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"K" LINE REPORT 2023

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Objective of the "K" LINE Group

Corporate Principle, Vision, Values the "K" LINE Group Prizes

Corporate Principle

–K: Trust from all over the world–

As a logistics company rooted in the shipping industry, we help make the lives of people more affluent.

Vision

As a partner trusted by all its stakeholders, we aim for sustainable growth and greater corporate value by supporting the infrastructure of the global community.

Values the "K" LINE Group Prizes

- Providing safe and optimized services that put the customer first
- Tireless attitude toward problem solving
- Providing the value only "K" LINE can in pursuit of expertise
- Relentless efforts to achieve innovation
- Contributing to the global environment and a sustainable society
- Respecting individuals and ensuring fair business activities by embracing diverse values

About This Report

Editorial Policy
The "K" LINE Group is an integrated logistics company that owns and operates various fleets tailored to worldwide marine transportation needs. We also engage in land transportation and warehousing businesses. The "K" LINE Group has defined the K Value ("K" LINE Value) as a symbol of its corporate value. In this "K" LINE REPORT, we explain K Value to a wide range of stakeholders, providing both financial and non-financial information. For more details on each of these initiatives, please visit our website (https://www.kline.co.jp/en/).

Reporting Period
Fiscal 2022 (April 1, 2022–March 31, 2023)
Note: The report also includes some developments after April 2023.

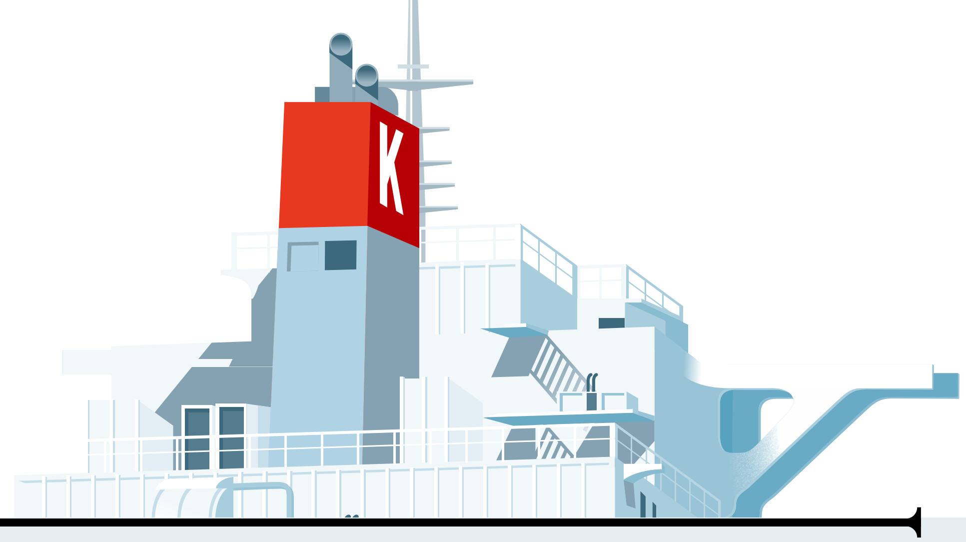
Scope of Reporting
In principle, this report covers the activities and data of Kawasaki Kisen Kaisha, Ltd., and its subsidiaries and affiliates, except where otherwise noted.

Guidelines Referred to
- Integrated Reporting Framework
- ISO 26000
- Environmental Reporting Guidelines 2018, The Ministry of the Environment of Japan
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation, The Ministry of Economy, Trade and Industry of Japan

Forward-Looking Statements
The Company's plans, strategies, and future financial results indicated in this report reflect the judgment made by its management based on information currently available and include risk and uncertainty factors. Consequently, the actual financial results may be different from the Company's forecasts due to changes in the business environment, among other factors.

Values of the "K" LINE Group

Our medium-term management plan, unveiled in May 2022, was formulated after extensive discussions about our corporate principle, vision, prized values, and future direction of the Group based on the future creation project, a guide for all Group executives and employees to follow into the future as we embark on a new stage of management. Below, we share some of the messages we have heard about our prized values that diverse personnel on the front lines around the world share and put into practice, based on our new medium-term management plan.



Onshore Personnel

Itsuki Nakamura
Digitalization Strategy Group, DX Promotion Team

In the maritime transportation industry, the knowledge and workload required of specialists have risen in tandem with the increasing level of safety and environmental standards. As one approach to address these challenges, we have developed a new system, a project in which I personally took part. Watching as the project team united together and had heated discussions, I genuinely felt that an uncompromising attitude toward problem-solving has permeated the entire "K" LINE Group.

Tang Tang
LNG Group, LNG Team No. 2

I am currently involved in an international project with stakeholders from Malaysia, Singapore, China, and Japan. Although there are times when I sense a gap in our approaches and ways of thinking about issues, our goal remains the same. I am mindful to act as a cushion between these gaps and take the lead, as I believe this approach earns the trust of our customers and leads to more business opportunities.

Keigo Hoshi
Dispatched to K Line (Thailand) Ltd.

One principle I highly value in my sales role is to always offer alternative solutions to complex requirements. When it becomes a challenge to meet all customer expectations, I believe that it is crucial not to leave the challenge unanswered but to make every possible effort. This is because the level of trust gained from the customer is significantly different, regardless of the outcome. In fact, I have received comments from customers, such as "because you show a cooperative attitude until the end, we feel comfortable consulting with you on any issue," which gives me the confidence that my approach is indeed correct.

Kazuhiro Nakajima
Dispatched to Ocean Network Express Pte. Ltd.

During the COVID-19 pandemic, when many companies dealt with disruptions in their logistics, I worked diligently to maintain services in the operations department of ONE, along with our alliance partners. Significant delays occurred, and there were numerous instances when the internal priorities of our organization did not align with those of our partners. However, through daily communication, we were able to understand each other's differences and, as a result, rapidly come up with satisfactory solutions to fix delays. I felt the importance of persistent negotiation, even in situations where interests are complex and intertwined.

Takahiro Otaki
Coal & Iron Ore Carrier Business Group, Coal & Iron Ore Team No. 1

In the Coal & Iron Ore Carrier Business where I belong, we work to solve issues through a group established with our major customers for joint research in decarbonization. We conduct sales activities in close collaboration with technical departments to analyze economic viability and customer issues, and make sales proposals with a higher level of specialized insight. I feel that an attitude of continuous adaptation in our approach to work has permeated the team, as we share long-term goals with our customers and endeavor to advance problem-solving that provides higher added value.

Natalie Cristine Kisner
"K" Line Brasil Transporters Maritimos Ltda. / High & Heavy-Project Cargo Commercial

We have faced challenges such as the global RoRo space shortage including Brazil. We tackled these issues head on and sincerely, and by responding to our customers' requests including offering the best alternative, we secured and strengthened the bond and trust between carrier and customer thanks to an environment where everyone can work equally and energetically regardless of gender or nationality, which is one of the factors that generate ideas.

Our growth, especially in H&H, is paying off not only in numbers but also in market recognition.

Offshore Personnel

Kazue Kito
Advanced Technology Group, Marine Technical Innovation Team

While there are different sizes and numbers of people working at a company or on a ship, both entail organizations driven by people operating on the same principles. At the Tokyo head office, a diverse range of executives and employees work from the top to the bottom of the ranks. This is the same on a ship, where various crew members, including the captain and chief engineer, work together as an organization. I understand that neither a company nor a ship can be driven by one person alone. Therefore, I value the connections I make with the people I encounter, whether they are fellow crew members on the same ship, team members, or individuals within a group.

Meiki Murakami
Dispatched to "K" Line RoRo Bulk Ship Management Co., Ltd.

In my role as a deck and engine officer, when equipment malfunctions on the ship, I diligently investigate the root cause and work to prevent its recurrence. Moreover, we do not just solve the issue on our own ship; we also share lessons learned with other ships and introduce case studies in training sessions to heighten the collective awareness of problem-solving among crews. I truly believe that it is this unyielding attitude to resolving issues, held by the crew who work day and night on the ship, that enables the safe operation of "K" LINE Group vessels.

"K" LINE Group's Six Capitals

The "K" LINE Group's management capital lies in technologies for safety in navigation and cargo operations and expertise accumulated over many years. We possess human resources and organizations that transform these capabilities into value that meets the unique needs of our customers. As a result, the strong partnerships we have forged with acquired customers are important capital assets that underpin our business activities. Fusing these capital assets leads to growth for the "K" LINE Group and greater corporate value. We aim to augment these assets in accordance with our corporate philosophy: "As a logistics company rooted in the shipping industry, we help make the lives of people more affluent."

Direction of Functional Strategy to Manage Business Strategy

Environment·Technology
Continuing initiatives to pursue new technologies while also enhancing measures for technology investigation and verification in preparation for implementation

Digital Transformation
Enhancing the core values of safety, environmental conservation, and quality through the utilization of data and digital technology and increasing the added value of our services

Safety·Ship Quality Management
Enhancing the organization system, which covers safety and quality management in both worldwide marine transport businesses and regional businesses

HR·Organization
While embracing diverse values, securing the quality and quantity of human resources for each business portfolio

Financial Capital

Maintaining both capital efficiency and financial soundness based on an awareness of optimal capital structure and cash flow

The "K" LINE Group unveiled its medium-term management plan in May 2022, having observed major improvements to its financial position on the strength of increased earnings. The Company announced plans to proactively return value to shareholders, while monitoring cash flow for the portion of capital that exceeded requirements for investing to enhance corporate value and maintain a healthy financial position. In the first fiscal year of the medium-term management plan, earnings were higher than forecasted, mainly in our own businesses. Management is reviewing its outlook for operating cash flow through 2026, investment plans, and targets for shareholder returns. We are committed to advancing further business management by introducing management indicators for each business with the cost of capital in mind.

P.18–23 Message from the CFO

Human Capital

People and organizations that continuously support logistics infrastructure in global society

Hiring and training personnel who support all-important safety in fleet navigation, lead change, and sustain growth in our businesses, and capably address changes, in the business environment is an issue of utmost importance to the "K" LINE Group. We strive to create a work environment where employees with diverse values can thrive and apply their abilities.

P.38–39 Safety / Ship Quality Management
P.50–53 Human Resources

Theme of enhancing functional strategy

Equipment Capital

Fleet with appropriate flexibility to manage business strategy

Having completed structural reforms by 2021, the "K" LINE Group has been advancing various initiatives under the new medium-term management plan. These include focusing on the growing coal & iron ore carrier, car carrier, and LNG carrier businesses, introducing environmentally friendly ships such as LNG and ammonia carriers, replacing existing vessels, strengthening cost-competitiveness through fleet upsizing, ensuring fleet flexibility in light of the risk of a retreat in demand, and organizing fleets capable of meeting diverse transportation needs, including high & heavy cargo. We are also promoting the development and introduction of environmentally friendly systems, such as Seawing and Kawasaki Integrated Maritime Solutions.

P.12–17 Medium-Term Management Plan FY2022
P.24–31 Progress and Strategies in Three Growth-Driving Businesses
P.40–45 Advancement of Environmental Technologies
P.68–83 Business Overview

Theme of enhancing functional strategy

Intellectual Capital

Evolving environment·technology·innovation

The "K" LINE Group is keen to provide top-class industry solutions by addressing environmental needs for a low-carbon and carbon-free footprint not only at "K" LINE but also among customers and throughout society; developing zero-emission vessels, including the establishment of a fuel supply network; and deploying advanced digital technologies for autonomous navigation, breakdown prediction, and energy conservation. Through these initiatives, we are refining our core values in safety, quality, and the environment.

P.38–39 Safety / Ship Quality Management
P.40–45 Advancement of Environmental Technologies
P.48–49 Digital Transformation
P.50–53 Human Resources

Theme of enhancing functional strategy

Social and Relationship Capital

Solid customer base and partnerships backed by experience

Building on a customer base established through our track record of safe transportation, we aim to strengthen relationships with customers who share our view that low-carbon and carbon-free initiatives are a growth opportunity. In addressing social issues such as decarbonization, we participate in councils and joint research with both domestic and international partners. We are also revising our materiality with the intention of becoming a more trusted partner for all stakeholders.

P.12–17 Medium-Term Management Plan FY2022
P.24–31 Progress and Strategies in Three Growth-Driving Businesses
P.32–53 The "K" LINE Group's Materiality

Theme of enhancing functional strategy

Natural Capital

Contributing to the preservation of maritime environments

As a company for which oceans, a form of natural capital, are its business area, we strive to balance our ongoing developments and contributions to a sustainable society. Under the "K" LINE Environmental Vision 2050, we are committed to reducing environmental impacts, such as moving toward low-carbon and carbon-free operations and society as a whole, and conserving biodiversity.

P.38–39 Safety / Ship Quality Management
P.40–45 Advancement of Environmental Technologies

Theme of enhancing functional strategy

Message from the CEO

Yukikazu Myochin

President & CEO

As a partner trusted by all its stakeholders, we aim for sustainable growth and greater corporate value by supporting the infrastructure of the global community.

Stronger and Faster Changes in the Business Environment

The business environment surrounding the "K" LINE Group has been changing significantly. Russia's invasion of Ukraine, economic division caused by tensions between the United States and China, global inflationary pressures in the wake of the pandemic, central banks tightening their monetary policies to combat inflation, the accompanying risk of an economic recession, as well as soaring energy and commodity prices, which have prompted countries to flexibly reassess their energy policies—all of these events have led to an unprecedentedly rapid pace and amplitude of change in the business environment. Labor shortages have manifested not just in Japan but around the world. The fast pace of interest rate hikes has fostered concerns about their impact on consumer behavior. Recently, we more often hear words such as "decoupling" (economic division) and "de-risking" (risk aversion). Amid the global economy's steady expansion since the early 2000s, there have been emerging movements toward the creation of economic blocs. Looking ahead, it is essential that we consider the impact that supply chain reassessments will have on international logistics.

In the maritime transportation business, which treats the world as its market, it is difficult to avoid the impact of economic fluctuations, geopolitical risks, commodity prices, and foreign exchange rates. The key lies in how to minimize these impacts while continuing to grow sustainably and maximizing profits. Given the changes in the business environment and various risks, particularly from the perspective of demand in the maritime transportation business, maintaining a keen eye on the impact from these changes is crucial. We need to keep our antennae raised high to gauge global trends, while staffing our businesses with personnel who are capable of responding quickly to change.

Trends in Environmental Regulations for International Shipping

Regarding environmental regulations, in addition to traditional regulatory approaches led by the International Maritime Organization (IMO), such as the Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) for ocean-going vessels that mandate the reduction of greenhouse gas (GHG) emissions from ships, new economic approaches akin to carbon border taxes are emerging to promote low-carbon and carbon-free shipping in various regions. In Europe, plans call for introducing the European Union Emissions Trading System (EU-ETS) from 2024, and the FuelEU Maritime system from 2025, which is aimed at encouraging the use of decarbonized fuels in shipping. This adds an extra economic burden on the maritime transportation industry.

Even within the IMO, momentum is strengthening for further GHG emission reductions. At the 80th session of the Marine Environment Protection Committee (MEPC 80) held in July 2023, its international shipping GHG emission reduction target was revised from "50% reduction by 2050" to "net-zero GHG emissions by 2050." Additionally, new interim goals were set for the use of zero-emission fuels by 2030 and for reductions leading up to net-zero GHG emissions by 2050.

Going forward, these parties will continue to discuss medium- to long-term measures to achieve decarbonization through economic and regulatory approaches, with the intention of introducing these measures from 2027. As the economic burden associated with GHG emissions is likely to increase, the entire international shipping sector will be expected to step up its efforts at decarbonization. This will probably include accelerating the development of new energy-saving and zero-emission technologies, as well as establishing a supply chain for next-generation fuels. GHG emissions increasingly need

to be reduced not only in product manufacturing but also at shipping companies, a key part of supply chains, in order to comply with demands to reduce Scope 3 emissions. We will focus more on such collaborative efforts with our customers in the future.

Seizing Low-Carbon and Carbon-Free Initiatives as Business Opportunities

The "K" LINE Group has set a goal in its "K" LINE Environmental Vision 2050 to improve CO_2 emission efficiency by 50% by 2030 (compared with 2008) and to achieve net-zero GHG emissions by 2050. Regarding our interim target for 2030, on the hardware side, we are advancing the adoption of various energy-saving equipment, including the introduction of alternative fuel ships, such as those powered by LNG fuel, and harnessing wind power through technologies like Seawing. On the software side, we are actively utilizing navigation information as big data to optimize economic navigation. We see a clear path toward reaching these goals.

To achieve net-zero emissions by 2050, "K" LINE is exploring multiple options for fuels, including ammonia, hydrogen, synthetic methane, biofuels, and methanol. The widespread use of new fuel ships will require not only hardware readiness but also the creation of a supply chain to reliably provide fuel. This necessitates collaboration within the maritime industry as well as with external partners in industries such as energy to create a reliable fuel supply network. Although a definitive direction has not yet been set for new fuel adoption, we are casting a wide net in order to broaden our options and collaborating with external partners to work toward a low-carbon and carbon-free for both ourselves and society at large.

As the need for reducing environmental impact continues to rise, the "K" LINE Group takes the view that its own low-carbon and carbon-free initiatives, and that for society, are business opportunities. While preparing to meet future demand for transporting new forms of energy, like ammonia and hydrogen, as a new business initiative, "K" LINE has entered into a charter contract for two 7,500m^3 liquefied CO_2 carriers with Norway's Northern Lights, which is launching the world's first full-scale carbon dioxide capture and storage (CCS) project. The new ships will be handed over in 2024. As a world pioneer, "K" LINE will handle the maritime transportation of liquefied CO_2 for this CCS value chain project.

By leveraging the strengths we have cultivated through the maritime transportation business to advance low-carbon and carbon-free efforts, we aim to grow together with our customers while also contributing to society by reducing environmental impact. In doing so, we will deepen the relationships of trust with our customers, achieve sustainable growth with this strong customer base, further enhance our ability to generate cash flow, and ultimately improve our corporate value.

Review of Performance in Fiscal 2022

In fiscal 2022, "K" LINE achieved record-high operating revenues of ¥942.6 billion, operating income of ¥78.8 billion, ordinary income of ¥690.8 billion, and profit attributable to owners of the parent of ¥694.9 billion. First, operating income improved ¥61.1 billion compared with the previous fiscal year, mainly due to stronger transport demand in the dry bulk segment and higher earnings in the product logistics segment, including the car carrier business. Turning to ordinary income, backed by robust cargo demand, market conditions remained brisk for the containership business operated by equity-method affiliate Ocean Network Express (ONE) in the first half of the fiscal year. In the second half, however, short-term market conditions softened due to an increase in ship tonnage operating rates as demand declined, especially on Asia-Europe and Asia-North America routes, and the improvement of supply chain disruptions. As a result, ordinary income rose ¥33.3 billion, reaching a record high, shored up by "K" LINE's own businesses, even though results were not as strong as in fiscal 2021. In total for "K" LINE's own businesses, centered on the car carrier business, where the supply-demand balance improved and earning power increased, ordinary income more than doubled, from ¥45.5 billion to ¥94.0 billion. Excluding a one-off boost of ¥14.7 billion, from foreign exchange factors, ordinary income still expanded ¥33.8 billion, demonstrating that "K" LINE's own businesses are a strong profit driver within the three growth-driving businesses of coal & iron ore carriers, car carriers, and LNG carriers.

Outlook for the Containership Business

In the containership business, the overheated market conditions of the past two years are gradually returning to a more sustainable level. Our equity-method affiliate ONE has passed the five-year mark since its establishment and is transitioning from a formative period to a growth phase. Our impression is that ONE has achieved a level of profitability that rivals its competitors. The ¥110 billion in synergies that we initially anticipated from the integration are also solidly manifesting. As the containership market returns from an overheated state to a normal market environment, ONE must integrate into its business and investment plans ways to further strengthen ONE's advantages. Until now, all vessel assets have been owned by "K" LINE, Nippon Yusen, and Mitsui O.S.K. Lines, and chartered to ONE. As ships owned by these three companies are gradually retired, ONE needs to procure its own fleet of cost-competitive vessels, secure capacity and terminals in line with market growth, and aim to maintain and strengthen cost-competitiveness while maximizing earning power. ONE is advancing initiatives to properly raise funds as an operating company as it enhances capital efficiency. As a shareholder, "K" LINE will strongly support ONE in these endeavors.

Investment Policy and Optimization of Capital Efficiency

Viewing environmental measures an opportunity for business growth, the "K" LINE Group's basic policy is to steadily accumulate earnings over the medium and long terms through the building of strong relationships based on trust with its customers by providing services that contribute to the low-carbon and carbon-free movement for both the Company and society as a whole. Our policy has not changed in terms of allocating approximately 80% of investments to the three growth-driving businesses of coal & iron ore carriers, car carriers, and LNG carriers. For investments in the environment, we plan to invest in measures that contribute to reducing environmental impact, allocating about 60% of the total investment amount to alternative fuel vessels and various energy-saving equipment. The maritime transportation industry inevitably faces market volatility due to external factors, and, when making investments, enhancing market resilience is a necessity by maintaining an investment discipline that takes such risks of fluctuation into account. First and foremost, it is important to make disciplined investment decisions based on real demand, premised on customer needs, while considering the timing of the investments and risk scenarios. Additionally, in the three growth-driving businesses, the time horizon for growth and volatility varies from one business to another. For instance, in LNG carriers, medium- to long-term contracts that exceed 10 to 15 years are the norm, whereas in the car carrier business, contract periods are relatively shorter, and there are greater variances in risks and returns. By combining these three businesses with different characteristics, we appropriately manage exposure to market conditions and provide services that meet customer needs, including for low-carbon and carbon-free. Through these initiatives, we aim to reduce volatility and accumulate stable earnings.

The "K" LINE Group has advanced the management of its businesses with a focus on risk management, taking into account past lessons such as the excessive ordering of ships during the market boom before the collapse of Lehman Brothers. As a result, the concept of risks and returns has further permeated the entire Group, taking into account the cost of capital and capital efficiency. To further advance business management, we have introduced responsible accounting management in each business from 2023. While being aware of the cost of capital in each business, we will outline our vision for corporate value and growth strategy, and work diligently to increase corporate value through the optimization of capital efficiency and the maximization of cash flow.

Due to the significant improvement in performance over the past two years, "K" LINE's balance sheet has become more robust and shareholders' equity has rapidly improved. As a result, not only has the Company's share price risen, but total shareholder return (TSR) has also significantly exceeded the TOPIX average, thanks to more emphasis placed on shareholder returns. However, when looking at our price-to-book ratio (P/B ratio), it can be said that our share price has not yet caught up with the pace of improvement on the balance sheet. To ensure that our corporate value is properly assessed and reflected in the share price, we must build on our past performance and demonstrate that the execution of our business strategy and growth strategy outlined in the medium-term management plan will translate into stronger cash flows in the future. Moreover, we will take a flexible approach to improving shareholder returns, including share buyback, as a way to utilize accumulated capital while optimizing capital efficiency, in addition to growth investments. One of the most important tasks we can do is carefully explain these initiatives through ongoing dialogues with the market.

Safety in Navigation, Transportation Quality and Environmental Technology—the Wellspring of Our Competitive Advantages—and the Supporting Personnel

Among our initiatives focused on in the field of maritime transport, safety in navigation is what is expected first and foremost of "K" LINE. Next, we are expected to provide high-quality transportation and take steps to protect the environment. It is the combination of our efforts to fulfill these three expectations that leads to competitive advantages. What is crucial here are ship management capabilities that promote safety in navigation, as well as the operational capabilities of the ships that are indispensable for achieving optimal economic navigation and reducing environmental impact. Foreign nationals make up 97% of the crew on the Group's vessels in operation, and we aim to enhance our ability to navigate safely by consistently securing and nurturing excellent crew members. In terms of transport quality, our trained crew and engineers, who have cultivated expertise and maritime skills in cargo transportation and environmental technologies, work closely with our sales teams to build customer-focused support structures, not only in Japan but at all our bases around the world. The commercialization of zero-emission ships and the adaptation of new fuels like ammonia, hydrogen, and methanol are significant challenges in the field of ship operations. We must develop new rules and guidelines from scratch and, at the same time, focus on securing and educating crew members with an eye on adapting to new fuels. To meet these needs, we are installing the latest systems while building a global ship management system at three locations—Singapore, the United States, and Europe. Working closely with sales to provide customer-oriented services, as a first step, we established a new company in Singapore in the previous year to strengthen the organization.

Recognizing that the "K" LINE Group is a custodian of infrastructure for global society, we require human resources who can flexibly adapt to changes in the business environment and lead in the sustainable growth and transformation of our businesses. We are committed to ensuring both quantity and quality in our human resources and their development. We place particular emphasis on the hiring and development of maritime professionals who can manage Company operations in the future. To this end, we make every effort to enrich our skill and management training program, and are supportive of career development with clear objectives, as seen in our restart of onboard training that facilitates practical, hands-on learning. In addition, "K" LINE has been providing all employees with DX training in light of the rapid development of digital technologies that can increase work efficiency and also transform business. We have created high-level definitions of DX talents, with DX users as the employees who rely on digital technology to improve their daily work efficiency, DX appliers as the employees who can draw on digital technology to solve issues in their own departments, and DX leaders as those who can engage in discussions on an equal footing with external experts. Setting clear goals, we are committed to the development and expansion of our human resources.

Identification of Materiality for Both Social Contributions and Corporate Value Enhancement

In fiscal 2022, the "K" LINE Group reviewed the materialities that it identified in 2014 and newly identified 12 material issues in five areas. The previous material issues were identified based on various guidelines related to corporate social responsibility (CSR). However, this review included not just the traditional CSR perspective, but also considered alignment with the business strategies and perspectives on value creation in our medium-term management plan. As material issues essential to enhancing both our social contributions and corporate value, based on internal discussions, we identified material issues associated with the five areas of management base, safety / ship quality management, advancement of environmental technologies, digital transformation and human resources.

Regarding governance, "K" LINE has revised the composition of its Board of Directors in a bid to reinforce supervisory functions from an independent, impartial, and objective standpoint. At the same time, we clarified the skills and diversity that the Board of Directors should possess, reviewing the skill matrix while considering alignment with the aforementioned materialities. Moreover, in order to invigorate discussions and increase the effectiveness of the Board of Directors, we are setting aside more time for agenda items related to medium- to long-term business plans, business policies, and the allocation of key business resources. Separate from the Board of Directors, we hold management strategy meetings for focused deliberations on these key policies.

The "K" LINE Group believes that diversity is a source of its competitive advantage, and encourages personnel with diverse values to maximize their abilities in a safe and conducive work environment. We create employment environments where employees of Group companies, working at local companies or affiliates in over 20 countries worldwide, can excel while respecting each other's diversity. At the head office, we have put into place support systems for childcare that exceed legal guidelines, fostering an environment conducive to work, irrespective of gender or life stage. We also promote employees to management positions based on their abilities, irrespective of gender. With the aim of fostering a sense of unity with staff who are foreign nationals, we restarted "K" LINE UNIVERSITY, a training program for Group employees worldwide, after an eight-year hiatus.

Heightened Awareness of Value Creation

Over the past two years, the business environment changed considerably for the better for the "K" LINE Group, as shown by the significant improvement in its performance, including its financial position. There is a palpable sense of urgency in the air within the Company, as we realize that we have ascended to a higher stage of management and that there are numerous challenges ahead. With regard to initiatives in our new medium-term management plan, all employees are keenly aware of the need to understand what our strengths are, and what needs to be honed to enhance our competitive advantages and provide added value to customers. Everyone is also focused on what needs to be done in order to achieve ahead of schedule our target of ¥140 billion in ordinary income by fiscal 2026, the final year of our medium-term management plan. As for our environmental initiatives to promote low-carbon and carbon-free businesses, I sense that employees are even more aware of value creation in the context of not only contributions to society but also capital efficiency and the cost of capital that takes risks into account.

Unified together as a Group, we will strive to create both social value and economic value in line with our corporate principle: "K" LINE—Trust from all over the world. As a partner trusted by all its stakeholders, we aim for sustainable growth and greater corporate value by supporting the infrastructure of the global community.

Yukikazu Myochin
President & CEO

Medium-Term Management Plan

(Fiscal 2022–Fiscal 2026)

01. Overview of the Long-Term Management Vision and Medium-Term Management Plan

Overview of the Long-Term Management Vision and Medium-Term Management Plan (Business Strategy, Business Base, Capital Policy)

In order for the "K" LINE Group to maintain the trust of all stakeholders,
we will focus management resources on businesses that play a leading role in growth.
The aim is to realize low-carbon and carbon-free business operations and in society as a whole
through the construction and development of partnerships with customers who can share growth opportunities.
We are looking to promote sustainable growth and improve our corporate value.

- Promoting low-carbon and carbon-free business operations and in society as a whole, while enhancing our corporate value
- Concentration of management resources on organizational roles that drive growth
- Partnerships with customers who can share growth opportunities

Customers / Shareholders / Diverse stakeholders

Further growth and improvement of corporate value

"K" LINE's own businesses
- Capturing new demand from low-carbon and carbon-free business operations
- Portfolio strategy
- Focusing management resources on businesses as coal & iron ore carriers, car carriers, and LNG carriers

Containership business
- One of main businesses
- Continued to provide support from a shareholder standpoint

Further enhancing business management

Improving corporate value by business growth and optimal capital structure

Establishing optimal capital structure with awareness of cash flow to achieve capital efficiency and financial stability

Safety / Ship quality management | Advancement of environmental technologies | Digital transformation | Human resources

Policy of shareholders' return

The basic dividend for the remaining period of the medium-term management plan (fiscal 2022–fiscal 2026) will be ¥120 per share, and the total return amount over the medium-term management plan period will be at least ¥500.0 billion. In fiscal 2023, along with the additional dividend of ¥80 per share, we acquired 11,676,000 shares with a total value of ¥56.2 billion by October 18.
By FY2026, we plan to continue returning ¥53.8 billion or more as an additional return in a responsive way.
We are promoting shareholders' return, including share buyback regarding an excess of appropriated equity capital, by awareness of the optimal capital structure, securing of investment (required) to enhance corporate value, and strengthening the stability of the financial basis.

Based on its fiscal 2022 medium-term management plan, the "K" LINE Group is advancing its business strategy, reinforcing its business base, and following its capital policy to tap into growth opportunities presented by changes in the global community, along with shifts in "K" LINE's own operations and society toward becoming low-carbon and carbon-free. Specifically, we are concentrating management resources in the three businesses of coal & iron ore carriers, car carriers, and LNG carriers, which we have positioned as growth drivers, and continuously supporting Ocean Network Express (ONE) as a shareholder as it grows and develops the containership business. Through investments in human resources, the Group is reinforcing its business foundations and carrying out functional strategies to strengthen technologies, specializations, and organizational sales capabilities—the sources of its competitive advantage. In order to realize these strategies, the "K" LINE Group is executing a capital policy based on capital efficiency and financial soundness with a mind to optimizing its capital structure.

Changes in the Business Environment and Action Based on the Medium-Term Management Plan

The global business environment will remain uncertain due to factors such as economic decoupling, continued concerns about downward pressure on the global economy, and energy policy developments in various countries.

	Economic decoupling	Global economy	Energy policies
External environment	• Economic separation due to conflict between the United States and China, as well as conflicts between Russia and Ukraine, in Southeast Asia, and between Israel and Palestine • Continued geopolitical risk	• Stagnation of the global economy due to the continuation of national high interest rate policies • Business confidence in Europe and the United States, and trends in purchasing power • Economic slowdown in China	• Fluidity in national energy policies concerning target energy mixes, including renewable energy, nuclear power, and fossil fuels, etc. • Application of treaty on new CO_2 emission regulations to large oceangoing vessels
Anticipated risks and opportunities	• Concern about impacts on trade • Concern about impacts on resource supply	• Slowdown of the real economy due to rising procurement costs and other factors, and trends in purchasing power • Continuation of global inflationary pressure	• Soaring energy prices • Future demand for transporting new fuels • Increase in benefits of environmentally friendly vessels due to restrictions on output of existing vessels and the necessity to make modifications to improve fuel efficiency • Impact of the expansion of industries covered by the EU-ETS*

Action based on the medium-term management plan
- Realizing growth by considering the emissions reduction and decarbonization of the Company and society as a business opportunity based on the long-term management vision
- Strengthening earning power through resource allocation according to the characteristics of each business based on the portfolio strategy
- Working with customers to respond to "changes in the business environment" and the "energy mix transition phase"
- Strengthening safety and quality management systems as a shipping company supporting global social infrastructure

* EU-ETS: EU Emissions Trading System

Since the outset of 2022, the business environment has been murky amid a decoupling of the economy against a background of increasing geopolitical risks, rising interest rates to combat increased inflationary pressures, and fluidity in government policy on energy in search of an energy mix that facilitates the movement toward low-carbon and carbon-free footprints. The "K" LINE Group is improving its resilience to market forces by allocating resources in accordance with its portfolio strategy, which leverages its strengths, and continues to increase corporate value by advancing initiatives outlined in the medium-term management plan.

KPIs for Business Management

	ROIC	ROE	Earnings targets
FY2022 (Result)	29%	58%	Ordinary income ¥690.8 billion (of which, ¥83.3 billion was derived from "K" LINE's own businesses)
FY2026 (Target)	6.0–7.0%	More than 10%	Ordinary income ¥140.0 billion
Current progress and response policy	○ • We will achieve sustainable growth by implementing an internal management system using business-specific financial KPIs (ROIC, EVA, etc.). The aim is to maximize corporate value during the medium-term management plan period through a project for further advancement of business management.	○ • Surpassing targets due to improved performances of the containership business as well as "K" LINE's own businesses. • During the period of the medium-term management plan, we aim to sustainably achieve the target while maintaining an awareness of capital efficiency, including the further strengthening of "K" LINE's own businesses.	◎ • Good performance in the product logistics segment is currently being maintained. • Efforts will be made for steady target achievement ahead of schedule during the medium-term management plan period through improvements in "K" LINE's own businesses.

Price book-value ratio (PBR): aim for 1.0 or more

Based on the medium-term management plan, we will promote the enhancement of earning power and strive to further improve corporate value by maintaining capital efficiency and financial soundness with an awareness of optimal capital structure and cash allocation.

Under the fiscal 2022 medium-term management plan, the "K" LINE Group targets sustainable return on equity (ROE) of at least 10%, ordinary income of ¥140 billion in fiscal 2026, and earnings growth in its own businesses. We are committed to achieving our target of ¥140 billion for ordinary income ahead of schedule by improving our own businesses. Through a project to increase the sophistication of corporate management, our aim is to sustain growth by strengthening our business-based corporate management structure with an awareness of the cost of capital by utilizing corporate management KPIs for maximizing corporate value.

02. Business Strategy

The "K" LINE Group has been strengthening portfolio management as a business strategy in its medium-term management plan. Management has drawn up strategic directions based on five categories of roles, including the three roles for its own existing businesses, namely the "role of driving growth," "role of supporting smooth energy source conversion and taking on new business opportunities," and "role of contributing by enhancing profitability," in addition to the containership business and new business domains. Management has laid out specific measures and clarified priority issues along with targeted markets and customers.

	Business	Role	Strategic direction	FY2022 progress and achievements	Priority issues after FY2023
Role of driving growth	• Coal & Iron Ore Carriers • Car Carriers • LNG Carriers	• Achieving growth by taking on environmental challenges as opportunities and turning these business areas into mainstays of Groupwide profitability • Securing market share with existing and new customers • Achieving growth that surpasses market growth	• Concentrated allocation of management resources	**Coal & Iron Ore** We strengthened our partnerships with target customers, starting with environmental initiatives, centered on steel mills in Japan and South Korea. Progress has been made in establishing a customer-oriented sales structure in India and the Middle East. By optimizing internal and long-term chartered vessel capacity, we have enhanced our responsiveness and resilience to changes in market conditions. **Car Carriers** We expanded our transportation capacity by addressing demand from existing finished vehicle OEMs and demand for high & heavy cargo. By basing our operations on a strong customer base and designing routes and maintaining fleets accordingly, we promote sustainable growth with a solid customer base together with balanced route design and fleet development. **LNG Carriers** The "K" LINE Group expanded business by securing a total of 12 long-term charter contracts in Qatar, its largest customer. The Company also entered into several long-term charter contracts with the Petronas Group, in Malaysia.	**Coal & Iron Ore** While expanding the rollout of Seawing, the "K" LINE Group will strengthen its ship management structure and step up investments in growth to expand the fleet in response to demand for reducing GHG emissions, such as ships fueled by LNG and ammonia. **Car Carriers** We will continue to maintain the fleet and address customer demands pertaining to environmental measures, such as reducing GHG emissions. We will also focus on the establishment of a transportation system for battery electric vehicles (BEVs) and on capturing related transportation demand. **LNG Carriers** The "K" LINE Group continued to increase the number of vessels to match customer demand and strengthen its customer base in emerging regions, including China, Malaysia, India, and Indonesia.
Role of supporting smooth energy source conversion and taking on new business opportunities	• Thermal Coal • VLGC / VLCC	• Transforming our business structure while helping customers transform their energy mix	• Business risk minimization • Responding to demand for alternative fuels	For thermal coal carriers, very large crude carriers (VLCCs), and liquefied petroleum gas (LPG) carriers, we promoted operations based on medium- to long-term contracts, ensuring stable revenue.	We aim to lock onto new energy demand by maintaining and enhancing transportation quality technology, and updating ship management and operational systems to cater to new transportation demand.
Role of contributing by enhancing profitability	• Bulk Carriers • Short Sea and Coastal • Port / Logistics	• Strengthening resistance to market fluctuation and securing stable income • Business strategy seeking synergy	• Asset-light strategy (Bulk Carriers)	**Bulk Carriers** The "K" LINE Group achieved asset-light operations through structural reforms. Ongoing measures to improve efficiency in operations and ship allocation has led to lower operating costs. **Short Sea and Coastal / Port / Logistics** Profitability improved in the logistics and port business, as well as short sea and coastal shipping following a withdrawal from unprofitable routes.	**Bulk Carriers** We will continue efforts to increase profitability through appropriate management of market exposure and improvements in vessel allocation efficiency. **Short Sea and Coastal / Port / Logistics** The "K" LINE Group will acquire reliable cargo, such as through medium- to long-term contracts for biomass fuel transportation, and promote collaboration aimed at creating synergy within the Group.
Role of supporting the business as a shareholder and stabilizing the earnings base	• Containerships	• Stabilization of Groupwide earnings	• Maximizing corporate value through ongoing human resource support and involvement in management governance	Amid robust cargo demand, freight rates remained high, resulting in increased ordinary income and net income for ONE.	We will continue to support ONE as it steadily carries out business operations through agile responses to trends in market demand.
Expansion of new businesses in fields where "K" LINE can utilize its strengths	• Projects for emissions reduction and decarbonization	• Expansion of business areas where "K" LINE's capabilities can be utilized and advanced	• Pursuing synergies between "K" LINE and our subsidiary companies	We began to collaborate with Penta-Ocean Construction in ship management and other matters in the field of offshore wind power construction and maintenance. We also further participated in the liquefied CO_2 transport business, as well as the hydrogen and ammonia transport business.	Advancements also continue in the offshore support vessel for wind power generation business and the liquefied CO_2 transport business—such as by participating in the world's first full-scale carbon dioxide capture and storage (CCS) project, Northern Lights—as well as the hydrogen and ammonia transport business.

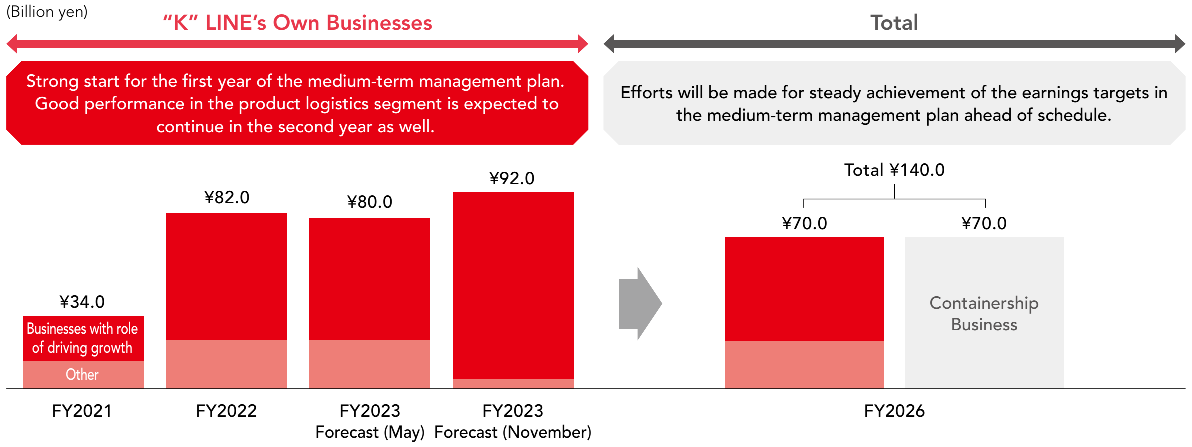
Progress on specific initiatives in our functional strategy to strengthen the business foundation is explained in the Materiality section on P.32–53.

03. Capital Policy

Profitability Target and Results

In fiscal 2022, among our own businesses, the three businesses positioned as growth drivers grew steadily. As a result, the "K" LINE Group reported solid earnings, effectively achieving ahead of schedule its income target for a single fiscal year, with ordinary income reaching ¥82.0 billion. Fiscal 2022 marked an excellent start as the inaugural year of our medium-term management plan. We will continue to work toward reliably achieving ahead of schedule our target for ordinary income of ¥140 billion, and then to maintain and expand ordinary income.

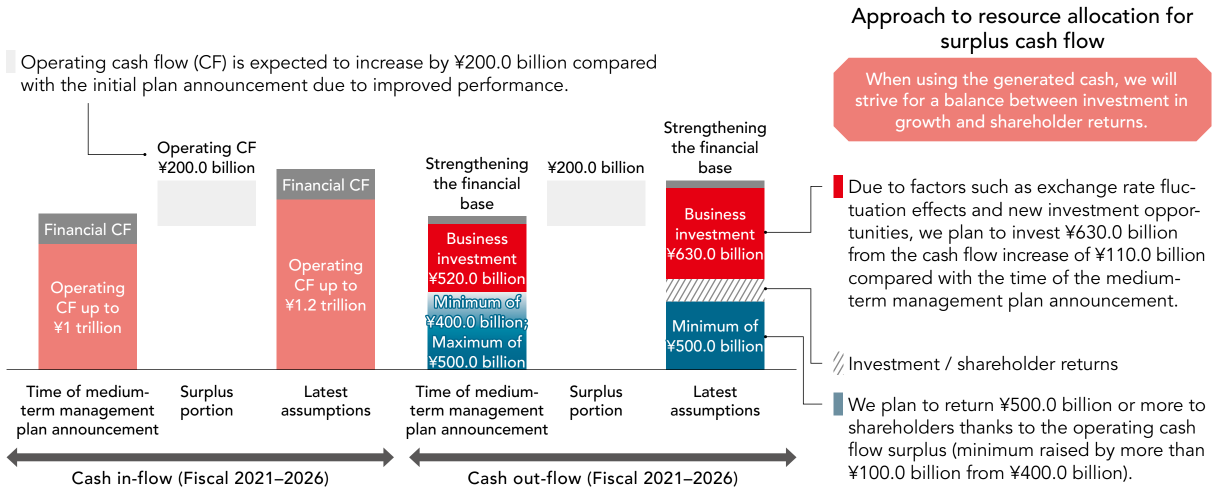
Ordinary Income / Loss



Note: The allocation method for SG&A expenses has been partially changed from FY2023. FY2022 actual figures for comparison were also created using the method after the change.

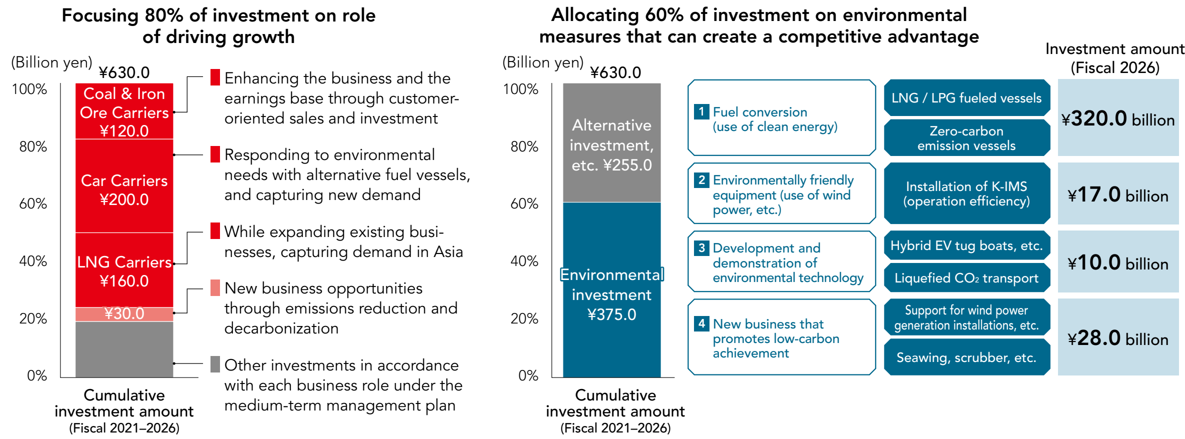
Cash Allocation

As a result of improvement in fiscal 2022 earnings, the Company expects operating cash flow from fiscal 2021 through fiscal 2026 to exceed its target of ¥1 trillion, which was set at the formulation of the medium-term management plan, by ¥200 billion, for a total of ¥1.2 trillion. With this larger-than-expected cash flow, management intends to increase business investments for improving corporate value by ¥110 billion and raise the minimum amount of total returns for shareholders by at least ¥100 billion. Accordingly, our cash allocation plan as of fiscal 2023 calls for ¥630 billion in total business investments over the five-year period starting in fiscal 2022 and a minimum of ¥500 billion for shareholder returns. The "K" LINE Group will continue to maintain its financial position.



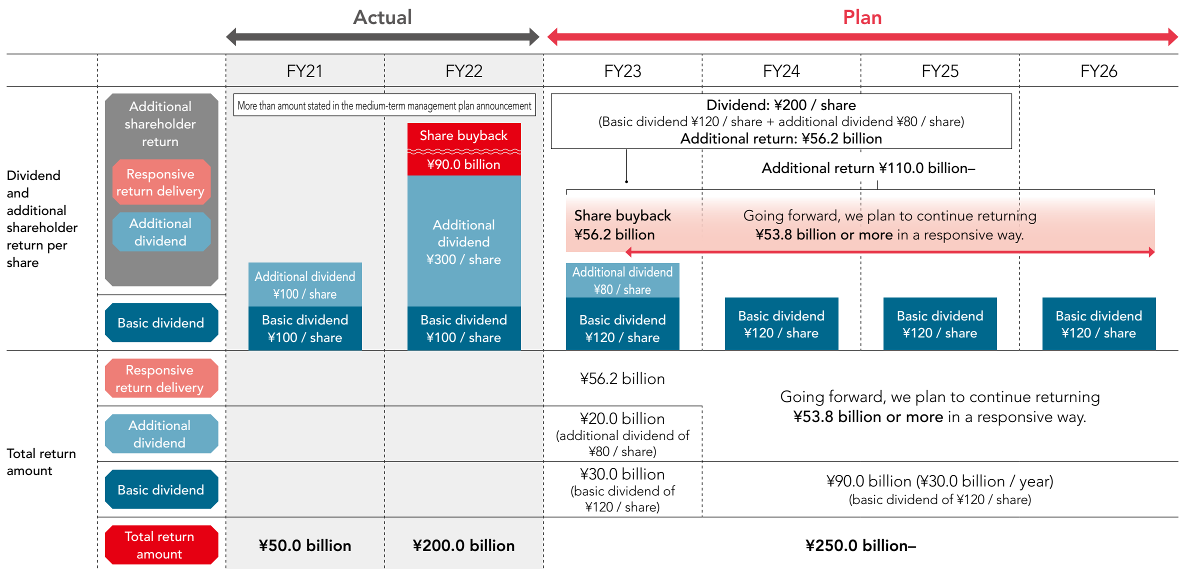
Business Investment Plan

Over the five-year period from 2022 to 2026, the "K" LINE Group plans to invest ¥630 billion, an increase of ¥110 billion from the ¥520 billion originally planned at the formulation of the medium-term management plan. This ¥110 billion increase reflects the overshoot in operating cash flow in fiscal 2022. Based on our medium-term management plan, investments will focus on growth drivers and environmental measures while exercising investment discipline in view of risks and returns according to business characteristics and objectives. The "K" LINE Group will concentrate about 80% of the total business investment amount in the three businesses positioned as growth drivers. Roughly 60% of the total business investment amount will be in environment-related initiatives that help maintain and strengthen a competitive advantage while addressing needs for moving toward realizing a low-carbon and carbon-free footprint.



Returns to Shareholders

The "K" LINE Group has increased its target for total returns to shareholders during the medium-term management plan to at least ¥500 billion, including the ¥250 billion already returned to shareholders during fiscal 2021 and fiscal 2022. The Company plans to return at least ¥250 billion to shareholders from fiscal 2023 onward, and has increased the basic dividend to ¥120 per share. Moreover, the Company plans additional shareholder returns of around ¥110 billion from fiscal 2023 onward. Management decided to buy back up to 11,676,000 shares for a maximum of ¥60.0 billion in fiscal 2023. "K" LINE acquired 11,676,000 shares of its stock for ¥56.2 billion between August 3 and October 18, 2023. The "K" LINE Group plans to increase dividends per share by ¥80 and distribute an annual dividend of ¥200 per share in fiscal 2023. Management will steadily and promptly consider additional shareholder returns based on various metrics, such as trends in earnings, the business environment, and capital efficiency.



Notes 1. Dividend amounts are after taking the effect of the stock split implemented on October 1, 2022, into consideration.
2. "K" LINE acquired 11,676,000 shares of its stock for ¥56.2 billion between August 3 and October 18, 2023.

Message from the CFO

Yukio Toriyama

Representative Director,
Senior Managing Executive Officer

Based on our medium-term management plan, we are maximizing corporate value by maintaining capital efficiency and financial soundness with an awareness of the optimal capital structure and cash allocation, while enhancing our earning power.

Position of Medium-Term Management Plan in Fiscal 2022

The Group's medium-term management plan currently underway covers a five-year period from fiscal 2022 to fiscal 2026. The main points of this plan can be summarized as the following three items:

1. Based on our portfolio strategy, we concentrate the allocation of management resources in the three growth-driving businesses (coal & iron ore carriers, car carriers, and LNG carriers), while viewing low-carbon and carbon-free initiatives as business opportunities.
2. Always aware of the optimal capital structure and cash flow, we balance improvement in capital efficiency with maintaining financial soundness.
3. We invest in growth and proactively return value to shareholders in our aim to maximize corporate value.

In carrying out these policies, we have set and disclosed the following quantitative targets and plans.

Operating cash flow	**¥1,200** billion (total for fiscal 2021 to fiscal 2026)
Ordinary income	**¥140** billion (end of fiscal 2026)
Business investment	**¥630** billion (total for fiscal 2022 to fiscal 2026)
Return on invested capital (ROIC)	**6.0–7.0**% (end of fiscal 2026)
Shareholder returns	**¥500** billion or more (total for fiscal 2022 to fiscal 2026)
Price book-value ratio (P/B ratio)	**1.0** times or higher

We came up with an aggressive business strategy and capital policy that assumes sustainable growth in future cash flows. This is because we believe that the "K" LINE Group has reached the next management stage where we see growth opportunities in addressing environmental needs, along with reforms to our business structure, which has been advancing for several years, as a result of the following initiatives.

1. Economies of scale from the integration of the containership business have been larger than we had anticipated.
2. Through structural reforms in our own businesses, we optimized our fleets and withdrew from unprofitable businesses.
3. Having completed a Group-wide assessment, we are now confident in our ability to expand the earning base in three growth-driving businesses by tapping into customer demand for environmental solutions with the Group's technological capabilities and organizational sales capabilities.

In the maritime transportation industry in the 2010s, costly ships ordered in large numbers around the time that Lehman Brothers collapsed became stranded assets due to rapid and sharp deterioration in shipping market conditions, which led to the bankruptcy of major containership companies and well-known dry bulk carrier companies. "K" LINE also booked massive extraordinary losses and decided to dispose of uneconomical tonnage, causing its equity ratio to fall to 10.9% as of the end of fiscal 2018. Due to these circumstances, under the previous medium-term management plan, management had no choice but to prioritize measures to restore depleted shareholders' equity and dispose of risk assets, but eliminated this negative legacy through its own efforts. The medium-term management plan was a watershed moment in our corporate history, as we returned to the basics of fulfilling our duty as an operating company to improve corporate value, with management drawing up a concrete business growth strategy and capital policy.

Review of Performance in Fiscal 2022 and Outlook for Profitability Target

As shown below, in fiscal 2022, the initial year of our medium-term management plan, we were able to achieve all of our primary management targets for fiscal 2026 ahead of schedule.

		Fiscal 2026 Medium-term target	Fiscal 2022 Actual
Earnings targets	Ordinary income (own businesses)	¥70.0 billion	¥83.3 billion
	Ordinary income (containership business)	¥70.0 billion	¥607.4 billion
	Total	¥140.0 billion	¥690.8 billion
Return on equity (ROE)*1		At least 10%	58%
ROIC*2		6.0-7.0%	29%

*1 ROE = Profit attributable to owners of the parent / equity capital
*2 ROIC = Profit attributable to owners of the parent / (equity capital + interest-bearing debt)
ROIC includes the off-balance-sheet charter hire of ¥500.0 to ¥600.0 billion. The equity ratio is 57-59%, including the off-balance-sheet charter hire at the end of fiscal 2022.

For fiscal 2023 onward, we expect steady growth in ordinary income from our own businesses based on medium- to long-term contracts, a strength of the "K" LINE Group, now that we have completed optimizing the fleet and withdrawing from unprofitable businesses. We therefore saw a strong likelihood that our targets for fiscal 2026 would be achieved ahead of schedule. Meanwhile, Ocean Network Express (ONE), our equity-method affiliate that manages the containership business, booked a high level of net income (US$14,997 million) in fiscal 2022. Accordingly, "K" LINE's containership business posted ordinary income of ¥607.4 billion, reflecting its 31% stake in ONE. However, we must note that there were one-off factors at play in the fiscal 2022 earnings of the containership business, namely shortages of capacity in supply chains, and changes in consumer behavior around the world due to the pandemic (from spending on experiences to physical items), which led to favorable ocean freight rates. Now that supply chains have recovered, profit levels in fiscal 2023 are in the process of returning to normal.

Although containership market conditions declined from the fiscal 2022 level after supply chains returned to normal, conditions (freight volumes and rates) are unlikely to deteriorate significantly below the levels seen in fiscal 2019 before the pandemic struck. One key factor in our post-pandemic earnings estimates for the containership business is how much ONE can boost profits. Based on these market assumptions, we estimate that ONE can generate around US$2.0 billion in net income annually with its current scale of fleet operations. Based on the foreign exchange rate assumption when we drew up the medium-term management plan, assuming ONE can generate net income of US$2.0 billion in line with our estimate, we forecast that ONE will contribute ¥70.0 billion to ordinary income in our containership business in fiscal 2026.

Outline of Capital Policy and Progress

The essence of our capital policy lies in the setting of targets for cash allocation and cash management. As such, we aim to maximize corporate value by appropriately allocating the cash flow generated under our earning plan among three elements: business investments, shareholder returns and internal reserves for financial soundness.

» Our Approach to Cash Allocation

From 2021 to 2026, we see the potential to generate a total of ¥1.2 trillion in cash flow from operating activities, which makes up the majority of our cash inflow. Should operating cash flow decrease below our forecast, we can supplement cash as needed through cash flow from financing activities. On the cash outflow side, business investment is our highest priority, with planned expenditures totaling ¥630 billion over the five-year period from fiscal 2022 to fiscal 2026. While internal reserves to secure financial soundness are essential for the continued existence of the Group, we believe only a limited amount of the newly generated operating cash flow of ¥1.2 trillion will be allocated to internal reserves for now, as our current needs are adequately covered by existing cash and deposits.

After securing the necessary funds for the aforementioned cash outflows, the remaining cash on hand will, in principle, be returned to shareholders. At this juncture, management plans to proactively distribute an appropriate dividend and flexibly buy back stock with the objective of enhancing shareholder value by more than ¥500 billion in total over the five-year period of the medium-term management plan. In the event that cash inflows exceed cash outflows, management will reevaluate whether the excess amount should be allocated to business investments or shareholder returns, taking into consideration future earnings and progress on investment plans.

When returning value to shareholders, one approach is to pre-determine a payout ratio and decide the amount of shareholder returns based on the net income of each fiscal year. The reason why "K" LINE does not adopt this payout ratio method stems from practical considerations in light of its business structure. Specifically, ONE, which makes a significant contribution to our profits, is not a wholly owned subsidiary but rather an equity-method affiliate. According to accounting rules, while the net income of equity-method affiliate ONE (equivalent to our 31% stake) is directly reflected on the consolidated income statement of "K" LINE, on the other hand ONE's balance sheet is not reflected in "K" LINE's consolidated balance sheet. In other words, only when ONE distributes its cash as a dividend, "K" LINE is allowed to recognize the cash that ONE generated on its own balance sheet as cash on hand and retained earnings. Since "K" LINE returns value to its shareholders using cash as the upper limit on distributable amounts calculated from retained earnings, it is more realistic and makes more sense to calculate the source of these funds as "K" LINE's consolidated cash flow from operating activities, which includes dividends received from ONE, and not the net income that ONE puts on its consolidated income statement.

» Investment Plans

Under our current investment plans, we intend to invest a total of ¥630 billion over the five years of the medium-term management plan. Based on our portfolio growth strategy, roughly 80% of this total investment will be concentrated in the three growth-driving businesses. Below, we break down the amount of investment in each business.

The total investment amount of ¥630 billion will be reviewed as progress is made on our investment plans.

Coal & iron ore carrier business	**¥120** billion
Car carrier business	**¥200** billion
LNG carrier business	**¥160** billion
New business opportunities related to low-carbon and carbon-free initiatives	**¥30** billion
Alternative investments and other medium-term investments	**¥120** billion
Total	**¥630** billion

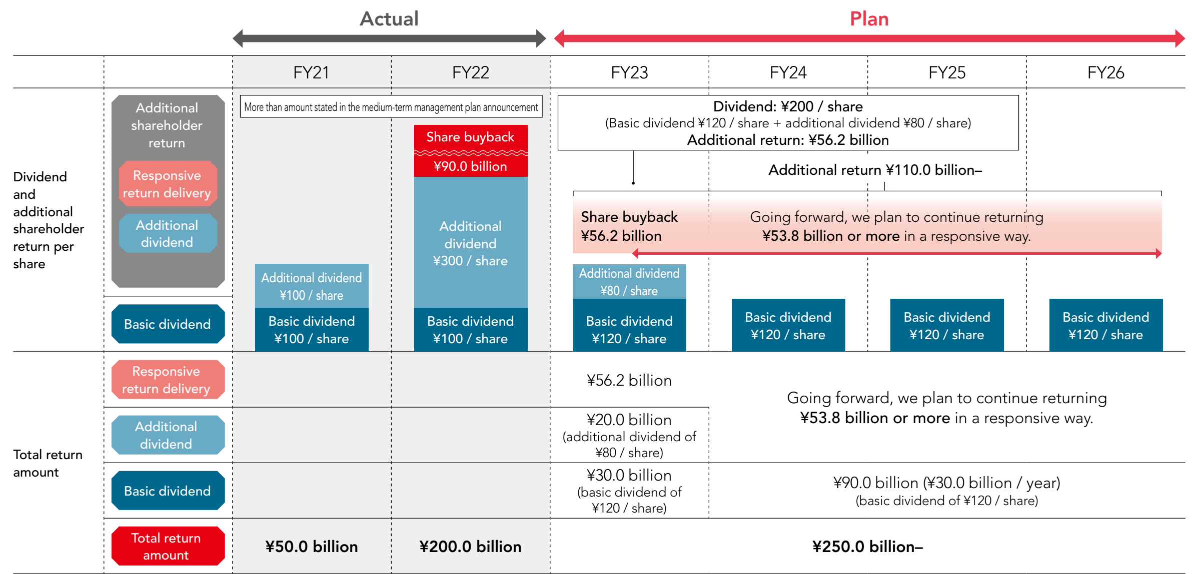
» Returns to Shareholders

"K" LINE announced its current policy on shareholder returns, based on dividends and share buyback, along with results for the first quarter of fiscal 2023, which were released in August 2023.

In fiscal 2023, "K" LINE aims to distribute an annual dividend of ¥200 per share, unchanged from its previous announcement in May 2023. This represents an additional dividend of ¥80 per share for fiscal 2023 on top of the basic dividend of ¥120 per share that we plan to pay each year from fiscal 2023 to fiscal 2026. On October 18, 2023, "K" LINE finished buying back 11,676,000 shares, for a total of ¥56.2 billion. When we released results at the end of fiscal 2022, we announced plans to distribute a dividend of ¥200 per share and buy back at least ¥50 billion worth of our stock. With an eye on increasing the amount of additional returns, our aim is to meet shareholder expectations for both income gains and capital gains by flexibly buying back stock up to this full amount. Management increased the upper limit of the share buyback program to ¥60 billion in order to be able to buy back this number of shares even if the acquisition price per share rises during the buyback period.

On August 4, 2023, "K" LINE bought approximately 53% of this total number of shares in the buyback program through ToSTNeT-3, the off-auction own share repurchase trading platform. We acquired the remaining number of shares, up to the upper limit of the allotted funds, by October 18 on the stock market. Management has not changed its shareholder return policy, including for proactively and flexibly buying back shares while monitoring cash flow and when appropriate levels of capital are exceeded.

Note: "K" LINE acquired 11,676,000 shares of its stock for ¥56.2 billion by October 18, 2023.



Notes: 1. Dividend amounts are after taking the effect of the stock split implemented on October 1, 2022, into consideration.
2. "K" LINE acquired 11,676,000 shares of its stock for ¥56.2 billion between August 3 and October 18, 2023.

Further Advancement of Business Management

» Phase 1

Advancement of Business Management (Fiscal 2016 to Fiscal 2022)

In fiscal 2016, we began to examine ways for the advancement of business management in Phase 1 of this project. Back then, the shipping market was in a slump, so we explored ways to manage risks and returns with an emphasis on measuring and mitigating risks in the maritime transportation business as a Group issue.

1. Establish methods to quantify and visualize business risks in maritime transportation.
2. Build a Companywide structure for overall equity capital to exceed total business risk.
3. Institute investment discipline that ensures returns in excess of any business risks that materialize on an individual business project basis.

Considering the qualitative nature of wide-ranging business risks, we decided to narrow our focus initially to the two most impactful and frequent risks in the maritime transportation industry: market fluctuations and depreciation in the value of owned vessels. For the former, we quantified the maximum loss in the event of a worst-case scenario for the shipping market, and for the latter, we quantified the maximum valuation loss in the event of a worst-case scenario in vessel asset depreciation. We then developed statistical models for each type of vessel to shed more light on these risks.

The visualized quantity of business risk becomes the amount of damage to equity capital if the risk materializes as a loss. For this reason, whether or not attainable returns are commensurate with business risks is a crucial factor in our investment decisions. To assess the maximum extent that quantified business risks could impair equity capital, we incorporated the quantified amount of business risk into the formula for calculating the weighted average cost of capital (WACC). We then decided to compare WACC to the "K" LINE return on invested capital ("K"RIC) and "K" LINE Value after Cost of Shareholders equity ("K"VaCS) for each business project. Here, the quantified amount of business risk serves as the hurdle rate for evaluating whether potential returns are commensurate with the business risks.

Furthermore, upon tabulating the results of the aforementioned analysis, "K" LINE gains a better view of the total amount of business risks across the entire Company. By comparing this risk to our backstop of equity capital, we have now reached a stage where we are able to conduct comprehensive risk management for the entire Company. Under Phase 1 of this project, each business has effectively utilized risk-return management methods based on payback periods in their decisions on new investments and whether to carry on in existing businesses. These management methods have also become more accurate day by day, and the expanded scope of their application has contributed to the Group's recovery in earnings.

» Phase 2

Further Advancement of Business Management (Fiscal 2023 Onward)

Further advancement of business management is currently being internally implemented in stages from fiscal 2023, after system design wrapped up in fiscal 2022. While Phase 1 focused on individual projects as well as the Company as a whole, the aim in Phase 2 is to manage business divisions with clearly defined roles and characteristics as laid out in the medium-term management plan. Our objective is to optimize capital efficiency and enhance our ability to generate future cash flows. Phase 2 consists of the following three subprojects.

1 Project for Establishing Business Management Financial Statements for Each Business = Introduction of Business-Based Responsible Accounting Management System

In order to formulate and dynamically manage detailed objectives for capital efficiency and operating cash flows in each business, it is essential to not only have income statements showing the income and expenses of the business over a certain period, but also create and analyze balance sheets that present the capital structure of each business and their cash flow statements. We have thus decided to create new financial statements (all three) for each business. Based on these financial statements for each business, we will identify key performance indicators (KPIs), such as highly precise business-specific WACC, business-specific ROIC and business-specific EVA.

By comparing and analyzing these KPIs, management aims to create a business-based responsible accounting management system that enables precise and swift decision-making on whether each business is appropriately operating its invested capital at a return that exceeds both the cost of capital and business risks, thereby maximizing capital efficiency and cash flow, and contributing to the creation of corporate value.

Under this business-based responsible accounting management system, each business is considered an independent business entity, which necessitates drawing a clear distinction between the responsibilities of business departments and corporate departments. We have therefore redefined the roles and responsibilities of corporate departments as the organization ultimately responsible for optimizing the business portfolio through cross-business initiatives, such as optimal resource allocation and financing for the entire Group. Additionally, management has increased the ratio of overhead costs allocated to business segments that had been mainly shouldered by the corporate departments, which entailed clarifying costs. Business segments are now not only responsible for increasing their own EVA (i.e. improving their own corporate value), but also for generating EVA in sufficient amounts to offset the negative weight of cost centers in corporate departments, which are unable to create profits due to their roles and responsibilities.

2 Project for Advancing Business Value Management

While the aforementioned financial statement project will provide functions for precisely analyzing and evaluating the annual performance of business activities, a separate mechanism is needed to address different time-horizon events that affect corporate value, such as the medium- to long-term returns and gains from the sale of retired vessels. To this end, management is examining ways to calculate the value of each business using the discounted cash flow (DCF) method, calculating free cash flow for each business based on various simulations. By tabulating these calculations of business value, management will be able to analyze ways to maximize the corporate value of the entire Group through the optimal allocation of business resources in each business. This data will serve as the foundation for formulating a portfolio strategy for the next generation.

3 Project for Advancing Investment Management

In Phase 1, we established a risk-return management system for investments. In this project, we are updating this system to conform to our current investment discipline of "restraint during prosperous times and strategic moves during market downturns." First, to maintain restraint when selecting investments during prosperous times, management has raised the hurdle rate for returns on investments. In addition to increasing the WACC (included in the calculation of the hurdle rate) to a level that exceeds both the cost of capital and the amount of business risk, we have newly calculated a target ROIC spread that requires the EVA spread on investment projects to be in positive territory. This revised WACC, with the added target ROIC spread, will serve as the new hurdle rate for investment decisions.

Meanwhile, to strategically screen investments during market downturns, we have reviewed our investment decision-making flow. For investment projects where profitability is below the aforementioned hurdle rate, but hold high strategic significance in terms of acquiring customers and also have the potential for returns in excess of the project-specific revised WACC before applying the target ROIC spread, we allow for investment decisions to be made based on thoughtful consideration and deliberation via a committee comprising representatives from not just the business departments but also several other departments.

Addressing Environmental Issues as a Business Opportunity

Lately, to address environmental issues, there has been a growing emphasis on regulatory measures, which include strengthening mandated reductions of GHG emissions from ocean-going vessels, as well as economic measures, such as the social implementation of carbon pricing systems to ensure their efficacy.

The International Maritime Organization (IMO), a special agency of the United Nations, revised in 2023 its target for reducing GHG emissions by 2050, from a 50% reduction in emissions compared with 2008, to net-zero emissions. As a specific measure, the IMO launched two sets of regulations in January 2023. The first set, the Energy Efficiency Existing Ship Index (EEXI), requires the prior inspection and certification of a ship's fuel economy. The second set, the Carbon Intensity Indicator (CII) rating system, checks the fuel efficiency of vessels over the previous year. Additionally, the IMO has decided to adopt a fee-based system related to GHG emissions by 2025, to be applied starting from 2027.

Within the Fit for 55 framework, a comprehensive policy package aimed at reducing GHG emissions in the European Union (EU), the EU plans to introduce in stages the EU Emissions Trading System (EU-ETS) from January 2024, which will require ships operating within the EU to report their GHG emissions and will mandate the purchase of European Union Allowance (EUA), a securitized GHG emission allowance. Furthermore, as a program in the Fit for 55 framework, FuelEU Maritime will commence in January 2025 as a system for regulating GHG emissions from ships, imposing an obligation to progressively reduce GHG emissions from vessels relative to 2020 levels and imposing fines for failures to reduce emissions in line with targets. Furthermore, under FuelEU Maritime, beginning in 2030, ships berthed within the EU region will be prohibited from burning fuel to generate electricity, mandating that ships are supplied with electricity from onshore power supply, with any infractions resulting in fines.

In June 2023, in the United States legislators moved to introduce to the Senate two bills that target GHG emissions from ocean-going ships, the International Maritime Pollution Accountability Act, as an economic measure, and the Clean Shipping Act, as a regulatory measure that was also submitted to the House of Representatives.

While we had anticipated a strengthening in environmental regulations, the starting year is earlier than we expected. Moreover, it appears that the economic penalties of failing to meet the set regulatory standards, or of violating them, will be significant. One potential problem that has emerged is that a plethora of local rules might create an excessive burden on international shipping. On the other hand, assuming ammonia-fueled ships, which are viewed as the main contenders for achieving zero GHG emissions, are commercialized from 2025, and hydrogen-fueled ships from 2030, the immediate, practical response to environmental regulations will inevitably be to offset environmental impact through monetary means (penalties from economic measures). This means that reducing GHG emissions in the shipping industry will have not only high social significance in terms of preserving the environment, but also real economic consequences in terms of lowering costs in the form of penalties paid and the purchase of emission allowances for unavoidable emissions in shipping.

In light of these circumstances, the shipping industry is likely to bear an even greater responsibility in the future. We anticipate that the industry will collaborate with external partners, such as cargo owners and the energy sector, to establish a supply network for new fuels, build a global transportation system that complies with environmental regulations, and ensure a fair distribution of the environmental costs. "K" LINE is committed to contributing to society in these ways and views the rapid and substantial progress in low-carbon and carbon-free initiatives as a significant business opportunity. In line with this, we will further strengthen our business strategy to grow in collaboration with environmentally conscious customers, while aiming to maximize corporate value.

SPECIAL FEATURE 01

Progress and Strategies in Three Growth-Driving Businesses

▶ Coal & Iron Ore Carrier Business

Fumiteru Otsuki (Left)
General Manager, Coal & Iron Ore Carrier Planning & Operation Group

Takeshi Mikami (Center)
General Manager, Coal & Iron Ore Carrier Business Group

Kentaro Tanaka (Right)
"K" Line (India) Private Limited

We are further strengthening collaborative relationships with our customers through organizational sales in response to new transportation demand and the continuation of safe vessel operation and navigation.

Source of Competitive Advantages: Safety in Navigation and Development of Safety Personnel

"We will strengthen our competitive edge by offering solutions tailored to customer needs through the specialized knowledge of our maritime technical personnel," says Fumiteru Otsuki of Coal & Iron Ore Carrier Planning & Operation Group.

Our customers in the coal & iron ore carrier business are located around the world, including in key regions such as East Asia, centered on Japan, South Korea, and China, as well as the broader Asia region, including India, the Middle East, and Southeast Asia, and extending further to North America and Europe. "K" LINE aims to maintain and expand its earnings base by sharpening its price competitiveness, proposal capabilities, sales capabilities, and on-site responsiveness while adding to its track record of safety in navigation as it meets customer expectations.

In our environmental initiatives, operation technologies and personnel are key to safety in navigation. The skills being required of our maritime technical personnel differ from the past, in the context of alternative-fuel vessels, such as LNG, ammonia, methanol, and hydrogen, as well as new transportation technologies that allow us to satisfy new transportation demand through technological innovations. Such innovations include direct reduced iron as an indispensable input for low-carbon steelmaking processes, and carbon dioxide capture and storage (CCS) emitted from steel plants. To remain the preferred choice of our customers, we will continue to refine the quality of our transportation services and ensure safety in navigation while training personnel, leveraging the accumulated knowledge of our maritime technical personnel and people working in ship technical divisions, along with our robust network with numerous partners.

"At present, the common needs of our customers involve environmental considerations and efforts toward decarbonization. Steel is a fundamental material used in all industries, and that will never change. However, the raw materials and production technologies are evolving. Our role is to meet the new transportation demand that accompanies these changes," says Takeshi Mikami of Coal & Iron Ore Carrier Business Group.

"Safety in navigation and advanced transportation services are essential for continuing transactions with our customers over the long term. "K" LINE has a high ratio of long-term chartered vessels that are managed and crewed by Group companies. Through the Group's vessel management and crew deployment, "K" LINE is able to retain crew members for vessels operated by the Group and train crew who are well-versed in the specifics of customer ports, cargo, and voyages. Consistent efforts in crew training and welfare have also contributed to these outcomes. Additionally, building relationships based on trust through activities such as vessel inspections and information sharing on safety in navigation with shipowners, with whom we have long maintained friendly relationships, leads to higher quality in safe navigation, thereby contributing to our competitive advantage." (Otsuki)

Strengthening Communication with Customers through Organizational Sales

India and the Middle East are among the regions driving future growth in the coal & iron ore carrier business. Particularly, the Indian market is expected to grow at an annual rate of 6% through 2030. "K" LINE has already secured medium- to long-term contracts from customers in India and the Middle East, establishing a solid customer base. Moving forward, we will deepen relationships with our customers and enhance profitability through the strengthening of our sales structure and the development of environmentally friendly fleets. Through organizational sales, where experts from the environmental and technical divisions work alongside sales representatives to make proposals, we will meet the increasingly sophisticated needs of our customers, such as the reduction of Scope 3 GHG emissions, in addition to ensuring safe transportation.

Under the medium-term management plan, we are strengthening relationships with major resource companies. Previously, short-term and market-linked contracts were the norm with these resource majors. Recently, however, opportunities have increased for medium- to long-term contracts as we consider transitioning to alternative fuel vessels with decarbonization in mind. We will also enhance our environmental measures and aim to acquire more medium- to long-term contracts. Singapore in particular is a region where we aim to strengthen our sales structure, as it plays a crucial role in building relationships with customers. "By directly visiting the offices of our customers and having in-person communications, we can gain more information and a deeper understanding of their needs. Singapore is a hub for resource majors in Asia, and having a base there is highly meaningful." (Mikami)

Capturing Growth in the Indian Market through Proposal-Based Sales

"One of our initiatives in the rapidly growing regions of India and the Middle East is joint research with JSW Steel, of India, aimed at decarbonization. In this joint research, we have a common goal of achieving net-zero GHG emissions by 2050, and are exploring new technologies and alternative fuels in maritime transport. New initiatives like this are the result of years of steady effort. Our business dealings with JSW Steel began in 2006. Customer needs have changed significantly since the global economic crisis in 2008, and we have spared no effort in continuing to satisfy those needs. As a result, "K" LINE is now in a position to compete for a top share of JSW Steel's maritime transport volume. India is expected to expand its volume of steel production. We aim to strengthen the relationship of trust that we have built with our customers through proposal-based organizational sales that incorporate specialized knowledge, on the path to realizing added value creation and growth," says Kentaro Tanaka, who is stationed in Mumbai, India.

We have been deepening our relationships of trust with customers in other regions as well. In July 2022, we established a council for joint research into decarbonization with Emirates Global Aluminium, of the United Arab Emirates (UAE), and in March 2023, we signed a memorandum to establish a council to jointly promote research and initiatives aimed at decarbonization with Anglo American. "We have received similar inquiries, especially about environmental measures, from a number of customers. Through these initiatives, we aim to build even stronger partnerships while meeting the decarbonization needs of our customers." (Mikami)

Continuing the efforts we have made so far in improving safety in navigation and transportation services is paramount for sustaining growth. Our goal is to continue growing through organizational sales and close relationships with customers, while also contributing to the reduction of environmental impact alongside our customers. "We take pride in the relationships of trust we have built over a long history with shipowners and shipyards, as well as our safety in navigation and the quality of our operational and vessel management. We have gained experience and built trust while addressing the stringent needs of world-class customers. We believe that we can satisfy the needs of this new era by leveraging our unique technical and proposal capabilities, even in a changing business environment." (Otsuki)

SPECIAL FEATURE 02

Progress and Strategies in Three Growth-Driving Businesses

▸ Car Carrier Business

Daimon Ogura (Left)

Car Carrier Business Group
Manager, RORO Marketing Team

Heiner Thomsen (Center)

"K" Line (Deutschland)
GmbH (Hamburg, Germany)
Director

Clemens Heide (Right)

"K" Line (Deutschland)
GmbH (Hamburg, Germany)
Manager, Business Development
Strategy

Against a backdrop of robust market conditions, "K" LINE is achieving growth by tapping into transportation needs for oversized cargo, such as railway cars and wind power generation equipment.

Driving Growth in Niche High-Margin Businesses

High & Heavy (H&H) cargo is a collective term for oversized and overweighted cargo that cannot be loaded into normal containers. This includes construction and agricultural machinery, large buses and trucks, railway cars, plant equipment, power transformation equipment, conveyor belts, wire cables, large steel products, and blades for wind power generation turbines and so on. Because the types of cargo are diverse, accurate market data does not exist. However, it is estimated that approximately 20% of the cargo loaded onto car carriers falls under the H&H cargo category. H&H transportation volume has been steadily increasing over the past few years.

Daimon Ogura of the RORO Marketing Team says, "Only about 700 vessels worldwide are engaged in the Deep-Sea RORO ocean transportation of H&H cargo. Considering that there are more than 60,000 commercial vessels in the world, it can be said that this is a niche segment. In this context, "K" LINE has built a solid market position with a leading share in Atlantic trade, and it also has a certain presence on Asia-Pacific Ocean routes. In addition to robust market conditions, H&H cargo, which requires advanced transportation know-how, has high margins on a per-cargo basis. The H&H cargo business has achieved profit targets in the medium-term management plan ahead of schedule. Furthermore, we aim for a 5–10% increase in profits by fiscal 2026."

Barriers to Entry Formed by Specialized Hard and Soft Resources

Although market conditions are robust, there are barriers to entry for new companies. This is because special resources are needed in terms of both hard and soft aspects of the business when handling H&H cargo, especially what is known as Break Bulk cargo, which does not move on its own. Specifically, the strength of the deck and ramp, and the structure / configuration with fewer pillars inside the hold, are essential. Additionally, specialized loading and unloading equipment, Roll-Trailer, are required. During the loading operation, various factors outside the scope of desktop calculations must also be considered. These factors include the shape, packing, and weight of the cargo, which is different each time, as well as the port environment, the seaworthiness of the vessel, and the handling skills of on-site personnel. The expertise and know-how of maritime technical personnel, backed by experience, are key. Furthermore, a global network of partners is indispensable to providing comprehensive services worldwide.

The "K" LINE Group has been a pioneer in focusing on H&H since the 2000s and has accumulated the various insights necessary for safely transporting H&H cargo. This includes advancing the design of new vessels compatible with H&H cargo, investing in loading and unloading equipment, and building an organization. Our strength lies in formulating meticulous transport plans, proposing them to our customers, and executing them—these capabilities are highly evaluated by our customers," says Heiner Thomsen of our German subsidiary, which is the hub for handling H&H cargo in the Atlantic region. His colleague Clemens Heide also points out the importance of being able to reliably provide services. "In 2021 and 2022, when maritime freight rates rose to historic levels, some competitors prioritized other types of cargo over H&H cargo for short-term profits. "K" LINE continued to satisfy the transportation needs of its existing customers equally, and that has led to the trust we cherish from our customers today."

Arrival of Opportunities for Developing New Customers

Demand is likely to expand for H&H cargo transportation in fields that contribute to a carbon-free society. This is evident in the growing demand for transportation related to wind power as renewable energy rapidly proliferates, as well as the increase in railway infrastructure updates and new projects as railways are reevaluated as a green means of transportation, particularly in Europe. For "K" LINE, this means maintaining and strengthening the H&H customer base that it has built in the construction, agriculture, and mining sectors, while increasing opportunities to approach a more diverse set of customers.

"Particularly in the area of railway transportation, since receiving our first order to ship rolling stock manufactured by a Japanese company to the United Kingdom in the 2010s, we have been focusing on developing new business opportunities while honing our expertise. These efforts are beginning to bear fruit, and we are currently participating in several railway transport projects," says Thomsen in anticipation of future growth.

Strengthening the Earning Base through Incremental Efforts

To seize these opportunities, we are planning further investments in the development of larger vessel designs capable of carrying heavier and larger H&H cargo, as well as high-specification large vessels and specialized loading equipment with enhanced safety and load-bearing capabilities. However, such hardware investments are only one of our measures to expand revenue.

"Improvements made through the sum of incremental efforts, such as thorough facility management, improving the accuracy of vessel operations, developing professional / specialized personnel, and careful negotiation of transportation contracts with customers, are also indispensable for strengthening our earning base," says Ogura. "There have been cases where responsiveness to small transport needs has led to business transactions with new customers. Meeting a wide range of needs through flexible, regular shipping services expands business opportunities," Heide also points out. "A majority of the consignees of H&H cargo place great importance on receiving their cargo safely by a set deadline. Timely and safe vessel operation and navigation are vital in avoiding project delays and losses in customer operations. We are aware of the role we play in supporting global projects with significant social impact, and we aim to gain the trust of our customers by committing to safe, high-quality navigation and cargo transport, which will lead to stable earnings over the medium to long term." (Ogura)

SPECIAL FEATURE 03

Progress and Strategies in Three Growth-Driving Businesses

▶ LNG Carrier Business

Takuji Murayama

General Manager, LNG Group

We contribute to stability in revenue by focusing on acquiring long-term contracts based on our track record of safety in LNG transportation over 40 years.

Pursuing Steady Growth through a Focus on Long-Term Contracts

As the use of LNG expands for realizing carbon neutrality, global demand for LNG is forecasted to increase from approximately 400 million tons in 2022, to around 750 million tons by 2040. In recent years, orders for new vessels have been brisk in anticipation of this growth in demand, and, as of 2023, outstanding orders seem to be at just over 300 vessels. On the other hand, of the approximately 650 LNG carriers in operation worldwide, about 300 are older vessels with issues in fuel efficiency and transport capacity, and will probably be gradually retired. Considering the replacement demand associated with these retirements, the supply-demand balance for vessel tonnage looks likely to remain tight for the foreseeable future.

"Our LNG carrier business has helped to stabilize revenues for the entire "K" LINE Group by consistently recording operating profits for the past 10 years, thanks to sales activities focused on long-term contracts, amid fluctuating market conditions," says Takuji Murayama of the LNG Group. "Under the medium-term management plan announced in 2022, there has been no change in our business policy of targeting long-term demand, even as the market as a whole is expanding. Since the dawn of LNG carrier transportation 40 years ago, we have been supporting the energy supply chain and serving as part of the social infrastructure through safe and reliable transportation. With customers who have signed long-term contracts of 15 or 20 years, these relationships extend over 20 years when including the construction period for new vessels based on the contracts. We recognize that meeting the needs of existing customers has been the foundation of our trust and reputation. We believe that maintaining safety and high quality in the future will translate into steady growth for the "K" LINE Group."

Focusing on Training Personnel to Support Safety in Navigation

In line with our basic policy of fleet development to match long-term contract acquisitions, "K" LINE has planned and carried out investments of approximately ¥160 billion in the LNG carrier business during the medium-term management plan. Including chartered vessels, the number of our operating vessels is set to expand, from 43 at the end of fiscal 2022, to 67 by fiscal 2026, and to more than 75 by fiscal 2030. To address the issue of increasing the number of maritime technical personnel and onshore personnel in tandem with the expansion of the fleet, we are advancing human resource development at the "K" LINE Maritime Academy, our maritime technical training facilities located in the Philippines, India, and other countries. Additionally, since May 2022, we have been working on securing and training maritime technical personnel in Singapore with an eye on new fuel adoption.

"Our track record of safety in navigation spanning over 40 years is our best selling point, and we have received high praise from customers in the energy transportation sector, where safety is the highest priority," says Murayama. "Securing and training personnel in navigation safety is highly significant in terms of value creation for "K" LINE." LNG carriers, which transport natural gas liquefied to the ultra-low temperature of -162°C, are required to have a higher level of safety and vessel management capabilities than other type of vessels. Customers require documentation on what could be described as a "resume" proving that the crew members aboard have sufficient experience. Maintaining and strengthening a system capable of meeting such stringent requirements is essential for sustaining our competitive advantages. Our basic policy is to train the crew for the vessels we operate, and we are able to maintain high-quality services thanks to the many crew members on board who are well-acquainted with our policies and operations. Amid pressing needs to secure a pool of maritime technical personnel, we are laying the groundwork in Singapore to ensure a sustainable system capable of safe and high-quality transportation, focusing on Japanese maritime technical personnel while also securing outstanding foreign maritime experts."

Customer-Oriented Sales Approach to Our Clients

For customers in emerging countries that are eyeing full-scale LNG imports in the future, "K" LINE is committed to steady relationship-building through study sessions, information exchange via organizational sales, as well as providing technical and regulatory advice related to LNG maritime transport. Going back to 2013, "K" LINE signed contracts for two vessels for INPEX in the Icthys LNG project, in Western Australia. "K" LINE had been selected by INPEX as the partner for its vessel study since around 2006 and conducted numerous study sessions. Although these study sessions were entirely separate from the vessel procurement bids, we were ultimately able to secure a contract on our own. "K" LINE has also entered into long-term fixed-period charter contracts for three medium-sized vessels to be completed between 2022 and 2023 with Malaysia's state-owned company, the PETRONAS Group. There was a period when PETRONAS had chartered one of our available vessels for two years, and our responsiveness to its needs during that period led to this major contract.

"Our customers in the Asian region, including the PETRONAS Group, often prefer a close relationship where they can easily reach out to us or consult with us on minor matters," says Murayama. "With the establishment of K LINE MARINE & ENERGY PTE. LTD. (KME) in Singapore in June 2023, we have integrated vessel management and sales functions to strengthen the organizational sales system. This has enabled us to offer customized proposals tailored to individual needs of customers and prompt support to customers in neighboring countries."

In August and November 2022, we concluded a long-term fixed-period charter contract for 12 LNG carriers with Qatar's state-owned energy company, QatarEnergy LNG. This was the outcome of a relationship built on trust through many years of safe navigation since the dawn of LNG transportation.

In May 2023, "K" LINE won a long-term contract from Diamond Gas International (DGI), a 100% subsidiary of Mitsubishi Corporation. This is another example where appreciation of our quality vessel management and safety navigation technology in past projects has led to larger business transactions. "There was also that time when a customer in an emerging country sought our advice on vessel operations when constructing an LNG terminal. Handling our customers' needs with care and satisfying these needs can serve as a starting point for major new business in the future. We believe that steadily building a trustworthy relationship as a partner and constantly sowing the seeds for future growth leads to sustainable business growth," adds Murayama.

LNG carrier LAGENDA SETIA

SPECIAL FEATURE 04

Jun Sasaki

General Manager, Carbon-Neutral Promotion Group

New Businesses That Leverage Our Strengths

▸ Liquefied CO_2 Transport Business

We aim to establish a position in the transportation of liquefied CO_2, which contributes to a carbon-free society, by leveraging our strengths in liquefied gas transportation.

New Markets Created by Demand for CO_2 Transport

A global consensus is emerging for the phased reduction of GHG emissions, including CO_2, to achieve carbon neutral by 2050. In this context, various initiatives are advancing, such as spreading renewable energy and developing technologies for utilizing new energy sources like hydrogen and ammonia, while carbon dioxide capture and storage (CCS) is also gaining attention lately.

CCS assumes that CO_2 needs to be transported from its source to storage locations. Along with pipelines, maritime transport of liquefied CO_2 is likely to become a major means of transportation. According to the International Energy Agency (IEA), the annual reduction of CO_2 through CCS is estimated to reach approximately 5.4 billion tons per annum in 2050.

"Even if we assume that maritime transport will handle only a certain portion of this annual 5.4 billion tons of CO_2, around 200 new liquefied CO_2 carriers will be needed by the mid-2030s to meet this demand," says Jun Sasaki from the Carbon-Neutral Promotion Group. CCS is considered a practical solution to support GHG emission reductions and realize a circular economy. It is at the stage where an entire value chain is being established for separating and capturing CO_2, and then transporting liquefied CO_2 via pipelines or vessels for underground storage. "With an eye on establishing a position in this emerging market, we see an opportunity to offer new maritime services for the transport of liquefied CO_2 for our customers with whom we have had the pleasure of doing business so far, and we will proactively work toward this goal," adds Sasaki.

World-First CCS Project Taking on Norway

Our venture into new business domains has materialized through our participation in a world-first project to establish a full-fledged CCS value chain in Norway. We have entered into a long-term contract for two liquefied CO_2 carriers that will commence operations in 2024 with Northern Lights*, which aims to build a commercial CCS value chain based in Norway. "While vessels currently exist for transporting CO_2 for food and industrial purposes, the two carriers being newly built for this project will be the world's first vessels for commercial CCS operations," explains Sasaki.

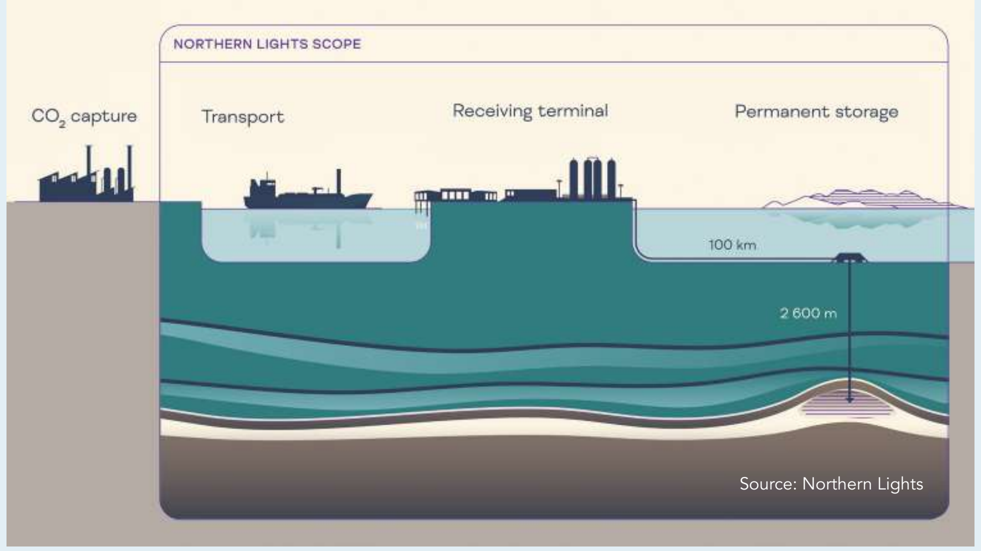
"K" LINE has been involved in a wide range of liquefied gas vessel construction and operations, putting into service LPG and LNG carriers in 1974 and 1983, respectively. In 2006, we were involved in Norway's first Snohvit LNG export project and have earned recognition from the oil and gas majors, as well as our customers in the electric power and gas sectors. Furthermore, since 2021, we have participated in R&D and demonstration projects related to CO_2 maritime transport by Japan's New Energy and Industrial Technology Development Organization (NEDO). "K" LINE has also been engaged in the development of liquefied CO_2 storage and transportation technology under low-temperature and low-pressure conditions, which are key to the social implementation of large-scale CO_2 transportation. Along with external partners, including our customers, we are actively involved in various projects aimed at constructing CCS value chains. "We believe that our early involvement in demonstration projects, as well as our proven track record of providing transportation services to Northern Lights sponsors Equinor, Shell, and Total, led to our winning of this contract," adds Sasaki.

Ship management for the Northern Lights project is being handled by "K" Line LNG Shipping (UK) Limited, which has experience managing LNG vessels in mainly the Atlantic Ocean region. This company is based in London, which is geographically close to Norway and not significantly affected by time differences, offering advantages for ship management. Plans are in place for sharing and accumulating organizational know-how, including personnel exchanges, among our three bases in London, Tokyo, and Singapore, the ship management hub for Asia.

Building New Value Chains with Customers and Partners

"Viewing CCS as one of the solutions for decarbonization, industries with needs for liquefied CO_2 transportation range widely, including electric power and gas, steel, petrochemicals, papermaking, and cement. Most of these industries are already our customers in existing lines of business, and there is potential for further expansion in future business dealings," anticipates Sasaki in regard to the growth prospects of the business. "Opportunities have increased considerably for visiting customers both domestically and overseas, in collaboration with sales representatives from other departments, and sharing ideas and proposals about liquefied CO_2 transport. Even in new domains such as this, we understand that there are needs for stable logistics over the long term," adds Sasaki.

The liquefied CO_2 carrier market looks likely to gradually emerge in Europe in the late 2020s, centered primarily on relatively short-distance transport, and then reach a certain market scale in the Asia-Pacific region by the 2030s. Leveraging our longstanding expertise and track record in the transportation of liquefied gases, we aim for business growth as a key player in value chains that contribute to GHG emissions reduction, having been chosen as partners right from the developmental stages of pioneering projects.



Source: Northern Lights