



5th January, 2021

President's New Year Message “A Resolute Step Towards the Next Decade”

The following message was addressed to all officers and employees by President Kazuo Tanimizu, as business opened for 2021.

Happy New Year to everyone at NS United Kaiun Group.

We were able to celebrate New Year as usual, but the streetscape looks drastically different from years of past. While the world is still going through many major changes in the economy, industry, companies, and workplaces, I hope that together with all of you, we can make this year a fulfilling one that will contribute to our future success.

This will be a very important year for us as we take the first steps to steer our company towards the next 10 years as laid out in our medium-term plan.

Safety First

First of all, amid the protracted COVID-19 pandemic, we will continue to take all possible BCP and infection control measures to ensure the safety of our employees and their families. I ask for your cooperation in this matter.

I would also like to express my gratitude to those working at sea for their unwavering efforts to ensure safe operations while working even throughout the New Year holidays. The COVID-19 pandemic gave us an opportunity to reflect deeply about our shipping industry's position in society, as well as the hard work of seamen, and the significance of safety and health. This has strengthened our conviction that we must ensure safety is given top priority and support shipping globally.

On the other hand, it is with great regret that our operating large ship collided recently. Fortunately, the accident did not result in the worst-case scenario of impacting human lives or the environment, but we deeply regret the inconvenience it caused to shippers and others

involved. It is important for us to redouble our efforts to restore the U brand.

Surrounding Business Environment

The global economy is gradually recovering from the downturn from the COVID-19 pandemic. China was one of the first countries to make a V-shaped recovery, but the recovery in other countries has been erratic. Amid this situation, the steel industry, which is an important customer to us, has shown a clear improvement in supply and demand, indicating that there are some positive future signs. We are hopeful that this will have a positive effect on the bulker shipping market this year. The only thing I can say is that China's presence is growing, and while there are positive aspects of being a neighboring country with an economy centered on China, there are also some aspects that we need to be cautious about.

Last year, the steel industry experienced a situation like nothing before. While China's steel production continues to exceed 1 billion tons per year, many blast furnaces in Japan have been either temporarily suspended or closed. This contrast reflects not only a decrease in demand due to COVID-19, but also the start of a structural shift for the next era.

As you know, shipping and shipbuilding are also facing a critical juncture. Shipbuilding, in particular, has entered a phase where Japan's long-developed superiority will be put to the test in competition against China, and reorganization is accelerating both inside and outside Japan. This is also a challenge for us, the shipping industry, which has historically journeyed hand-in-hand with shipbuilders.

Changes like these need to be regarded as tectonic shifts in Japan's industrial structure, and we need to ask ourselves what kind of picture we want to paint in the future. The shift in industrial structure in the current context does not mean, for example, a shift from industrial structure to information structure as in the past. What is important is a constant re-examining within the same industry, and the realization of corporate value from new perspectives. This is not an easy task, but as the underlying assumptions of competitive advantage change with the times, we need to consider whether or not we can continue in the same path as before.

Medium-Term Business Plan

With the above realization in mind, as we celebrated the 10-year anniversary of our integration last year, we formulated our next Medium-Term Business Plan "FORWARD 2030 ~Driving U forward over the next decade~" with a longer time horizon, aiming for the year 2030. We have been looking back on the past and considering what we need to do now in anticipation of the next 10 years, and what preparations are needed for us to develop from a newly-born to a self-reliant company.

In FORWARD 2030 we reaffirmed our goal of being a profitable and socially responsible company, which is also our corporate philosophy. The plan establishes six key materiality agendas in management (safe operation, environmental protection, customer satisfaction, innovation, human resources, and governance) in order to respond to changes in the business and market environment as well as environmental issues, especially climate change. In order to solve these issues, it is important to focus on not only the tangible or "hard" aspects such as fleet development, but also on the intangible or "soft" aspects including the people and technology that support them, and we have also exactly recognized the importance of focusing efforts on ESG.

ESG is a long-term initiative that will lead to establishing an organizational and corporate culture, and we also plan to implement activities to promote understanding of it in the workplace. This initiative epitomizes the U brand itself, but the real test of its value will be how we can use it to enhance our corporate value and contribute to a more sustainable society, and whether it will lead to a sustainable business structure and a more resilient management base. Let's work together to achieve the goals of our Medium-Term Business Plan while making course corrections along the way in terms of both tangible and intangible aspects.

In the next section I will touch on some of our initiatives for this year.

This Year's Initiatives

The first initiative is to reaffirm our commitment to safe operations. Our safety record deteriorated significantly last year. In particular, although the November collision with other vessels in Brazil occurred during a berthing maneuver under pilotage, it was an accident that should never have happened. The accident by our large ore carrier, which is generally considered a symbol of our company, is something we need to carefully reflect upon. Furthermore, after the recent incident in Mauritius in which another company ran their carrier aground, shipping companies are being expected to assume not only legal responsibility but also social responsibility. For future operations, we will be expected to ensure safety awareness, improve skills, and strengthen support systems at an even higher level.

The second initiative is to prepare against increasingly harsh changes in the business environment. In our Medium-Term Business Plan, we anticipated structural changes in the business environment, the distant view has become the near view and we can see that uncertainty is increasing. We need to eliminate any wishful thinking and objectively reassess our business resilience.

Firstly, given the ongoing trends in the steel industry, especially measures to reform the production structure of Nippon Steel, we, as industrial carriers, need to respond appropriately in the timeframe ahead. While keeping our future vision in mind, we need to create a progress

schedule to some extent for what needs to be done now, and although it may be uncomfortable, we need to prepare for future development which will require different approaches and innovative efforts. This applies not only to shipping raw materials, but also to shipping steel products by tramp chartering and near sea section.

Secondly are the developments surrounding China. The global economy is becoming increasingly dependent on the Chinese economy, which has grown significantly. We must admit that this is likely to lead to increased volatility in the future. China also has the capacity to build bulk carriers and there is major supply pressure. We have to keep in mind that China will be the benchmark that will affect the shipping market.

Thirdly are the developments surrounding financial markets. We have been relatively fortunate with the favorable exchange rate environment so far, but from now on, we will need to coordinate certain preparations as well as our mindset towards the yen market.

We will continue to examine our handling of the fleet, which is the foundation of our business, and also consider how to improve its resilience.

The third initiative is that we must work toward developing businesses expected to exhibit growth. As set forth in our medium-term plan, we need to expand our business outside of Japan, and work to develop business in areas that have expectations of future growth based on the key concepts of environment and decarbonization. As a result of everyone's efforts, we are steadily strengthening our relationships with new and old customers, including overseas steel mills, resource companies, and electric power companies. It is also worth noting that our integrated domestic and international shipping approach to shippers, including of biomass fuel, is gradually producing results. It is likely that energy conversion and gasification will continue to progress in Japan. I am hopeful that we will be able to gradually build up a history of achievements. I also look forward to us starting research in new fields such as hydrogen and ammonia.

The fourth initiative is that we need to immediately respond to environmental issues. First of all, the Environment Conservation Promotion Group, which was launched last year, is working diligently to create a roadmap for our mid-term CO₂ reduction targets. A major difference from a year ago is that the world has aligned in aiming to become carbon neutral in the mid-2000s. Regulations on emissions from existing ships have been finalized in the shipping industry, a future fee structure has been brought up for discussion, and technological development toward zero emissions is now underway. A CO₂ emissions rating system is scheduled to be introduced, and readily observable mechanisms have the potential to lead to shipping company selection and ESG evaluation based on this. The key is for us to implement company-wide efforts while also forming collaborations with relevant parties who share the same goals as us.

As the fifth initiative, I would like to talk about boosting productivity and engagement in the workplace, as well as internal control and compliance. I think the biggest change that will occur

as a result of COVID-19 will be in the way we work. The workplace now has a wider range of systems and choices, including work-from-home, flex work, and web-based work, allowing employees to choose how they want to work. Let's take this opportunity to reflect on our working methods, utilize DX, and clearly grasp and improve our work processes to boost productivity in the workplace. I believe that this will result in helping people realize their full potential and feel more fulfilled with their work. I believe this improved working environment will have the simultaneous effect of better engagement, which in turn will lead to improved control and awareness of compliance in the workplace.

Last but not least, after 10 years of integration, our true value will be put to the test from here on. Like the wide ocean, how is our path going to unfold from here? With our sights aimed even higher, I encourage everyone to take a resolute step towards the next decade, the next round of preparations, and the next stage of our evolution. I look forward to everyone's cooperation in securing our future success.