Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd.
and Consolidated Subsidiaries

March 31, 2020
with Independent Auditor's Report

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

March 31, 2020

Contents

Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2020

	2019	**2020**
	(Millions of yen)	
Assets		
Current assets:		
Cash and deposits *(Notes 15 and 18)*	¥ 143,201	**¥ 115,394**
Accounts and notes receivable-trade *(Note 15)*	62,722	**60,022**
Raw materials and supplies	26,258	**25,859**
Prepaid expenses and deferred charges	40,545	**41,302**
Short-term loans receivable	1,827	**2,019**
Other current assets	15,584	**15,649**
Allowance for doubtful receivables	(1,267)	**(1,215)**
Total current assets	288,871	**259,032**
Non-current assets:		
Vessels, property and equipment net of accumulated depreciation *(Notes 5, 6, 11, 13 and 21)*:		
Vessels	392,177	**375,507**
Buildings and structures	13,032	**12,438**
Machinery, equipment and vehicles	9,373	**9,874**
Land	18,397	**18,336**
Construction in progress	12,923	**8,532**
Other	2,726	**6,399**
Total vessels, property and equipment	448,632	**431,089**
Intangible assets:		
Other intangible assets	4,377	**4,329**
Total intangible assets	4,377	**4,329**
Investments and other assets:		
Investment securities *(Notes 4, 6, 12 and 15)*	164,110	**150,993**
Long-term loans receivable	17,328	**16,857**
Asset for retirement benefits *(Note 9)*	673	**600**
Deferred tax assets *(Note 7)*	4,686	**5,877**
Other non-current assets *(Note 12)*	23,919	**28,377**
Allowance for doubtful receivables	(1,336)	**(1,077)**
Total investments and other assets	209,381	**201,629**
Total non-current assets	662,390	**637,048**
Total assets *(Note 21)*	¥ 951,261	**¥ 896,081**

	2019	**2020**
	(Millions of yen)	
Liabilities		
Current liabilities:		
Accounts and notes payable – trade *(Note 15)*	¥ 57,836	**¥ 47,673**
Short-term loans and current portion of long-term loans *(Notes 6 and 15)*	86,423	**104,576**
Current portion of obligations under finance leases	11,364	**15,633**
Accrued income taxes *(Note 7)*	1,711	**2,118**
Allowance for loss related to the Anti-Monopoly Act	3,783	**834**
Allowance for loss on liquidation of subsidiaries and affiliates	91	**113**
Allowance for loss on chartering contracts	15,135	**16,474**
Allowance for bonuses	2,556	**2,344**
Allowance for directors' bonuses	254	**155**
Other current liabilities *(Note 6)*	100,195	**46,214**
Total current liabilities	279,352	**236,139**
Non-current liabilities:		
Bonds *(Notes 6 and 15)*	10,000	**7,000**
Long-term loans, less current portion *(Notes 6 and 15)*	405,706	**379,104**
Obligations under finance leases, less current portion	34,909	**34,136**
Deferred tax liabilities *(Note 7)*	9,633	**7,609**
Deferred tax liabilities on land revaluation *(Notes 7 and 13)*	1,174	**1,174**
Allowance for directors' and audit and supervisory board members' retirement benefits	894	**377**
Allowance for directors' stock benefits	19	**16**
Accrued expenses for overhaul of vessels	12,251	**11,548**
Liability for retirement benefits *(Note 9)*	6,228	**7,313**
Derivative liabilities *(Notes 15 and 16)*	6,208	**7,277**
Other non-current liabilities	3,649	**4,147**
Total non-current liabilities	490,675	**459,707**
Total liabilities	770,028	**695,847**
Net assets		
Shareholders' equity *(Note 10)*:		
Common stock		
Authorized – 200,000,000 shares in 2019 and 2020		
Issued – 93,938,229 shares in 2019 and 2020	75,457	**75,457**
Capital surplus	1,383	**13,723**
Retained earnings	16,692	**22,050**
Treasury stock – 666,319 shares in 2019 and 666,130 shares in 2020	(2,381)	**(2,379)**
Total shareholders' equity	91,152	**108,852**
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on investments securities	4,414	**148**
Deferred gain (loss) on hedges	2,999	**(3,152)**
Revaluation reserve for land *(Note 13)*	4,655	**4,631**
Translation adjustments	4,063	**(4,821)**
Retirement benefits liability adjustments	(3,710)	**(4,562)**
Total accumulated other comprehensive income	12,423	**(7,756)**
Non-controlling interests	77,657	**99,138**
Total net assets	181,233	**200,234**
Total liabilities and net assets	¥ 951,261	**¥ 896,081**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Operations

Year ended March 31, 2020

	2019	**2020**
	(Millions of yen)	
Marine transportation and other operating revenues *(Note 21)*	¥ 836,731	**¥ 735,284**
Marine transportation and other operating costs and expenses	800,497	**671,387**
Gross profit	36,234	**63,897**
Selling, general and administrative expenses	60,971	**57,057**
Operating income (loss)	(24,736)	**6,840**
Non-operating income:		
Interest income *(Note 21)*	1,627	**1,123**
Dividend income	1,835	**2,565**
Equity in earnings of unconsolidated subsidiaries and affiliates *(Note 21)*	–	**8,011**
Reversal of allowance for loss related to the Anti-Monopoly Act	838	**375**
Exchange gain	949	**–**
Other non-operating income	1,705	**1,608**
Total non-operating income	6,956	**13,685**
Non-operating expenses:		
Interest expenses *(Note 21)*	8,340	**10,177**
Equity in losses of unconsolidated subsidiaries affiliates *(Note 21)*	18,875	**–**
Exchange loss	–	**1,583**
Other non-operating expenses	3,937	**1,357**
Total non-operating expenses	31,153	**13,117**
Ordinary income (loss) *(Note 21)*	(48,933)	**7,407**
Extraordinary income:		
Gain on sales of vessels, property and equipment	6,602	**4,756**
Gain on sales of investments securities *(Note 4)*	1,625	**1,264**
Gain on liquidation of subsidiaries and affiliates	241	**2,989**
Other extraordinary income	1,625	**1,192**
Total extraordinary income	10,095	**10,203**
Extraordinary losses:		
Loss on impairment of vessels and land *(Notes 5 and 21)*	9,001	**604**
Loss on devaluation of investment securities *(Note 4)*	0	**5,260**
Loss on cancellation of chartered vessels	49,326	**–**
Other extraordinary losses *(Note 4)*	2,256	**431**
Total extraordinary losses	60,584	**6,295**
Profit (loss) before income taxes	(99,422)	**11,315**
Income taxes *(Note 7)*:		
Current	3,129	**3,392**
Deferred	6,229	**(280)**
Total income taxes	9,359	**3,111**
Profit (loss)	(108,782)	**8,204**
Profit attributable to non-controlling interests	2,405	**2,934**
Profit (loss) attributable to owners of the parent	¥ (111,188)	**¥ 5,269**

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, 2020

	2019	**2020**
	(Millions of yen)	
Profit (loss)	¥ (108,782)	**¥ 8,204**
Other comprehensive income *(Note 17)*:		
Net unrealized holding gain (loss) on investments securities	(4,143)	**(4,207)**
Deferred gain (loss) on hedges	(5,545)	**(4,094)**
Translation adjustments	3,232	**(7,915)**
Retirement benefits liability adjustments	(1,009)	**(958)**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	6,030	**(3,893)**
Total other comprehensive income	(1,435)	**(21,069)**
Comprehensive income	¥ (110,217)	**¥ (12,865)**
(Breakdown)		
Comprehensive income attributable to owners of the parent	¥ (113,557)	**¥ (14,886)**
Comprehensive income attributable to non-controlling interests	3,339	**2,020**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2020

(Millions of yen)

	Number of shares in issue (Thousands)	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, 2018	93,938	¥ 75,457	¥ 60,507	¥ 67,107	¥ (2,383)	¥ 200,688	¥ 8,570	¥ 7,768
Change in items during the year								
Transfer to retained earnings from capital surplus	–	–	(59,002)	59,002	–	–	–	–
Profit (loss) attributable to owners of the parent	–	–	–	(111,188)	–	(111,188)	–	–
Purchases of treasury stock	–	–	–		(1)	(1)	–	–
Disposal of treasury stock	–	–	(1)	–	4	2	–	–
Change in ownership interests due to transactions with non-controlling interests	–	–	(120)	–	–	(120)	–	–
Reversal of revaluation reserve for land	–	–	–	1,529	–	1,529	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	242	–	242	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	–	(4,155)	(4,768)
Net changes during the year	–	–	(59,124)	(50,414)	2	(109,536)	(4,155)	(4,768)
Balance at March 31, 2019	93,938	¥ 75,457	¥ 1,383	¥ 16,692	¥ (2,381)	¥ 91,152	¥ 4,414	¥ 2,999

(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, 2018	¥ 6,184	¥ (3,539)	¥ (2,661)	¥ 16,321	¥ 26,083	¥ 243,094
Change in items during the year						
Transfer to retained earnings from capital surplus	–	–	–	–	–	–
Profit (loss) attributable to owners of the parent	–	–	–	–	–	(111,188)
Purchases of treasury stock	–	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	–	–	2
Change in ownership interests due to transactions with non-controlling interests	–	–	–	–	–	(120)
Reversal of revaluation reserve for land	–	–	–	–	–	1,529
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	242
Net changes in items other than shareholders' equity	(1,529)	7,603	(1,048)	(3,898)	51,574	47,676
Net change during the year	(1,529)	7,603	(1,048)	(3,898)	51,574	(61,860)
Balance at March 31, 2019	¥ 4,655	¥ 4,063	¥ (3,710)	¥ 12,423	¥ 77,657	¥ 181,233

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2020

(Millions of yen)

	Number of shares in issue (Thousands)	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, 2019	**93,938**	**¥ 75,457**	**¥ 1,383**	**¥ 16,692**	**¥ (2,381)**	**¥ 91,152**	**¥ 4,414**	**¥ 2,999**
Cumulative effects of change in accounting policies *(Note 2)*	–	–	–	**19**	–	**19**	–	–
Restated balance	**93,938**	**75,457**	**1,383**	**16,712**	**(2,381)**	**91,172**	**4,414**	**2,999**
Change in items during the year								
Profit (loss) attributable to owners of the parent	–	–	–	**5,269**	–	**5,269**	–	–
Purchases of treasury stock	–	–	–	–	**(1)**	**(1)**	–	–
Disposal of treasury stock	–	–	**(0)**	–	**2**	**1**	–	–
Change in treasury stock arising from change in equity in entities accounted for under the equity method	–	–	**(0)**	–	**0**	**0**	–	–
Change in ownership interests due to transactions with non-controlling interests	–	–	**12,340**	–	–	**12,340**	–	–
Reversal of revaluation reserve for land	–	–	–	**24**	–	**24**	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	**43**	–	**43**	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	–	**(4,266)**	**(6,152)**
Net changes during the year	–	–	**12,339**	**5,337**	**1**	**17,679**	**(4,266)**	**(6,152)**
Balance at March 31, 2020	**93,938**	**¥ 75,457**	**¥ 13,723**	**¥ 22,050**	**¥ (2,379)**	**¥ 108,852**	**¥ 148**	**¥ (3,152)**

(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, 2019	**¥ 4,655**	**¥ 4,063**	**¥ (3,710)**	**¥ 12,423**	**¥ 77,657**	**¥ 181,233**
Cumulative effects of change in accounting policies *(Note 2)*	–	–	–	–	–	**19**
Restated balance	**4,655**	**4,063**	**(3,710)**	**12,423**	**77,657**	**181,253**
Change in items during the year						
Profit (loss) attributable to owners of the parent	–	–	–	–	–	**5,269**
Purchases of treasury stock	–	–	–	–	–	**(1)**
Disposal of treasury stock	–	–	–	–	–	**1**
Change in treasury stock arising from change in equity in entities accounted for under the equity method	–	–	–	–	–	**0**
Change in ownership interests due to transactions with non-controlling interests	–	–	–	–	–	**12,340**
Reversal of revaluation reserve for land	–	–	–	–	–	**24**
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	**43**
Net changes in items other than shareholders' equity	**(24)**	**(8,885)**	**(851)**	**(20,179)**	**21,480**	**1,300**
Net change during the year	**(24)**	**(8,885)**	**(851)**	**(20,179)**	**21,480**	**18,980**
Balance at March 31, 2020	**¥ 4,631**	**¥ (4,821)**	**¥ (4,562)**	**¥ (7,756)**	**¥ 99,138**	**¥ 200,234**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2020

	2019	**2020**
	(Millions of yen)	
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ (99,422)	**¥ 11,315**
Depreciation and amortization	40,789	**44,253**
Increase (decrease) in liability for retirement benefits	(386)	**1,110**
(Increase) decrease in asset for retirement benefits	(15)	**72**
Increase (decrease) in retirement benefits liability adjustments	(927)	**(1,047)**
Increase (decrease) in allowance for directors' and audit and supervisory board members' retirement benefits	(948)	**(516)**
Increase (decrease) in accrued expenses for overhaul of vessels	1,065	**(691)**
Increase (decrease) in allowance for loss related to business restructuring	(4,218)	**–**
Increase (decrease) in allowance for loss related to the Anti-Monopoly Act	(338)	**(375)**
Increase (decrease) in allowance for loss on chartering contracts	(5,188)	**1,338**
Interest and dividend income	(3,462)	**(3,689)**
Interest expenses	8,340	**10,177**
Exchange gain, net	(1,839)	**(445)**
Loss on impairment of vessels, property and equipment	9,001	**604**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates, net	18,875	**(8,011)**
Loss on cancellation of chartered vessels	49,326	**–**
Gain on sales of vessels, property and equipment, net	(6,567)	**(4,755)**
Gain sales of marketable securities and investments securities, net	(1,622)	**(1,264)**
Loss on devaluation of marketable securities and investment securities, net	976	**5,267**
Gain on liquidation of subsidiaries and affiliates	(51)	**(2,710)**
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and notes receivable – trade	26,639	**1,840**
(Increase) decrease in raw materials and supplies	5,501	**383**
(Increase) decrease in other current assets	9,516	**(55)**
Increase (decrease) in accounts and notes payable – trade	(32,445)	**(9,148)**
Other, net	(11,082)	**(2,108)**
Subtotal	1,513	**41,541**
Interest and dividends received	5,590	**5,211**
Interest paid	(7,243)	**(11,397)**
Payments for cancellation of chartered vessels	(1,450)	**(51,774)**
Payments related to the Anti-Monopoly Act	(833)	**(2,573)**
Income taxes paid	(4,386)	**(2,804)**
Net cash provided by (used in) operating activities	¥ (6,808)	**¥ (21,797)**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2020

	2019	**2020**
	(Millions of yen)	
Cash flows from investing activities:		
Payments into time deposits	¥ (7,229)	**¥ (5,171)**
Proceeds from withdrawal of time deposits	44,574	**6,646**
Purchases of marketable securities and investment securities	(79,050)	**(1,113)**
Proceeds from sales of marketable securities and investment securities	3,310	**4,141**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	–	**(143)**
Purchases of vessels, property and equipment	(95,893)	**(71,361)**
Proceeds from sales of vessels, property and equipment	98,179	**52,502**
Purchases of intangible assets	(1,399)	**(787)**
Payments of long-term loans receivable	(1,269)	**(1,402)**
Collection of long-term loans receivable	2,856	**972**
Other, net	427	**(4,567)**
Net cash provided by (used in) investing activities	(35,493)	**(20,286)**
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	38,696	**(36,390)**
Proceeds from long-term loans	38,638	**73,044**
Repayments of long-term loans and obligations under finance leases	(56,523)	**(50,743)**
Redemption of bonds	(50,378)	**(1,809)**
Cash dividends paid to non-controlling interests	(915)	**(963)**
Proceeds from share issuance to non-controlling interests	50,000	**–**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	(265)	**(80)**
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	–	**33,768**
Other, net	38	**(94)**
Net cash provided by (used in) financing activities	19,290	**16,731**
Effect of exchange rate changes on cash and cash equivalents	2,980	**(873)**
Net increase (decrease) in cash and cash equivalents	(20,032)	**(26,225)**
Cash and cash equivalents at beginning of the year	158,072	**138,040**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	–	**118**
Cash and cash equivalents at end of the year *(Note 18)*	¥ 138,040	**¥ 111,933**

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2020

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. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations presented in the original consolidated financial statements.

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, 2019 to the 2020 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 292 and 279 subsidiaries for the years ended March 31, 2019 and 2020, 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 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.

1. Summary of Significant Accounting Policies (continued)

(c) Accounting period

The Company and 269 consolidated subsidiaries have a March 31 year end, and the remaining 10 consolidated subsidiaries have a December 31 year end. For four of these consolidated subsidiaries with a December year end, adjustments have been made for any significant transactions which took place during the period between their year end and the year end of the Company, and for the other six, a provisional closing of their accounts as of the year end of the Company has been used.

(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. Marketable 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. Non-marketable 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 of the related 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 receivables

An allowance for doubtful receivables 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) Allowance for bonuses

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

(o) Allowance for directors' bonuses

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

1. Summary of Significant Accounting Policies (continued)

(p) Allowance 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) Accrued expenses for overhaul of vessels

Vessels and other assets of the Group are subject to periodic overhaul. An accrual 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) Allowance 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) Allowance 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) Allowance 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 allowance 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) Allowance for loss on chartering contracts

In order to prepare for potential future loss under certain contracts where charter rates fall below hire rates, the probable and reasonably estimated amount of loss is recognized 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.

1. Summary of Significant Accounting Policies (continued)

(w) Derivatives and hedging activities (continued)

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 of financial market 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.

(x) 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.

(y) Deferred assets

Bond issuance costs are charged to income as incurred.

(z) 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.

(aa) Revenues and related costs

Revenues of the Group from cargo freight and the related costs and expenses, except for those from container vessels, are recognized in full as of the dates on which the vessels complete their respective voyages (the voyage completion method). Revenues from container vessels are recognized based on the passage of the transportation period (the complex transportation progress method). The related costs and expenses are charged to income as incurred. Revenues and costs with respect to charter services are accounted for on an accrual basis.

1. Summary of Significant Accounting Policies (continued)

(ab) Consolidated taxation system

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

On March 31, 2020, the Accounting Standards Board of Japan ("ASBJ") issued "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force ("PITF") No.39), based on provisions in the Act for Partial Amendments to Income Tax Act (Act No.8).

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 ASBJ PITF No.39 as an alternative to the application of section 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28).

(ac) Accounting standards issued but not yet effective

(Accounting Standard and Implementation Guidance for Revenue Recognition)

(1) Overview

On March 31, 2020, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29), "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19). The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 will be applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

1. Summary of Significant Accounting Policies (continued)

(ac) Accounting standards issued but not yet effective (continued)

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidation financial statements.

(Accounting Standard and Implementation Guidance for Fair Value Measurement)

(1) Overview

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30), “Accounting Standards for Measurement of Inventories” (ASBJ Statement No.9), “Accounting Standard for Financial Instruments” (ASBJ Statement No.10), “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31), and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19). The ASBJ tried ensuring consistency between Japanese standards and international standards mainly for guidance and disclosures on estimated fair value of financial instruments and issued “Accounting Standard for Fair Value Measurement”, etc. based on the fact that the IASB and the FASB in the United States had already issued detailed guidance on fair value measurement (issued as IFRS 13 “Fair Value Measurement” by the IASB and Topic 820 “Fair Value Measurement” in the Accounting Standards Codification by the FASB), which are almost identical to each other.

As the basic policy in developing accounting standards for fair value measurement, the ASBJ incorporated basically all of the matters defined in IFRS 13 from a standpoint of increasing comparability of financial statements among domestic and foreign companies by using a unified measurement method. Furthermore, the ASBJ defined alternative accounting treatment to the individual matters without impairing comparability considering related to accounting practices, etc. common in Japan.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standards and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

1. Summary of Significant Accounting Policies (continued)

(ac) Accounting standards issued but not yet effective (continued)

(3) Effect of the adoption of accounting standard and implementation guidance

The Company has not determined the effect of the adoption of the accounting standards and the implementation guidance on its consolidation financial statements.

(Accounting Standard for Disclosure of Accounting Estimates)

(1) Overview

On March 31, 2020, the ASBJ issued “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31). The ASBJ has received certain requests on “Factors of Uncertainty in Accounting Estimates” that the IASB requires to disclose, which is defined in the International Accounting Standard 1 “Presentation of Financial Statements” (“IAS 1”) Paragraph 125 issued by the IASB in 2003. Such requests encouraged the ASBJ to consider requirements of disclosures on “Factors of Uncertainty in Accounting Estimates” in the notes as useful information for users of financial statements and as a result the ASBJ developed and issued an accounting standard for disclosures on accounting estimates (“the accounting standard”).

As the basic policy in developing the accounting standard, which references IAS 1 Paragraph 125, the ASBJ outlined the guiding principle (purpose of disclosures) instead of expanding individual notes and entities determine the specific contents of disclosures in accordance with the purpose of disclosures. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

(1) Overview

On March 31, 2020, the ASBJ issued “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No.24). Under the proposal to consider the expansion of the notes about “Principles and Procedures of Accounting Treatment Adopted in Situations of Uncertainty of Related Accounting Standards,” the ASBJ made the necessary revisions and issued accounting standard for accounting policies disclosures, accounting changes and error corrections.

1. Summary of Significant Accounting Policies (continued)
(ac) Accounting standards issued but not yet effective (continued)

(1) Overview (continued)

In considering the notes on "Principles and Procedures of Accounting Treatment Adopted in the Situation of Uncertainty of the Related Accounting Standards," "Annotations on the Accounting Principles" (Notes 1-2) was incorporated so as not to contradict conventional accounting practices when the related accounting standards were clear.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

2. Change in Accounting Standards

(Applying International Financial Reporting Standards (IFRS) 16 Leases)

The overseas consolidated subsidiaries and affiliates accounted for by the equity method that are subject to IFRS have adopted IFRS 16 Leases (issued on January 13, 2016; hereinafter "IFRS 16") from the fiscal year ended March 31, 2020. In applying IFRS 16, the overseas consolidated subsidiaries and affiliates, as lessees, principally recognize all lease transactions on their balance sheets as assets and liabilities. The Company has applied the modified retrospective approach with the cumulative effect of initially applying the standard is recognized as an adjustment to equity at the date of initial application. As a result of the adoption of this accounting standard, assets increased by ¥10,265 million, liabilities increased by ¥10,245 million, and retained earnings increased by ¥19 million at the beginning of the current fiscal year. The increase in assets is due to the recognition of the right-of-use assets, and the increase in liabilities is due to the recognition of increase in lease obligations. Furthermore, as a result of the adoption of IFRS 16, profit before income taxes in the current fiscal year decreased by ¥2,145 million, basic profit attributable to owners of the parent per share in the current year decreased by ¥22.85, and net assets per share at the end of the current year decreased by ¥22.64 compared with those amounts that would have been recognized under the previous standard.

3. Additional Information

Due to the high uncertainty regarding the spread of COVID-19 and when it will end, it is difficult to determine a future forecast. With respect to the Group, the forecast of profit or loss related to operating activities as well as cash flow estimates for assets or groups of assets for which indications of impairment exist in determining impairment loss for the next fiscal year (from April 1, 2020 to March 31, 2021) are calculated considering a certain level of stress in achieving them, based on currently available information, such calculations incorporate the assumption that the period during which the main impacts of the infection will occur will be the first half of the next fiscal year with some impacts remaining until the second half of the same year.

4. Marketable Securities and Investment Securities

At March 31, 2019 and 2020, marketable securities and investment securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

	2019		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	¥ 3	¥ 4	¥ 0

	2020		
	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**¥ 3**	**¥ 3**	**¥ 0**

There are no securities whose estimated fair value does not exceed their carrying value at March 31, 2019 and 2020.

4. Marketable Securities and Investment Securities (continued)

At March 31, 2019 and 2020 marketable securities and investment securities with quoted market prices classified as other securities are summarized as follows:

	2019		
	Carrying value	Acquisition costs	Difference
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 18,973	¥ 13,037	¥ 5,935
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,409	1,569	(160)
Total	¥ 20,382	¥ 14,607	¥ 5,775

	2020		
	Carrying value	**Acquisition costs**	**Difference**
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 1,136**	**¥ 523**	**¥ 613**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**6,193**	**6,352**	**(158)**
Bonds	**79**	**83**	**(3)**
Total	**¥ 7,409**	**¥ 6,958**	**¥ 451**

Proceeds from sales of investment securities classified as other securities for the years ended March 31, 2019 and 2020 are summarized as follows:

	2019	**2020**
	(Millions of yen)	
Proceeds from sales	¥ 3,130	**¥ 3,866**
Aggregate gain	1,626	**1,265**
Aggregate loss	(1)	**(0)**

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.

4. Marketable Securities and Investment Securities (continued)

The Company has recognized loss on devaluation of investment securities classified as other securities of ¥0 million and ¥5,260 million for the years ended March 31, 2019 and 2020, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥71 million and investment funds of ¥904 million for the year ended March 31, 2019. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥6 million for the year ended March 31, 2020. Loss on devaluation of investments in unconsolidated subsidiaries and affiliates and investment funds recognized in other extraordinary losses in consolidated statement of operations.

5. Loss on Impairment of Vessels, Property and Equipment

Loss on impairment of vessels, property and equipment for the years ended March 31, 2019 and 2020 are as follows:

Usage	Asset Description	Country	2019
			(Millions of yen)
Business assets	Vessels and others (product logistics business)	Japan	¥ 6,735
Business assets	Vessels (energy resource transport business)	Norway	1,272
Business assets	Vessels (dry bulk business)	Japan	100
Assets for sale	Vessels	Norway, Singapore and others	880
Idle assets	Land and others	Japan and others	14
Total			¥ 9,001

Usage	Asset Description	Country	**2020**
			(Millions of yen)
Business assets	Vessels and others (product logistics business)	Japan and Singapore	**¥ 249**
Business assets	Vessels (dry bulk business)	Japan	**58**
Assets for sale	Vessels	Japan	**254**
Idle assets	Land and others	Japan	**40**
Total			**¥ 604**

5. Loss on Impairment of Vessels, Property and Equipment (continued)

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.

As profitability decreased significantly, the carrying values of business assets and assets group were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2019 and 2020.

In addition, since the planned sales amounts of assets for sale were lower than the carrying values and the respective recoverable amounts of the idle assets were deemed to be irretrievably lower than the carrying values mainly due to decreasing land prices, the carrying values were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2019 and 2020.

The recoverable amounts are the higher of net selling value and the value-in-use. Net selling value is measured by third-party valuations and others. The value-in-use is based on estimated future cash flows discounted at rate of 3.0 to 6.3 per cent and 7.5 per cent. for the years ended March 31, 2019 and 2020, respectively.

6. Short-Term Loans, Long-Term Debt, and Obligations under Finance Leases

Short-term loans at March 31, 2019 and 2020 consisted of the following:

	2019	**2020**
	(Millions of yen)	
Short-term loans from banks	¥ 42,744	**¥ 4,726**

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.83 per cent. and 0.66 per cent. per annum at March 31, 2019 and 2020, respectively.

Long-term debt at March 31, 2019 and 2020 consisted of the following:

	2019	**2020**
	(Millions of yen)	
Long-term bank loans due within one year:		
Loans from banks and insurance companies due in installments through September 2075 at average interest rates of 1.10% and 1.25% per annum at March 31, 2019 and 2020, respectively	¥ 43,679	**¥ 99,850**
Long-term bank loans due after one year:		
Loans from banks and insurance companies due in installments through September 2075 at average interest rates of 1.10% and 1.25% per annum at March 31, 2019 and 2020, respectively	405,706	**379,104**
Bonds:		
Bonds in yen, interest rate indexed to TIBOR, due July 16, 2019	1,809	–
0.69% bonds in yen, due August 31, 2020	3,000	**3,000**
1.05% bonds in yen, due August 31, 2022	7,000	**7,000**
Total	461,194	**488,954**
Amount due within one year	45,488	**102,850**
	¥ 415,706	**¥ 386,104**

Bonds due within one year at March 31, 2020 recognized in other current liabilities in consolidated balance sheet.

6. Short-Term Loans, Long-Term Debt, and Obligations under Finance Leases (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 are summarized as follows:

Year ending March 31,	*Millions of yen*
2021	¥ 102,850
2022	124,576
2023	100,286
2024	18,889
2025	19,969
2026 and thereafter	122,383
Total	¥ 488,954

The average interest rates applicable to the lease obligations due in installments through May 2029 are 2.53% and 3.00% at March 31, 2019, and 2020, respectively.

The aggregate annual maturities of obligations under finance leases subsequent to March 31, 2020 are summarized as follows:

Year ending March 31,	*Millions of yen*
2021	¥ 15,633
2022	4,855
2023	8,711
2024	3,474
2025	7,602
2026 and thereafter	9,494
Total	¥ 49,769

6. Short-Term Loans, Long-Term Debt, and Obligations under Finance Leases (continued)

A summary of assets pledged as collateral at March 31, 2020 for short-term loans and the current portion of long-term loans in the amount of ¥64,348 million, long-term loans of ¥160,487 million and loans to be incurred in the future is presented below:

	Millions of yen
Vessels	¥ 284,094
Investments in securities	19,051
Other	1,482
Total	¥ 304,628

Investments in securities of ¥19,501 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, 2020.

7. Income Taxes

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2019 was omitted because the Group recorded a loss before income taxes for the year.

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 was omitted because the difference was less than 5%.

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, 2019 and 2020 are analyzed as follows:

	2019	**2020**
	(Millions of yen)	
Deferred tax assets:		
Liability for retirement benefits	¥ 2,265	**¥ 2,775**
Allowance for loss on chartering contracts	4,450	**5,597**
Other allowances	5,804	**1,565**
Loss on impairment of vessels, property and equipment	2,664	**1,999**
Elimination of unrealized intercompany profit	902	**883**
Accounts and notes payable – trade	3,521	**3,001**
Loss on devaluation of investment securities	12,886	**7,288**
Deferred assets for tax purposes	1,307	**1,131**
Tax loss carried forward (*2)	56,039	**77,623**
Foreign tax credit carried forward	2,220	**2,010**
Deferred gain (loss) on derivatives under hedge accounting	–	**348**
Other	16,830	**2,088**
Gross deferred tax assets	108,891	**106,314**
Valuation allowance for tax loss carried forward (*2)	(54,319)	**(75,302)**
Valuation allowance for the total of deductible temporary differences and others	(46,980)	**(23,432)**
Valuation allowance subtotal (*1)	(101,299)	**(98,734)**
Total deferred tax assets	7,591	**7,579**
Deferred tax liabilities:		
Reserve for special depreciation	(271)	**(132)**
Deferred gain on tangible fixed assets for tax purposes	(850)	**(797)**
Unrealized holding gain (loss) on investment securities	(1,628)	**(66)**
Accelerated depreciation in overseas subsidiaries	(4,379)	**(4,858)**
Accumulated earnings tax	(335)	**(81)**
Deferred capital gain based on group corporate tax system	(192)	**(192)**
Tax effect of undistributed earnings of overseas subsidiaries and affiliates accounted for by the equity method	(855)	**(860)**
Other	(4,024)	**(2,320)**
Total deferred tax liabilities	(12,538)	**(9,311)**
Net deferred tax liabilities	¥ (4,946)	**¥ (1,731)**

7. Income Taxes (continued)

(*1) Valuation allowance decreased by ¥2,565 million for the year ended March 31, 2020. The main reasons for the decrease are the combination of the fact that the increase of ¥20,983 million in valuation allowance for tax loss carried forward, and decrease of ¥23,548 million in total of deductible temporary differences and other. The decrease in total of deductible temporary differences and other consists of decreases of ¥14,655 million in valuation allowance for loss on cancellation of chartered vessels, ¥5,499 million in valuation allowance for loss on devaluation of investments in securities, and ¥3,938 million of valuation allowance for other allowances.

(*2) Tax loss carried forward and related deferred tax assets as of March 31, 2020 will expire as follows:

	(Millions of yen)		
	2020		
Year ending March 31,	Tax loss carried forward (*)	Valuation allowance for tax loss carried forward	Deferred tax assets related to tax loss carried forward
2021	¥ 13,865	¥ (13,865)	¥ –
2022	2,040	(2,040)	–
2023	1,385	(1,385)	–
2024	8	(8)	–
2025	4,080	(4,080)	–
2026 and thereafter	56,236	(53,915)	2,321
	¥ 77,623	¥ (75,302)	¥ 2,321

(*) 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, 2019 and 2020, 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, 2019	Vessels	Total
	(Millions of yen)	
Acquisition costs	¥ 18,517	¥ 18,517
Accumulated depreciation	(4,393)	(4,393)
Net book value	¥ 14,123	¥ 14,123

At March 31, 2020	**Vessels**	**Total**
	(Millions of yen)	
Acquisition costs	**¥ 18,517**	**¥ 18,517**
Accumulated depreciation	**(5,147)**	**(5,147)**
Net book value	**¥ 13,370**	**¥ 13,370**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2019 and 2020 are summarized as follows:

	2019	**2020**
	(Millions of yen)	
Lease payments	¥ 1,104	**¥ 1,061**
Depreciation	758	**753**
Interest expenses	159	**141**

8. Leases (continued)

Future minimum lease payments subsequent to March 31, 2020 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*Millions of yen*
2021	**¥ 920**
2022 and thereafter	**6,672**
Total	**¥ 7,593**

Future minimum lease payments or receipts subsequent to March 31, 2020 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	*Millions of yen*
2021	**¥ 27,965**
2022 and thereafter	**132,209**
Total	**¥ 160,174**

(As lessors)

Year ending March 31,	*Millions of yen*
2021	**¥ 3,591**
2022 and thereafter	**7,139**
Total	**¥ 10,731**

9. Retirement Benefits

The Group has 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, 2019 and 2020 are as follows:

	2019	**2020**
	(Millions of yen)	
Retirement benefit obligation at beginning of the year	¥ 26,303	**¥ 26,744**
Service cost	1,560	**1,574**
Interest cost	79	**70**
Actuarial differences	205	**631**
Payment of retirement benefits	(1,450)	**(1,006)**
Foreign currency exchange rate changes	45	**(28)**
Retirement benefit obligation at end of the year	¥ 26,744	**¥ 27,987**

9. Retirement Benefits (continued)

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2019 and 2020 are as follows:

	2019	**2020**
	(Millions of yen)	
Pension plan assets at fair value at beginning of the year	¥ 22,554	**¥ 23,188**
Expected return on pension plan assets	1,183	**608**
Actuarial differences	(826)	**(854)**
Contributions by the employer	1,309	**1,314**
Payment of retirement benefits	(1,038)	**(982)**
Foreign currency exchange rate changes	5	**(2)**
Pension plan assets at fair value at end of the year	¥ 23,188	**¥ 23,271**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2019 and 2020 are as follows:

	2019	**2020**
	(Millions of yen)	
Liability for retirement benefits, net at beginning of the year	¥ 2,171	**¥ 1,998**
Retirement benefit expenses	414	**453**
Payment of retirement benefits	(417)	**(313)**
Contributions to the plans	(169)	**(140)**
Liability for retirement benefits, net at end of the year	¥ 1,998	**¥ 1,997**

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, 2019 and 2020 for the Group's defined benefit plans:

	2019	**2020**
	(Millions of yen)	
Funded retirement benefit obligation	¥ 28,102	**¥ 28,565**
Plan assets at fair value	(25,376)	**(25,251)**
Subtotal	2,725	**3,313**
Unfunded retirement benefit obligation	2,829	**3,399**
Liability for retirement benefits, net	¥ 5,554	**¥ 6,713**
Liability for retirement benefits	¥ 6,228	**¥ 7,313**
Asset for retirement benefits	(673)	**(600)**
Liability for retirement benefits, net	¥ 5,554	**¥ 6,713**

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

Retirement benefit expenses for the Group for the years ended March 31, 2019 and 2020 are summarized as follows:

	2019	**2020**
	(Millions of yen)	
Service cost	¥ 1,560	**¥ 1,574**
Interest cost	79	**70**
Expected return on pension plan assets	(1,183)	**(608)**
Amortization of actuarial differences	135	**499**
Amortization of past service cost	(15)	**(17)**
Retirement benefit expenses calculated by a simplified method	414	**453**
Retirement benefit expenses	¥ 991	**¥ 1,971**

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, 2019 and 2020 are summarized as follows:

	2019	**2020**
	(Millions of yen)	
Past service cost	¥ (15)	**¥ (17)**
Actuarial (gain)loss	(901)	**(985)**
Total	¥ (917)	**¥ (1,003)**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2019 and 2020 are summarized as follows:

	2019	**2020**
	(Millions of yen)	
Unrecognized past service cost	¥ 105	**¥ 88**
Unrecognized actuarial differences	(3,858)	**(4,843)**
Total	¥ (3,752)	**¥ (4,755)**

The fair value of pension plan assets by major category as of March 31, 2019 and 2020 is as follows:

	2019	**2020**
Bonds	38%	**34%**
Equity	23	**19**
General account assets under insurance plan	30	**30**
Other	9	**17**
Total	100%	**100%**

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2019 and 2020 are as follows:

	2019	**2020**
Discount rates	Mainly 0.0%	**Mainly 0.0%**
Expected rates of return on plan assets	Mainly 7.9%	**Mainly 3.6%**
Rates of salary increase	Mainly from 1.2% to 16.0%	**Mainly from 1.2% to 16.0%**

Total contributions paid by consolidated subsidiaries to the defined contribution plans amounted to ¥452 million and ¥602 million for the years ended March 31, 2019 and 2020, respectively.

10. Shareholders' Equity

Movements in common stock and treasury stock of the Company for the years ended March 31, 2019 and 2020 are summarized as follows:

	Number of shares *(Thousands)*			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	93,938	–	–	93,938
Treasury stock (*1,2,3)	666	0	1	666

	Number of shares *(Thousands)*			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	**93,938**	**–**	**–**	**93,938**
Treasury stock (*4,5,6)	**666**	**0**	**0**	**666**

(*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 1 thousand shares is mainly due to the decrease of 1 thousand shares resulting from providing shares related to the "Board Benefit Trust (BBT)" to officers and 0 thousand shares at request of shareholders owning less than one voting unit.

(*3) 448 and 446 thousand shares, which are held by the Trust & Custody Services Bank, Ltd., are included in the number of shares in treasury stock at April 1, 2018 and March 31, 2019, respectively.

(*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) The decrease in the number of shares in treasury stock of 0 thousand shares is mainly due to the decrease of 0 thousand shares resulting from providing shares related to the "Board Benefit Trust (BBT)" to officers.

(*6) 446 thousand shares, which are held by the Trust & Custody Services Bank, Ltd., are included in the number of shares in treasury stock at April 1, 2019 and March 31, 2020, respectively.

11. Accumulated Depreciation

Accumulated depreciation of vessels, property, plant and equipment at March 31, 2019 and 2020 is as follows:

	2019	**2020**
	(Millions of yen)	
Accumulated depreciation	¥ 407,807	**¥ 434,991**

12. Investment in Unconsolidated Subsidiaries and Affiliates

Amounts corresponding to unconsolidated subsidiaries and affiliates as of March 31, 2019 and 2020 are as follows:

	2019	**2020**
	(Millions of yen)	
Investment securities (Equity securities)	¥ 136,252	**¥ 136,267**
Other non-current assets (Investment funds)	2,499	**3,275**

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, 2019 and 2020, the fair value of land was lower than its carrying value after revaluation by ¥3,034 million and ¥2,977 million, respectively.

14. Commitments and Contingent Liabilities

At March 31, 2020, commitments made by the Group for the construction of vessels amounted to ¥6,985 million.

Contingent liabilities for guarantees of loans to affiliates and third-party companies and obligations for additional investment, etc. as of March 31, 2020 are as follows:

	2020
	(Millions of yen)
Guarantees of loans	¥ 12,775
Obligations for additional investment, etc.	3,210

(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.

The Group contracts out containerships which the Company or its consolidated subsidiaries then charter to other charterers. Since charter rates are highly sensitive to fluctuations in charter markets, there is a risk that charter rates may fall below hire rates. Depending on changes in the Group’s planning for chartering contracts or trends in charter markets, it may be necessary for the Group to recognize additional provisions for losses, when the loss amount can be rationally estimated, which could have a negative impact on the Group’s financial position and operating results.

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, but 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 55 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)

For information on hedge accounting policies of the Group, see Note 1. Summary of Significant Accounting Policies, (w) 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 is based on market price, if available. When there is no market price, fair value is reasonably estimated. Fair value 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, 2019 and 2020, and the estimated fair value and the difference between them are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	2019		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
Cash and deposits	¥ 143,201	¥ 143,201	¥ –
Accounts and notes receivable – trade	62,722	62,722	–
Marketable securities and investment securities:			
Held to maturity debt securities	3	4	0
Other securities	20,382	20,382	–
Investment in unconsolidated subsidiaries and affiliates	3,981	1,373	(2,607)
Total assets	¥ 230,290	¥ 227,683	¥ (2,607)
Liabilities			
Accounts and notes payable – trade	¥ (57,836)	¥ (57,836)	¥ –
Short-term loans, inclusive of current portion of long-term loans	(86,423)	(86,440)	(17)
Long-term debt, less current portion:			
Bonds	(10,000)	(9,614)	385
Long-term loans	(405,706)	(405,865)	(159)
Total liabilities	¥ (559,965)	¥ (559,756)	¥ 208
Derivative transactions (*)	¥ (4,154)	¥ (4,228)	¥ (74)

15. Financial Instruments (continued)

	2020		
	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Assets			
Cash and deposits	**¥ 115,394**	**¥ 115,394**	**¥ –**
Accounts and notes receivable – trade	**60,022**	**60,022**	**–**
Marketable securities and investment securities:			
Held to maturity debt securities	**3**	**3**	**0**
Other securities	**7,409**	**7,409**	**–**
Investment in unconsolidated subsidiaries and affiliates	**936**	**1,556**	**619**
Total assets	**¥ 183,767**	**¥ 184,386**	**¥ 619**
Liabilities			
Accounts and notes payable – trade	**¥ (47,673)**	**¥ (47,673)**	**¥ –**
Short-term loans, inclusive of current portion of long-term loans	**(104,576)**	**(104,584)**	**(8)**
Long-term debt, less current portion:			
Bonds	**(7,000)**	**(6,686)**	**313**
Long-term loans	**(379,104)**	**(379,135)**	**(30)**
Total liabilities	**¥ (538,355)**	**¥ (538,079)**	**¥ 275**
Derivative transactions (*)	**¥ (4,737)**	**¥ (4,777)**	**¥ (39)**

(*) 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)

Fair value of cash and deposits and accounts and notes receivable – trade is based on carrying value as most of them are settled within a short term and their fair value approximates carrying value.

Fair value of debt securities is based on market prices provided by financial institutions. Fair value of equity securities and investment securities is based on market prices prevailing in the applicable stock exchange. For information on securities classified by holding purpose, please refer to Note 4. Marketable Securities and Investment Securities.

Fair value of accounts and notes payable – trade and short-term loans is based on carrying value as most of them are settled within a short term and their fair value approximates carrying value, except for the current portion of long-term loans whose fair value is based on the same method as long-term loans.

Fair value of bonds is mainly based on market prices.

Fair value of long-term loans is mainly based on the present value of the total amount including principal and interest, discounted by the expected interest rate assuming a new borrowing of a similar loan.

The financial instruments whose fair value is difficult to determine as of March 31, 2019 and 2020 are summarized as follows.

	2019	**2020**
	(Millions of yen)	
Unlisted investment securities	¥ 139,743	**¥ 142,645**

For unlisted investment securities, there is neither market value nor estimated future cash flow, and it is difficult to determine the fair value. Therefore, the fair value of unlisted investment securities is not included in investment securities in the summary table of financial instruments.

15. Financial Instruments (continued)

The redemption schedule as of March 31, 2020 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	2020			
	Within 1 year	**Over 1 year within 5 years**	**Over 5 years within 10 years**	**Over 10 years**
		(Millions of yen)		
Cash and deposits	**¥ 115,394**	¥ –	¥ –	¥ –
Accounts and notes receivable – trade	**60,022**	–	–	–
Marketable securities and Investment securities				
Held-to-maturity securities:				
Government, municipal bonds and others	**1**	**2**	–	–
Total	**¥ 175,418**	**¥ 2**	¥ –	¥ –

The redemption schedule as of March 31, 2020 for short-term loans and long-term debt is as provided in Note 6.

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, 2019 was omitted due to immateriality and 2020 is summarized as follows:

Method of hedge accounting	Transaction	2020 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)	Gain on valuation
		(Millions of yen)			
Transactions other than market transactions	Forward foreign exchange contracts				
	Buying:				
	USD	**¥ 698**	**¥ –**	**¥ 3**	**¥ 3**
	GBP	**1,564**	**–**	**1**	**1**
	Selling:				
	NOK	**14,018**	**–**	**2,006**	**2,006**
	Total	**¥ 16,280**	**¥ –**	**¥ 2,012**	**¥ 2,012**

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2019 and 2020 is summarized as follows:

Currency-related transactions

Method of hedge accounting	Transaction	Major hedged item	2019 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 24,270	¥ 1,231	¥ 942
	Selling:				
	USD	Forecasted foreign currency transactions	5,988	–	51
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	6,148	–	308
	Total		¥ 36,407	¥ 1,231	¥ 1,303

16. Derivatives and Hedging Activities (continued)

Method of hedge accounting	Transaction	Major hedged item	2020 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	**¥ 12,645**	**¥ 8,622**	**¥ 576**
	EUR	Forecasted foreign currency transactions	**7**	**–**	**(0)**
	Selling:				
	USD	Forecasted foreign currency transactions	**4,910**	**–**	**56**
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**2,914**	**–**	**35**
Fair value hedge (*2)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	**701**	**–**	**109**
	Receiving GBP, paying USD	Forecasted foreign currency transactions	**687**	**–**	**13**
	Total		**¥ 21,866**	**¥ 8,622**	**¥ 791**

(*1) Fair value is mainly based on relevant prices quoted by financial institutions and others.

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

16. Derivatives and Hedging Activities (continued)

Interest rate-related transactions

			2019		
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	Interest rate swaps Receive floating / Pay fixed	Long-term loans	¥ 71,109	¥ 65,897	¥ (5,941)
Special treatment for interest rate swaps	Interest rate swaps Receive floating / Pay fixed	Long-term loans	1,575	1,505	(74)
	Total		¥ 72,684	¥ 67,402	¥ (6,015)

			2020		
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	Interest rate swaps Receive floating / Pay fixed	Long-term loans	**¥ 59,863**	**¥ 58,721**	**¥ (7,277)**
Special treatment for interest rate swaps	Interest rate swaps Receive floating / Pay fixed	Long-term loans	**1,245**	**1,205**	**(39)**
	Total		**¥ 61,108**	**¥ 59,926**	**¥ (7,317)**

(*) Fair value is mainly based on relevant prices quoted by financial institutions and others.

16. Derivatives and Hedging Activities (continued)

Others

Method of hedge accounting	Transaction	Major hedged item	2019 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
				(Millions of yen)	
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	¥ 4,275	¥ –	¥ 244
	Forward freight agreements	Ocean freight	974	–	1
	Total		¥ 5,249	¥ –	¥ 245

Method of hedge accounting	**Transaction**	**Major hedged item**	**2020 Total contract value (notional principal amount)**	**Contract value (notional principal amount) over one year**	**Estimated fair value (*)**
				(Millions of yen)	
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**¥ 474**	**¥ –**	**¥ (111)**
	Forward freight agreements	Ocean freight	**993**	**–**	**(152)**
	Total		**¥ 1,467**	**¥ –**	**¥ (263)**

(*) Fair value is mainly based on relevant prices quoted by financial institutions and others.

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, 2019 and 2020.

	2019	**2020**
	(Millions of yen)	
Net unrealized holding gain (loss) on investment securities:		
Amount arising during the year	¥ (3,827)	**¥ 721**
Reclassification adjustments to profit or loss	(1,847)	**(6,390)**
Amount before tax effect	(5,675)	**(5,668)**
Tax effect	1,531	**1,461**
Net unrealized holding gain (loss) on investment securities	(4,143)	**(4,207)**
Deferred gain (loss) on hedges:		
Amount arising during the year	1,610	**(3,700)**
Reclassification adjustments to profit or loss	(4,679)	**(1,993)**
Adjustments for acquisition costs of vessels due to valuation of hedges	(4,609)	**(896)**
Amount before tax effect	(7,678)	**(6,590)**
Tax effect	2,133	**2,495**
Deferred gain (loss) on hedges	(5,545)	**(4,094)**
Translation adjustments:		
Amount arising during the year	3,232	**(4,625)**
Reclassification adjustments to profit or loss	–	**(3,289)**
Translation adjustments	3,232	**(7,915)**
Retirement benefits liability adjustments:		
Amount arising during the year	(1,009)	**(1,410)**
Reclassification adjustments to profit or loss	92	**407**
Amount before tax effect	(917)	**(1,003)**
Tax effect	(92)	**44**
Retirement benefits liability adjustments	(1,009)	**(958)**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method:		
Amount arising during the year	5,846	**(4,657)**
Reclassification adjustments to profit or loss	184	**763**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	6,030	**(3,893)**
Total other comprehensive income	¥ (1,435)	**¥ (21,069)**

18. Supplementary Information on Consolidated Statement of Cash Flows

Cash and cash equivalents in the accompanying consolidated statement of cash flows for the years ended March 31, 2019 and 2020 are reconciled to cash and deposits reflected in the accompanying consolidated balance sheet as of March 31, 2019 and 2020 as follows:

	2019	**2020**
	(Millions of yen)	
Cash and deposits	¥ 143,201	**¥ 115,394**
Time deposits with a maturity of more than three months after the purchase date	(5,161)	**(3,461)**
Cash and cash equivalents	¥ 138,040	**¥ 111,933**

19. Amounts per Share

Amounts per share at March 31, 2019 and 2020 and for the years then ended are as follows:

	2019	**2020**
	(Yen)	
Net assets	¥ 1,110.48	**¥1,083.88**
Profit (loss) profit attributable to owners of the parent:		
Basic	(1,192.08)	**56.50**

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 year ended March 31, 2019 has not been presented although dilutive potential common shares exist, because loss for the year was recorded.

Diluted profit attributable to owners of the parent per share for the year ended March 31, 2020 has not been presented because dilutive potential common shares do not exist.

19. Amounts per Share (continued)

The financial data used in the computation of basic profit (loss) per share for the years ended March 31, 2019 and 2020 in the table above is summarized as follows:

	2019	**2020**
	(Millions of yen)	
Information used in computation of basic profit (loss) per share:		
Profit (loss) attributable to owners of the parent	¥(111,188)	**¥ 5,269**

	2019	**2020**
	(Thousands of shares)	
Weighted-average number of shares of common stock outstanding	93,272	**93,272**

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 and diluted profit attributable to owners of the parent per share during the current year. The average number of shares of common stock outstanding was 447,254 and 446,238 shares for the years ended March 31, 2019 and 2020, respectively.

20. Business combination

Business combination for the years ended March 31, 2020

Transaction under common control, etc.

(Establishment of Joint Holding Company through Share Transfer and Partial Transfer of Holding Company's Shares)

1. Overview of transaction

    (1) Name of the company after combination and its principal business

    Wholly owning parent company through share transfer: KLKG HOLDINGS, Co., Ltd.

    Principal business: Management of its subsidiaries within the group and the business of the group as a whole

    (2) Name of combined companies and their principal businesses

    Wholly owned subsidiary through share transfer: Daito Corporation, Nitto Total Logistics Ltd. and SEAGATE CORPORATION

    Principal businesses: Harbor transportation, warehousing, harbor tugboat service, custom brokerage, freight forwarding, etc.

    (3) Date of business combination

    April 1, 2019

    (4) Legal form of business combination

    Establishment of joint holding company through share transfer

    (5) Overview of the transaction

    On April 1, 2019, the Company established a joint holding company that became the wholly owning parent company of the three domestic harbor transportation subsidiaries of the Company through an associated share transfer, and 49% of the total shares of the holding company were then transferred to Kamigumi Co., Ltd. ("Kamigumi"). Further enhancement of service quality by utilizing resources such as technology, knowledge and management resources that the Company and Kamigumi have cultivated in the harbor transportation business and domestic logistics business.

20. Business combination (continued)

2. Overview of accounting treatment

Based on the Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019) and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), the Company has treated the transactions as a transaction under common control, etc.

3. Items related to changes in the Company's ownership interest resulting from transaction with non-controlling shareholders

(1) Main cause of change in capital surplus

Partial sales of shares of subsidiaries not resulting in change in scope of consolidation

(2) Increase in capital surplus due to the transactions with non-controlling shareholders

¥12,662 million

21. Segment Information

Segment information for the years ended March 31, 2019 and 2020

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 business, thermal coal carrier business, LNG carrier business, and offshore energy E&P support business. The product logistics segment includes the following business: car carrier business, logistics business, short sea and coastal business, and containership business.

21. Segment Information (continued)

Segment information for the years ended March 31, 2019 and 2020 (continued)

2. Calculation method of reporting segment profit (loss)

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

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, 2019 and 2020 consisted of the following:

(Millions of yen)

	2019						
	Dry bulk	Energy resource transport	Product logistics	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated
1. Revenues:							
(1) Operating revenues from customers	¥273,826	¥ 88,701	¥ 441,028	¥ 33,175	¥ 836,731	¥ –	¥ 836,731
(2) Intra-group revenues and transfers	160	0	8,901	48,954	58,015	(58,015)	–
Total revenues	¥273,986	¥ 88,701	¥ 449,929	¥ 82,129	¥ 894,747	¥ (58,015)	¥ 836,731
2. Segment profit (loss) (*3)	¥ 4,441	¥ 2,491	¥ (49,196)	¥ 1,124	¥ (41,139)	¥ (7,794)	¥ (48,933)
3. Segment assets	¥263,305	¥ 242,849	¥ 386,734	¥ 63,851	¥ 956,740	¥ (5,479)	¥ 951,261
4. Others							
(1) Depreciation and amortization	¥ 13,448	¥ 11,136	¥ 14,484	¥ 1,434	¥ 40,504	¥ 284	¥ 40,789
(2) Interest income	353	587	670	249	1,859	(232)	1,627
(3) Interest expenses	3,060	3,248	1,821	289	8,418	(78)	8,340
(4) Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net	–	1,183	(20,136)	77	(18,875)	–	(18,875)
(5) Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	–	23,349	97,829	3,981	125,159	–	125,159
(6) Increase in vessels, property and equipment and intangible assets	14,269	42,519	40,270	619	97,678	233	97,911

21. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2019 (continued)

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

(Millions of yen)

	2020						
	Dry bulk	**Energy resource transport**	**Product logistics**	**Other (*1)**	**Total**	**Adjustments and eliminations (*4)**	**Consolidated**
1. Revenues:							
(1) Operating revenues from customers	**¥ 233,781**	**¥ 84,676**	**¥ 384,508**	**¥ 32,318**	**¥ 735,284**	**¥ –**	**¥ 735,284**
(2) Intra-group revenues and transfers	**38**	**0**	**8,366**	**48,670**	**57,076**	**(57,076)**	**–**
Total revenues	**¥ 233,820**	**¥ 84,676**	**¥ 392,874**	**¥ 80,989**	**¥ 792,360**	**¥ (57,076)**	**¥ 735,284**
2. Segment profit (loss) (*3)	**¥ 4,089**	**¥ 9,921**	**¥ (2,933)**	**¥ 1,732**	**¥ 12,809**	**¥ (5,401)**	**¥ 7,407**
3. Segment assets	**¥ 245,295**	**¥ 226,470**	**¥ 380,026**	**¥ 54,384**	**¥ 906,176**	**¥ (10,095)**	**¥ 896,081**
4. Others							
(1) Depreciation and amortization	**¥ 14,674**	**¥ 12,226**	**¥ 16,323**	**¥ 788**	**¥ 44,012**	**¥ 241**	**¥ 44,253**
(2) Interest income	**163**	**455**	**456**	**213**	**1,288**	**(164)**	**1,123**
(3) Interest expenses	**3,169**	**3,792**	**2,583**	**178**	**9,723**	**453**	**10,177**
(4) Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net	**5**	**3,289**	**4,630**	**86**	**8,011**	**–**	**8,011**
(5) Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	**396**	**29,054**	**97,836**	**4,066**	**131,353**	**–**	**131,353**
(6) Increase in vessels, property and equipment and intangible assets	**14,740**	**45,002**	**20,839**	**355**	**80,938**	**210**	**81,148**

21. Segment Information (continued)

Segment information for the years ended March 31, 2019 and 2020 (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 ¥7,794 million includes the following elements: ¥272 million of intersegment transaction eliminations and ¥7,522 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 ¥5,479 million includes the following elements: ¥29,586 million of intersegment transaction eliminations and ¥24,107 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥284 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 ¥232 million includes the following elements: ¥447 million of intersegment transaction eliminations and ¥214 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥78 million includes the following elements: ¥447 million of intersegment transaction eliminations and ¥368 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 ¥233 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

21. Segment Information (continued)

Segment information for the years ended March 31, 2019 and 2020 (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 ¥5,401 million includes the following elements: ¥254 million of intersegment transaction eliminations and ¥5,655 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 ¥10,095 million includes the following elements: ¥22,980 million of intersegment transaction eliminations and ¥12,884 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥241 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 ¥164 million includes the following elements: ¥318 million of intersegment transaction eliminations and ¥153 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥453 million includes the following elements: ¥318 million of intersegment transaction eliminations and ¥771 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 ¥210 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

21. Segment Information (continued)

Segment information for the years ended March 31, 2019 and 2020 (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, 2019 and 2020 are summarized as follows (*):

(Millions of yen)

	2019					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	¥ 705,878	¥ 47,177	¥ 39,783	¥ 43,797	¥ 93	¥ 836,731

(Millions of yen)

	2020					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	**¥ 613,509**	**¥ 42,774**	**¥ 36,465**	**¥ 41,854**	**¥ 679**	**¥ 735,284**

(*) Change in Presentation:

These revenues are summarized based on the locations of the Company and its subsidiaries, which recognize revenue from the current fiscal year, although they had been based on the locations of customers previously. This change enables the Company to summarize revenues more reasonably from the point of view of the characteristics of service provided by international shipping business. Along with this change, the figures for the previous fiscal year are presented in accordance with the classification after the changes.

At March 31, 2019 and 2020, vessels, property and equipment by countries or geographical areas are summarized as follows:

(Millions of yen)

	2019			
	Japan	Singapore	Others	Total
Vessels, property and equipment	¥ 327,703	¥ 50,626	¥ 70,301	¥ 448,632

(Millions of yen)

	2020			
	Japan	Singapore	Others	Total
Vessels, property and equipment	**¥ 308,729**	**¥ 57,278**	**¥ 65,081**	**¥ 431,089**

21. Segment Information (continued)

Segment information for the years ended March 31, 2019 and 2020 (continued)

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

Losses on impairment of vessels, property and equipment for the years ended March 31, 2019 and 2020 are as follows:

	(Millions of yen)					
	2019					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	¥ 100	¥ 2,103	¥ 6,785	¥ –	¥ 12	¥ 9,001

	(Millions of yen)					
	2020					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	**¥ 58**	**¥ 254**	**¥ 249**	**¥ 28**	**¥ 12**	**¥ 604**

(*) 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.

22. Related Party Transactions

1. Transactions with related parties

Transactions with the Company and related parties for the years ended March 31, 2019 is summarized as follows:

Name	Location	Amount of capital stock	Business description	Voting (%)	Relationship
		(Thousands of U.S. dollars)			
OCEAN NETWORK EXPRESS PTE. LTD. (*1)	SINGAPORE	$ 3,000,000	Container Shipping Business	–	Investee Chartering contractor, etc. Interlocking directors

Details of business transaction	Amount of transaction	Account	Balance at the end of year
	(Millions of yen)		*(Millions of yen)*
Underwriting of additional investments	¥ 72,243		
Receiving charter hire, etc. (*2)	89,804	Accounts and notes receivable – trade	¥ 3,508
		Other current assets	227
		Investments in and advances to unconsolidated subsidiaries and affiliates	312

(*1) OCEAN NETWORK EXPRESS PTE. LTD. is a subsidiary of Ocean Network Express Holdings, Ltd., which holds direct ownership of 100% of voting rights. Ocean Network Express Holdings, Ltd. is an equity-method affiliate of the Company.

(*2) Fee for charter hire, etc. is determined after discussion considering market prices, hiring cost and acquisition cost.

There is no applicable item for the year ended March 31, 2020.

22. Related Party Transactions (continued)

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, 2020. The affiliate's summarized financial statements for the years ended March 31, 2019 and 2020 are as follows:

	2019	**2020**
	(Millions of yen)	
Total current assets	¥ 376,069	**¥ 386,172**
Total fixed assets	42,144	**622,557**
Total current liabilities	168,066	**249,797**
Total long-term liabilities	5,320	**508,869**
Total net assets	244,825	**250,062**
Operating revenues	1,258,215	**1,374,870**
Profit (loss) before income taxes	(61,790)	**18,710**
Profit (loss)	(65,147)	**12,702**

23. Subsequent Event

(Financing through Subordinated Loan)

The Company raised funds through the commitment line agreement on April 20, 2020, which was agreed to on March 20, 2018. An overview of subordinated loan is as follows.

(1) Use of loan proceeds	Working capital
(2) Lending institutions	A syndicate with Mizuho Bank, Ltd. as the arranger
(3) Total loan amount	¥47.6 billion
(4) Loan execution date	April 20, 2020
(5) Repayment due date	September 30, 2020
(6) Collateral assets or guarantee	None

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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. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, 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, 2020, 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.

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 are responsible for overseeing the Group's financial reporting process.

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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.
- 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.

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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 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.

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.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 23, 2020

北澄和也
Kazuya Kitazumi
Designated Engagement Partner
Certified Public Accountant

内田聡
Satoshi Uchida
Designated Engagement Partner
Certified Public Accountant

小林雅史
Masashi Kobayashi
Designated Engagement Partner
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