

January 6, 2020

Kawasaki Kisen Kaisha, Ltd.

2020 New Year Message from the President

“Moving forward with the aim of being customers’ first choice through enhanced Safety, Environment, and Quality”

The New Year Message delivered by Yukikazu Myochin, President & CEO at “K” Line Tokyo Head Office on January 6 is posted below.

To everyone throughout the entire “K” Line Group, I extend my very sincerest Happy New Year wishes. We have reached the first year of the 2020 decade. This is also the year during which the company kicks off its new medium-term management plan. As we stand at this new starting line, I would like to take this opportunity to share a few words with you.

Looking back on 2019

Last year, the company celebrated the major milestone of its 100th anniversary while Japan entered the new Reiwa era. Looking back on the global situation, although the US maintained a relatively strong economy, the resurgence of an “our country first” approach impacted multilateral free trade. Besides prolonged trade friction between the US and China, there are also concerns about conflicts arising in non-tariff areas. Other developments such as growing geopolitical tension in the Middle East and the issue of Brexit resulted in 2019 being a year of uncertainty.

In FY2019, the Group strove together as one toward our resolute goal of achieving profit in the black. Efforts and execution were made to tackle three issues raised at the beginning of the fiscal year, namely, recovering the fleet’s cost competitiveness through structural reforms set into motion by former President Murakami at the end of FY2018, improving profitability in our car carrier business, and driving a turnaround of OCEAN NETWORK EXPRESS (ONE). As a result of these efforts, as well as efforts to accumulate profits based on our medium and long-term contracts and reduce operating expenses, we were able to achieve more progress in the first half of the year than originally planned. I am grateful to the unremitting efforts of our officers and employees that made this possible.

A new starting line

Unfortunately, during the three years of our medium-term management plan starting in

FY2017, financial indicators fell short of target due to factors including structural reforms in response to unexpectedly poor market conditions and a temporary deterioration in the bottom line caused by the teething problems of ONE's first year of operation. However, we were able to steadily improve the foundations of our business in preparation for next steps, such as by rebuilding our business portfolio and introducing a business risk management system. We have so far been progressing as planned in the current fiscal year—let's all work together to ensure that the remaining fourth quarter finishes well and achieve profit in the black for the full year.

In April of this year, the company will launch a new medium-term management plan. Although specific details of the plan are still under discussion, there will be no change in our core philosophy of facing customers head-on and providing high-quality services that meet their needs. We will further refine our strengths and increase competitiveness in our four core business operations of dry bulk, energy transportation, car carrier, and logistics/shortsea-coastal services. Having overcome the teething problems of operation, ONE is now at the stage where it can achieve more synergy through best practices and expect further improvements in meeting the bottom line.

As we stand at this new starting line, it is critical that we keep our antennas up and remain alert and prepare to respond flexibly to any changes. Market fluctuations are inevitable in the shipping business. From a medium to long-term perspective, we can see that the automotive industry is entering a once-in-a-century period of transformation, and that the energy industry is also moving toward low carbon and decarbonized alternatives. I believe that constantly reviewing conventional methods of doing things to see through to the heart of the matter, enhancing individual strengths, and then acting based on these insights, will lead to certain progress.

Being a first-choice company

Engaging in business that allows us to clearly see each of our customers face-to-face will be main business in our efforts to further strengthen the company's four core operations of dry bulk, energy transportation, car carrier and logistics/shortsea-coastal business. Our customers are leading companies in infrastructure and pillars of industry at home and abroad. Our ability to grasp these customers' needs and respond by providing unique value and services will be a key theme in our efforts to continue being our customers' first choice.

The pillars supporting this theme are Safety, Environment, and Quality. These are our company's strengths, cultivated over 100 years of history, and their importance will further increase in the future as sustainability becomes increasingly emphasized across society. By promoting research and development of various leading technologies and introducing and

utilizing AI and IoT in our business to meet customers' needs, we will further enhance our strengths of Safety, Environment, and Quality in both tangible and intangible applications.

Safety is at the root of our Group's business as a comprehensive logistics company grown from shipping. I believe it is our mission to achieve a vision of "reliable and excellent services" by making continuous efforts in increasing safety—the foundation of society's trust —while maintaining a top-class operational safety worldwide using advanced technologies. The K-IMS platform we developed jointly with Kawasaki Heavy Industries is an integrated ship operation and performance management system that can collect, monitor, and analyze up to 2,000 items of operational data every 30 minutes. The platform, which has already been installed in 170 of our ships, will be utilized in selecting optimal routes, preventing serious accidents, and predicting failures.

Another theme that we must address head-on is environmental conservation, especially since we are a company that utilizes nature for its business. Compliance with the tightened regulation on emissions of sulfur oxides (SOx) that began this year is significant change to our industries. As a shipping company entrusted with our customers' valuable cargo, we meticulously prepared each member of at-sea and on-land personnel under the slogan of "Never stop the ship". An even greater challenge lies ahead in reducing greenhouse gases (GHG). As stated in the company's Environmental Vision 2050, we announced the construction of an LNG-powered car carrier at the end of last year. We also announced our participation in an LNG fuel supply business in Singapore with Shell in addition to the launch of a joint venture in the Chubu Region. However, we cannot reach IMO's 2030 targets by simply switching diesel oil to LNG fuel; on top of that, we must continue to study new technologies as "LNG + (plus)", such as the self-flying energy kites announced last year that utilize wind power. Furthermore, in order to reach our 2050 goals, we will accelerate research in alternative fuels such as ammonia, and methanation fuels in addition to hydrogen, participated in demonstration of shipping liquefied hydrogen through HySTRA (*) in last November.

Regarding our efforts toward advanced business management, we are establishing risk measures and investment guidelines for each business division based on our actual data on shipping market conditions and shipbuilding prices from over the past decade. Going forward, we will make investments that correspond to our customer strategy based on a quantitative understanding of risk levels and commensurate return.

According to the Chinese Zodiac, 2020 is the year of the Metal Rat (*Kanoe Ne*), which is said to indicate a state of transformation into a new form while inheriting previous methods. Now that we have taken a step of profitability, I hope that all of the officers and

employees of the Group will move steadily forward as one and strive to further refine the three pillars of Safety, Environment, and Quality, and improve our customers' trust, which will build a stable profit base and make a fresh start for the next 100 years.

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 2020.

Yukikazu Myochin
President & CEO

(*) HySTRA: CO₂-free Hydrogen Energy Supply-chain Technology Research Association
<http://www.hystra.or.jp/en/>

