

January 4, 2021

Kawasaki Kisen Kaisha, Ltd.

2021 New Year Message from the President

“Finding opportunity for transformation in hardship”

Aiming to be a company that responds to change and contributes to the future

*The New Year Message delivered by Yukikazu Myochin, President & CEO at “K” Line Tokyo Head Office on January 4 is posted below.*

To everyone throughout the entire “K” Line Group and its stakeholders, I extend my very sincerest Happy New Year wishes.

When I gave my New Year Message last year, I could not have imagined the awaiting year that would change the shape of the world. The spread of COVID-19 still threatens the health of many people and has an impact on their lifestyles and the economy, and the efforts of healthcare workers and steps being taken to resolve the situation are continuing day and night. At the same time, transformation of work styles and digitalization have progressed while living with COVID-19, and I feel that there is a greater need for sustainability of society and the company.

**The COVID-19 pandemic and the Management Plan**

At the start of last year, we were fumbling our way forward in the dark as COVID-19 spread across the world. The Company has deepened discussions to launch a new medium-term management plan from April, but faced with significant changes in the business environment, the plan was completely revised and announced as the “Management Plan” in August.

The “Management Plan” outlines the issues to be addressed in the short term and the direction to be taken in the medium to long term. The spread of COVID-19 has brought forward phenomena thought to yet to come, such as the reduction of crude steel production in Japan and a decrease in the number of vehicles exported, revealing potential issues and concerns. Amid such conditions, we revised all business plans from scratch with a view to the business environment after COVID-19, and also completely redrew our investment plan accordingly. Following a conservative scenario, we planned to reduce costs and risks through the rationalization of fleet size and ensured a suitable level of investment for the company. We aim to be profitable even with low economic growth by well-balanced operation of the company's

four core businesses without placing disproportionate emphasis on any of the dry bulk, energy transportation, car carrier or logistics/shortsea-coastal businesses. Improvement of financial standing is a significant management issue, and we would like to steadily build up our own capital by ensuring we make a profit and use this for future development.

### **Looking back on 2020**

During the first half of the current fiscal year, the COVID-19 pandemic had the most substantial impact on the dry bulk and car carrier businesses of “K” Line. In particular, it had a deep impact during the first quarter, with crude steel production in Japan down by 30 percent year-on-year and the number of vehicle transportation being halved. However, we made an effort to swiftly control the damage by executing around half of the fleet reduction of more than 20 vessels that had been set out for the current fiscal year in the Management Plan during the first half of the fiscal year. In the containership business, ONE reached cruising speed in its third year with synergies emerging and best practices being steadily realized. In addition, the recent restructuring of the industry also had the effect of enabling us to flexibly reduce the number of voyages without lowering service quality in response to the sudden decline in demand due to the COVID-19 pandemic. In addition to reducing operating costs, we have also contributed to the reduction of environmental impact through the appropriate allocation of vessels according to demand.

Although our handling of COVID-19 began with fumbling our way forward in the dark, the direction to take has been clarified by the Management Plan and so far we have been able to proceed as anticipated.

### **Direction and challenges for 2021**

Although concerns about the disease spreading again remain, the movement of goods has not stopped, and each countries are finding ways to balance prevention of the spread of the disease with the economy. In such conditions, the dry bulk and car carrier businesses that were significantly affected by COVID-19 have left their most difficult period and are on the way to recovery. We will continue to endeavor toward stable management in the energy transportation and logistics/shortsea-coastal businesses, and ONE will continue flexible allocation of vessels according to demand in the containership business. Through such efforts, we aim to be profitable across all divisions in the second half of the fiscal year.

The rationalization of fleet scale mentioned in the Management Plan has proceeded according to plan and medium- to long-term contracts are also progressing on schedule. The expansion of our capital base has exceeded initial plans due to improvement of performance, and we will aim to achieve the goal of restoring shareholders' equity to 150 billion yen by the

mid-2020s ahead of schedule by progressing without easing up on the liquidation of non-core business assets that we have previously been working on.

We will further strengthen efforts aimed at safety, the environment and quality, and accelerate both the Safety and Environmental Technology Project and the Alternative Fuel Project being implemented across the entire company. Furthermore, we have fully commenced business reform through BPR amid the significant changes in the business environment. By reviewing tasks and operational flows from the ground up and optimizing business processes throughout the entire company including the unification of data, we intend to be able to devote more time to more creative tasks.

### **The importance of sustainability**

People have been forced to make significant changes due to the spread of COVID-19, providing a renewed awareness of the importance of sustaining society, the environment and the economy, which is sustainability in a word. Although demand for international transportation temporarily decreased through this, it has retained underlying stability, and we have been repeatedly reminded of the importance of the sustainability of shipping as a lifeline and infrastructure supporting people's life and the economy.

The company is conducting ESG management and has positioned efforts aimed at safety, the environment and quality as priority issues in the Management Plan and will aim to ensure sustainability into the future.

In terms of the environment, we revised the “K” Line Environmental Vision 2050 last year, establishing greenhouse gas reduction targets exceeding those of the IMO. In order to achieve these, we are currently examining implementation plans for each business division in a project spanning the entire company. One specific move is expansion of utilizing LNG fuel. Last year, we commenced the LNG fuel supply business in the Chubu Region, and following ship management of an LNG fuel supply vessel in Singapore, we are also scheduled to complete construction of the company's first LNG-fueled vessel this year. Testing aimed at the practical implementation of “Seawing” using wind power is also underway. Furthermore, research on next-generation fuels is also being conducted through a companywide project with the aim of halving the total amount of greenhouse gas emissions as targeted for 2050.

In terms of the aspect of safety, which is positioned as the “S” in ESG, we will strengthen safety in navigation of all vessels regardless of whether owned or chartered, and the systems for supporting this. COVID-19 has accelerated the digitalization of society, including maritime industries. In addition to expanding the use of the “K-IMS” integrated vessel operation and performance management system to chartered vessels, we will also promote the reduction of crew workloads and work style reforms through the digitalization of work on ships and research

on the utilization of telecommunications technology on ships.

The stagnation of crew rotation due to COVID-19 has placed a physical and mental burden on crews and their families and brought about concerns for safety navigation associated with this. Although the situation is gradually improving, the company is working with the relevant organizations to ensure a healthy working environment and safe operation.

COVID-19 has had a significant impact on the company's business. Meanwhile, we have been able to use the critical situation as an opportunity to fundamentally revise our business plan and make efforts to strengthen sustainability. Adversity presents us with the opportunity to change. The highly uncertain environment will continue, but we should remain responsive to change, and taking action toward the aim of being a group that contributes to the future.

In closing, I wish all of you, the members of the entire “K” Line Group and your families, good health and prosperity as we celebrate the New Year and pray that all our ships will navigate safely throughout 2021.

