



4<sup>th</sup> January, 2023

## **President's New Year Message**

# **“Let's Get Moving! Pursuing the Next Era”**

The following message was addressed to all officers and employees by President Kazuo Tanimizu, as business opened for 2023.

Happy New Year, everyone!

I hope you were able to enjoy the year-end holidays. Although restrictions on COVID-19-related activities have been relaxed and we are striving to coexist with the virus in the post-COVID reality, given the recent surge in infections both in and outside the company, we ask for your cooperation in ensuring a safe and secure workplace while continuing to take appropriate measures individually.

I'd like to take this opportunity to thank everyone working at sea for your valuable efforts despite the seemingly endless coronavirus situation. We are also grateful for everyone's diligence in ensuring safe navigation at all times of the day and night. We would like to express our appreciation and respect to everyone welcoming the New Year somewhere in the world, and also share with all employees our commitments to giving safety top priority and supporting the shipping industry.

## **Contemporary Dynamism**

Looking back over the last two years, the shipping industry has been severely impacted from an operational aspect due to the many countries that have tightened COVID-19 prevention measures at coastal borders as well as the increasing number of vessels in demurrage. On the other hand, the market has been extremely strong due to a decline in vessels in operation, and our business performance has been unexpectedly positive during this period.

As the world shifts its attention away from COVID-19 measures and toward the economy, I expect that these abnormal demurrage and skewed markets will finally be resolved and the

damaged global economy will return to a growth trajectory, but I feel that we are on the verge of a new era that will break free from the trend of recent years.

A number of factors are concurrently approaching major cyclical changes that occur every few decades. These include price increases for the first time in years; a reassessment of long-standing monetary easing, particularly with tightening in Europe and the US; an energy crisis for the first time in 50 years, which is exacerbating the situation; in China, a shift away from the 40 years of reform and opening up that have driven the world economy and trade, as well as a simultaneous reconsideration of the globalization that has lasted 30 years; and war risks, such as in Ukraine and Taiwan, which have not been seen for 70 years. Nobody could have predicted that the world would be in such a state after COVID-19.

We must not lose sight of the world's dynamism. As we approach 2030, we must constantly examine our risk management and the business environment, including market trends and financial conditions that greatly impact the shipping industry, and assess the validity of the state of our business. As the final year of our four-year Medium-Term Business Plan, this is a milestone year for us as we consider the next medium-term business plan in light of the steel industry and other trends.

## **Constant Sustainability**

Some things, on the other hand, remain constant. Whatever changes occur in the business environment, the concept of sustainability will grow even more important in global management. The year before last, we reorganized our sustainability and ESG initiatives and developed a basic policy, and with everyone's help, were able to establish the Purpose that articulates the significance of our company as well as the kind of value we can provide and contribute to society.

As sustainability and ESG are central components in strengthening corporate governance, we must first consider how to minimize risk and link it to returns. Then, we must aim to enhance environmental, social, and economic value. In doing so, it is critical to consider where our competitive advantages lie, and whether they can be sustained in the future. We must regularly examine the company's current situation, business model, and strategy to know what risks and opportunities exist and how we can best address them in accordance with our purpose.

Even in these uncertain times, we cannot afford to sit by idly. With little doubt, an important keyword is going to be mid-to-long-term collaboration with stakeholders, especially external companies and domestic and foreign shippers who share the same vision. Let us endeavor to broaden such opportunities.

Needless to say, confronting climate change will be the major challenge for shipping. With a goal of carbon neutrality (CN) by 2050, we need to proceed with shipbuilding in the late 2020s

to early 2030s. In addition to continuously sowing seeds for the future, we are going to take steps towards implementation in order to finally give shape to the groundwork that we have prepared to date. Similar to the global situation I mentioned above, as we strive for zero emissions, the shipping industry is also entering a new era as we reach a major turning point that occurs only every few decades.

## **Issues to Address**

Moving on to the issues at hand, let me begin with the current fiscal year's business results. Despite today's rapidly changing business environment, in general, we have been blessed with favorable foreign exchange rates and expect our performance to exceed that of the previous fiscal year. With only three months left, let us continue to work toward meeting our objectives while taking every precaution to avoid problems.

Our next focus will be on FY2023. Sudden monetary tightening is expected to cause some recession in the short term. Domestic and international steel production is likely to continue facing challenging conditions. China, on the other hand, is expected to gradually reopen its economy. We will start planning our three-year budget while closely monitoring how these changes will play out in the new cycle as well as what other trends may emerge.

At this point, I'd like to go over a few of the major initiatives that will be implemented as we move forward.

### 1. Safety, internal controls, crisis management

In the previous year, although we were able to avoid any serious vessel accidents, the number of occupational accidents involving seamen increased. This was highly disappointing. While we will continue to engage in attention calling activities and dialogue through safety campaigns, we must also work quickly to return the stressful, long-term boarding assignments to a normal state.

Some areas for improvement also emerged in internal control and compliance. At a workplace level, these include a need to redouble efforts to manage working hours and make efforts to prevent any harassment. As for crisis management, in addition to the BCP issues addressed thus far, we also need to compensate for shortfalls in internal control systems aimed at ensuring the safety of business operations around us, such as cyber security.

### 2. Climate change: Transitional period response in preparation for CN by 2050

2023 will be a significant milestone for international shipping as we aim for carbon neutrality by 2050. We will finally see the mid-to-long-term CO<sub>2</sub> reduction measures to 2030 and beyond. From the first step consisting of EEDI, EEXI, and CII to the second step of developing rules,

the IMO will discuss a variety of full-scale regulatory and economic approaches, and penalties will be issued for those that do nothing. As a company, we also need to move forward while exchanging opinions on the platform with domestic and foreign shippers on the general future direction of the new vessel fuels being considered, the clarification of the carbon neutrality transition plan, and the replacement plan after 2025. We hope that the collective domestic and foreign parties involved can reach a consensus on the general direction.

As far as urgent issues to be addressed, we need to meet the 20% reduction target for 2030 and deal with the CII rating that will begin in 2023. For the time being, we need to incorporate slow steaming as a measure we can implement today. Beginning this year, to promote integration with company operations, we will compile our annual slow steaming targets into an environmental action guideline and prepare a budget based on this guideline. By doing this, we will also strive to promote widespread environmental awareness throughout the company, including among sales staff.

### 3. Strengthening internal resources (1) Investing in human resources

Amid the various changes I mentioned earlier, we are expected to grasp issues with greater sensitivity than in the past, and to swiftly move the company forward. Human effort is the key to doing this successfully. The integration of management and employees, also referred to as "human capital," has become an important issue.

We will evolve from "working comfort" to "job satisfaction" for individuals. We will also develop the management and specialist human resources needed to ensure a sustainable company. We have been reviewing our personnel system since last year with the goal of merging the perspectives of both employees and management in our personnel system.

Our basic sustainability plan includes the goal of creating a workplace where a diverse range of employees can maximize their potential and feel their jobs are rewarding, and last year, we also held workplace discussions on the theme of job satisfaction. We plan to consider how to best invest in human resources while taking everyone's feedback into account.

### 4. Strengthening internal resources (2) Crew and ship management

It goes without saying that our seamen are the backbone of our company. However, because we are about to embark on the first new shipbuilding project in decades, we must plan well ahead of time or risk falling behind. How should we allocate and train seafarers for emerging fields like new vessel fuel and liquid transportation? How can we improve the skills of foreign seamen in traditional fields and utilize them on land? To solve these issues, we plan on reorganizing a future vision for our seamen, including how vessels should be managed, recruitment, training, development, and reskilling, and then carry out the necessary investments.

This concludes my comments and requests at this juncture, including matters pertaining to

our next medium-term business plan.

### **With Appreciation...**

Last but not least, I would like to express my gratitude to all of you. I would like to take this opportunity to express our sincere respect and gratitude to all employees for working with a passion for shipping and our company despite the highly inconvenient work environment over the past three years. Thank you!

The times are changing quickly, but I am looking forward to working with everyone to make this year even more successful than last. Thank you for your attention, and I look forward to your continued cooperation.