fee.
- ❑ IFRS: Impact from adoption of new standard on leases.
- ❑ Others : Foreign exchange impact and increment in freight tax due to increase in freight income.

Ocean Network Express Liftings/Utilization/Freight Index



(Unit: 1,000TEU)

Liftings / Utilization by Trades		FY2018						
		1Q Results	2Q Results	3Q Results	4Q Results	1H Results	2H Results	Full Year Results
Asia - North America Eastbound	Lifting	530	761	746	627	1,291	1,374	2,664
	Utilization	73%	90%	95%	88%	82%	92%	87%
Asia - Europe Westbound	Lifting	312	478	442	455	790	897	1,687
	Utilization	73%	90%	92%	92%	82%	92%	88%

FY2019		
1Q Results	2Q Results	1H Results
669	773	1,442
86%	94%	90%
460	488	947
87%	95%	91%

Asia - North America Westbound	Lifting	218	285	320	318	502	639	1,141
	Utilization	33%	33%	40%	43%	33%	41%	37%
Asia - Europe Eastbound	Lifting	194	263	315	320	457	634	1,091
	Utilization	48%	47%	62%	63%	48%	62%	55%

350	310	660
47%	37%	42%
323	328	651
64%	64%	64%

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

Freight Index by Trades		FY2018						
		1Q Results	2Q Results	3Q Results	4Q Results	1H Results	2H Results	Full Year Results
Asia - North America Eastbound		100	101	108	105	101	107	104
Asia - Europe Westbound		100	106	100	107	104	104	104

FY2019		
1Q Results	2Q Results	1H Results
103	105	104
100	101	100

Ocean Network Express FY2019 Full-year Forecasts and P/L Analysis



FY2019 Full-year Forecasts and Comparison with Previous Forecasts

Spot freight rates assumption revised downward due to concern on further slowdown of global economy. Deployment of winter service plan with additional service frequency reduction to prepare for seasonal demand decrease, mainly on Asia-North America and Asia-Europe trades. Targeting further improvement in our competitiveness by continuing cargo portfolio optimization plus cost saving initiatives.

(Unit: Million US\$)

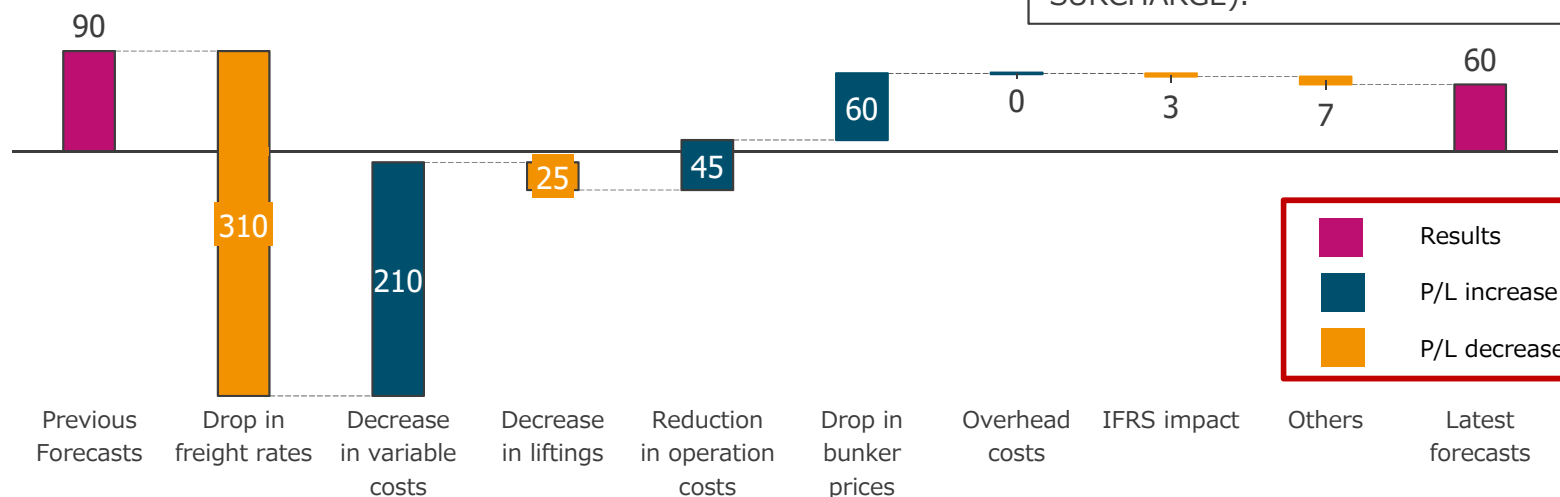
*as of July 2019

	FY2019 Previous Forecasts*					FY2019					Full Year	
	1Q Results	2Q Forecasts	1H Forecasts	2H Forecasts	Full Year Forecasts	1Q Results	2Q Results	1H Results	2H Forecasts	Full Year Forecast	Change (Mil US\$)	Change (%)
Revenue	2,875	3,214	6,089	6,306	12,395	2,875	3,109	5,984	6,125	12,109	-286	-2.3%
Profit/Loss	5	123	128	-38	90	5	121	126	-66	60	-30	-33.2%

Bunker Price (US\$/MT)	Q1	Q2	H1	H2	Full Year	Q1	Q2	H1	H2	Full Year	Change
	\$432	\$432	\$432	\$533	\$483	\$432	\$419	\$427	\$508	\$469	-\$14

P/L Analysis (vs. Previous Forecasts)

(Unit: Million US\$)



Bunker Sensitivity : **±US\$2MIL** per US\$10/MT, quarterly basis
*Bunker cost increase by MARPOL2020 implementation shall be recovered by OBS(ONE BUNKER SURCHARGE).

- Freight Rates: Reflect spot freight rates deterioration.
- Variable Costs: Reviewed according to recent Portfolio Optimization and Cost Saving Initiatives.
- Liftings : Expect contribution from 2 updated services launched (Middle East – Africa, India – Europe) while reflecting deceleration of demand growth for Asia-North America and Intra-Asia trade.
- Operation Costs : Reflect reduction from the winter service plan in Asia-North America and Asia-Europe trades.
- Bunker Price: Corresponding to MARPOL 2020 regulation. Bunker price assumption is updated reflecting recent market.

Ocean Network Express Updates on Action Plans



Action Plans in FY2019

<p>Cargo Portfolio Optimization, Reinforcement of Yield Management</p>	<p>Improvement in profitability by cargo portfolio optimization is smoothly developing as forecast at the beginning of the year. Projected improvement of US\$190 million per year as targeted is steadily materializing along with accelerating operational efficiency plus business process improvement as well as cost management.</p>
<p>Products (Service Routes/Allocated vessels) Rationalization</p>	<p>Products rationalization effects in FY2019(Improvements: US\$195 million per year) and fuel saving effects (Improvements: US\$65 million per year) are smoothly developing. In second half, launching Middle East/India to Africa service and East India to Europe service, targeting growth in emerging markets. THE ALLIANCE fixed winter service plan to correspond with demand changes in second half. Alliance members, including Hyundai Merchant Marine(HMM), analyzing FY2020 product for more competitiveness.</p>
<p>Organization Optimization</p>	<p>Overhead cost reduction target US\$50 million annually is on track.</p>
<p>Synergy Effects</p>	<p>82% of the target for synergistic effects of US\$1,050 million/year was achieved in FY2018, the first year after integration. The targets – 96% in FY2019, the second year, and 100% in FY2020, the third year – remain unchanged.</p>
<p>Compliance with MARPOL2020 Regulation</p>	<p>Procurement of regulation-compliant fuels is being completed. Bunkering of compliant oil starts from the third quarter. Additional cost for compliance will be recovered by BUNKER SURCHARGE such as OBS. Customers’ awareness towards environmental issue are increasing, and customers are fully understanding this regulatory compliance. Installation of scrubber is under study in some larger ships, and we are studying most competitive and optimal combination of compliant oil and scrubber installation, taking market situation into consideration.</p>
<p>Transfer of Overseas Terminal Business</p>	<p>Targeting a transfer from each of the parent companies in FY2019.</p>

□ Fleet Structure

□ Service Structure

(FY2019 2Q Round space basis)

Size		1)As of end June. 2019	2)As of end Sep. 2019	2)-1)
>= 20,000 TEU	Capacity (TEU)	120,600	120,600	0
	Vessels	6	6	0
10,500 - 20,000 TEU	Capacity (TEU)	349,220	363,220	14,000
	Vessels	25	26	1
9,800 - 10,500 TEU	Capacity (TEU)	100,100	100,100	0
	Vessels	10	10	0
7,800 - 9,800 TEU	Capacity (TEU)	365,941	374,655	8,714
	Vessels	41	42	1
6,000 - 7,800 TEU	Capacity (TEU)	234,404	233,752	▲ 652
	Vessels	36	36	0
5,200 - 6,000 TEU	Capacity (TEU)	89,998	89,998	0
	Vessels	16	16	0
4,600 - 5,200 TEU	Capacity (TEU)	133,204	123,597	▲ 9,607
	Vessels	27	25	▲ 2
4,300 - 4,600 TEU	Capacity (TEU)	67,384	71,816	4,432
	Vessels	15	16	1
3,500 - 4,300 TEU	Capacity (TEU)	25,472	34,003	8,531
	Vessels	6	8	2
2,400 - 3,500 TEU	Capacity (TEU)	50,216	52,916	2,700
	Vessels	19	20	1
1,300 - 2,400 TEU	Capacity (TEU)	13,261	12,082	▲ 1,179
	Vessels	8	7	▲ 1
1,000 - 1,300 TEU	Capacity (TEU)	7,471	9,644	2,173
	Vessels	7	9	2
< 1,000 TEU	Capacity (TEU)	1,402	698	▲ 704
	Vessels	2	1	▲ 1
Total	Capacity (TEU)	1,558,673	1,587,081	28,408
	Vessels	218	222	4

