Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd.
and Consolidated Subsidiaries

March 31, 2022
with Independent Auditor's Report

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

March 31, 2022

Contents

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2022

	2021	**2022**
	(Millions of yen)	
Assets		
Current assets:		
Cash and deposits *(Notes 15 and 18)*	¥ 132,371	**¥ 247,344**
Accounts and notes receivable-trade *(Notes 15 and 21)*	56,125	**–**
Accounts and notes receivable-trade and contract assets *(Notes 15 and 21)*	–	**103,699**
Raw materials and supplies	22,309	**36,572**
Deferred and prepaid expenses	38,790	**17,659**
Short-term loans receivable	1,844	**4,749**
Other current assets	15,685	**22,107**
Allowance for doubtful accounts	(915)	**(1,044)**
Total current assets	266,210	**431,089**
Non-current assets:		
Vessels, property and equipment net of accumulated depreciation *(Notes 2, 5, 11and 13)*:		
Vessels	352,981	**339,821**
Buildings and structures	10,641	**9,817**
Machinery, equipment and vehicles	3,338	**2,904**
Land	16,356	**15,730**
Construction in progress	3,877	**9,679**
Other	4,137	**4,076**
Total vessels, property and equipment	391,334	**382,029**
Intangible assets *(Note 4)*:		
Other intangible assets	3,551	**3,513**
Total intangible assets	3,551	**3,513**
Investments and other assets:		
Investment securities *(Notes 4, 6, 12, 15 and 22)*	257,522	**691,809**
Long-term loans receivable	19,043	**23,007**
Asset for retirement benefits *(Note 9)*	857	**1,228**
Deferred tax assets *(Note 7)*	3,378	**2,589**
Other investments and other assets *(Note 12)*	33,964	**40,824**
Allowance for doubtful accounts	(1,253)	**(1,132)**
Total investments and other assets	313,512	**758,326**
Total non-current assets	708,398	**1,143,870**
Total assets *(Note 22)*	¥ 974,608	**¥ 1,574,960**

	2021	**2022**
	(Millions of yen)	
Liabilities		
Current liabilities:		
Accounts and notes payable – trade *(Note 15)*	¥ 51,661	**¥ 62,756**
Short-term loans and current portion of long-term loans *(Notes 5, 6and 14)*	138,002	**87,544**
Lease obligations *(Note 6)*	6,023	**26,870**
Accrued income taxes *(Note 7)*	1,404	**3,051**
Provision for loss related to the Anti-Monopoly Act	357	**357**
Provision for loss on liquidation of subsidiaries and affiliates	62	**2,168**
Provision for loss on chartering contracts *(Note 2)*	15,556	**13,903**
Provision for bonuses	2,655	**4,165**
Provision for directors' bonuses	117	**309**
Other current liabilities	45,688	**50,411**
Total current liabilities	261,529	**251,538**
Non-current liabilities:		
Bonds *(Notes 6 and 15)*	7,000	**–**
Long-term loans, less current portion *(Notes 6 and 15)*	325,803	**277,992**
Lease obligations *(Note 6)*	30,176	**24,047**
Deferred tax liabilities *(Note 7)*	5,759	**9,129**
Deferred tax liabilities on land revaluation *(Notes 7 and 13)*	1,174	**1,174**
Provision for directors' and audit and supervisory board members' retirement benefits	353	**167**
Provision for directors' stock benefits	48	**307**
Provision for periodic drydocking of vessels	11,904	**13,392**
Liability for retirement benefits *(Note 9)*	6,499	**6,147**
Derivative liabilities *(Notes 15 and 16)*	5,045	**3,417**
Other non-current liabilities	3,150	**2,761**
Total non-current liabilities	396,916	**338,538**
Total liabilities	658,446	**590,077**
Net assets		
Shareholders' equity *(Note 10)*:		
Common stock		
Authorized – 200,000,000 shares in 2021 and 2022		
Issued – 93,938,229 shares in 2021 and 2022	75,457	**75,457**
Capital surplus	14,295	**14,214**
Retained earnings	130,723	**777,130**
Treasury stock – 664,331 shares in 2021 and 664,782 shares in 2022	(2,373)	**(2,378)**
Total shareholders' equity	218,103	**864,424**
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on investment securities	3,960	**5,474**
Deferred gain (loss) on hedges	(3,657)	**(893)**
Revaluation reserve for land *(Note 13)*	4,630	**4,630**
Foreign currency translation adjustments	(1,963)	**12,954**
Retirement benefits liability adjustments	(2,879)	**(1,956)**
Total accumulated other comprehensive income	90	**20,209**
Non-controlling interests	97,968	**100,248**
Total net assets	316,162	**984,882**
Total liabilities and net assets	¥ 974,608	**¥ 1,574,960**

The accompanying notes are an integral part of the consolidated financial statements.

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Operations

Year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Marine transportation and other operating revenues *(Notes 2 and 21)*	¥ 625,486	**¥ 756,983**
Marine transportation and other operating costs and expenses	590,046	**681,605**
Gross profit (loss)	35,440	**75,377**
Selling, general and administrative expenses	56,726	**57,714**
Operating income (loss)	(21,286)	**17,663**
Non-operating income:		
Interest income *(Note 21)*	541	**671**
Dividend income	1,977	**2,226**
Equity in earnings of unconsolidated subsidiaries and affiliates *(Note 21)*	118,165	**640,992**
Foreign exchange gains	1,401	**10,742**
Other non-operating income	1,461	**1,470**
Total non-operating income	123,547	**656,103**
Non-operating expenses:		
Interest expenses *(Note 21)*	10,056	**10,305**
Loss on valuation of derivatives	719	**2,003**
Financing expenses	1,135	**3,467**
Other non-operating expenses	850	**487**
Total non-operating expenses	12,762	**16,263**
Ordinary income (loss) *(Note 21)*	89,498	**657,504**
Extraordinary income:		
Gain on sales of non-current assets	11,947	**19,758**
Gain on sales of shares of subsidiaries and affiliates *(Note 20)*	19,894	**8,967**
Other extraordinary income	496	**1,379**
Total extraordinary income	32,339	**30,105**
Extraordinary losses:		
Impairment losses *(Notes 2, 5 and 21)*	6,307	**18,159**
Loss on cancellation of chartered vessels	1,061	**7,262**
Provision for loss on liquidation of subsidiaries and affiliates	62	**2,168**
Other extraordinary losses *(Note 4)*	550	**924**
Total extraordinary losses	7,982	**28,516**
Profit (loss) before income taxes	113,854	**659,093**
Income taxes *(Note 7)*:		
Current	2,628	**8,665**
Deferred	143	**3,794**
Total income taxes	2,772	**12,459**
Profit (loss)	111,082	**646,633**
Profit (loss) attributable to non-controlling interests	2,386	**4,209**
Profit (loss) attributable to owners of the parent	¥ 108,695	**¥ 642,424**

The accompanying notes are an integral part of the consolidated financial statements.

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Profit (loss)	¥ 111,082	**¥ 646,633**
Other comprehensive income *(Note 17)*:		
Net unrealized holding gain (loss) on investment securities	4,048	**1,581**
Deferred gain (loss) on hedges	(756)	**1,470**
Foreign currency translation adjustments	6,142	**10,959**
Retirement benefits liability adjustments	1,813	**881**
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using the equity method	(2,374)	**5,737**
Total other comprehensive income	8,873	**20,630**
Comprehensive income	¥ 119,956	**¥ 667,264**
(Breakdown)		
Comprehensive income attributable to owners of parent	¥ 116,542	**¥ 662,543**
Comprehensive income attributable to non-controlling interests	3,413	**4,720**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2022

(Millions of yen)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain (loss) on investments securities	Deferred gain (loss) on hedges
Balance at April 1, 2020	¥ 75,457	¥ 13,723	¥ 22,050	¥ (2,379)	¥ 108,852	¥ 148	¥ (3,152)
Change in items during the year							
Profit(loss) attributable to owners of the parent	–	–	108,695	–	108,695	–	–
Purchase of treasury stock	–	–	–	(1)	(1)	–	–
Disposal of treasury stock	–	(2)	–	7	4	–	–
Change in ownership interest of parent due to transactions with non-controlling interests	–	575	–	–	575	–	–
Reversal of revaluation reserve for land	–	–	0	–	0	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	(23)	–	(23)	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	3,811	(505)
Net changes during the year	–	572	108,672	5	109,251	3,811	(505)
Balance at March 31, 2021	¥ 75,457	¥ 14,295	¥ 130,723	¥ (2,373)	¥ 218,103	¥ 3,960	¥ (3,657)

(Millions of yen)

	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥ 4,631	¥ (4,821)	¥ (4,562)	¥ (7,756)	¥ 99,138	¥ 200,234
Change in items during the year						
Profit(loss) attributable to owners of the parent	–	–	–	–	–	108,695
Purchase of treasury stock	–	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	–	–	4
Change in ownership interest of parent due to transactions with non-controlling interests	–	–	–	–	–	575
Reversal of revaluation reserve for land	–	–	–	–	–	0
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	(23)
Net changes in items other than shareholders' equity	(0)	2,858	1,682	7,846	(1,169)	6,676
Net change during the year	(0)	2,858	1,682	7,846	(1,169)	115,928
Balance at March 31, 2021	¥ 4,630	¥ (1,963)	¥ (2,879)	¥ 90	¥ 97,968	¥ 316,162

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2022

(Millions of yen)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain (loss) on investments securities	Deferred gain (loss) on hedges
Balance at April 1, 2021	¥ 75,457	¥ 14,295	¥ 130,723	¥ (2,373)	¥ 218,103	¥ 3,960	¥ (3,657)
Cumulative effects of change in accounting policies	–	–	3,982	–	3,982	–	–
Restated balance	75,457	14,295	134,706	(2,373)	222,085	3,960	(3,657)
Change in items during the year							
Profit(loss) attributable to owners of the parent	–	–	642,424	–	642,424	–	–
Purchase of treasury stock	–	–	–	(4)	(4)	–	–
Disposal of treasury stock	–	–	–	–	–	–	–
Change in ownership interest of parent due to transactions with non-controlling interests	–	(80)	–	–	(80)	–	–
Reversal of revaluation reserve for land	–	–	–	–	–	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	(0)	–	(0)	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	1,514	2,764
Net changes during the year	–	(80)	642,424	(4)	642,338	1,514	2,764
Balance at March 31, 2022	¥ 75,457	¥ 14,214	¥ 777,130	¥ (2,378)	¥ 864,424	¥ 5,474	¥ (893)

(Millions of yen)

	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2021	¥ 4,630	¥ (1,963)	¥ (2,879)	¥ 90	¥ 97,968	¥ 316,162
Cumulative effects of change in accounting policies	–	–	–	–	88	4,070
Restated balance	4,630	(1,963)	(2,879)	90	98,056	320,233
Change in items during the year						
Profit(loss) attributable to owners of the parent	–	–	–	–	–	642,424
Purchase of treasury stock	–	–	–	–	–	(4)
Disposal of treasury stock	–	–	–	–	–	–
Change in ownership interest of parent due to transactions with non-controlling interests	–	–	–	–	–	(80)
Reversal of revaluation reserve for land	–	–	–	–	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	(0)
Net changes in items other than shareholders' equity	–	14,917	923	20,119	2,191	22,311
Net change during the year	–	14,917	923	20,119	2,191	664,649
Balance at March 31, 2022	¥ 4,630	¥ 12,954	¥ (1,956)	¥ 20,209	¥ 100,248	¥ 984,882

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Cash flows from operating activities:		
Profit(loss) before income taxes	¥ 113,854	**¥ 659,093**
Depreciation and amortization	43,869	**42,821**
Increase (decrease) in liability for retirement benefits	(739)	**(99)**
(Increase) decrease in asset for retirement benefits	(256)	**(371)**
Increase (decrease) in retirement benefits liability adjustments	1,930	**980**
Increase (decrease) in provision for directors' and audit and supervisory board members' retirement benefits	(9)	**(185)**
Increase (decrease) in provision for periodic drydocking of vessels	327	**1,463**
Increase (decrease) in provision for loss on chartering contracts	(917)	**(1,652)**
Interest and dividend income	(2,519)	**(2,898)**
Interest expenses	10,056	**10,305**
Foreign exchange losses (gains)	(1,482)	**(8,291)**
Impairment losses	6,307	**18,159**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(118,165)	**(640,992)**
Loss on cancellation of chartered vessels	1,061	**7,262**
Provision for loss on liquidation of subsidiaries and affiliates	62	**2,168**
(Gain) loss on sales of vessels, property and equipment, net	(11,923)	**(19,756)**
(Gain) loss on sales of shares of subsidiaries and affiliates	(19,893)	**(8,967)**
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and notes receivable – trade	(2,109)	**–**
(Increase) decrease in accounts and notes receivable – trade and contract assets	–	**(28,855)**
(Increase) decrease in raw materials and supplies	3,039	**(14,024)**
(Increase) decrease in other current assets	(2,853)	**1,754**
Increase (decrease) in accounts and notes payable – trade	8,039	**2,524**
Increase (decrease) in other current liabilities	1,277	**8,097**
Other, net	(456)	**940**
Subtotal	28,498	**29,476**
Interest and dividends received	19,938	**217,357**
Interest paid	(10,039)	**(10,435)**
Payments for cancellation of chartered vessels	(1,061)	**(6,715)**
Payments related to the Anti-Monopoly Act	(630)	**(328)**
Income taxes paid	(3,308)	**(2,894)**
Net cash provided by (used in) operating activities	¥ 33,397	**¥ 226,460**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Cash flows from investing activities:		
Payments into time deposits	¥ (5,199)	**¥ (6,588)**
Proceeds from withdrawal of time deposits	6,535	**6,114**
Purchases of marketable securities and investment securities	(237)	**(4,249)**
Proceeds from sales of marketable securities and investment securities	296	**252**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	25,784	**2,810**
Purchases of vessels, property and equipment	(41,718)	**(41,140)**
Proceeds from sales of vessels, property and equipment	41,369	**46,382**
Purchases of intangible assets	(405)	**(821)**
Payments of long-term loans receivable	(4,309)	**(6,824)**
Collection of long-term loans receivable	1,906	**1,331**
Other, net	(7,033)	**(3,115)**
Net cash provided by (used in) investing activities	16,987	**(5,848)**
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	(921)	**(244)**
Proceeds from long-term loans	110,274	**76,339**
Repayments of long-term loans and obligations under finance leases	(140,191)	**(190,309)**
Redemption of bonds	(3,000)	**–**
Cash dividends paid to non-controlling interests	(849)	**(1,124)**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	(241)	**(663)**
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	4	**14**
Other, net	78	**(13)**
Net cash provided by (used in) financing activities	(34,845)	**(116,001)**
Effect of exchange rate changes on cash and cash equivalents	2,527	**9,705**
Net increase (decrease) in cash and cash equivalents	18,066	**114,314**
Cash and cash equivalents at beginning of the year	111,933	**130,001**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	1	**1**
Cash and cash equivalents at end of the year *(Note 18)*	¥ 130,001	**¥ 244,316**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2022

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. (the "Company") and its consolidated subsidiaries (the "Group") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS"), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been rounded off. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2021 to the 2022 presentation. Such reclassifications had no effect on consolidated profit, net assets or cash flows.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 267 and 249 subsidiaries for the years ended March 31, 2021 and 2022, respectively. The principles of consolidation are to include significant subsidiaries, whose voting interests are owned 40 per cent or more by the consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, significant affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways are accounted for by the equity method.

For the year ended March 31, 2022, 2 consolidated subsidiaries were included in the scope of consolidation in terms of materiality and 20 companies were excluded from the scope of consolidation due to the disposal of their shares and liquidation.

Certain subsidiaries are excluded from the scope of consolidation as the effect of their total assets, net assets, profit or loss and retained earnings (each amount of profit or loss and retained earnings in proportion to the interest held by the Company) on the accompanying consolidated financial statements are not significant.

1. Summary of Significant Accounting Policies (continued)

(b) Principles of consolidation (continued)

The Company accounted for 14 unconsolidated subsidiaries and 28 affiliates using the equity method at March 31, 2022. The main affiliated company is OCEAN NETWORK EXPRESS PTE. LTD. 1 unconsolidated subsidiary was excluded from the scope of application of the equity method due to the disposal of shares for the year ended March 31, 2022.

Certain unconsolidated subsidiaries and affiliates are not accounted for by the equity method but stated at cost, because the effect of their profit or loss and retained earnings (each amount in proportion to the interest held by the Company) on the accompanying consolidated financial statement are not significant individually or in the aggregate.

For the purposes of consolidation, all significant intercompany transactions, account balances and unrealized profit among the consolidated group companies have been eliminated.

Goodwill is amortized by the straight-line method over a period of five years.

(c) Accounting period

The Company's accounting period begins each year on April 1 and ends the following year on March 31. During the fiscal year ended March 31, 2022, the Company and 240 consolidated subsidiaries have a March 31 year end, and the remaining 9 consolidated subsidiaries have a December 31 year end. 4 consolidated subsidiaries out of 9 consolidated subsidiaries have December 31 year end and used as the closing date for their financial statements. However, necessary adjustments have been made to address any significant transactions that occurred between closing dates to that of the Company. 5 consolidated subsidiaries out of 9 consolidated subsidiaries with a fiscal year end of December 31 provide financial statements based on provisional settlement of accounts as of March 31 to facilitate preparation of the consolidated financial statements.

For the companies accounted for by the equity method whose closing dates that differ from the closing date of the Company, the Company has used their financial statements for each company's fiscal year.

1. Summary of Significant Accounting Policies (continued)

(d) Translation of foreign currencies

Revenues earned and expenses incurred in currencies other than Japanese yen of the Company and its subsidiaries that maintain their books in Japanese yen are translated into Japanese yen either at an average monthly exchange rate or at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than Japanese yen are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Subsidiaries that maintain their books in a currency other than Japanese yen translate revenues and expenses and assets and liabilities denominated in foreign currencies into the currency used for financial reporting purposes in accordance with accounting principles generally accepted in their respective countries of domicile.

(e) Translation of accounts of overseas consolidated subsidiaries

The accounts of the overseas consolidated subsidiaries, except for the components of net assets excluding non-controlling interests of consolidated subsidiaries, are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding accumulated other comprehensive income and non-controlling interests are translated at their historical exchange rates. Differences arising from translation are presented as translation adjustments and non-controlling interests in the accompanying consolidated financial statements.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(g) Raw material and supplies

Raw material and supplies are mainly stated at cost based on the moving-average method (The method includes write-downs based on decreased profitability).

1. Summary of Significant Accounting Policies (continued)

(h) Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized costs. Quoted securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Unquoted securities classified as other securities are carried at cost determined principally by the moving- average method.

Under the Companies Act of Japan (the "Companies Act"), net unrealized holding gain on investment securities after netting of applicable income taxes, is not available for distribution as dividends.

(i) Vessels, property and equipment and depreciation (except for leased assets under finance leases)

Depreciation of vessels is computed by the straight-line or the declining-balance method over the estimated useful lives of the respective vessels.

Depreciation of property and equipment is computed principally by the declining-balance method over the estimated useful lives of the respective assets. However, the depreciation of buildings (excluding accompanying facilities) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are computed by the straight-line method.

Maintenance, repairs and minor improvements are charged to income as incurred. Major improvements are capitalized.

(j) Capitalization of interest expense

Interest expense is generally charged to income as incurred. However, interest expense incurred in the construction of certain vessels is capitalized and included in the costs of the assets if the construction period is substantially long.

1. Summary of Significant Accounting Policies (continued)

(k) Leases

Leased assets under finance lease transactions that transfer ownership to the lessee are depreciated by the same methods used for owned fixed assets.

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by straight-line method over the lease term.

Finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008 are accounted for as operating lease transactions.

(l) Research and development costs and computer software (except for leased assets under finance leases)

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life of five years.

(m) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at an amount calculated based on the historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(n) Provision for bonuses

In order to prepare for bonuses to be paid to employees, the provision for bonuses is recognized at the estimated amount of the bonuses to be paid as allocated to the current fiscal year.

(o) Provision for directors' bonuses

In order to prepare for bonuses to be paid to directors, the provision for directors' bonuses is recognized at the estimated amount of the bonuses to be paid as allocated to the current fiscal year.

1. Summary of Significant Accounting Policies (continued)

(p) Provision for directors’ and audit and supervisory board members’ retirement benefits

In order to prepare for retirement benefit payments to directors and audit and supervisory board members, the amount required at the end of the fiscal year by the internal rules is recognized at certain consolidated subsidiaries.

(q) Provision for periodic drydocking of vessels

Vessels and other assets of the Group are subject to periodic overhaul. A provision is provided on the basis of the estimated amount of total expenses expected to be incurred for overhauling the vessels in the following year which has been allocated to the current fiscal year.

(r) Provision for loss related to the Anti-Monopoly Act

In order to prepare for fines and penalties required by overseas authorities relating to the Anti-Monopoly Act, an amount reasonably estimated to the extent possible is recognized.

(s) Provision for loss on liquidation of subsidiaries and affiliates

In order to prepare for loss accompanied by liquidation of subsidiaries and affiliates, the estimated amount of loss is recognized.

(t) Provision for directors’ stock benefits

In order to prepare for stock benefits, etc. to the directors and the executive officers in accordance with the Regulations for Delivery of Shares to Officers, the provision for stock benefits is recognized at the estimated amount of the Company’s stock corresponding to points to be provided to the eligible individuals as of the end of the current fiscal year.

(u) Provision for loss on chartering contracts

In order to prepare for potential future losses from certain contracts where charter rates have fallen below hire rates, a provision for losses on chartering charter contracts is recognized at the amount of reasonably estimable based on available information as of the end of the current fiscal year.

1. Summary of Significant Accounting Policies (continued)

(v) Retirement benefits

The liability for retirement benefits has been provided principally at an amount calculated based on the retirement benefit obligation after the fair value of the pension plan assets are deducted within same plan. The retirement benefit obligations are attributed to each period by the benefit formula method.

Actuarial differences are amortized in the years following the year in which the differences are recognized by the straight-line method principally over a period of nine years, which falls within the estimated average remaining years of service of the eligible employees.

Past service cost is amortized by the straight-line method principally over a period of nine years, which falls within the estimated average remaining years of service of the eligible employees.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and the long-term expected rate of return from multiple plan assets at present and in the future.

(w) Revenues and costs and expense recognition

The Company recognizes revenue at an amount expected to be received when control of promised goods or services is transferred. Therefore, the Company records marine transportation revenues based on the number of days that have elapsed during a voyage and records costs and expenses associated with revenues.

(x) Derivatives and hedging activities

The Group utilizes derivatives, including forward foreign exchange contracts, interest rate swaps, currency options, currency swaps, bunker fuel swaps and forward freight agreements to hedge the risks arising from fluctuations in forward foreign currency exchange rates, mainly on investments in the overseas subsidiaries, etc. and forecast transactions denominated in foreign currencies; interest rates, mainly on loan and lease transactions; and market prices, mainly on bunker fuel.

The Group applies deferral hedge accounting method. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed under “Special treatment.”

1. Summary of Significant Accounting Policies (continued)

(x) Derivatives and hedging activities (continued)

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

The hedge effectiveness is assessed based on a comparison of the cumulative changes in cash flows or fair value of the hedged items with those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, an evaluation of effectiveness is omitted for interest-rate swaps which meet certain conditions for applying the Special treatment.

The Group executes and manages transactions for the purpose of risk control with regard to financial markets and others in accordance with internal rules. These rules have been established not only to prevent derivative or other transactions from being used for any objective other than their original purpose or from being executed without limitation, but also to ensure the management body exercises its oversight functions.

(Hedge activities subject to “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR”)

Among the above hedge activities, the exceptional treatment prescribed in the Practical Issues Task Force (“PITF”) is applied to all hedge activities included in the scope of application of “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (Accounting Standards Board of Japan (“ASBJ”) PITF No.40, issued on March 17, 2022).

The details of hedging activities to which the PITF is applied are as follows.
(1) Hedge accounting method: Deferral hedge accounting method
(2) Applicable hedging instruments: Interest rate swaps
(3) Applicable hedged items: Long-term loans
(4) Applicable hedging transactions: Cash flow hedge

(y) Income taxes

Deferred tax assets and liabilities have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

1. Summary of Significant Accounting Policies (continued)

(z) Deferred assets

Bond issuance costs are charged to income as incurred.

(aa) Distribution of retained earnings

Under the Companies Act and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given fiscal year end is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial year.

The distribution of retained earnings with respect to the interim financial period is made by resolution of the Board of Directors.

(ab) Consolidated taxation system

The Company and certain domestic subsidiaries adopted the consolidated taxation system.

(Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system)

The Company and certain domestic subsidiaries plan to transfer from the consolidated taxation system to the group tax sharing system from the following fiscal year. However, the Company and certain domestic subsidiaries applied tax laws in effect prior to the amendments to calculate deferred tax assets and deferred tax liabilities for certain items remeasured from the single tax return system in accordance with section 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No.39, March 31, 2020) based on provisions in "Act for Partial Amendments to Income Tax Act" (Act No.8) as an alternative to the application of section 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018).

From the beginning of the following fiscal year, the Company plans to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate tax and local corporate taxes and tax effect accounting in the case where a group applies the group tax sharing system.

1. Summary of Significant Accounting Policies (continued)

(ac) Accounting standards issued but not yet effective

(Implementation Guidance for Fair Value Measurement)

(1) Overview

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) was revised and issued on June 17, 2021. This amendment was scheduled for consideration at the time of its original release on July 4, 2019, as it was believed that a certain period of time would be required for discussions with relevant parties to consider the "calculation of the fair value of investment trusts." In addition, since certain considerations are necessary regarding information in the notes on the fair value of "Investments in partnerships, etc., which are recorded on the consolidated balance sheet at the net amount of an entity's equity interest," it was expected to take approximately one year after the release of the "Accounting Standard for Fair Value Measurement" to consider these issues.

(2) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2023.

(3) Effect of the adoption of implementation guidance

The Company has not determined the effect of the adoption of the implementation guidance on its consolidated financial statements.

2. Significant Accounting Estimates

(1) Estimate of provision for loss on chartering contracts

(a) Amount recognized in consolidated financial statements for the year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Consolidated Statement of Operations:		
Marine transportation and other operating revenues	¥ 15,278	**¥ 13,690**
Consolidated Balance Sheet:		
Provision for loss on chartering contracts	15,556	**13,903**

2. Significant Accounting Estimates (continued)

(1) Estimate of provision for loss on chartering contracts (continued)

(b) Other information

(i) Calculation method of the amounts recognized in the consolidated financial statements for the year ended March 31, 2022

After the establishment of OCEAN NETWORK EXPRESS PTE. LTD. (a joint venture for the purpose of integrating the regular container shipping business, hereinafter referred to as "ONE"), the containership business started regular shipping business from the Company to ONE, and the business form has changed from the conventional business form of operating ships to provide freight transportation services to the business form of chartering ships.

The provision for loss on chartering contracts mentioned above is recorded by estimating potential future losses from certain contracts where charter rates have fallen below hire rates when such future losses are deemed highly probable and reasonably estimable based on available information as of March 31, 2022.

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the year ended March 31, 2022

Significant assumptions used to calculate the amount recognized in the consolidated financial statements as of March 31, 2022 are the range of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of loss making from the contracts.

The scope of vessels for which future charter contract losses are expected is based on the operation plan, which is based on the budget approved by the Board of Directors.

The charter rate and hire rate of applicable vessels is based on the charter contracts between the Company and the shipowner, and the charter contracts between the Company and ONE.

The expected duration of loss making from the contracts is based on the term of the charter contracts with the charters, ONE, and the situation where the unfavorable result between the charter rate and hire rate is reasonably expected to continue after the end of the fiscal year, even after the consideration of the market trends to which the vessel belongs to and the Group's policy of the charter contracts.

2. Significant Accounting Estimates (continued)

(1) Estimate of provision for loss on chartering contracts (continued)

(b) Other information (continued)

(iii) Impact on consolidated financial statements for the following year

Due to the high degree of uncertainty in the estimation of the significant assumptions such as the scope of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of loss making from the contracts, depending on the Group's policy for chartering contracts and trends in charter market, additional provision may need to be recognized, which would affect the calculation of the amount of estimated loss resulting from chartering contracts.

(2) Estimate of total number of voyage days used in voyage progress calculation for revenue recognition

The Group considers the voyage progress in calculating freight revenue of ocean tramp shipping (excluding product logistics) for the Company as a significant accounting estimate due to the significance of the freight revenue amounts and the estimated period.

(a) Amount of freight revenue marine included in transportation and other operating revenues for voyages not completed as of the end of the fiscal year in the consolidated financial statements for the fiscal year ended March 31, 2022

	2021	**2022**
	(Millions of yen)	
Marine transportation and other operating revenues	¥ –	**¥ 29,170**

(b) Other Information

(i) Calculation method of the amount recognized in the consolidated financial statements for the year ended March, 31, 2022

Marine transportation revenues for voyages not completed as of the end of the fiscal year are calculated based on the total freight revenue amounts and the estimate of voyage progress. The voyage progress is calculated based on the number of elapsed days of a voyage as of the end of the fiscal year compared with the estimated total number of voyage days, and the amount of marine transportation revenue is recognized in proportion to the voyage progress.

2. Significant Accounting Estimates (continued)

(2) Estimate of total number of voyage days used in voyage progress calculation for revenue recognition (continued)

(b) Other Information (continued)

(ii) Significant assumptions in calculation the voyage progress for revenue recognition for the year ended March, 31, 2022

A significant assumption in calculating the voyage progress for revenue recognition is the total number of voyage days. The total number of voyage days may change depending on weather conditions, congestion at the ports of loading and unloading and other factors, which may affect the voyage progress. Particularly in the fiscal year, port congestion worsened due to the recent strengthening of the quarantine system in various countries following COVID-19 and there is a possibility that it will have an impact on the estimate of the total voyage days.

(iii) Impact on consolidated financial statements for the following year

There is a possibility that the amount of marine transportation revenue recognized for the following fiscal year could be affected because of the difference between estimated and actual total number of voyage days, which is a significant assumption, due to fluctuations in the voyage progress.

3. Changes in Accounting Standards

(Application of Accounting Standard for Revenue Recognition)

Effective from the beginning of the fiscal year ended March 31, 2022, the Company has applied the “Accounting Standard for Revenue Recognition,” (ASBJ Statement No. 29, March 31, 2020) and therefore recognizes revenue at an amount expected to be received in transferring control of promised goods or services. As a result of this application, although the Company had previously applied the “Voyage completion method,” in which the Company recorded marine transportation revenues and costs and expenses upon completion of a voyage; provided, however, that the “Complex transportation progress method” was used for container ships, the Company has changed its recognition method for marine transportation revenues, marine transportation costs and expenses from the previous “Voyage completion method” to the method where they are recorded based on the number of elapsed days of a voyage from the beginning of the fiscal year ended March 31, 2022.

3. Changes in Accounting Standards (continued)

The application of the Accounting Standard for Revenue Recognition is subject to the transitional treatment provided for in the provision of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the fiscal year ended March 31, 2022 was added to or deducted from the beginning balance of retained earnings for the fiscal year ended March 31, 2022, and thus the new accounting policy was adopted from the beginning of the current fiscal year. However, the new accounting policy was not retrospectively applied to contracts where the recognition of nearly all the revenue amounts for periods prior to the beginning of the fiscal year ended March 31, 2022 were subject to the previous treatment, by applying the method provided for in Paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, with regard to modifications to contracts carried out based on the contractual terms existing after all contract modifications had been reflected, the cumulative effect was added to or deducted from the beginning balance of retained earnings for the fiscal year ended March 31, 2022 by applying the method set forth in item (1) of the supplementary provisions of Paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, for the fiscal year ended March 31, 2022, marine transportation revenue increased by ¥13,583 million, costs and expenses increased by ¥7,279 million, operating income, ordinary income, and profit before income taxes increased by ¥6,303 million, respectively, and profit attributable to owners of the parent per share increased by ¥65.45. In addition, the beginning balance of retained earnings increased by ¥3,982 million.

Due to the application of Accounting Standard for Revenue Recognition, "Accounts and notes receivable-trade" presented in "Current assets" in the consolidated balance sheet for the previous fiscal year is changed to "Accounts and notes receivable-trade and contract assets" from the fiscal year ended March 31, 2022. In accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated to reflect the new presentation method.

In addition, in accordance with transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, notes on revenue recognition for the previous fiscal year are not disclosed.

3. Changes in Accounting Standards (continued)

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") and other standards from the beginning of the fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc., in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). The effect on the consolidated financial statements for the fiscal year ended March 31, 2022 was immaterial.

The Company disclosed information on items such as the breakdown of the fair value of financial instruments by level of fair value in the notes 15 "Financial Instruments." However, in accordance with the transitional provisions stipulated in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the notes related to such item for the previous fiscal year was omitted.

4. Marketable Securities and Investment Securities

At March 31, 2021 and 2022, marketable securities and investment securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

	2021		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	¥ 2	¥ 2	¥ 0

	2022		
	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**¥ 2**	**¥ 2**	**¥ 0**

There are no securities whose estimated fair value does not exceed their carrying value at March 31, 2021 and 2022.

4. Marketable Securities and Investment Securities (continued)

At March 31, 2021 marketable securities and investment securities with quoted market prices classified as other securities are summarized as follows:

	2021		
	Carrying value	Acquisition costs	Difference
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 12,574	¥ 6,490	¥ 6,084
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	213	257	(43)
Bonds	82	83	(0)
Total	¥ 12,870	¥ 6,830	¥ 6,040

At March 31, 2022 marketable securities and investment securities with quoted market prices classified as other securities are summarized as follows:

	2022		
	Carrying value	**Acquisition costs**	**Difference**
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 14,089**	**¥ 6,426**	**¥ 7,663**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**195**	**256**	**(61)**
Bonds	**670**	**680**	**(10)**
Total	**¥ 14,954**	**¥ 7,363**	**¥ 7,591**

Proceeds from sales of investment securities classified as other securities for the years ended March 31, 2021 and 2022 are summarized as follows:

	2021	**2022**
	(Millions of yen)	
Proceeds from sales	¥ 279	**¥ 251**
Aggregate gain	117	**126**
Aggregate loss	8	**3**

4. Marketable Securities and Investment Securities (continued)

Loss on impairment is recorded on securities when whose fair value has declined by 50 per cent or more, or whose fair value has declined by 30 per cent or more, but less than 50 per cent, if the decline is deemed to be irrecoverable. Loss on impairment is recorded on securities when whose fair value is difficult to determine if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers for the year ended March 31, 2021.

Loss on impairment is recorded on securities when whose fair value has declined by 50 per cent or more, or whose fair value has declined by 30 per cent or more, but less than 50 per cent, if the decline is deemed to be irrecoverable. Loss on impairment is recorded on unquoted securities if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers for the year ended March 31, 2022.

The Company has recognized loss on devaluation of investment securities classified as other securities of ¥4 million and ¥0 million for the years ended March 31, 2021 and 2022, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥1 million and ¥2 million for the years ended March 31, 2021 and 2022, respectively. Loss on devaluation of investments in unconsolidated subsidiaries and affiliates recognized in other extraordinary losses in Consolidated Statement of Operations.

5. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2021 and 2022 are as follows:

Usage	Asset Description	Country	2021
			(Millions of yen)
Business assets	Vessels (energy resource transport business)	Norway	¥ 1,590
Business assets	Vessels and others (product logistics business)	Japan	1,225
Business assets	Vessels and others (dry bulk business)	United Kingdom and Japan	346
Business assets	Software and others	Japan	7
Assets for sale	Vessels and others	Japan	3,133
Idle assets	Land	Japan	4
Total			¥ 6,307

5. Loss on Impairment of Fixed Assets (continued)

Usage	Asset Description	Country	2022
			(Millions of yen)
Assets for sale	Vessels (energy resource transport business)	Norway and Singapore	**¥ 17,391**
Assets for sale	Vessels (dry bulk business)	United Kingdom	**730**
Assets for sale	Vessels and others (dry bulk business)	Japan	**10**
Business assets	Land, buildings, and others	Japan	**21**
Idle assets	Land	Japan	**4**
Total			**¥ 18,159**

In principle, the Company and its consolidated subsidiaries group business assets by units whose income and expenditure are monitored perpetually and those cash inflows that are largely independent of the cash flows from other assets are identifiable. However, the grouping for assets for sales and idle assets are conducted by individual asset.

For the asses or assets group for which profitability has decreased significantly, as it is considered to be difficult to recover investment due to the fact that the carrying values of business assets and assets group held for sales lower than selling values and the decrease in lad price for idle assets, the carrying values were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2021 and 2022.

The recoverable amounts are the higher of net selling value and the value-in-use for the year ended March 31, 2021. Net selling value is based on a valuation reasonably calculated by a third party valuations. The value-in-use is based on estimated future cash flows discounted at rate of 2.5 to 6.5 per cent.

The recoverable amount in the measurement of impairment loss is measured by net realizable value for the year ended March 31, 2022, and the net realizable value is based on a valuation reasonably calculated by a third party valuations.

6. Short-Term Loans, Long-Term Debt and Lease Obligations

Short-term loans at March 31, 2021 and 2022 consisted of the following:

	2021	2022
	(Millions of yen)	
Short-term loans from banks	¥ 3,816	**¥ 3,571**

6. Short-Term Loans, Long-Term Debt and Lease Obligations (continued)

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.47 per cent and 0.62 per cent per annum at March 31, 2021 and 2022, respectively.

Long-term debt at March 31, 2021and 2022 consisted of the following:

	2021	**2022**
	(Millions of yen)	
Long-term bank loans due within one year:		
Loans from banks and insurance companies due in installments through September 2057 at average interest rates of 1.52% and 1.77% per annum at March 31, 2021 and 2022, respectively	¥134,186	**¥ 83,973**
Long-term bank loans due after one year:		
Loans from banks and insurance companies due in installments through September 2057 at average interest rates of 1.52% and 1.77% per annum at March 31, 2021 and 2022, respectively	325,803	**277,992**
Bonds:		
1.05% bonds in yen, due August 31, 2022	7,000	**7,000**
Total	466,989	**368,966**
Amount due within one year	134,186	**90,973**
	¥ 332,803	**¥ 277,992**

The aggregate annual maturities of long-term debt subsequent to March 31, 2022 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2023	¥ 83,973
2024	48,310
2025	35,932
2026	35,449
2027	40,493
2028 and thereafter	117,806
Total	¥ 361,966

The average interest rates applicable to the lease obligations due in installments through May 2029 are 3.17% and 3.66% at March 31, 2021, and 2022, respectively.

6. Short-Term Loans, Long-Term Debt and Lease Obligations (continued)

The aggregate annual maturities of obligations under finance leases subsequent to March 31, 2022 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2023	¥ 26,870
2024	9,879
2025	3,658
2026	2,980
2027	1,579
2028 and thereafter	5,950
Total	¥ 50,918

A summary of assets pledged as collateral at March 31, 2022 for short-term loans and current portion of long-term loans in the amount of ¥45,686 million, long-term loans of ¥142,654 million and loans to be incurred in the future is presented below:

	(Millions of yen)
Vessels	¥ 251,468
Investments in securities	21,395
Other	4,584
Total	¥ 277,447

Investments in securities of ¥21,395 million were pledged as collateral to secure future loans for investments in vessels of subsidiaries and affiliates. Therefore, no corresponding liabilities existed as of March 31, 2022.

7. Income Taxes

The effective tax rate reflected in the accompanying Consolidated Statement of Operations for the years ended March 31, 2021 and 2022 differed from the statutory tax rate for the following reasons:

	2021	**2022**
Statutory tax rate	28.5%	**28.5%**
Difference in statutory tax rates of consolidated subsidiaries	1.0	**0.5**
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(29.2)	**(27.7)**
Effect of tonnage tax system	0.0	**(1.2)**
Changes in the valuation allowance	3.3	**1.1**
Other	(1.2)	**0.6**
Effective tax rate	2.4%	**1.9%**

7. Income Taxes (continued)

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2021 and 2022 are analyzed as follows:

	2021	2022
	(Millions of yen)	
Deferred tax assets:		
Liability for retirement benefits	¥ 2,600	**¥ 3,004**
Provision for loss on chartering contracts	5,371	**5,508**
Other allowances	2,243	**2,712**
Impairment loss of fixed assets	2,454	**1,956**
Elimination of unrealized intercompany profit	959	**953**
Accounts and notes payable – trade	3,431	**4,299**
Loss on devaluation of investment securities	7,420	**14,247**
Deferred assets for tax purposes	998	**824**
Tax loss carried forward (*2)	65,174	**62,423**
Foreign tax credit carried forward	1,550	**1,135**
Deferred loss on derivatives under hedge accounting	2,253	**3,191**
Other	1,557	**1,841**
Gross deferred tax assets	96,017	**102,098**
Valuation allowance for tax loss carried forward (*2)	(64,417)	**(62,193)**
Valuation allowance for the total of deductible temporary differences and others	(24,232)	**(33,161)**
Valuation allowance subtotal (*1)	(88,649)	**(95,354)**
Total deferred tax assets	7,368	**6,744**
Deferred tax liabilities:		
Reserve for special depreciation	(102)	**(66)**
Deferred gain on tangible fixed assets for tax purposes	(710)	**(643)**
Unrealized holding gain on investment securities	(1,705)	**(2,351)**
Accelerated depreciation in overseas subsidiaries	(1,720)	**(1,693)**
Accumulated earnings tax	(901)	**(864)**
Deferred capital gain based on group corporate tax system	(192)	**(192)**
Tax effect of undistributed earnings of overseas unconsolidated subsidiaries and affiliates accounted for by the equity method	(1,248)	**(4,298)**
Other	(3,166)	**(3,173)**
Total deferred tax liabilities	(9,749)	**(13,284)**
Net deferred tax liabilities	¥ (2,381)	**¥ (6,540)**

7. Income Taxes (continued)

(*1) Valuation allowance increased by ¥6,705 million for the year ended March 31, 2022. The main reasons for the increase are the combination of an increase in loss on devaluation of investment securities of ¥6,726 million and the increase in the total of deductible temporary differences and other, mainly consisting of an increase in accounts and notes payable – trade of ¥887 million, an increase in valuation allowance for deferred gain (loss) on derivatives under hedge accounting of ¥614 million, an increase in other allowances of ¥577 million, an increase in provision for loss on chartering contracts of ¥256 million, a decrease in valuation allowance for tax loss carried forward of ¥2,224 million, and a decrease in valuation allowance for foreign tax credit carried forward of ¥383 million.

(*2) Tax loss carried forward and related deferred tax assets as of March 31, 2022 will expire as follows:

(Millions of yen)

	2022		
Year ending March 31,	**Tax loss carried forward (*)**	**Valuation allowance for tax loss carried forward**	**Deferred tax assets related to tax loss carried forward**
2023	**¥ 1,387**	**¥ (1,387)**	**¥ –**
2024	**–**	**–**	**–**
2025	**4,082**	**(4,082)**	**–**
2026	**21,155**	**(21,155)**	**–**
2027	**2,617**	**(2,617)**	**–**
2028 and thereafter	**33,181**	**(32,951)**	**230**
	¥ 62,423	**¥ (62,193)**	**¥ 230**

(*) The tax loss carried forward in the above table is measured using the statutory tax rate

8. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of assets, mainly vessels, leased to the Group at March 31, 2021 and 2022, which would have been reflected in the accompanying Consolidated Balance Sheets if finance leases, other than those which transfer the ownership of the leased assets to the Group, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

At March 31, 2021	Vessels	Total
	(Millions of yen)	
Acquisition costs	¥ 18,517	¥ 18,517
Accumulated depreciation	(5,900)	(5,900)
Net book value	¥ 12,616	¥ 12,616

At March 31, 2022	**Vessels**	**Total**
	(Millions of yen)	
Acquisition costs	**¥ 18,517**	**¥ 18,517**
Accumulated depreciation	**(6,653)**	**(6,653)**
Net book value	**¥ 11,863**	**¥ 11,863**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2021 and 2022 are summarized as follows:

	2021	**2022**
	(Millions of yen)	
Lease payments	¥ 1,063	**¥ 1,157**
Depreciation	753	**753**
Interest expenses	127	**122**

8. Leases (continued)

Future minimum lease payments subsequent to March 31, 2022 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2023	¥ 1,035
2024 and thereafter	5,434
Total	¥ 6,469

Future minimum lease payments or receipts subsequent to March 31, 2022 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	*(Millions of yen)*
2023	¥ 21,221
2024 and thereafter	103,914
Total	¥ 125,135

(As lessors)

Year ending March 31,	*(Millions of yen)*
2023	¥ 2,843
2024 and thereafter	1,628
Total	¥ 4,472

9. Retirement Benefits

The Group has adopted funded and unfunded defined benefit plans and defined contribution plans. The defined benefit corporate pension plans (all of them are funded plans) provide for a lump-sum payment or annuity payment determined by reference to the current rate of pay and the length of service. The retirement lump-sum plans provide for a lump-sum payment, as employee retirement benefits, determined by reference to the current rate of pay and the length of service. Certain consolidated subsidiaries calculate asset for retirement benefits, liability for retirement benefits and retirement benefit expenses, for the defined benefit corporate pension plans and the retirement lump-sum plans based on the amount which would be payable at the year-end if all eligible employees terminated their services voluntarily (a "simplified method"). The Company and its certain consolidated subsidiaries have a selective defined contribution pension plans as a defined contribution plan.

The defined benefit plans

The changes in the retirement benefit obligation, except for plans which apply a simplified method, for the years ended March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Retirement benefit obligation at beginning of the year	¥ 27,987	**¥ 29,025**
Service cost	1,991	**1,673**
Interest cost	71	**68**
Actuarial differences	94	**(265)**
Payment of retirement benefits	(963)	**(1,601)**
Foreign currency exchange rate changes	38	**108**
Other	(194)	**(359)**
Retirement benefit obligation at end of the year	¥ 29,025	**¥ 28,650**

9. Retirement Benefits (continued)

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Pension plan assets at fair value at beginning of the year	¥ 23,271	**¥ 25,273**
Expected return on pension plan assets	421	**466**
Actuarial differences	1,316	**117**
Contributions by the employer	1,145	**1,162**
Payment of retirement benefits	(759)	**(1,269)**
Foreign currency exchange rate changes	2	**–**
Other	(123)	**(0)**
Pension plan assets at fair value at end of the year	¥ 25,273	**¥ 25,750**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Liability for retirement benefits, net at beginning of the year	¥ 1,997	**¥ 1,890**
Retirement benefit expenses	264	**421**
Payment of retirement benefits	(176)	**(146)**
Contributions to the plans	(116)	**(147)**
Other	(78)	**–**
Liability for retirement benefits, net at end of the year	¥ 1,890	**¥ 2,018**

9. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the Consolidated Balance Sheets as of March 31, 2021 and 2022 for the Group's defined benefit plans:

	2021	**2022**
	(Millions of yen)	
Funded retirement benefit obligation	¥ 29,882	**¥ 30,605**
Plan assets at fair value	(27,302)	**(27,951)**
Subtotal	2,579	**2,653**
Unfunded retirement benefit obligation	3,062	**2,264**
Liability for retirement benefits, net	¥ 5,642	**¥ 4,918**
Liability for retirement benefits	¥ 6,499	**¥ 6,147**
Asset for retirement benefits	(857)	**(1,228)**
Liability for retirement benefits, net	¥ 5,642	**¥ 4,918**

The above includes retirement benefit plans which apply a simplified method.

Retirement benefit expenses for the Group for the years ended March 31, 2021 and 2022 are summarized as follows:

	2021	**2022**
	(Millions of yen)	
Service cost	¥ 1,991	**¥ 1,673**
Interest cost	71	**68**
Expected return on pension plan assets	(421)	**(466)**
Amortization of actuarial differences	712	**540**
Amortization of past service cost	(18)	**(19)**
Retirement benefit expenses calculated by a simplified method	264	**421**
Retirement benefit expenses	¥ 2,600	**¥ 2,219**

9. Retirement Benefits (continued)

Retirement benefits liability adjustments included in other comprehensive income before tax effects for the Group for the years ended March 31, 2021 and 2022 are summarized as follows:

	2021	**2022**
	(Millions of yen)	
Past service cost	¥ (18)	**¥ (19)**
Actuarial (gain) loss	2,024	**858**
Total	¥ 2,005	**¥ 839**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2021 and 2022 are summarized as follows:

	2021	**2022**
	(Millions of yen)	
Unrecognized past service cost	¥ 69	**¥ 49**
Unrecognized actuarial differences	(2,819)	**(1,961)**
Total	¥ (2,750)	**¥ (1,911)**

The fair value of pension plan assets by major category as of March 31, 2021 and 2022 is as follows:

	2021	**2022**
Bonds	33%	**34%**
Equity	22	**25**
General account assets under insurance plan	29	**29**
Other	16	**12**
Total	100%	**100%**

(Method of determining the expected rate of return on plan assets)

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

9. Retirement Benefits (continued)

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2021 and 2022 are as follows:

	2021	**2022**
Discount rates	Mainly 0.0%	**Mainly 0.0%**
Expected rates of return on plan assets	Mainly 2.4%	**Mainly 2.2%**
Rates of salary increase	Mainly 1.2% to 16.0%	**Mainly 1.2% to 16.0%**

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution plans amounted to ¥771 million and ¥661 million for the years ended March 31, 2021 and 2022, respectively.

10. Shareholders' Equity

Movements in common stock and treasury stock of the Company for the years ended March 31, 2021 and 2022 are summarized as follows:

	Number of shares *(Thousands)*			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	93,938	–	–	93,938
Treasury stock (*1,2,3)	666	0	2	664

	Number of shares *(Thousands)*			
	April 1, 2021	**Increase**	**Decrease**	**March 31, 2022**
Common stock	**93,938**	**–**	**–**	**93,938**
Treasury stock (*4,5)	**664**	**0**	**–**	**665**

(*1) The increase in the number of shares in treasury stock of 0 thousand shares is due to purchases of shares of less than one voting unit.

(*2) The decrease in the number of shares in treasury stock of 2 thousand shares is due to the decrease of thousand shares resulting from providing shares related to the "Board Benefit Trust (BBT)" to officers.

(*3) 446 and 443 thousand shares, which are held by the Custody Bank of Japan, Ltd., are included in the number of shares in treasury stock at April 1, 2020 and March 31, 2021, respectively.

10. Shareholders' Equity (continued)

(*4) The increase in the number of shares in treasury stock of 0 thousand shares is due to purchases of shares of less than one voting unit.

(*5) 443 and 443 thousand shares, which are held by the Custody Bank of Japan, Ltd., are included in the number of shares in treasury stock at April 1, 2021 and March 31, 2022, respectively.

Dividend included in the retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2022 and to be paid in subsequent periods is as follows:

	Cash dividends per share	**Total amount of dividend**
	(Yen)	*(Millions of yen)*
Approved at the shareholders' meeting held on June 23, 2022	**¥ 600**	**¥ 56,244**

The total amount of dividends resolved at the Ordinary General Meeting of Shareholders on June 23, 2022 includes ¥266 million of dividends on the shares of the Company held by The Custody Bank of Japan, Ltd. as trust assets of the Board Benefit Trust (BBT).

11. Accumulated Depreciation

Accumulated depreciation of vessels, property, plant and equipment at March 31, 2021 and 2022 is as follows:

	2021	**2022**
	(Millions of yen)	
Accumulated depreciation	¥ 410,653	**¥ 362,766**

12. Investments in Unconsolidated Subsidiaries and Affiliates

Amounts corresponding to unconsolidated subsidiaries and affiliates as of March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Investment securities (Equity securities)	¥ 237,248	**¥ 668,850**
(For the portion of investments in jointly controlled entities)	(225,831)	**(639,655)**
Other investments and other assets (Investment funds)	2,719	**1,462**
(For the portion of investments in jointly controlled entities)	(1,795)	**(1,092)**

13. Land Revaluation

The Company and a certain domestic consolidated subsidiary revalued the land used in their business in accordance with the Act on Revaluation of Land (Act No. 34, March 31, 1998) and the Act to Partially Revise the Act on Revaluation of Land (Act No. 19, March 31, 2001). The effect of this revaluation has been recorded as revaluation reserve for land in net assets, excluding the related deferred tax liabilities on land revaluation.

The timing of the revaluation was effective March 31, 2002.

A certain domestic affiliate accounted for by the equity method also revalued the land used in their business in accordance with the Act on Revaluation of Land (Act No. 34, March 31, 1998) and the Act to Partially Revise the Act on Revaluation of Land (Act No. 19, March 31, 2001). The effect of this revaluation has been recorded as revaluation reserve for land in net assets.

The revaluation of land for business use was calculated by making rational adjustments to the prices posted in accordance with the provision of Article 6 of the Public Notice of Land Prices Act for standard sites set forth in Article 6 of the same act in the same neighborhood as the relevant land for business use pursuant to Article 2, Paragraph 1 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 of 1998). However, for some land, the revaluation was calculated by making rational adjustments to standard prices assessed in accordance with the provision of Article 9, Paragraph 1 of the Order for Enforcement of the National Land Use Planning Act for standard sites set forth in Article 7, Paragraph 1, Item 1 (a) of the same order in the same neighborhood as the relevant land for business use pursuant to Article 2, Paragraph 2 of the Order for Enforcement of the Act on Revaluation of Land, by making rational adjustments to land prices registered in the land tax ledger set forth in Article 341, Item 10 of the Local Tax Act or in the supplementary land tax ledger set forth in Article 341, Item 11 of the same act for the relevant land for business use pursuant to Article 2, Paragraph 3 of the Order for Enforcement of the Act on Revaluation of Land, or by making rational adjustments to the value calculated by the method established and issued by the Director-General of the National Tax Agency for computing land value that serves as a basis for the calculation of the taxable amount for land value tax set forth in Article 16 of the Land-Holding Tax Act for the relevant land for business use pursuant to Article 2, Item 4 of the Order for Enforcement of the Act on Revaluation of Land.

At March 31, 2021 and 2022, the fair value of land was lower than its carrying value after revaluation by ¥2,862 million and ¥2,771 million, respectively.

14. Commitments and Contingent Liabilities

Contingent liabilities for guarantees of loans to affiliates and third-party companies and obligations for additional investment, etc. as of March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Guarantees of loans:		
ICE GAS LNG SHIPPING CO., LTD.	¥ 5,032	**¥ 4,631**
Other 8 (6 in the previous fiscal year)	1,658	**1,319**
Total	¥ 6,690	**¥ 5,951**

	2021	**2022**
	(Millions of yen)	
Obligations for additional investment, etc.:		
OCEANIC BREEZE LNG TRANSPORT S.A	¥ 3,266	**¥ 3,610**
Total	¥ 3,266	**¥ 3,610**

(Other Important Matters Related to Current Conditions of the Group)

The Group has been investigated by the overseas competition authorities in relation to alleged anti-competitive behavior (alleged formation of a cartel) relating to the transportation of automobiles, automotive construction machineries and other automotive vehicles. In addition, multiple service providers including the Group are currently subject to class actions in some countries in relation to the same matter.

15. Financial Instruments

Status of financial instruments

The Group obtains necessary funding, mainly through bank loans and the issuance of bonds, in accordance with their capital expenditure plans. Temporary excess funds are invested in highly liquid financial assets, and short-term operating funds are financed by bank loans. The Group utilizes derivatives only for avoiding risks, and does not utilize them for speculation.

Trade accounts and notes receivable are exposed to credit risk in the event of the nonperformance by counterparties. As revenues from marine transportation are mainly denominated in foreign currencies, trade receivables are exposed to foreign currency exchange risk and a portion of them, net of trade payables denominated in the same foreign currencies, are hedged by forward foreign exchange contracts. Future trade receivables such as for freight and chartered vessels are exposed to market risks, and some of them are hedged by forward freight agreements. The Group holds marketable securities and investment securities, which are mainly issued by companies who have a business relationship or capital alliance with the Group, and these securities are exposed to the risk of fluctuation in market prices. The Group also has long-term loans receivable mainly from other subsidiaries and affiliates.

The Group has trade accounts and notes payable, which have payment due dates within one year. Funds for certain capital expenditures, such as construction of vessels denominated in foreign currencies, are exposed to foreign currency exchange risk, which are hedged by forward foreign exchange contracts. Future trade payables such as payments for bunker fuel are exposed to the risk of fluctuation of market prices, and some of them are hedged by bunker fuel swap contracts. Loans payable, bonds, bonds with stock acquisition rights and lease obligations for finance lease contracts are taken out principally for the purpose of making capital investments. The repayment dates of long-term debt extend up to 35 years subsequent to the balance sheet date. Certain elements of these transactions are exposed to interest rate fluctuation risk. The Group hedges this risk by entering into interest rate swap transactions. The Group has entered into currency swap contracts to hedge foreign currency exchange risk against trade payables.

Regarding derivatives, the Group has entered into: 1) forward foreign exchange contracts and currency swap contracts to hedge foreign currency exchange risk arising from investments in the overseas subsidiaries, etc., receivables and payables denominated in foreign currencies and funds for capital investment to acquire operating assets such as vessels and others; 2) bunker fuel swap contracts to hedge the risk of bunker fuel price fluctuation; 3) forward freight agreements to hedge the risk of fluctuation of market prices; and 4) interest-rate swap contracts to hedge the risk of interest rate fluctuation arising from interest payables for long-term payables and bonds.

15. Financial Instruments (continued)

Status of financial instruments (continued)

For information on hedge accounting policies of the Group, see Note 1. Summary of Significant Accounting Policies, (x) Derivatives and hedging activities.

The Company monitors regularly the condition of major business counterparties by each related business division with whom the Company has accounts receivable for business or loans receivable, and manages the outstanding balances and due dates by counterparties, to minimize the risk of default arising from any decline in the financial condition of counterparties. Its consolidated subsidiaries also monitor the condition of accounts receivable and loans receivable under a similar management policy.

The Group believes that the credit risk of derivatives is insignificant as the Group enters into derivatives transactions only with financial institutions which have a sound credit profile.

For investments in the overseas subsidiaries, etc., receivables and payables denominated in foreign currencies and future loans related to investment in vessels, the Company has entered into currency swap and forward foreign exchange contracts to hedge foreign currency exchange rate fluctuation risk, and interest-rate swap contracts to minimize interest rate fluctuation risk of loans and bonds.

For marketable securities and investments in securities, the Company continuously reviews the condition of holding securities considering the stock market and the relationship with issuing companies, taking into account market value of securities and financial condition of issuing companies in accordance with internal regulations.

The Company enters into derivative transactions with the approval from authorized officers in accordance with internal regulations, which set forth transaction authority and maximum upper limit on positions. Results of derivative transactions are regularly reported at the executive officers meeting. Its consolidated subsidiaries also manage derivative transactions under similar regulations.

The Company manages liquidity risk by preparing and updating cash management plan on timely basis and maintaining liquid instruments on hand based on reports from each business group.

The fair value of financial instruments can fluctuate because different assumptions may be adopted for calculations of fair value considering various factors. In addition, the notional amounts of derivatives in Note 16. Derivatives and Hedging Activities are not necessarily indicative of the actual market exposure involved in the derivative transactions.

15. Financial Instruments (continued)

Estimated fair value of financial instruments

The carrying value of financial instruments on the Consolidated Balance Sheets as of March 31, 2021 and 2022, and the estimated fair value and the difference between them are shown in the following table. For cash and deposits and accounts and notes receivable – trade, and contract assets, they are not on the table below as most of them are settled within a short term and their fair value approximates carrying value.

	2021		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
Marketable securities and investment securities:			
Held to maturity debt securities	¥ 2	¥ 2	¥ 0
Other securities	12,870	12,870	–
Investments in unconsolidated subsidiaries and affiliates	3,910	1,607	(2,302)
Total assets	¥ 16,783	¥ 14,481	¥ (2,302)
Liabilities			
Short-term loans and current portion of long-term loans	¥ (138,002)	¥ (138,025)	¥ (23)
Long-term debt, less current portion:			
Bonds	(7,000)	(6,812)	187
Long-term loans	(325,803)	(325,860)	(57)
Total liabilities	¥ (470,805)	¥ (470,698)	¥ 107
Derivative transactions (*)	¥ (6,591)	¥ (6,604)	¥ (12)

The financial instruments whose fair value is difficult to determine as of March 31, 2021 are as follows. They are not included in the table above.

	2021
	(Millions of yen)
Unlisted investment securities	¥ 240,739

15. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	2022		
	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Assets			
Marketable securities and investment securities:			
Held to maturity debt securities	**¥ 2**	**¥ 2**	**¥ 0**
Other securities	**14,954**	**14,954**	**–**
Investments in unconsolidated subsidiaries and affiliates	**4,134**	**1,194**	**(2,939)**
Total assets	**¥ 19,091**	**¥ 16,152**	**¥ (2,939)**
Liabilities			
Short-term debt:			
Short-term loans and current portion of long-term loans	**(87,544)**	**(87,527)**	**16**
Bonds	**(7,000)**	**(6,969)**	**30**
Long-term debt, less current portion:			
Long-term loans	**(277,992)**	**(277,937)**	**55**
Total liabilities	**¥ (372,537)**	**¥ (372,434)**	**¥ 102**
Derivative transactions (*)	**¥ (3,203)**	**¥ (3,203)**	**¥ –**

Unquoted securities as of March 31, 2022 are as follows. They are not included in the table above.

	2022
	(Millions of yen)
Unlisted investment securities	**¥ 672,717**

(*) The value of assets and liabilities arising from derivative transactions is shown at net value, and the amounts in parentheses represent net liability position.

15. Financial Instruments (continued)

The redemption schedule as of March 31, 2022 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	2022			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	¥247,344	¥ –	¥ –	¥ –
Accounts and notes receivable-trade and contract assets	103,699	–	–	–
Marketable securities and Investment securities				
Held-to-maturity securities:				
Government, municipal bonds and others	0	1	–	–
Total	¥351,045	¥ 1	¥ –	¥ –

The redemption schedule as of March 31, 2022 for short-term loans and long-term debt is as provided in Note 6.

Financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1 : Fair value calculated based on quoted market prices for the assets or liabilities for which such fair value is available in active markets as the inputs used in the calculation of observable fair value

Level 2 : Fair value calculated using inputs for the calculation of observable fair value other than Level 1 inputs

Level 3 : Fair value calculated using inputs that are unobservable

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified to the level with the lowest priority in the calculation of fair value among the levels to which each of those inputs belongs.

15. Financial Instruments (continued)

(1) Financial assets and liabilities measured at fair value by level

	2022			
	Estimated Fair Value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Marketable securities and investment securities:				
Other securities	¥ 14,897	¥ –	¥ –	¥ 14,897
Derivative transactions:				
Forward foreign exchange contracts	–	718	–	718
Forward freight agreements	–	17	–	17
Currency swaps	–	–	–	–
Interest rate swaps	–	181	–	181
Bunker fuel swaps	–	83	–	83
Total assets	¥ 14,897	¥ 1,001	¥ –	¥ 15,898
Derivative transactions:				
Forward foreign exchange contracts	¥ –	¥ (366)	¥ –	¥ (366)
Forward freight agreements	–	(386)	–	(386)
Currency swaps	–	(633)	–	(633)
Interest rate swaps	–	(2,790)	–	(2,790)
Bunker fuel swaps	–	(28)	–	(28)
Total liabilities	¥ –	¥ (4,205)	¥ –	¥ (4,205)

15. Financial Instruments (continued)

(2) Financial assets and liabilities other than those measured at fair value by level

	2022			
	Estimated Fair Value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Marketable securities and investment securities:				
Held to maturity debt securities	¥ –	¥ 2	¥ –	¥ 2
Other securities	–	57	–	57
Investments in unconsolidated subsidiaries and affiliates	1,194	–	–	1,194
Total assets	¥ 1,194	¥ 60	¥ –	¥ 1,254
Short-term debt:				
Short-term loans and current portion of long-term loans	¥ –	¥ (87,527)	¥ –	¥ (87,527)
Bonds	–	(6,969)	–	(6,969)
Long-term debt, less current portion:				
Long-term loans	–	(277,937)	–	(277,937)
Total liabilities	¥ –	¥ (372,434)	¥ –	¥ (372,434)

(*) Description of valuation techniques used and inputs related to the calculation of fair value

Marketable securities and investment securities

The fair value of marketable securities and golf memberships is the quoted market price. Marketable securities listed and traded on an active market are classified as Level 1. Golf memberships are classified as Level 2 because they are not traded so frequently that the underlying transaction prices can not be considered as being quoted in an active market. Held-to-maturity securities, of which fair value is based on prices provided by financial institutions and measured by using observable inputs such as interest rates or foreign exchange rates, are classified as Level 2.

15. Financial Instruments (continued)

(2) Financial assets and liabilities other than those measured at fair value by level (continued)

Short-term loans

The fair value of short-term loans is determined by carrying value as most of them are settled within a short term and their fair value approximates carrying value. . Current portion of long-term loans in short-term loans are determined as described long-term loans below.

Bonds

The fair value of the bonds issued by the Company is determined using the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining term of the bonds and credit risk, and is classified as Level 2 fair value. Bonds include those redeemed within one year and they are recorded as “Other current liabilities.”

Long-term loans

The fair value of long-term loans is determined using the discounted present value method based on the total amount of principal and an interest rate that would be applicable to a similar new borrowing, and is classified as Level 2 fair value.

Derivative transactions

Forward foreign exchange contracts, forward freight agreements, currency swaps, interest rate swaps and bunker fuel swaps, of which fair value is based on prices provided by counterparty financial institutions and measured by using observable inputs such as interest rates or exchange rates, are classified as Level 2.

16. Derivatives and Hedging Activities

Information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2021 and 2022 are summarized as follows:

Interest rate-related transactions

		2021			
Method of hedge accounting	Transaction	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value	Gain (loss) on valuation
		(Millions of yen)			
Transactions other than market transactions	Forward foreign exchange contracts				
	Buying:				
	GBP	¥ 800	¥ –	¥ 4	¥ 4
	Selling:				
	NOK	12,031	–	(573)	(573)
	Total	¥ 12,832	¥ –	¥ (568)	¥ (568)

		2022			
Method of hedge accounting	**Transaction**	**Total contract value (notional principal amount)**	**Contract value (notional principal amount) over one year**	**Estimated fair value**	**Gain (loss) on valuation**
		(Millions of yen)			
Transactions other than market transactions	Forward foreign exchange contracts				
	Selling:				
	USD	**¥ 1,538**	**¥ –**	**¥ (34)**	**¥ (34)**
	Total	**¥ 1,538**	**¥ –**	**¥ (34)**	**¥ (34)**

16. Derivatives and Hedging Activities (continued)

Others

Excluding the above, information on the estimated fair value of the derivatives positions outstanding at March 31, 2021 and 2022 are summarized as follows:

		2021			
Method of hedge accounting	Transaction	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)	Gain (loss) on valuation
		(Millions of yen)			
Transactions other than market transactions	Forward freight agreements	¥ 1,522	¥ –	¥ (522)	¥ (522)
	Total	¥ 1,522	¥ –	¥ (522)	¥ (522)

		2022			
Method of hedge accounting	**Transaction**	**Total contract value (notional principal amount)**	**Contract value (notional principal amount) over one year**	**Estimated fair value (*)**	**Gain (loss) on valuation**
		(Millions of yen)			
Transactions other than market transactions	Forward freight agreements	**¥ 1,043**	**¥ –**	**¥ (367)**	**¥ (367)**
	Total	**¥ 1,043**	**¥ –**	**¥ (367)**	**¥ (367)**

16. Derivatives and Hedging Activities (continued)

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2021 and 2022 are summarized as follows:

Currency-related transactions

			2021		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 8,279	¥ 2,453	¥ 779
	Selling:				
	USD	Forecasted foreign currency transactions	8,354	–	(250)
Fair value hedge (*)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	711	–	(13)
	Total		¥ 17,345	¥ 2,453	¥ 515

(*) Fair value hedge is used by an overseas subsidiary that applies IFRS.

			2022		
Method of hedge accounting	**Transaction**	**Major hedged item**	**Total contract value (notional principal amount)**	**Contract value (notional principal amount) over one year**	**Estimated fair value**
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	**¥ 5,650**	**¥ –**	**¥ 696**
	Selling:				
	USD	Forecasted foreign currency transactions	**9,257**	**–**	**(309)**
	Currency swaps				
	Selling:				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**8,012**	**8,012**	**(633)**
	Total		**¥ 22,919**	**¥ 8,012**	**¥ (246)**

16. Derivatives and Hedging Activities (continued)

Interest rate-related transactions

Method of hedge accounting	Transaction	Major hedged item	2021 Total contract value (notional principal amount)	2021 Contract value (notional principal amount) over one year	2021 Estimated fair value
				(Millions of yen)	
Deferral hedge	Interest rate swaps Receive floating / Pay fixed	Long-term loans	¥ 56,052	¥ 54,010	¥ (5,063)
Special treatment for interest rate swaps	Interest rate swaps Receive floating / Pay fixed	Long-term loans	945	–	(12)
	Total		¥ 56,997	¥ 54,010	¥ (5,076)

Method of hedge accounting	**Transaction**	**Major hedged item**	**2022** **Total contract value (notional principal amount)**	**2022** **Contract value (notional principal amount) over one year**	**2022** **Estimated fair value**
				(Millions of yen)	
Deferral hedge	Interest rate swaps Receive floating / Pay fixed	Long-term loans	**¥ 50,186**	**¥ 49,723**	**¥ (2,609)**
	Total		**¥ 50,186**	**¥ 49,723**	**¥ (2,609)**

16. Derivatives and Hedging Activities (continued)

Others

Method of hedge accounting	Transaction	Major hedged item	2021 Total contract value (notional principal amount)	2021 Contract value (notional principal amount) over one year	2021 Estimated fair value
				(Millions of yen)	
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	¥ 219	¥ –	¥ 8
	Forward freight agreements	Ocean freight	4,284	–	(961)
	Total		¥ 4,503	¥ –	¥ (952)

Method of hedge accounting	**Transaction**	**Major hedged item**	**2022 Total contract value (notional principal amount)**	**2022 Contract value (notional principal amount) over one year**	**2022 Estimated fair value**
				(Millions of yen)	
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**¥ 842**	**¥ –**	**¥ 55**
	Forward freight agreements	Ocean freight	**854**	**–**	**(1)**
	Total		**¥ 1,697**	**¥ –**	**¥ 53**

17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2022.

	2021	**2022**
	(Millions of yen)	
Net unrealized holding gain (loss) on investment securities:		
Amount arising during the year	¥ 5,840	**¥ (2,084)**
Reclassification adjustments to profit or loss	(100)	**(7)**
Amount before tax effect	5,740	**(2,077)**
Tax effect	(1,691)	**(495)**
Net unrealized holding gain (loss) on investment securities	4,048	**1,581**
Deferred gain (loss) on hedges:		
Amount arising during the year	2,777	**1,124**
Reclassification adjustments to profit or loss	(439)	**2,226**
Adjustments for acquisition costs of vessels due to valuation of hedges	(35)	**(827)**
Amount before tax effect	2,302	**2,523**
Tax effect	(3,058)	**(1,053)**
Deferred gain (loss) on hedges	(756)	**1,470**
Translation adjustments:		
Amount arising during the year	5,562	**10,902**
Reclassification adjustments to profit or loss	580	**56**
Translation adjustments	6,142	**10,959**
Retirement benefits liability adjustments:		
Amount arising during the year	1,302	**192**
Reclassification adjustments to profit or loss	662	**521**
Amount before tax effect	1,964	**714**
Tax effect	(151)	**167**
Retirement benefits liability adjustments	1,813	**881**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method:		
Amount arising during the year	(3,538)	**5,365**
Reclassification adjustments to profit or loss	1,163	**372**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	(2,374)	**5,737**
Total other comprehensive income	¥ 8,873	**¥ 20,630**

18. Supplementary Information on Consolidated Statement of Cash Flows

CENTURY DISTRIBUTION SYSTEMS, INC. which had been a consolidated subsidiary was excluded from the scope of consolidation due to transfer of equity interest during the year ended March 31, 2022. The assets and liabilities derecognized upon the transfer were as follows:

	2022
	(Millions of yen)
Current assets	**¥ 14,235**
Non-current assets	**3,447**
Total assets	**¥ 17,683**
Current liabilities	**¥ 14,824**
Non-current liabilities	**937**
Total liabilities	**¥ 15,762**

Cash and cash equivalents in the accompanying Consolidated Statement of Cash Flows for the years ended March 31, 2021 and 2022 are reconciled to cash and deposits reflected in the accompanying Consolidated Balance Sheet as of March 31, 2021 and 2022 as follows:

	2021	**2022**
	(Millions of yen)	
Cash and deposits	¥ 132,371	**¥ 247,344**
Time deposits with a maturity of more than three months after the purchase date	(2,369)	**(3,028)**
Cash and cash equivalents	¥ 130,001	**¥ 244,316**

19. Amounts per Share

Amounts per share at March 31, 2021 and 2022 and for the years then ended are as follows:

	2021	**2022**
	(Yen)	
Net assets	¥ 2,339.28	**¥ 9,484.35**
Profit(loss) attributable to owners of the parent:		
Basic	1,165.34	**6,887.54**

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

Basic profit(loss) attributable to owners of the parent per share has been computed based on profit(loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of the parent per share for the years ended March 31, 2021 and 2022 has not been presented because dilutive potential common shares do not exist.

The financial data used in the computation of basic profit (loss) per share for the years ended March 31, 2021 and 2022 in the table above is summarized as follows:

	2021	**2022**
	(Millions of yen)	
Profit(loss) attributable to owners of the parent	¥ 108,695	**¥ 642,424**

	2021	**2022**
	(Thousands of shares)	
Weighted-average number of shares of common stock outstanding	93,273	**93,273**

The Company introduced a new performance-based share remuneration plan “Board Benefit Trust (BBT)” during the fiscal year ended March 31, 2018. The shares held by the Trust are included in treasury stock, which is deducted in calculating the number of treasury stock at the end of the year and the average number of shares of common stock outstanding when calculating the basic profit (loss) attributable to owners of the parent per share during the current year. The average number of shares of treasury stock deducted from the calculation of the basic profit (loss) per share during the current year was 444,192 shares and 443,500 shares for the years ended March 31, 2021 and 2022, respectively.

20. Business Combination

Business combination for the year ended March 31, 2022

Business divestiture

(Transfer of subsidiary's shares)

1. Overview of business divestiture

   (1) Name of successor enterprise in business divestiture

   CENTURY DISTRIBUTION INTERMEDIATE HOLDING, LLC (Investment fund managed by Sun Capital Partners, Inc. ("Sun"))

   (2) Outline of the company to be divested

   Name of the company: CENTURY DISTRIBUTION SYSTEMS, INC ("CDS") (*)

   (*) CDS is 100%-owned consolidated subsidiary of the Company.

   Main business: Buyer's consolidation business, NVOCC business, land transportation business, warehousing business, and supply chain management through the provision of systems to customers.

   (3) Reason for business divestiture

   As part of the portfolio review of group companies that the Company has been promoting, the Company decided to transfer all shares of CDS to an investment fund managed by Sun.

   (4) Date of business divestiture

   June 1, 2021

   (5) Matters concerning the outline of other transactions including the legal form

   Transfer of shares for which the consideration received is certain assets such as cash, etc.

20. Business Combination (continued)

Business combination for the year ended March 31, 2022 (continued)

Business divestiture (continued)

(Transfer of subsidiary's shares) (continued)

2. Overview of accounting treatment

   (1) Gain or loss from the transaction

   Gain on sales of shares of subsidiaries: ¥7,727 million.
   The final transfer price will be determined based on the terms of this transfer agreement, and the amount may subject to change.

   (2) Appropriate book value of assets and liabilities related to the transferred company and its main breakdown

	2022
	(Millions of yen)
Current assets	**¥ 14,235**
Non-current assets	**3,447**
Total assets	**¥ 17,683**
Current liabilities	**¥ 14,824**
Non-current liabilities	**937**
Total liabilities	**¥ 15,762**

   (3) Accounting treatment

   The difference between the book value of the transferred shares and the sale price is recorded as "Gain on sales of shares of subsidiaries and affiliates" in extraordinary income in the Consolidated Statement of Operations.

3. Reporting segment in which the divested company was included

   Product logistics segment

4. Estimated amount of profit or loss related to divested business recognized in the Consolidated Statement of Operations for the current fiscal year

	2022
	(Millions of yen)
Operating revenues	¥ 5,560
Operating income	553

21. Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

Revenues are not presented separately from revenues arising from contracts with customers and other revenues. Information on disaggregation of revenue from contracts with customers for the year ended March 31, 2022 is described in Note 22 “Segment Information.”

2. Foundational information for understanding revenue from contracts with customers

Revenue from contracts with customers is recognized based on the following five-step approach at the amount of the consideration for which the Company expects to be entitled in exchange for goods or services.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations in the contract
Step 5: Recognize revenue when (or as), the performance obligations are satisfied

The performance obligations as part of the Group’s business are primarily as follows.

(1) Freight revenue

Regarding voyage charter contracts, each voyage is considered a single performance obligation based on agreement with customers. The transaction price is determined based on the amount billed per voyage, and the amount allocated to a performance obligation is based on the freight revenue amount agreed with the customers for each voyage and includes variable consideration such as demurrage charges and dispatch charges. If variable consideration is included in the consideration for the contract with customers, it is recorded in the transaction price only if it is highly likely that there will be no significant reduction in the revenue recorded up to the time when the degree of uncertainty regarding variable consideration is finally resolved.

21. Revenue Recognition (continued)

2. Foundational information for understanding revenue from contracts with customers (continued)

(1) Freight revenue (continued)

Given the nature of the voyage, it is expected that the customer will receive benefits as the entity fulfills its obligations in its contract with the customer. Therefore, the Company has determined that this is a performance obligation that will be satisfied as the voyage progresses, and recognizes revenue based on the degree of progress made in satisfying the performance obligation. Progress is measured based on the number of elapsed days of a voyage to the end of the period relative to the estimated total number of days of voyage days. The consideration for the transactions is mainly invoiced upon completion of loading of cargoes and the majority of the consideration is received by the completion of the voyage, while variable consideration, such as demurrage charges and dispatch charges, are invoiced after the berthing period is fixed. Receivables other than those arising from contracts with customers in the previous and current fiscal years are not classified because the amounts are not material.

(2) Charter rates

Time charter contracts entitle the Company to receive from the customer a consideration whose amount corresponds directly to the value to the customer for the portion of the Company’s performance obligation satisfied to date, such as an agreement to charge a fixed amount based on the time of service rendered. In accordance with the treatment in the application guidelines of Article 19 of the Accounting Standard for Revenue Recognition, the Company recognizes revenue at the amount the Company has a right to claim from the customer.

21. Revenue Recognition (continued)

3. Information for understanding the amounts for the year ended March 31, 2022 and subsequent years

(1) Balance of contract assets and contract liabilities

The breakdown of accounts receivable arising from contracts with customers, contract assets and contract liabilities as of March 31, 2021 and 2022 is as follows:

	2021	**2022**
	(Millions of yen)	
Accounts receivable arising from contracts with customers:		
Notes receivable	¥ 746	**¥ 594**
Accounts receivable	77,787	**93,330**
	78,534	**93,925**
Contract assets	5,017	**9,774**
Contract liabilities	¥ 13,645	**¥ 17,573**

The beginning balance of contract liabilities was mainly recognized in revenue for the year ended March 31, 2022. The timing of satisfying performance obligations and the normal timing of payments are described above in Note 2 "Foundational information for understanding revenue from contracts with customers." Changes in the balance of contract assets are mainly due to the recognition of revenues and transfer to accounts receivable. Changes in the balance of contract liabilities are mainly due to the receipt of considerations in advance from customers and the satisfaction of performance obligations. Revenue recognized for performance obligations satisfied (or partially satisfied) in past periods is immaterial. Receivables other than those arising from contracts with customers for the years ended March 31, 2021 and 2022 are not classified because their amounts are immaterial.

(2) Transaction price allocated to remaining performance obligations

As described above in Note 2 "Foundational information for understanding revenue from contracts with customers," the Group recognizes each voyage as a single performance obligation and also contract voyage. Since a voyage is normally completed within a year, the Company applies the provisions of Article 80-22 (1) of the Accounting Standard for Revenue Recognition and therefore omits related information in the notes.

21. Revenue Recognition (continued)

3. Information for understanding the amounts for the year ended March 31, 2022 and subsequent years(continued)

(2) Transaction price allocated to remaining performance obligations

For contracts involving the long-term time-charter of vessels, as described above in Note 2 "Foundational information for understanding revenue from contracts with customers," the Company also recognizes revenue from the satisfaction of performance obligations in accordance with the provision of Article 19 of Implementation Guidance on Accounting Standard for Revenue Recognition, and accordingly, the Company omits related information in the notes in accordance with the provisions of Article 80-22(2) of the Accounting Standard for Revenue Recognition.

22. Segment Information

Segment information for the years ended March 31, 2021 and 2022

1. Overview of reporting segments

The Company's reporting segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Group is a shipping business organization centering on marine transportation service and has three reporting segments, which are the dry bulk segment, the energy resource transport segment and the product logistics segment, considering the economic characteristics, service contents and method of the provision and categorization of the market and customers.

The dry bulk segment includes dry bulk business. The energy resource transport segment includes tanker carrier business, electricity business, LNG carrier business, and offshore business. The product logistics segment includes car carrier business, logistics business, short sea and coastal business, and containership business.

2. Calculation method of reporting segment profit (loss)

Reporting segment profit (loss) represents based on ordinary income (loss). Inter-group revenues and transfers are inter-group transactions which are based on market price and other.

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment

Reporting segment information for the years ended March 31, 2021 and 2022 consisted of the following:

	(Millions of yen)						
	2021						
	Dry bulk	Energy resource transport	Product logistics	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated
1. Revenues:							
Operating revenues from customers	¥ 181,983	¥ 77,641	¥ 339,667	¥ 26,193	¥ 625,486	¥ –	¥ 625,486
Inter-group revenues and transfers	34	3	12,965	46,997	60,001	(60,001)	–
Total revenues	¥ 182,018	¥ 77,645	¥ 352,632	¥ 73,190	¥ 685,487	¥ (60,001)	¥ 625,486
2. Segment profit (loss) (*3)	¥ (9,136)	¥ 1,071	¥ 104,545	¥ 1,084	¥ 97,565	¥ (8,066)	¥ 89,498
3. Segment assets	¥ 201,962	¥ 244,374	¥ 478,027	¥ 57,548	¥ 981,912	¥ (7,303)	¥ 974,608
4. Others							
Depreciation and amortization	¥ 15,378	¥ 11,897	¥ 14,878	¥ 1,490	¥ 43,646	¥ 222	¥ 43,869
Interest income	120	208	206	82	618	(76)	541
Interest expenses	2,945	3,657	2,738	60	9,401	655	10,056
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net	7	283	117,956	(81)	118,165	–	118,165
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	419	27,335	202,379	4,080	234,215	–	234,215
Increase in vessels, property and equipment and intangible assets	24,507	2,656	16,115	2,127	45,407	(75)	45,332

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment (continued)

(Millions of yen)

	2022						
	Dry bulk	Energy resource transport	Product logistics	Other (*1)	Total	Adjustments and eliminations (*4)	Consolidated
1. Revenues:							
Revenues from contract with customers	¥ 271,352	¥ 84,295	¥ 374,369	¥ 10,489	¥ 740,506	¥ –	¥ 740,506
Other revenues	5,126	5,431	5,827	91	16,476	–	16,476
Operating revenues from customers	¥ 276,478	¥ 89,726	¥ 380,196	¥ 10,580	¥ 756,983	¥ –	¥ 756,983
Inter-group revenues and transfers	17	12	13,503	50,924	64,457	(64,457)	–
Total revenues	¥ 276,496	¥ 89,738	¥ 393,699	¥ 61,505	¥ 821,440	¥ (64,457)	¥ 756,983
2. Segment profit (loss) (*3)	¥ 23,744	¥ 4,766	¥ 640,814	¥ (106)	¥ 669,219	¥ (11,715)	¥ 657,504
3. Segment assets	¥ 372,585	¥ 182,867	¥ 981,765	¥ 45,514	¥ 1,582,732	¥ (7,772)	¥ 1,574,960
4. Others							
Depreciation and amortization	¥ 15,559	¥ 10,338	¥ 16,232	¥ 481	¥ 42,611	¥ 210	¥ 42,821
Interest income	104	349	201	39	695	(23)	671
Interest expenses	2,181	4,005	3,968	31	10,187	118	10,305
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net	48	2,445	638,344	154	640,992	–	640,992
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	498	31,213	629,559	4,340	665,611	–	665,611
Increase in vessels, property and equipment and intangible assets	15,251	4,616	22,509	526	42,905	537	43,442

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment (continued)

*1 The "Other" segment consists of business segments not classified into aforementioned three reporting segments, including ship management service, travel agency business, real estate rental and management business and others.

*2 (1) The adjustment and elimination of segment profit (loss) of ¥8,066 million includes the following elements: ¥6 million of intersegment transaction eliminations and ¥8,060 million of corporate expenses, which are mainly general and administrative expenses not distributed to specific segments.

(2) The adjustment and elimination of segment assets of ¥7,303 million includes the following elements: ¥24,477 million of intersegment transaction eliminations and ¥17,173 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥222 million is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.

(4) The adjustment and elimination of interest income of ¥76 million includes the following elements: ¥87 million of intersegment transaction eliminations and ¥11 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥655 million includes the following elements: ¥87 million of intersegment transaction eliminations and ¥742 million of interest expenses, which are not distributed to specific segments.

(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥75 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment (continued)

*3 Segment profit (loss) is adjusted for ordinary income (loss) as described in 2. Calculation method of reporting segment profit (loss).

*4 (1) The adjustment and elimination of segment profit (loss) of ¥11,715 million includes the following elements: ¥32 million of intersegment transaction eliminations and ¥11,682 million of corporate expenses, which are mainly general and administrative expenses not distributed to specific segments.

(2) The adjustment and elimination of segment assets of ¥7,772 million includes the following elements: ¥28,358 million of intersegment transaction eliminations and ¥20,586 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥210 million is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.

(4) The adjustment and elimination of interest income of ¥23 million includes the following elements: ¥48 million of intersegment transaction eliminations and ¥24 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥118 million includes the following elements: ¥48 million of intersegment transaction eliminations and ¥166 million of interest expenses, which are not distributed to specific segments.

(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥537 million is the decrease in assets that belong to the entire group, which are not distributed to specific segments.

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment (continued)

Revenues by countries or geographical areas for the years ended March 31, 2021 and 2022 are summarized as follows (*):

(Millions of yen)

	2021					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	¥ 498,343	¥ 47,012	¥ 29,701	¥ 49,727	¥ 701	¥ 625,486

(Millions of yen)

	2022					
	Japan	**U.S.A.**	**Europe**	**Asia**	**Others**	**Total**
Revenues	**¥ 661,555**	**¥ 15,284**	**¥ 31,177**	**¥ 47,714**	**¥ 1,251**	**¥ 756,983**

(*) These revenues are summarized based on the locations of the Company and its subsidiaries

At March 31, 2021 and 2022, vessels, property and equipment by countries or geographical areas are summarized as follows:

(Millions of yen)

	2021			
	Japan	Singapore	Others	Total
Vessels, property and equipment	¥ 276,591	¥ 55,708	¥ 59,033	¥ 391,334

(Millions of yen)

	2022			
	Japan	**Singapore**	**Others**	**Total**
Vessels, property and equipment	**¥ 298,404**	**¥ 50,640**	**¥ 32,985**	**¥ 382,029**

The Company has omitted a description of sales to external customers because there are no customers whose sales account for 10% or more of the net sales in the consolidated statements of operation.

22. Segment Information (continued)

Segment information for the years ended March 31, 2021 and 2022 (continued)

3. Information on operating revenues, profit or loss, assets, and other items by each reporting segment (continued)

Losses on impairment of fixed assets for the years ended March 31, 2021 and 2022 are as follows:

(Millions of yen)

	2021					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of fixed assets	¥ 3,029	¥ 1,590	¥ 1,414	¥ 268	¥ 4	¥ 6,307

(Millions of yen)

	2022					
	Dry bulk	**Energy resource transport**	**Product logistics**	**Other (*)**	**Adjustments and eliminations**	**Total**
Loss on impairment of fixed assets	**¥ 741**	**¥ 17,391**	**¥ 21**	**¥ –**	**¥ 4**	**¥ 18,159**

(*) The "Other" segment consists of business segments not classified into aforementioned three reporting segments, including ship management service, travel agency business, real estate rental and management business and others.

23. Related Party Transactions

1. Transactions with related parties

   There is no applicable item for the years ended March 31, 2021 and 2022.

2. Notes on parent company and subsidiaries and affiliates

   Summarized financial statements of significant affiliate are as follows:

   OCEAN NETWORK EXPRESS PTE. LTD. is classified as a significant affiliate for the year ended March 31, 2022. The affiliate's summarized financial statements for the years ended March 31, 2021 and 2022 are as follows:

	2021	**2022**
	(Millions of yen)	
Total current assets	¥ 820,570	**¥ 2,340,700**
Total non-current assets	633,268	**696,874**
Total current liabilities	357,812	**540,282**
Total non-current liabilities	505,863	**525,499**
Total net assets	590,162	**1,971,792**
Operating revenues	1,672,107	**3,683,663**
Profit (loss) before income taxes	391,773	**2,064,882**
Profit (loss)	385,606	**2,050,560**

24. Subsequent Events

Wholly owned subsidiary through simplified share exchange

Based on the resolution at the Board of Directors' meeting on March 16, 2022, the Company concluded a share exchange agreement between Kawasaki Kinkai Kisen Kaisha, Ltd. ("Kawasaki Kinkai Kisen"), which had been a consolidated subsidiary of the Company, for the purpose of promoting the optimal, efficient utilization of the Group's management resources, the further sharing of business strategies between the Companies, and the enhancement of their competitiveness. Based on the agreement, the Company carried out a share exchange on June 1, 2022. Details of the share exchange are provided below.

(1) Overview of the share exchange

The Share Exchange with the Company as the wholly owning parent company and Kawasaki Kinkai Kisen as the wholly-owned subsidiary.

24. Subsequent Events (continued)

Wholly owned subsidiary through simplified share exchange (continued)

(2) Effective date of the share exchange

June 1, 2022

(3) Method of the share exchange

The simplified share exchange procedure pursuant to the provisions of Article 796, paragraph (2) of the Companies Act of Japan

(4) Additional acquisition of shares of the subsidiary

Details of each type of acquisition cost and consideration.

Consideration for acquisition (common stock): ¥9 billion
Acquisition cost: ¥9 billion

(5) Details of allotment of shares in the share exchange

	The Company (Wholly-owning parent company in share exchange)	Kawasaki Kinkai Kisen (Wholly-owned subsidiary in share exchange)
Allotment ratio for Share Exchange	1	0.58
Number of shares to be delivered upon the Share Exchange	The Company common stock: 888,234 shares	

(6) Basis of calculation for the details of allotment of shares in the share exchange

In order to calculate the Share exchange ratio, the Company appointed Mizuho Securities Co., ("Mizuho Securities") Ltd. and Kawasaki Kinkai Kisen appointed KPMG FAS Co., Ltd., ("KPMG"), respectively.

Mizuho Securities conducted a market share price analysis, a comparable company analysis, and Discounted cash flow analysis ("DCF Analysis") for calculating of the Company and Kawasaki Kinkai Kisen.

KPMG conducted a market share price analysis for calculating the Company, and a market share price analysis and DCF Analysis for Kawasaki Kinkai Kisen.

24. Subsequent Events (continued)

Wholly owned subsidiary through simplified share exchange (continued)

(7) Overview of accounting treatment

The share exchange was accounted for as a capital transaction since this transaction involves acquiring additional shares of consolidated company. As a result of the share exchange, capital surplus will increase by ¥15.1 billion and treasury stock will decrease by ¥0.2 billion in the consolidated financial statements. The final impact amount may be subject to change.

Independent Auditor's Report

Building a better working world

Independent Auditor's Report

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. (the Company) and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Estimate of provision for loss on chartering contracts	
Description of Key Audit Matter	**Auditor's Response**
Provision for loss on chartering contracts in the amount of ¥13,903 million was recognized in the consolidated balance sheet as of March 31, 2022. As described in "(u) Provision for loss on chartering contracts" in "1. Summary of significant accounting policies," the Company recorded the provision for loss on chartering contracts by estimating potential future losses from certain	The audit procedures we performed to examine the Company's judgment on significant assumptions related to the provision for loss on chartering contracts include the following, among others: ・ In order to examine the completeness of the applicable vessels, we obtained detail lists of the Company's chartering contract, and examined the number of vessels, contract type,

Building a better working world

contracts where charter rates have fallen below hire rates when such future losses are deemed highly probable and reasonably estimable based on available information as of the end of the fiscal year. As described in Note 2 "Significant Accounting Estimates," significant assumptions in estimating the provision for loss on chartering contracts are the scope of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of losses arising from the chartering contracts. The expected duration of losses arising from the chartering contracts is based on the term of the charter contract with the charterers, and refers to the period from the end of the fiscal year under review during which the situation where the unfavorable results between the charter freight (the charter rate and hire rate) are reasonably expected to continue after the end of the fiscal year, even after the consideration of the market trends to which the vessel belongs to and management decisions over the Group's policy for chartering contracts. These significant assumptions are subject to the uncertainty related to the estimates of the future market trends and the balance of supply and demand for vessels. Given the uncertainty of the estimates and the significance of the impacts on the consolidated financial statements, we determined the estimate of provision for loss on chartering contracts to be a key audit matter.	scheduled date of return to the shipowner, and other important information, and compared with the knowledge from prior year audit and the relevant qualitative information. ・ For the charter rates and the hire rates for the applicable vessels, we compared them with the charter rate list included in the vessel contracts with the external charter contractors or the vessel owners on a sample basis and performed recalculations of the revenue from chartering and costs for hiring expected in the future. In addition, we discussed with the management and persons in charge of related departments on the future outcome from the current contracts with focusing on the expected duration of the contracts as well as the charter rate and hire rate. ・ We inquired of the management and persons in charge of related departments on the duration of loss making from the contracts assumed by management with considering the market trends and the Group's policy for chartering contracts. In addition, we examined whether the assumptions were consistent with the available external information regarding the market forecast to which the applicable vessels belong. ・ To assess whether any management bias exists, we compared the estimated amount of chartering contract loss and their significant assumptions in the previous year with subsequent actual results in the current year.

Change in revenue recognition policy applied in accordance with the accounting standard for revenue recognition and estimate of total voyage days	
Description of Key Audit Matter	**Auditor's Response**
As described in "Application of Accounting Standard for Revenue Recognition" under Note 3 "Change in Accounting Standards," the Group has applied the "Accounting Standard for Revenue Recognition" from the beginning of the fiscal year ended March 31, 2022. As the result, the Company has changed its recognition method for marine transportation revenues and marine transportation costs and expenses from the previous "Voyage	The audit procedures we performed to examine the change in accounting policy to adopt the new method of revenue recognition based on the number of elapsed days of a voyage, the accompanying change in the calculation process, and the estimate of the total voyage days, which is a significant assumption in the new revenue recognition method, include the following, among others:

A member firm of Ernst & Young Global Limited

EY

Building a better working world

completion method" in which the Company recorded these revenues, and costs and expenses upon completion of a voyage to the method where they are recorded based on the number of elapsed days of a voyage from the beginning of the fiscal year ended March 31, 2022. As described in Note 2 "Significant Accounting Estimates" in "Application of Accounting Standard for Revenue Recognition," out of marine transportation and other operating revenues of ¥756,983 million in the consolidated statement of operations for the year ended March 31, 2022, the marine transportation revenue recorded based on the number of elapsed days of voyages not completed as of the end of the fiscal year for the Company's ocean tramp shipping (excluding product logistics) which was more significant than others given the size of revenue and the length of voyages was ¥29,170 million. Marine transportation revenues for voyages not completed as of the end of the fiscal year are measured based on the total freight revenue and the voyage progress. The voyage progress is calculated based on the number of elapsed days of a voyage by the end of the fiscal year to the estimated total voyage days, and the revenue is recognized in proportion to the voyage progress. A significant assumption in calculating the voyage progress is the estimate of the total voyage days. This change in accounting policy requires the Company to comprehensively identify voyages not completed as of the end of the fiscal year and calculate the voyage progress based on the number of elapsed days of a voyage by the end of the fiscal year to the estimated total voyage days. However, given the complexity of such calculation, the Company has newly designed the business processes and related IT systems and has been operating them. The estimate of the total voyage days, which is a significant assumption, may change depending on weather conditions, congestion at ports and other factors, which may affect the voyage progress. Particularly, in the current fiscal year, port congestion has worsened due to enhanced quarantine procedures in various countries due to	・ We examined whether the change in accounting policy was made in accordance with the "Accounting Standard for Revenue Recognition" through necessary investigative procedures such as an impact assessment and others by reviewing the results of analysis of the business flow conducted by the Company and the contracts and other documents to support the Company's analysis, and by inquiring of the persons in charge of related departments. ・ We assessed the effectiveness of the design and operation of internal controls related to newly designed and operated business processes and related IT systems that the Company implemented in response to the change in accounting policy. ・ For the estimate of the total voyage days for which the voyage was not completed as of the end of the fiscal year, we obtained the information of the number of days calculated based on voyage distance and speed, and the number of days docked at ports of loading and unloading based on the congestion status information from the local agent and inquired of the persons in charge of related departments regarding the estimation method. In addition, we compared the obtained information of the number of days calculated based on the voyage distance and speed with the past actual records, and the number of days staying at the ports of loading and unloading with the port anchoring period designated in the contract and port information from the local agent. ・ In order to look back the reasonableness of the estimate of the total voyage days as of March 31, 2022, and whether there was significant discrepancy between actual total voyage days and estimated total voyage days, we compared the estimated voyage days to the actual voyage days for which the voyage was completed by the end of the fiscal year. For voyages not completed as of the end of the fiscal year, we compared the estimated voyages to the latest ship location information, which we obtained independently from external available

A member firm of Ernst & Young Global Limited

Independent Auditor's Report

Building a better working world

COVID-19 and in such a business environment, uncertainty in the estimation of the total voyage days has increased. Accordingly, we determined the change in accounting policy to adopt the new method of revenue recognition based on the number of elapsed days of a voyage, the accompanying change in the calculation process, and the estimate of the total voyage days, which is a significant assumption in the new revenue recognition method, to be key audit matters.	information. ・ In order to assess the accuracy of calculation of voyage progress based on the estimated total voyage days and the revenue recognized in proportion to the calculated voyage progress, we performed recalculations.

Other Information

The other information comprises the information included in consolidated financial statements that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. We have concluded that the other information did not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Audit and Supervisory Board Members and the Audit and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Board Members and the Audit and Supervisory Board responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

EY
Building a better working world

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board Members and the Audit and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Board Members and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Board Members and the Audit and Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Independent Auditor’s Report

EY
Building a better working world

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 23, 2022

内田 聡

Satoshi Uchida
Designated Engagement Partner
Certified Public Accountant

寒河江 祐一郎

Yuichiro Sagae
Designated Engagement Partner
Certified Public Accountant

小林 雅史

Masashi Kobayashi
Designated Engagement Partner
Certified Public Accountant