



PART 1

# VALUE CREATION STORY

NS United Kaiun's Value Creation Story

## Message from the President

We are increasing the value of the U Brand despite rapid changes in the business environment, and advancing toward its ideal state in 2030 as a company that is both profitable and socially responsible.



A handwritten signature in black ink that reads "K. Yamanaka". The signature is fluid and cursive, with the first letter of each name being capitalized.

Kazuma Yamanaka  
President and Representative Director  
NS United Kaiun Kaisha, Ltd.

## Having achieved record profit for the second year straight, we are boosting profitability and growth potential.

During fiscal year 2022, the global economy generally slowed, largely as a result of China's zero-COVID policy as well as intensifying uncertainty due to inflation accompanying high resource prices worldwide, which prompted many countries to make a shift toward a tighter monetary policy. In the international shipping business, the dry bulk market was robust in the first half of the fiscal year. However, it turned downward in the second half for all vessel types, as the shipping capacity constraint eased against the backdrop of the stagnant Chinese economy induced by the zero-COVID policy and the issue of increased demurrage related to COVID-19 began to resolve due to quarantine controls being relaxed at ports.

In these circumstances, the NS United Kaiun Group achieved record profit for the second consecutive year, supported by stable earnings from long-term contracts and the progressive depreciation of the yen during fiscal year 2022.

Our Group is pursuing the ideal state in 2030 as "a company that is both profitable and socially responsible," which is envisioned in line with the medium-term business plan "FORWARD 2030—Driving U forward over the next decade," as announced in 2020. Toward achieving the ideal state, we are developing initiatives throughout the Group, according to the three key strategies of strengthening our brand power, building a sustainable business structure, and establishing a resilient management base.

### 1. Strengthening our brand power

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We are promoting ESG management based on the Basic Sustainability Policy formulated in 2021. In view of the recent rapid changes in the business environment caused by factors related to climate change, market trends, and financial conditions, we recognize the need to establish a more solid, sustainable business base. To this end, we are building organizational systems that boost employee engagement to maximize the potential of our workforce. In fiscal year 2022, we reviewed personnel systems while working on human resources development and workplace environment improvements in order to enhance internal resources. In January 2023, we established the NS United Kaiun Group Human Rights Policy and the Basic Anti-Corruption Policy. These represent clear statements of our business management policy that it is our social responsibility as a global corporate group to respect human rights and practice behavior that is compatible with social ethics.

In addition to the above, we are striving to further increase the value of the U Brand that we have built up over the years, principally through stepping up activities for safe

navigation and environmental conservation, adopting cutting-edge technologies, facilitating investment in human capital, and strengthening governance systems.

### 2. Building a sustainable business structure

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As part of our commitment to our priority management issue of climate change action, we aim to achieve carbon neutrality by 2050. In pursuit of this goal, we have been promoting an array of initiatives.

In the field of international shipping, the highlight in 2022 was related to the joint ammonia-fueled ship development project, supported by the Green Innovation Fund, a grant program of the New Energy and Industrial Technology Development Organization (NEDO). In November, the basic design of the ship under this project obtained an Approval in Principle (AiP) from Nippon Kaiji Kyokai (ClassNK), in acknowledgement of its being "capable of ensuring the same level of safety as ships operating with existing fuels." This marked an important milestone toward implementing the technology under development for real-life applications. Also, notable progress was made for biodiesel-fueled vessel development in the same year. In September, we conducted a trial operation in the Pacific Ocean using biodiesel fuel supplied in Japan, marking the first ocean going vessel supplied with this type of fuel in the country. The recent trial was made using our vessel, representing the third in our fleet to engage in trial operations. Biodiesel fuel is garnering attention for its low carbon emissions as well as high versatility in light of compatibility with existing vessel engines and utilization of existing infrastructure for fuel supply.

In the field of coastal shipping, we are promoting a project to develop a coastal cargo carrier equipped with a hybrid propulsion system combining an LNG-fueled engine and lithium-ion batteries, the first of its kind in Japan. The vessel is scheduled for delivery in 2024.

In addition to the development of next-generation fuel-powered vessels, our Group is carrying out a range of projects, specifically for implementing technologies to enable vessels powered by zero emission fuel in the future and creating business to meet new shipping demand that is expected to emerge from accelerating decarbonization trends. Pursuing all these efforts, we are steadily moving forward towards our ideal state as a company that is both profitable and socially responsible.

### 3. Establishing a resilient management base

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We develop investment strategies in response to the uncertainty of the external environment. In addition to evaluating profitability based on investment criteria that take into account the cost of capital, we validate investments from a social perspective, particularly by introducing Internal Carbon Pricing programs.

Our financial policy is to strengthen our solid financial base, a valuable result of steadily accumulating profits

since the merger in 2010. As a leading strategy, we have been working to cut down on interest-bearing debt.

We achieved performance targets under the medium-term business plan FORWARD 2030 in fiscal years 2021 and 2022. In fiscal year 2023, the final year of the business plan, we are accelerating efforts to raise profitability and growth potential, aiming to achieve sustainable growth and enhance corporate value over the medium to long term.

## **“Raising profitability and growth potential” and “advancing the pursuit of sustainability management” are the key themes of the new medium-term business plan.**

Our market outlook for the coming years is as follows. The shipping capacity constraints will be eased, chiefly owing to the end of special factors associated with strict quarantine controls at ports that have tightened their shipping capacity, while shipping demand is expected to increase as the Chinese economy beginning to recover from the slump induced by the zero-COVID policy. Other factors expected to constrain transport capacity and underpin the market are: new building orders being restrained in view of the uncertainty over environmentally friendly vessels and persistently high prices of vessels; and major applicable environmental regulations—such as the Energy Efficiency Existing Ship Index and the Carbon Intensity Indicator—going into effect in 2023, which will facilitate slow steaming operations and the decommissioning of aged vessels with low fuel efficiency. We are also concerned about the ongoing uncertainty surrounding the business situation, which is susceptible to significant changes related to geopolitical risks and financial conditions that may have a severe impact on maritime shipping demand. Paying close attention to such risks, we need to continue with persistent group-wide efforts to promote business operations, as we did in the past according to the medium-term business plan started in fiscal year 2020, while assessing various risks and examining and implementing appropriate measures against risks, factoring in current trends and following the three key strategies.

Based on our awareness of the above-mentioned factors, we will focus on the following two issues under the next medium-term business plan starting fiscal year 2024.

The first issue is to raise profitability and growth potential. Our strategy for raised profitability is to ramp up efforts to pursue stable, high profitability and create added value, especially by concluding long-term shipping contracts, meeting stable cargo demand, and achieving high efficiency operations while seeking the understanding of customers. To raise growth potential, we will focus on carbon neutrality actions in response to major long-term decarbonization trends that influence our business conditions. Specifically, we will increase investment in

building and maintaining vessels to enhance the environmental value we offer, meet new cargo demand to accommodate the strategies of each customer's sector, and develop transport processes to handle liquid cargo, such as ammonia and liquid carbon dioxide, anticipating future social needs.

The second issue is to advance the pursuit of sustainability management. Our Company has defined six priority issues for sustainability under the Basic Sustainability Policy, and strives to solve ESG-related issues on an ongoing basis.

### **NSU's six material issues**

- Giving top priority to ensuring safe navigation
- Enhancing activities for environmental conservation and climate change
- Increasing customer satisfaction by raising transportation service quality
- Human resources development, personnel evaluation, D&I, human rights
- Technology, innovation, DX
- Sound corporate governance, BCP

We are carrying out specific actions for each of the six issues. Going forward, we will take changes in the external environment into account as we enhance these activities under the leadership of the ESG Committee, which was formed in October 2020. Under the oversight of the Board of Directors, the Committee discusses important issues associated with the environment, society and governance, and looks into relevant trends in order to achieve long-term growth. We will accelerate the implementation of these plans according to the new medium-term business plan starting fiscal year 2024, seeking to achieve the Group's sustainable growth and further enhance its corporate value.

## **We are enhancing the value of the U Brand as an intangible asset by promoting carbon neutrality action and human capital-oriented management.**

As a corporate group that provides marine transportation services worldwide, we aim to contribute to creating a sustainable society by protecting the global environment—an invaluable asset that is shared by all humankind. Being aware of our grave social responsibility in tackling climate change, we have expressed our commitment to achieving carbon neutrality by 2050 in three areas: our Company, the steel industry, and society.

First, to achieve carbon neutral operations by the target year, we have set two major goals: reducing CO<sub>2</sub> emissions per transportation unit (ton-mile) by 20% by 2030 from 2019; and achieving net zero emissions by 2050. One key strategy to attain these goals is through reduc-

ing greenhouse gas emissions from operating vessels, for which fuel conversion is essential. At present, however, zero emission marine fuel has not yet been supplied in a form that we can use, and development of marine engines supporting ammonia or other zero emission fuels will likely require some time before appropriate technologies become marketable. Considering many uncertain factors from such situations, our Group is formulating plans based on scenarios related to the production and supply of future marine fuels. We are preparing to develop future zero emission fuel strategies to implement technologies to operate ammonia or other alternative fuel powered vessels, as described earlier, while at the same time striving to diminish CO<sub>2</sub> emissions from conventional fuel-powered vessels that are currently in operation.

As one of our fuel-saving and CO<sub>2</sub> emissions reduction measures, we have introduced operation support systems across the Company to facilitate slow steaming operations in response to the International Maritime Organization's environmental regulations. Also, we are employing and adopting increasingly advanced digital technologies in order to improve the efficiency of day-to-day operations and increase productivity as well as establishing database systems to organize and verify navigating and port-related data, seeking to optimize vessel allocation and operation. We are exploring the possibility of adopting a number of alternative power sources in addition to ammonia fuel, including wind power, and conducting demonstration projects to install a rotor sail system in large vessels and vessels dedicated to electricity power-related cargo.

The second area is contributing to the achievement of carbon neutrality in the steel industry. We have begun to



examine the possibility of establishing optimal transport methods for direct reduced iron, steel scrap and other raw materials, anticipating that demand for these cargoes will grow in the future as steel-making processes change to meet decarbonization requirements.

Third and last is contributing to a carbon neutral society, under which we have started projects jointly with energy companies to study possible ammonia transport methods in and outside of Japan. Also, in the coastal shipping segment, our Group company has agreed with a gas company to participate in its business to supply LNG fuel to vessels in Osaka Bay and Seto Inland Sea.

We are moving forward with the above-described initiatives in the three areas as we move toward the target year of 2050.

In Japan, where depopulation is progressing along with demographic aging, securing adequate human resources will become a serious challenge for many industries in the near future, including the marine transportation industry. Regarding human capital as an essential building block of our business foundation, we forecast that the issue with human resources will pose a substantial risk of undermining the Group's future growth potential. To address this issue, we have started to reform the Group's personnel systems.

To develop new personnel systems, we first fully analyzed the current status in consideration of the following three factors: changes in the labor market, changes in the business environment, and the opinions of employees and executives. Then, we identified issues with the present systems and specified areas for improvement in order to solve the issues. The objective of the reforms is to build organizational resilience so we can respond effectively to the period of major changes and create a diverse and inclusive workplace environment where many individuals with different values can thrive and feel satisfaction with their jobs. The new systems will be launched in 2024.

The U Brand represents our core values and is an intangible asset based on the strong trust and confidence we have built over the past years. It serves as a symbol of reliably safe navigation, environmentally friendly marine transportation, fine-tuned customer service, and other important values that guide our day-to-day operations.

The shipping business requires strong teamwork from working individuals. Good teamwork is enabled by each member being highly motivated and enthusiastic, showing respect to each other, and trying to improve by learning from others, backed by a culture of openness in the workplace. Boosting teamwork capabilities, we will enhance the value of the U Brand as a symbol of security and trust.

We deeply appreciate the continued support of all our stakeholders for our Group and the U Brand.

# History of the Company

As a marine transportation service provider, the Company is committed to meeting the expectations of society and earning the trust of its stakeholders while building flexible and resilient corporate functions. The above commitment and achievements will empower us to effectively respond to significant changes in the times so that we can continue contributing to the present and future society.



**2018**

Installation of ballast water treatment systems is in full operation to prevent the impact of ballast water discharge on health and the marine environment.

**2011**

Transported emergency relief supplies to flood-hit Thailand.

**2015**

NS United Naiko Kaiun Kaisha, Ltd. became a wholly owned subsidiary in order to strengthen sales capabilities and competitiveness by integrating coastal and international shipping and to improve the efficiency of Group management.

**2016**

Concluded a 25-year long-term shipping contract with Vale, and decided to build a 400,000-dwt ore carrier.

**2018**

Paid out an interim dividend for the first time in a decade, or since 2008.

**Shinwa Kaiun Kaisha, Ltd.**



**Apr. 1950**

Established as Nittetsu Steamship Co., Ltd.

**Dec. 1957**

Opened a liaison office in London

**Feb. 1962**

Merged with Toho Kaiun Kaisha and changed registered name to Shinwa Kaiun Kaisha, Ltd.

**May 1964**

Joined the Nippon Yusen Group in response to the Marine Transportation Restructuring Act

**Sep. 1969**

Opened a liaison office in New York

**Jan. 1970**

Established Shinwa (U.K.) Ltd.

**Jun. 1974**

Spun off the domestic transportation section into Shinwa Naiko Kaiun Kaisha, Ltd.

**May 1975**

Established Shinwa (U.S.A.) Inc

**Apr. 1992**

Opened a liaison office in Singapore

**Jan. 1995**

Opened a liaison office in Hong Kong

**Jun. 1996**

Established Shinwa Shipping (H.K.) Co., Ltd.

**Jul. 2004**

Opened a liaison office in Shanghai

**Apr. 2007**

Established Shinwa (Singapore) Pte. Ltd.

Comprehensive service provider boasting robust customer relationships based on long-term contracts and a broad business portfolio

**Oct. 2010**

Two companies merged into a new company named

**NS United Kaiun Kaisha, Ltd.**



**Nippon Steel Shipping Co., Ltd.**



**Jan. 1957**

Established as Nippo Kisen K.K.

**Apr. 1964**

Joined the Showa Shipping Group in response to the Marine Transportation Restructuring Act

**Sep. 1983**

Nippon Steel Corporation became the largest shareholder

**Sep. 1985**

Opened a liaison office in London

**Dec. 1990**

Merged with Nippon Steel Shipping Co., Ltd. and changed registered name to Nippon Steel Shipping Co., Ltd.

**Sep. 1997**

Began stationing employees in Hai Phong, Vietnam

**Nov. 2003**

Concluded a business alliance contract with Hsin Chien Marine Co., Ltd. in Taiwan

**Apr. 2008**

Opened a liaison office in Manila

Expert in iron ore and coking coal transport with solid experience built by serving for long years  
NIPPON STEEL CORPORATION, Japan's largest steelmaker

Medium-Term Business Plan

FY2020-FY2023

## FORWARD 2030

~Driving U forward over the next decade~

The Company aims to be both profitable and socially responsible by 2030, based on the key strategies of strengthening our brand power, building a sustainable business structure, and establishing a resilient management base.

Medium-Term Business Plan

FY2017-FY2019

## NSU 2021

~Next Stage after United for 2021~

Built a sound financial structure by expanding the revenue base.

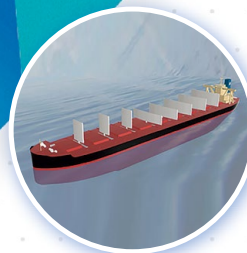


## 2022

Obtained an Approval in Principle for the basic design of the ammonia-fueled ship.

## 2022

Our operating vessel won the Best Quality Ship Award 2021, which is given to vessels acknowledged as outstanding by the Pilots' Associations, and marking the third consecutive year of honor to vessels operated by the Company.



## 2021

Started joint research on fuel efficiency technology using wind power from sails.

## 2021

Signed an agreement to construct a vessel equipped with a hybrid propulsion system using an LNG-fueled engine and a battery. (Coastal shipping)

## 2023

Formulated the NS United Kaiun Group Human Rights Policy and Basic Anti-Corruption Policy.

## 2023

Announced participation in the LNG bunkering vessel project. (Coastal shipping)

## 2023

Conducted a trial operation on a bulk carrier powered by biodiesel fuel with the support of Tata Steel as a charterer. This became the third trial operation for the Company.

## 2019

Installation of SOx scrubbers (exhaust gas cleaning systems) was in full operation in preparation for stricter SOx emission regulations to conserve air quality.

Medium-Term Business Plan

FY2014-FY2016

## Unite & Full-Ahead! II

~Start for Further Development~

Executed strategic fleet development, including construction of new vessels with excellent environmental performance.

Medium-Term Business Plan

FY2011-FY2013

## Unite & Full-Ahead!

~Aiming for New Value Creation~

Implemented the integration of industrial and common carriers while establishing a business structure capable of withstanding market downturns.



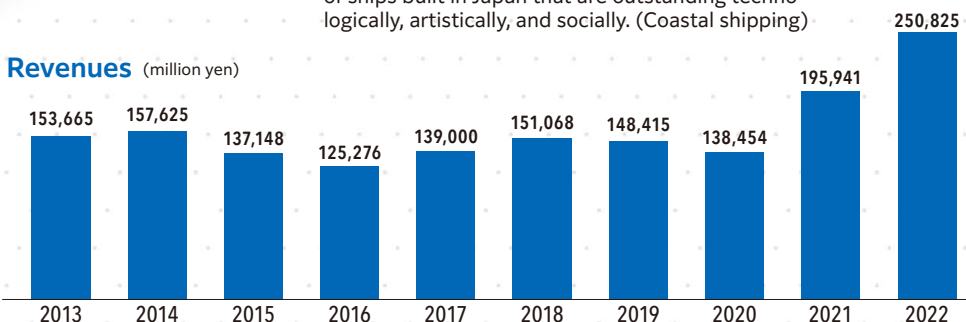
## 2020

Enhanced the BCP, launched remote work systems.

## 2020

UTASHIMA, a coastal cargo carrier equipped with a hybrid propulsion system powered by lithium-ion batteries, won the Ship of the Year 2019 award in the small cargo ship category, an acknowledgement of ships built in Japan that are outstanding technologically, artistically, and socially. (Coastal shipping)

Revenues (million yen)



# Value Creation Process

The NS United Kaiun Group's Purpose

## Through Marine Transportation, We Will Work Together to Shape the World

Business model of the  brand

### INPUT

#### Human capital

- A total of 650 employees onshore and offshore who have extensive experience, superior skills, and rich individuality

#### Intellectual capital

- Extensive expertise in shipping iron ore and coking coal
- Comprehensive strengths in shipping various types of cargo

#### Natural capital

- 42 kilotons of DO and 675 kilotons of FO consumed as fuels, including those expected to help reduce CO<sub>2</sub> emissions

#### Financial capital

- Stable revenue base that has enabled ordinary income to be posted every year since the merger in 2010, even during the unprecedented recession in the shipping market
- Financial base solidified by expanding the revenue base

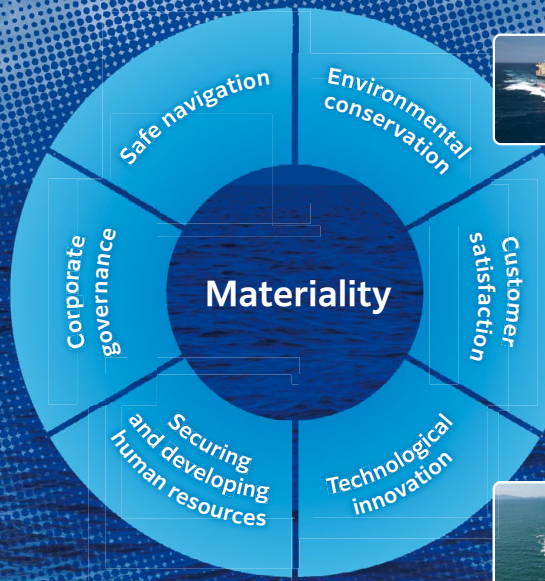
#### Manufactured capital

- Broadest portfolio of 200 vessels ranging from the world's largest vessels to coastal carriers
- Offices and ship management bases located in eight countries/regions to be able to respond to shipping needs at any time around the clock

#### Social and relationship capital

- Long-established security and trust in the U brand
- Partnerships with stakeholders around the world

### BUSINESS SERVICES



#### Iron Ore and Coking Coal Transport Service

Taking charge of the world's steel infrastructure by strengthened fleet



#### Energy Resources Transport Service

Contributing to the global energy supply



#### Tramp Chartering Service

Flexibly responding to various transportation needs, at any time, to any place



#### Near Sea Service

Supporting logistics for China and Southeast Asian countries



#### Coastal Dry Bulk Service

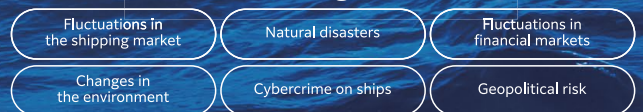
Pursuing safety, environmental friendliness, and efficiency with one of the largest coastal fleets



#### Coastal Tanker Service

Pioneer of domestic LNG transport

#### Risks surrounding our business



### Megatrends

#### Changes in the business environment

- International trade patterns will become complicated and markets will become unstable due to regional conflicts and trade frictions.
- Stakeholders' preference for stronger non-financial performance will grow, particularly related to climate change and human rights.
- Competition in service quality will intensify, driven by the digitalization of ship equipment and operation systems.



# Today and Create a Sustainable Future.

**FORWARD 2030** (FY2020–FY2023 Medium-Term Business Plan) ▶ pp.16-17

Driving **U** forward over the next decade

## OUTPUT

### Provision of marine transportation services

Iron ore and coking coal, energy resources, raw materials, products, food, etc.

**91.99** million DWT

## OUTCOME

Ideal State in  
**2030**

A company that is both profitable and socially responsible

#### Human capital

- Total hours worked: 1,917
- Average vacation days taken: 14.8

#### Intellectual capital

- Accumulated knowledge aimed at operating vessels powered by new types of fuel

#### Natural capital

- CO<sub>2</sub> emissions per transportation unit: Down 7.8% (from 2019 level)
- CO<sub>2</sub> emissions from operating vessels: Down 35 thousand tons (from 2021 level)

#### Financial capital

- Operating income: 32.5 billion yen
- ROE: 21.6%
- Net DER: 0.44 times

#### Manufactured capital

- New ship delivered: 1 vessel
- Head office-based working program for non-Japanese seamen scaled up

#### Social and relationship capital

- Formed a joint project with an energy company for ammonia transport
- Participated in the ship-to-ship LNG bunkering project hosted by a gas company

#### Establishing ESG management

- Turning sustainability issues into opportunities
- Contributing to a sustainable society
  - Further evolving the U Brand that builds on the security and trust of customers

#### Improving profitability

- Bolstering core businesses that generate stable returns
- Growing strategic business domains
- Building highly flexible fleet portfolio
- Enhancing comprehensive strengths of the coastal shipping business

#### Improving social value

- Growing businesses that contribute to creating a sustainable society

\*Coverage of data collection for some of the above items are as follows: human capital: fiscal year 2022, non-consolidated; natural capital: calendar year 2022, non-consolidated; financial capital and manufactured capital: fiscal year 2022, consolidated

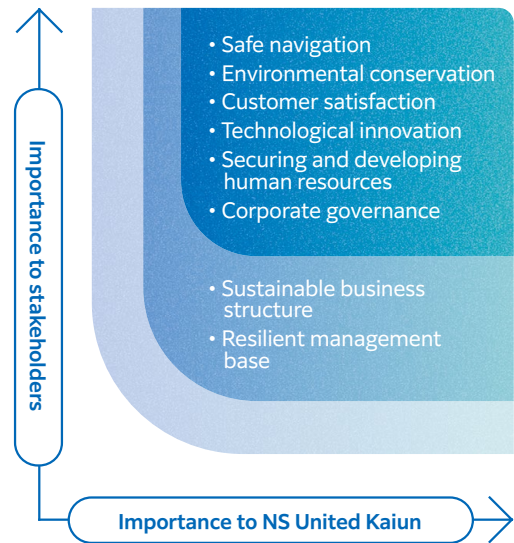
#### Outlook for shipping demand

- Demand for coal and other major bulk cargoes will be on the decline as renewable energy usage is increasing, while demand for grains and minor bulk cargoes will likely grow gradually.
- Transport capacity constraints will continue due to tightening environmental regulations facilitating the decommissioning of aged ships and reducing the number of new building orders.

**SUSTAINABLE DEVELOPMENT GOALS**

# Sustainability Priority Issues

NS United Kaiun is committed to being “a company that is both profitable and socially responsible” as its ideal state in 2030. To fulfill this commitment, we have selected six priority issues for sustainability (materiality). We will tackle these challenges, looking to capture growth opportunities and enhance our corporate value.



Materiality	Related pages in this report	Risks	Opportunities
Safe navigation	pp. 22-25	<ul style="list-style-type: none"> <li>● Credibility lowered as a result of accidents</li> </ul>	<ul style="list-style-type: none"> <li>● Earn the trust of customers who value safe transportation</li> </ul>
Environmental conservation	pp. 26-27 pp. 44-48	<ul style="list-style-type: none"> <li>● Decline in demand for shipping fossil fuels</li> <li>● Impact of tightened environmental regulations on business</li> </ul>	<ul style="list-style-type: none"> <li>● Earn the trust of customers who value the reduction of environmental impacts in the supply chain</li> <li>● Increase business opportunities chiefly related to expanding usage of renewable energy</li> </ul>
Customer satisfaction	pp. 36-41	<ul style="list-style-type: none"> <li>● Share reduced in the shipping market as a result of relative decline in service quality</li> <li>● Loss of stable revenue base</li> </ul>	<ul style="list-style-type: none"> <li>● Contribute to decarbonization efforts, promote differentiation through effective information provision</li> <li>● Increase share in the shipping market through service differentiation by introducing new technologies</li> </ul>
Technological innovation	pp. 28-29	<ul style="list-style-type: none"> <li>● Lost business opportunities due to failure to keep up with technological innovations</li> <li>● Obsolescence of existing vessels resulting from the emergence of new technologies</li> </ul>	<ul style="list-style-type: none"> <li>● Launch new services and expand the business area supported by DX promotion.</li> <li>● Differentiation by launching next-generation fuel-powered vessels and ships equipped with new technologies</li> </ul>
Securing and developing human resources	pp. 30-31 pp. 49-53	<ul style="list-style-type: none"> <li>● Decreased number of Japanese seamen due to aging of the national population</li> <li>● Difficulty in continuing business as a result of delayed response to emergency</li> </ul>	<ul style="list-style-type: none"> <li>● Enhance labor productivity and boost competitiveness by promoting workstyle reforms</li> <li>● Increase capabilities to respond to changes in the business environment</li> </ul>
Corporate governance	pp. 32-34 pp. 54-59	<ul style="list-style-type: none"> <li>● Difficulty in continuing business as a result of dysfunctional corporate governance</li> <li>● Credibility damaged as a result of violation of laws and regulations and infringements on human rights</li> </ul>	<ul style="list-style-type: none"> <li>● Establish stable growth foundations</li> <li>● Raise credibility for corporate ethics and governance</li> </ul>

## STEP 1

In 2020, the tenth year since the merger, the ideal state in 2030 was set as an outcome of group-wide discussions held to clarify conditions essential for the Group to continue to be a sustainable enterprise in the future in response to major changes in the business environment as well as sharing a sense of crisis across the Group.

## STEP 2

For the purpose of achieving the ideal state, relevant opportunity and risk factors were identified using the backcasting method. We used examinations of past experience, risk mapping, employee surveys, and other activities to make a short list of the factors, and prioritized them in the order of importance.

## STEP 3

Appropriateness of each factor was confirmed and six factors of particular importance were selected as priority issues for sustainability (materiality). To address these issues, we built three key strategies: strengthening brand power, building a sustainable business structure, and establishing a resilient management base.

## STEP 4

The strategies are implemented to address opportunity and risk factors that were organized in association with sustainability priority issues. The ESG Committee monitors, assesses, and manages ESG activities conducted by each committee under its supervision. The response situation for risks is reported to the Board of Directors, and improvement and other measures are taken within the Group's overall risk management system.

Major activities	Related SDGs
<ul style="list-style-type: none"> <li>● Safety campaigns (Resumed visiting vessels)</li> <li>● Our managing vessel achieved “no accidents, no casualties, and no illnesses” for fourth consecutive year</li> <li>● Six Liberian-registered vessels commended for good PSC performance</li> </ul>	
<ul style="list-style-type: none"> <li>● Set up the ESG Management Promotion Team</li> <li>● Formulated the Basic Sustainability Policy and established the Purpose</li> <li>● Conducted additional trial operations using biodiesel fuel in wider water area</li> <li>● Promoted preparations and development efforts for the delivery of an ammonia-fueled vessel</li> </ul>	
<ul style="list-style-type: none"> <li>● Increased sales activities based on proposals related to next-generation fuel-powered vessels and energy saving devices</li> <li>● Started holding regular information exchange sessions with individual related companies</li> </ul>	
<ul style="list-style-type: none"> <li>● Promoted joint research on fuel efficiency technology using wind power from sails</li> <li>● Signed an agreement to construct a vessel equipped with a hybrid propulsion system using an LNG-fueled engine and a battery (Coastal shipping)</li> <li>● Launched a project for an LNG carrier and bunkering vessel (Coastal shipping)</li> <li>● Implemented CO<sub>2</sub> emissions monitoring and AI-enabled simulation systems on a trial basis</li> </ul>	
<ul style="list-style-type: none"> <li>● Working to clearly define roles and responsibilities and promote capacity building by reforming personnel systems</li> <li>● Formulated the NS United Kaiun Group Human Rights Policy and the Basic Anti-Corruption Policy</li> </ul>	
<ul style="list-style-type: none"> <li>● Enhanced governance structure by selecting three outside directors, including three registered with the Tokyo Stock Exchange as independent directors, as defined by the organization, resulting in independent directors accounting for one-third of the board membership.</li> <li>● Increased the number of female directors to three, an improvement in the gender diversity of the Board of Directors</li> </ul>	

# Value Creation Strategies

The ongoing medium-term business plan FORWARD 2030 has reached its final year. Over the past years under the plan, we have ramped up ESG initiatives while endeavoring to secure a stable revenue base and solidify a sound financial base in response to significant changes in the external environment. Looking to formulate the next medium-term business plan starting next fiscal year, we will identify possible issues arising from future changes in the business environment and discuss measures to address the issues we find.

## Key Strategies of FORWARD 2030 (medium- to long-term growth strategies)

### Key strategy 1 Strengthening the brand power

We promote ESG management according to the Basic Sustainability Policy created in 2021. Safe navigation and environmental conservation represent a basis for credibility, so in order to enhance functions for these issues, we actively invest in education and training to develop human resources while introducing cutting-edge technology-enabled operation support systems, principally for facilitating optimal routing and slow steaming operations to improve fuel economy. We will thus continue with our endeavors to strengthen the U Brand as a symbol of security and trust.

### Key strategy 2 Building a sustainable business structure

As part of our commitment to climate change action, the highest priority management issue, we aim to achieve carbon neutrality by 2050. In pursuit of this goal, we are promoting an array of projects in view of future possibilities. Major examples are: a cross-industry joint technology research and development project to build ammonia-fueled vessels with support from the Green Innovation Fund, performance demonstrations for energy-saving devices run in collaboration with shipyards, and trial operations using biodiesel fuels.

### Key strategy 3 Establishing a resilient management base

Amid increasing uncertainty in the external environment, we have been reducing interest-bearing debt for the purpose of further strengthening the solid financial base, a result of steadily accumulating profits since the merger. With an adequately sound financial base, we have now begun to consider increasing expenses for facility investment and research and development in order to respond effectively to future changes in the business environment and promote active and focused investment in areas expected to produce stable revenues.

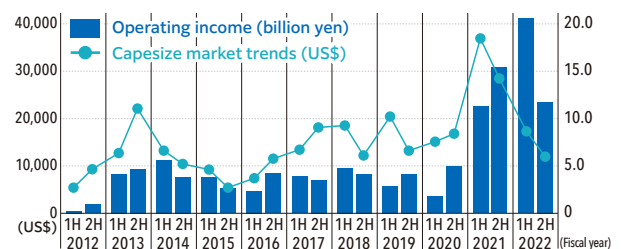
## Performance in fiscal year 2022 and progress against medium-term targets

### Economic performance: targets achieved

We posted record high profit for the second consecutive year following fiscal year 2021. ROE exceeded 20% for two years in a row, and Net DER stood at 0.44. These figures indicate distinctively strong financial soundness as well as the achievement of the medium-term financial targets. Going forward, we will continue striving to achieve the targets below while paying close attention to risks associated with business operations.

	Target	Fiscal year 2022 results
Operating income	10 billion yen or more	32.5 billion yen
ROE	10.0% or more	21.6%
Net DER	1.0 time or less	0.44 times

### Semiannual operating income and capesize market trends



### Social performance: continue working to achieve long-term targets

#### Action for climate change

As a key strategy to accomplish its medium-term environmental goals, we are promoting slow steaming operations. Monthly CO<sub>2</sub> emissions monitoring is performed and results of data analysis in comparison with targets are shared across the Company. In addition, we are carrying out various emissions reduction initiatives, including projects to develop and implement technologies that will enable alternative-fueled vessels, the adoption of operation support systems as a fuel-saving measure, and research on wind-powered energy-saving devices.

At the same time, we are preparing for the application of the EU emissions trading system (EU-ETS) to the shipping industry, which will start in 2024. In particular, we continue to use, as we did in the previous year, Internal Carbon Pricing programs as an investment assessment tool, setting standards in reference to prevailing rates in the emissions trading market. We will practice ESG management while ensuring appropriate performance evaluations based on both economic and social criteria.

### Action for human rights

Our Group established the NS United Kaiun Group Human Rights Policy in January 2023 to express our management commitment to respect for human rights as a socially responsible global enterprise. Also, we signed the United Nations Global Compact (UNGC) in March of the same year, endorsing its ten principles in four areas (human rights, labor, environment, anti-corruption). The related organizational change was made in July of the same year by launching the ESG Management Promotion Team, in a bid to increase internal and external communications.

### DX promotion platform

We are further pursuing operational efficiency and standardizing databases while developing systems to share non-visualized findings and insights. As to vessel operation systems, we are installing software that contains an AI-enabled CO<sub>2</sub> emissions simulator in addition to emissions management tools on a trial basis for performance demonstration.



Certificate of signatory to the United Nations Global Compact

## Plans for the final fiscal year of the ongoing medium-term business plan and the next plan

### Changes in the external environment surrounding the shipping industry

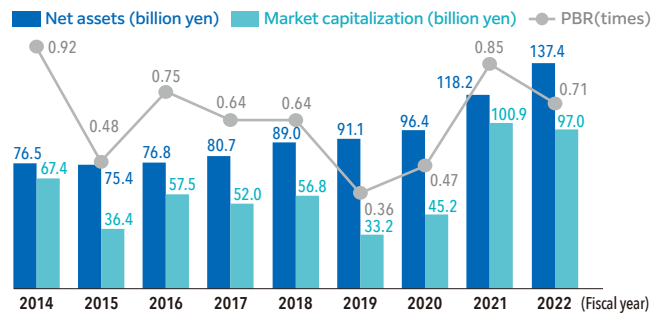
In recent years, the external environment has been undergoing major changes and decarbonization initiatives and geopolitical risks are exerting an ever-larger impact on the shipping market. In view of the growing complexity of external factors causing the rise or fall of markets, we are working to increase the accuracy of our predictions and aiming to develop a fleet portfolio that is adaptable to external changes.

### Growth investment and capital policy

We will examine future priority investment areas and scales and appropriate profitability plans, utilizing the highly sound financial base that was built by past efforts. As a differentiation strategy, we particularly focus on vessels with high decarbonization effects in order to increase the satisfaction of customers who are committed to reducing environmental impacts stemming from their supply chains. As one of our DX promotion plans, we will update the core system to sophisticate business models.

Under the current shareholder return policy, we pay dividends of approximately 30% of consolidated financial performance.

### Net assets and market capitalization



**Impacts arising from decarbonization initiatives**

- Shipowners refrain from placing orders to build new ships due to the uncertain outlook regarding next-generation marine fuels.
- New environmental regulations facilitate the scrapping of aging ships.
- Fuel-saving slow steaming operation increases, resulting in reduced transport capacity.
- Accelerating shift from coal-fired power generation to renewable energy power generation results in reduced shipping demand for thermal coal.
- Blast furnace steelmaking processes are displaced in order to meet CO<sub>2</sub> emissions reduction requirements, resulting in reduced shipping demand for iron ore and coking coal.

Rising factors (upward arrow)  
Falling factors (downward arrow)

**Impacts arising from regional conflicts and trade frictions**

- Changes in trade patterns—caused by Europe and the United States imposing economic sanctions on Russia—increase transport distance, reducing transport capacity.
- Rising prices of raw materials encourage a temporary return to lower-cost coal-fired power generation, resulting in increased shipping demand for thermal coal.
- Scrap value rises, facilitating ship scrapping.
- The world economy slows down due to prolonged inflation and rising interest rates.
- Aging ships are used by some traders to transport raw materials from countries on the sanctions blacklist, causing a delay in the decommissioning of aging ships.

Rising factors (upward arrow)  
Falling factors (downward arrow)

# Financial Strategy

## Yoshinori Sato

Executive Officer  
Project Group General Manager



**Record High Profits Posted  
for the Second Consecutive Year**

### Review of fiscal year 2022 and forecast for fiscal year 2023

In fiscal year 2022, the international shipping business was affected by the dry bulk market beginning to weaken after summer, in particular for large vessels and due to concerns over inflation accompanying soaring worldwide resource prices and increased shipping capacity reflecting relaxed quarantine controls at ports. However, the same business benefited from the very large gas carrier (VLGC) market trending at high levels in general, backed by transport capacity tightening which was driven by an increase in LPG exports from the United States and other factors. In the coastal shipping business, the transport volume of iron ore, coking coal, and cement-related cargo showed strong growth, and the LNG shipping volume increased, driven by the new route going into full-scale operation. Under these circumstances, we posted 32.5 billion yen in consolidated operating income for fiscal year 2022, achieving record profit for the second consecutive year,

supported by stable earnings from medium- to long-term contracts and the progressive depreciation of the yen during the fiscal year under review. Also, ROE stood at 21.6%, exceeding 20% for two years in a row.

Fiscal year 2022 saw a continued weak yen against the U.S. dollar, a favorable factor for boosting the Company's earnings, which are mostly denominated in the U.S. dollar. In fiscal year 2023, we estimate that the yen will rise from the previous year and hover around the 130 level, given Japan's trade deficit shrinking due to the growth of energy and resource prices slowing down.

Our outlook for the shipping market in the year to come is as follows. On the positive side, seaborne volumes are expected to increase, chiefly owing to the Chinese economy beginning to recover from the slump induced by the zero-COVID policy as well as other factors expected to constrain transport capacity. One such factor is that new building orders will be restrained in view of the uncertainty over environmentally friendly vessels and the persistently high prices of vessels. Another is that major applicable environmental regulations—such as the Energy Efficiency Existing Ship Index and the Carbon Intensity Indicator—will go into effect in 2023, which will facilitate slow steaming operations and the decommissioning of aged vessels with low fuel efficiency. On the negative side, shipping demand will likely decline as a result of prolonged global inflation as well as slowing in the U.S. and European economies due to the tighter monetary policies. Also, in factors for increasing transport capacity, we note decreased demurrage given the quarantine controls relaxing at ports, and the sluggish growth in demand for scrapping aged ships. Taking all these factors into account, in fiscal year 2023, the shipping market is unlikely to show as strong a performance as it did in the first half of the previous fiscal year, but instead, a downtrend toward fundamental demand levels is likely. Our forecast of operating income for fiscal year 2023 is 15.6 billion yen.

### Financial position

Since the merger, we have steadily accumulated profits without posting an ordinary loss for a full fiscal year. To further strengthen the solid financial base established through this robust performance, we have been working to reduce interest-bearing debt, principally by allocating our own funds to refinance bank loans. As a result, the balance of interest-bearing debt was reduced to 100.8 billion yen at the end of fiscal year 2022, from 123.7 billion yen at the end of fiscal year 2021.

In October 2022, the Company received a credit rating—its first-ever of this kind—from the Japan Credit Rating Agency. We were assigned an "A-" Long-term Issuer Rating, and "Stable" outlook. We believe that this third-party evaluation will help confirm our efforts for more transparent information provision to our business partners and other stakeholders.

Our policy for investments is to pursue social respon-

sibility as well as investment returns, considering the intensifying uncertainty of the external environment. In addition to evaluating profitability based on investment criteria that take into account the cost of capital, we determine the suitability of investments by performing examinations from a social perspective, particularly through introducing Internal Carbon Pricing programs.

In respect to the construction of new vessels, we are promoting two major projects in the costal shipping business. The first is to develop a costal cargo carrier equipped with a hybrid propulsion system combining an LNG-fueled engine and lithium-ion batteries, Japan's first costal cargo carrier equipped with this system. The vessel is scheduled for delivery in 2024. The second is the LNG bunkering vessel project, which was selected to receive a government subsidy in fiscal year 2023. This represents a collaborative endeavor developed for the joint ownership and operation of the vessel in Osaka Bay and Seto Inland Sea. It is scheduled for launch in 2026.

In the international shipping business, we are discussing with shipbuilders on the topic of building next-generation vessels, including those using LNG or other next-generation fuels and wind power, with the aim of reducing CO<sub>2</sub> emissions. Also, we made notable progress in the joint ammonia-fueled ship development project, sponsored by the Green Innovation Fund, a grant program of the New Energy and Industrial Technology Development Organization. In November 2022, the basic design of the ship under development obtained an Approval in Principle from Nippon Kaiji Kyokai (ClassNK), in acknowledgement of its being "capable of ensuring the same level of safety as ships operating with existing fuels." This marked an important milestone toward implementing the technology under development for real-life applications. Thus, in addition to the development of next-generation fuel-powered vessels, we are striving to launch services to transport biomass and ammonia which are highly expected as carbon-neutral fuels, in response to transportation needs related to decarbonization of society.

## Progress of the medium-term business plan

Under our medium-term business plan FORWARD 2030, we aim to achieve the targets of operating income of 10.0 billion yen or more, ROE of 10% or more, and Net DER of 1.0 or less by fiscal year 2023, the final year of the plan. Toward this end, we have been pressing ahead with structural reforms to build a highly flexible fleet portfolio that can accommodate fluctuating shipping markets. In fiscal year 2022, backed by the weaker yen, we achieved all these targets for the second straight year following fiscal year 2021. Going forward, while paying close attention to geopolitical risks, financial conditions and other factors that may affect the business environment and have a negative impact on seaborne volumes, we will continue making concerted efforts across the Group to attain the financial goals set under the present medium-term business plan as described above.

## Shareholder returns

The Company is committed to returning profits to shareholders, which is one of its important management policies. We aim at a payment ratio of approximately 30% on a consolidated basis. We maintain a stable dividend policy while securing the internal reserves needed to invest in implementing all strategies—including for the construction of next-generation fuel-powered vessels—that are set out for continued future growth, aiming to become an ever-more attractive enterprise for all our stakeholders, including shareholders. To pursue higher standards of governance that are suitable for a Prime Market-listed company and in line with our commitment to contributing to a sustainable society as well as enhancing corporate value, we conduct information disclosure according to the Recommendations of the Task Force on Climate-related Financial Disclosures, and have signed the United Nations Global Compact.

We will continue endeavoring to meet the expectations of all our stakeholders.

## Change in financial position

	2018	2019	2020	2021	2022
Cash and cash equivalents (billion yen)	26.7	19.8	27.6	31.2	<b>40.3</b>
Interest-bearing debt (billion yen)	113.8	137.5	149.2	123.7	<b>100.8</b>
Own capital (billion yen)	89.0	91.1	96.4	118.2	<b>137.4</b>
Net DER (times)	0.98	1.29	1.26	0.78	<b>0.44</b>
ROE (%)	11.0	6.6	6.5	22.0	<b>21.6</b>
Cash flow from operating activities (billion yen)	20.0	16.9	22.7	32.9	<b>42.9</b>
(Depreciation) (billion yen)	(14.6)	(15.0)	(17.9)	(17.7)	<b>(17.8)</b>
Cash flow from investing activities (billion yen)	△5.0	△39.9	△25.0	0.1	<b>△2.0</b>

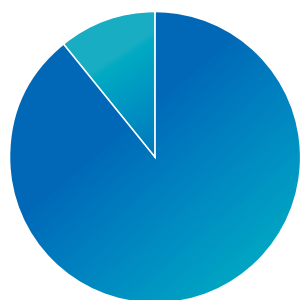
## At a Glance

# The NS United Kaiun Group in Numbers

### Revenues (FY2022)

**250,825**  
million yen

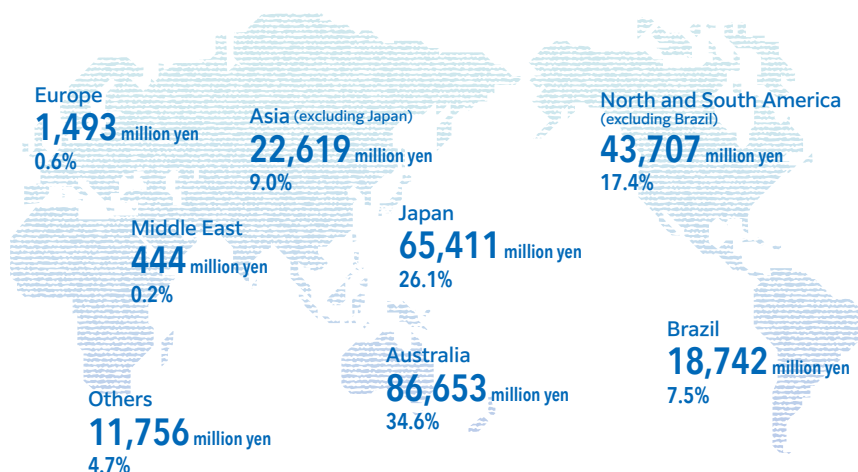
### Revenues by segment (FY2022)



International shipping  
**224,069** million yen

Coastal shipping  
**26,756** million yen

### Revenues by region (FY2022)



### Number of fleet vessels



**208** vessels

### Fleet tonnage



**14** million DWT

### Total annual cargo volume



**92** million tons

### Number of employees



**657**

### CO<sub>2</sub> emissions



**2,760,000** tons

### Capital investment



**6,153** million yen