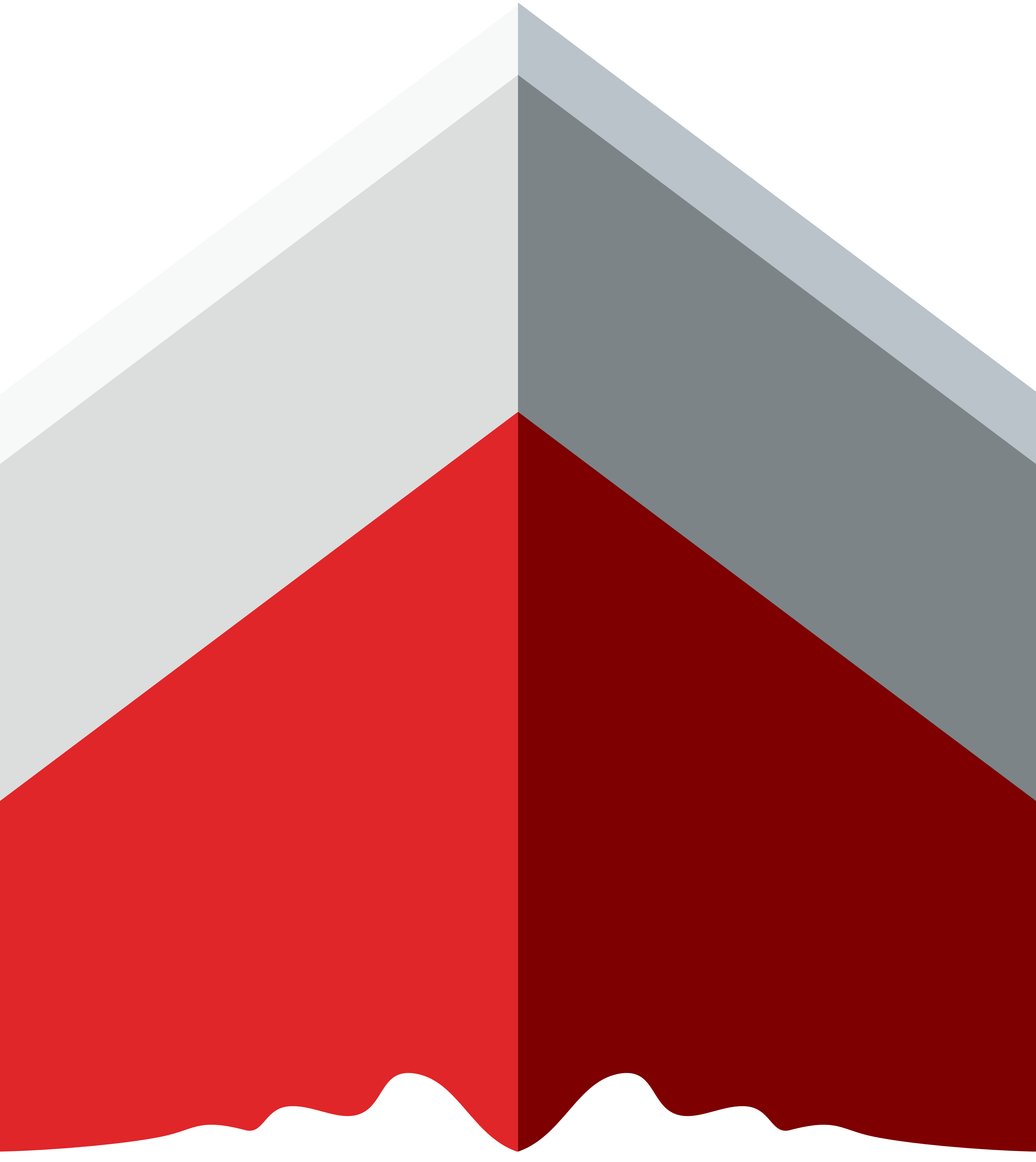
"K" LINE
KAWASAKI KISEN KAISHA, LTD.

"K" LINE REPORT 2020



Contents

About This Report

Editorial Policy

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

Reporting Period

Fiscal 2019 (April 1, 2019–March 31, 2020)
Note: The report also includes some developments after April 2020.

Scope of Reporting

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

Guidelines Referred to

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

Forward-Looking Statements

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

Corporate Principle and Vision

In shipping business, which serves as key logistics infrastructure supporting worldwide economic activity, the "K" LINE Group earns the trust of customers through the provision of safe, reliable marine transportation and logistics services.
As an integrated logistics company grown from shipping business, our corporate principle is to help enrich the lives of people.
Under this principle, we will make further improvements to K Value, which represents our unique value as a group.

Corporate Principle

K: trust from all over the world

As an integrated logistics company grown from shipping business,
the "K" LINE Group contributes to society so that people live well and prosperously.

We always recognize this principle in our operations.

Vision

Our aim is to become an important infrastructure for global society,
and to be the best partner with customers by providing the high-quality logistics services based on customer-first policy.

Values the "K" LINE Group prizes

Providing reliable and excellent services
Contributing to society

A fair way of business
Fostering trust from society

Relentless efforts to achieve innovation
Generating new values

Respecting humanity
Corporate culture that respects individuality and diversity

We have evolved into an integrated logistics company through a history of taking on challenges for over 100 years

1919
Establishment of Kawasaki Kisen Kaisha, Ltd.

1960
Completion of the *FUKUKAWA MARU*, the company's first iron ore carrier

1965
Completion of the *YAEKAWA MARU*, the company's first coal carrier

1968
Completion of the *SUZUKAWA MARU*, the company's first woodchip carrier

Completion of the *GOLDEN GATE BRIDGE*, the company's first full containership

1968
Completion of the *TOYOTA MARU No.1*, the company's first car bulker

1970
Completion of the *TOYOTA MARU No.10*, Japan's first pure car carrier (PCC)

1974
Completion of the *SUN RIVER*, the company's first liquid petroleum gas (LPG) carrier

1983
Completion of the *BISHU MARU*, Japan's first registered liquefied natural gas (LNG) carrier

1986
First Japanese shipping company to offer double-stack container train transportation in North America

1990
Start of dedicated reefer bridge freezer and refrigerated container rail service in North America

1994
Completion of the *CORONA ACE* thermal coal carrier
Setting the standard for wide-beam, shallow-draft thermal coal carriers delivering to Japan's coal-fired power plants

2003
Launch of complete built-up car land transportation business by car carrier truck in Indonesia

Values the "K" LINE Group prizes

- Providing reliable and excellent services
- A fair way of business
- Relentless efforts to achieve innovation
- Respecting humanity

2010
Start of research in LNG-powered vessels

2010
Completion of the *KL BREVIKFJORD* offshore support platform supply vessel

2011
Completion of the *ETESCO TAKATSUGU J* deepwater drillship

2015
Adoption of the long-term guidelines "K" LINE Environmental Vision 2050

2016
Completion of the *DRIVE GREEN HIGHWAY* environmental flagship

Full-scale operation started with the Kawasaki Integrated Maritime Solutions (see page 28)

2017
Completion of the *JOHN AGYEKUM KUFUOR* floating production storage and offloading (FPSO) vessel

2018
Order for Japan's first LNG bunkering vessel

2018
Order for LNG-fueled car carrier (See page 29)

Launch of Ocean Network Express (ONE)

2019
100th anniversary

100th ANNIVERSARY
Start! New "K" LINE

2019
Membership in CO_2-free Hydrogen Energy Supply-Chain Technology Research Association (HySTRA)
Participation in the world's first verification testing of a liquefied hydrogen carrier

Basic design approval obtained for an LNG-fueled iron ore carrier

2019
Contracted for ship management of Singapore's first LNG bunkering vessel

Decision to install the Seawing automated kite systems on ships (see page 29)

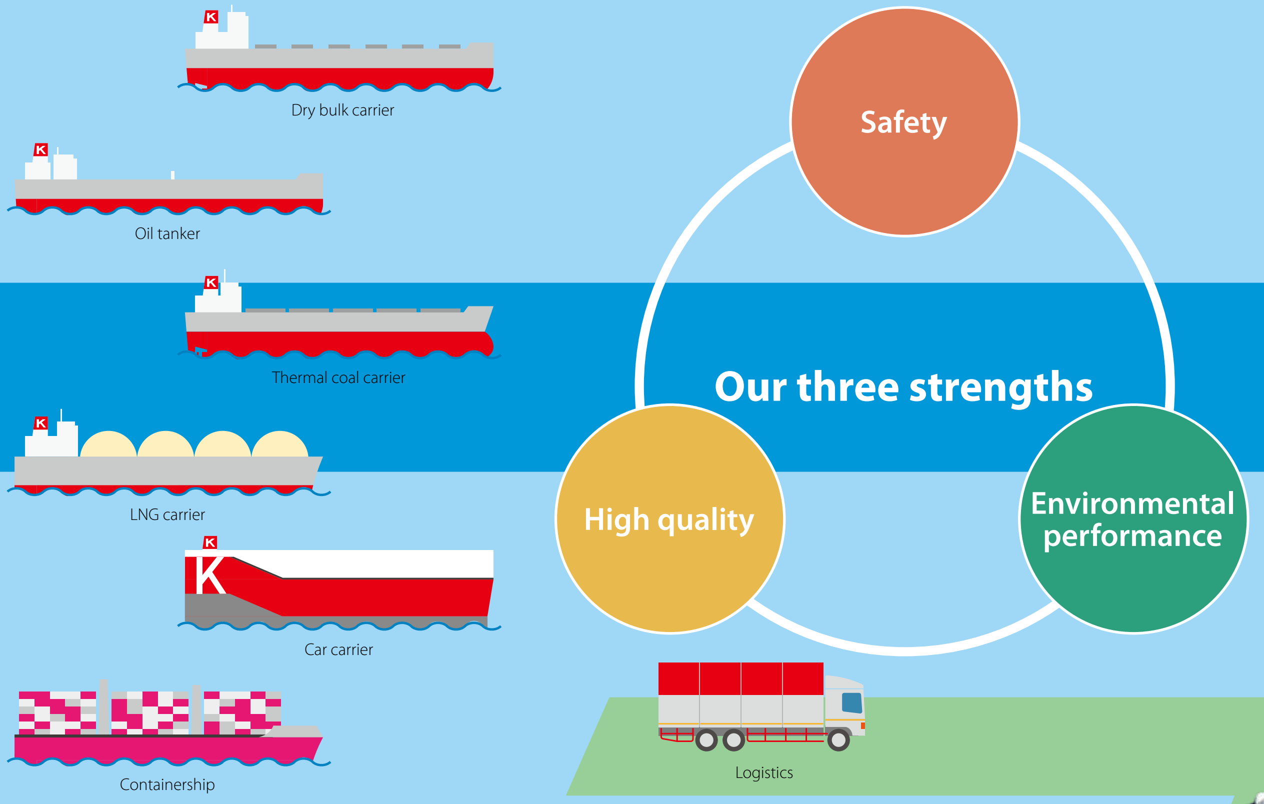
2020
Update to the "K" LINE Environmental Vision 2050 (see pages 30-31)

"K" LINE has been actively and proficiently expanding its business activities with our DNA of "K" LINE spirit represented by enterprise since its establishment in 1919. We have grown from a shipping business to an integrated logistics company as we pioneered numerous firsts for Japan, such as the country's first pure car carriers and LNG carriers explored and created new marine technologies and services, and successfully navigated fiercely changing business conditions. We continue to work tirelessly to provide safe and reliable operations and to develop sustainable, eco-friendly businesses that contribute to global economic development and enriching the lives of people around the world.

WEB **Additional information about the history of "K" LINE is available at the following webpage.**
Home > About Us > Corporate Profile > History of "K" LINE

Our social mission is to use our competencies in operational safety, environmental performance, and service quality to provide logistics infrastructure

We are an integrated logistics company grown from shipping business providing safe and reliable services.



The vast majority of products and materials used by people in their everyday lives and by manufacturers are transported via oceangoing vessels. The "K" LINE Group transports a wide variety of cargo around the world, including a large portion for our home nation of Japan, where more than 99% of its trade volume by tonnage is transported on ships. The total volume of ocean freight worldwide is growing. For over 100 years, "K" LINE has been raising the service quality following its unwavering social mission to contribute to the sustainable development of society by providing safe, reliable, and environmentally friendly transportation. The Group remains fully committed to its social mission and is combining its expertise cultivated over a century with the latest technologies to flexibly respond to the changing conditions with the impact from COVID-19 pandemic, geopolitical risk, advances in digital technologies, and stricter environmental regulations.

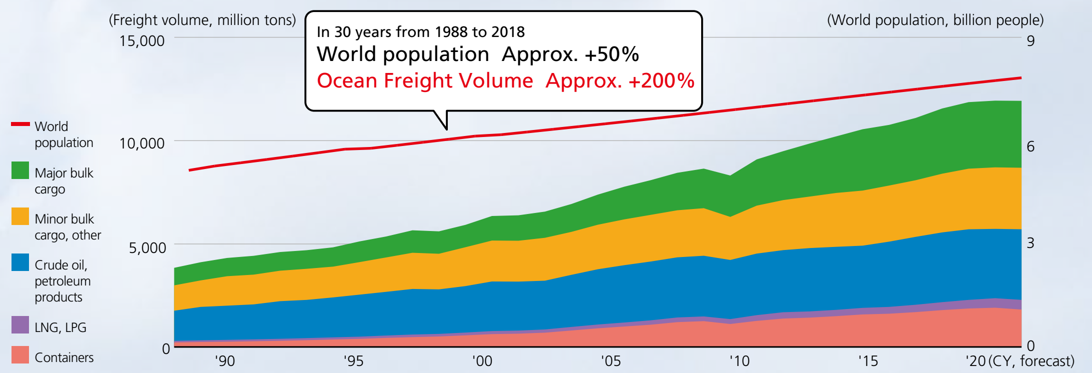
Contributing to global economic development and enriching the lives of people around the world as an integrated logistics company

Business Fields

- Iron ore, grains
- Crude oil, petroleum products
- Coal
- Liquefied gas
- Automobiles, construction equipment
- Electronics, general cargo

Global Seaborne Cargo Volume of Major Cargo and World Population

Source: "K" LINE statistics based on data from Clarksons *Shipping Review & Outlook 2020 Spring*



We analyze megatrends, risks, and opportunities from a medium- and long-term perspective to identify "What We Must Do"

Megatrends



- Climate change risk
- Stricter environmental regulations
- Need to enhance safety in navigation
- Increasing world population
- Growing demand for energy
- Advances in digitalization and other technologies
- Protectionism, geopolitical risk, market volatility
- COVID-19 pandemic triggering globally accelerated changes in values and behavior

Risks

- Impact on vessel operation and higher costs due to stricter environmental regulations
- Major marine accident
- Global shortage of seafarers with advanced technology skills
- Rapid advances in AI and digital technologies
- Market stagnation caused by an imbalance in capacity supply and transportation demand
- Changes in supply sources and the trade structure

Opportunities

- Increased value of businesses with good environmental performance
- Greater company trust and reputation among stakeholders and the elimination of serious marine accidents from pursuing safe operations
- Increased competitiveness from training maritime technical personnel
- Creation of new value with AI and digital technologies
- Increased demand for global marine transportation
- Creation of new services to meet changes in customer needs

What We Must Do

Cope with the current COVID-19 situation

- **Optimize fleet scale**
- **Carefully refocus investments**
- **Secure liquidity on hand and expand capital base**

Strengthen and accelerate existing measures for key issues

- **Apply AI and digital technology to support our safety, environmental, and quality initiatives**

All companies are being challenged in recent years to keep up with increasingly rapid social and economic changes while also being expected to take action against climate change and other global issues. We are seeking to establish sustainable growth by dealing with the short-term changes while at the same time identifying what we must do from a medium- and long-term perspective by analyzing the megatrends, risks, and opportunities in our business environment. The first priority is coping with the current COVID-19 situation. We must also continue to strengthen and accelerate our existing measures for key issues, which will ensure the Group will be the "preferred shipping company" even in severe economic environment and will realize sustainable growth.

Strategy & Business Plan

Our strategy and business plan

We are laying the foundation for the sustainable growth that will drive our Revival for Greater Strides

Previous medium-term management plan

FY2017-2019

Revival for Greater Strides

Value for our Next Century

- Rebuilding Portfolio Strategy ······ Achieved
- Advancement of Management and Function-Specific Strategies ······ Achieved
- ESG Initiatives ······ Achieved
- Three Straight Years of Profit Beginning in FY2017 ······ Not achieved
- ROA of 6% in our Stable-Income Businesses ······ Achieved
- Ratio of Shareholder's Equity : mid-20% ······ Not achieved
- Dividend Policy (Early resumption of dividends) ······ Not achieved

FY2020-2021 Business Strategies

Optimize fleet scale

- Continue optimizing fleet scale to demand and expanding the revenue scale in order to maintain and expand stable-income businesses and strengthen our competitiveness in market-exposed businesses
- Planning to reduce fleet by more than 20 vessels in fiscal 2020 (including Cape-size, Panamax-and smaller-size bulkers, Woodchip carriers, Thermal coal carriers, Car carriers)
- Continue optimizing fleet scale in fiscal 2021 and beyond

Long-term fixed core fleet scale	FY2020	FY2025	Difference
Total	352 vessels	300 vessels	-52 vessels

Secure liquidity on hand and expand capital base

- Secure liquidity
  Secure a commitment line and other liquidity equivalent to more than three months' revenues
- Expand capital base
  Sell and dispose of vessels and other assets

The previous medium-term management plan focused on the three priority initiatives to rebuilding portfolio strategy, advancement of management and function-specific strategies, and ESG initiatives primarily through efforts to revise the business portfolio through selection and concentration, reallocate management resources, control total business risk as well as risk/return management, and conduct R&D in equipment and technologies.

In August 2020, we announced a management plan showing the direction we plan to take the company beginning in fiscal 2020 through the mid-2020s and beyond. Our first priority is to cope with the impact on our financial results from the COVID-19 pandemic and prepare for the business environment after the pandemic. At the same time, we will take the measures of optimizing our fleet scales, carefully refocusing investments, securing liquidity, and expanding capital base for firmly protecting our business in the short term. In addition, we will strengthen and accelerate existing measures for key issues and focus on expanding and accelerating safety, environmental, and quality initiatives, and strengthening our technical and sales capabilities to drive our growth strategies, which will bolster our competitiveness related to ESG. We are aiming to be the company of choice among its stakeholders, continually growing as a professional logistics enterprise focused on marine shipping.

WEB
Additional information about the management plan is available at the following webpage.
Home > Investor Relations > IR Library > Financial Report

Management plan

Carefully refocus investments

- Restrain total investments to within operating cash flow (¥250 billion over five years in total)

Stable-income businesses	Invest appropriately to continue development Gradually increase in stable profit
Market-exposed businesses	Increase profit further through fleet scale optimization
Strategic growth areas	Invest in key areas, such as the energy, environment-related, AI, and digitalization technology fields

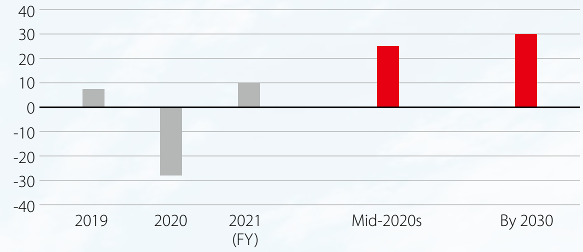
Increase the percentage of stable-income businesses to 60%
(Invested capital basis)

Expand and accelerate safety, environmental, and quality initiatives

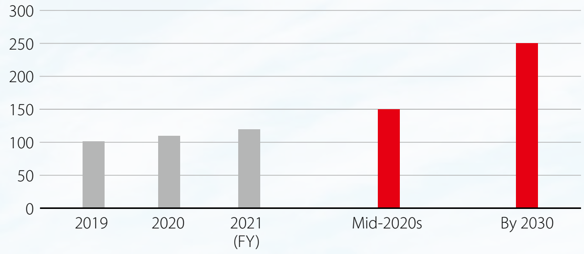
Strengthen technical and sales capabilities to drive growth strategies

Forecast for Fiscal 2020 & 2021 and Medium- and Long-Term Targets

Ordinary Income (Unit: Billions of yen)



Shareholder’s Equity (Unit: Billions of yen)



Medium- and long-term targets	Mid-2020s	2030
Ordinary Income	¥25 billion	¥30 billion
Shareholder’s Equity	over ¥150 billion	¥250 billion
Shareholder’s Equity Ratio	20%	30%

Message from the CEO

We aim to continue sustainably growing our business while adapting to the changing market environment.

Yukikazu Myochin
President and CEO

The worldwide COVID-19 pandemic since the start of 2020 has greatly impacted social lifestyles and economic activity. We would like to extend our deepest sympathies to all the people and families who have been affected by the pandemic. We also express our respect and gratitude to all of the medical and healthcare workers on the front lines fighting the disease and providing care to people in all countries around the world.

History of Adapting to Changing Market Conditions

For over 100 years, "K" LINE's ocean transportation operations have been a part of the world's logistics infrastructure contributing to global economic development and the enrichment of people's lives. The century brought many challenges, not the least of which was the devastation from the Pacific War, but which also included the impacts from the consolidation of the shipping industry, oil shocks, the Plaza Accord, the Asian Financial Crisis, and the Global Financial Crisis.

In our history, "K" LINE has always had a spirit of self-reliance, and when faced with trying conditions and changes, we ask ourselves what we need to do and then rally our strengths and confront the challenge. Flexible thinking and an ardor to take action have brought us through the many changes and have built strong relationships with our customers.

Our strength lies in the safety in navigation, environmental operations, and transportation quality that we have cultivated while meeting the needs of our customers. I believe that, even now with COVID-19 pandemic affecting everyone around the world, the social mission of the "K" LINE Group is to stay true to our corporate spirit and deliver value to stakeholders by continuing to provide reliable logistics infrastructure.

Fiscal 2019 Achievements and Challenges for the Medium-Term Management Plan

The previous medium-term management plan set three priority initiatives of rebuilding portfolio strategy, advancement of management and function-specific strategies and ESG initiatives. In the plan's final year of fiscal 2019, profitability was a mandatory target and we worked diligently to enhance our earning power and fortify our management base.

Results of the Three Priority Initiatives

Priority Initiative	Fiscal 2019 Activities	Main Results
Rebuilding portfolio strategy	Strengthen and expand stable-income businesses	Steadily increase the number of LNG carriers and other vessels under medium- and long-term contracts
	Revise the business portfolio	Transfer a portion of the stockholdings of our domestic harbor transport subsidiaries to Kamigumi
	Improve ONE profitability	Attain profitability for ONE for a full year
Advancement of management and function-specific strategies	Raise the sophistication of our business risk-return management	Introduce quantitative evaluations of risk-return for all investment projects
	Integrate the latest technologies	Further develop the Kawasaki Integrated Maritime Solutions (see page 28)
ESG Initiatives	Reduce our environmental impact	Finalize the installation of the automatic kite system (see page 29)
	Fortify corporate governance	Increase the number of outside directors from three to four (of the 10 directors)
	External evaluations of our operations and ESG activities	Selection to the ESG indices (see page 69)

Message from the CEO

Rebuilding portfolio strategy

Rebuilding portfolio strategy has entailed reviewing our business portfolio and redistributing our management resources through selection and concentration. Steps we have taken include spinning off and consolidating parts of the containership business to establish economy of scale and boost profits, reforming our business structure to construct an asset structure resilient to market fluctuations, allying with Kamigumi in the domestic harbor transportation business, and eliminating unprofitable businesses.

To increase the number of vessels drawing stable earnings, we increased the number of medium- and long-term contracts particularly for large vessels in the Dry Bulk segment and LNG and thermal coal carriers in the Energy Resource Transport segment. In February 2020, we also concluded a long-term charter contract with Malaysia's national petroleum conglomerate Petronas Group for two medium-sized LNG carriers in anticipation of growing demand for small-lot transportation in the Asia region.

Revisions to our business portfolio also included reducing our presence in businesses susceptible to market fluctuations by withdrawing from the petroleum product tanker business and selling an offshore support vessel. We also continued to dispose of small- and medium-sized dry bulk ships and high-cost containerships.

The integrated container shipping company ONE overcame rough seas in its inaugural fiscal year of 2018 to attain profitability in fiscal 2019 as it began to fulfill the promise of its business synergies.

Advancement of management and function-specific strategies

Ships have an average lifespan of just over 20 years, through which they encounter cycles of decreasing demand and deteriorating market conditions. We have augmented our business management with detailed examinations of the potential risk-return for each business project, enabling us to quantify these risks and make the best investment decisions. We can control the amount of risk we undertake by using a database of long-term data on market fluctuations and shipping rates to gauge the amount of risk and establish a quantitative return expectation matched to the risk. Putting this into practice will enable us to scrupulously manage risk in each business division and identify the risk-return for each investment project, which in turn will allow us to more effectively allocate our management resources.

To fortify our function-specific strategies, we created the Advanced Technology Group in 2017 and AI/Digitalization Promotion Division in 2019 to research and integrate the latest technologies for both equipment and management. In April 2020, we moved to the implementation stage with a project that joins the sales and technical departments.

One example of using latest technologies is the installation of the Kawasaki Integrated Maritime Solutions onto our ships. The system uses big data collected through high-speed ship-to-shore data communication to heighten our safety in navigation, increase fuel efficiency, and improve our environmental performance as well as to ease the workload on ship crew members. Phase 2 development of the system has been completed, and it is helping us provide even higher value-added marine transportation to our customers and society.

ESG initiatives

"K" LINE is part of the international logistics infrastructure, and this means our business and the sustainability of society are closely intertwined. For that reason, since our previous medium-term management plan, management has placed utmost emphasis on the environment (E), society (S), and governance (G) as fundamental to fulfilling our responsibility to society.

We are particularly focused on advancing the proactive environmental measures set of the long-term environmental policy, the "K" LINE Environmental Vision 2050, we adopted in 2015. In fiscal 2019, we took several steps toward fulfilling our vision, including building LNG-fueled ships that vastly reduce greenhouse gas emissions, concluding a ship management contract for an LNG bunkering vessel in Singapore, introducing an automated kite system for wind-assisted propulsion and, looking further into the future, cooperating to conduct demonstration tests for hydrogen-fueled carriers. As a company whose business field is the earth's oceans and whose industry has been reliant on fossil fuels, we have a special obligation to reduce our environmental impact and protect our oceans. Our proactive efforts to improve our environmental performance will also enable us to provide added value to our customers.

Safety in navigation and human resource development are key parts of our interaction with society. We cultivate highly professional employees on both sea and land as part of our obligation to society to provide all types of transportation that is safe and without accidents.

Our environmental and social initiatives are underpinned by a governance structure that includes a business unit control system, Nomination and Remuneration Advisory Committees, and other mechanisms that regulate our business execution activities.

Performance review of fiscal 2019

Our primary goal for fiscal 2019, ended in March 2020, was to establish profitability, and we achieved it by lifting ordinary income to ¥7.4 billion, a ¥56.3 billion improvement from the previous fiscal year, and bringing profit attributable to owners of the parent to ¥5.3 billion, a ¥116.5 billion improvement. During the year, we completed our three core tasks of returning the car carrier business to profitability by consolidating shipping routes and revising freight rates, restoring the cost competitiveness of our fleets through structural reform, and steadily improving the operations of ONE. ONE vastly improved its earnings from the previous fiscal year by improving revenue and expense balance by $500 million, which was achieved by optimizing its cargo portfolio, consolidating its shipping network, and optimizing its organizational structure.

Earnings also improved substantially in the Energy Resource Transport segment from diligent efforts to improve operations centered on increasing the number of medium- and long-term charter contracts for LNG and thermal coal carriers and by optimizing its fleet portfolio in the tanker business.

In August 2020, the Company announced its business forecast for the year ending March 2021 and management plan.

Due to the major changes to the business conditions caused by the COVID-19 pandemic, we have set specific business objectives, measures, and performance forecasts for the next two years based on conditions as they are now and have set contingent performance targets for the mid-2020s and FY2030.

WEB **Additional information about the business forecasts and management plan is available at the following webpage.**
Home > Investor Relations > IR Library > Financial Report

Operating Results by Segment

(Billions of yen)

Business Segment (upper row = Operating Revenue) (lower row = Ordinary Income)	FY2019 1H	FY2019 2H	FY2019 Full year	vs FY2018 Full year	vs FY2018 Change
Dry Bulk	116.3	117.5	233.8	273.8	(40.0)
	0.2	3.9	4.1	4.4	(0.4)
Energy Resource Transport	43.8	40.9	84.7	88.7	(4.0)
	4.6	5.3	9.9	2.5	7.4
Product Logistics	194.9	189.6	384.5	441.0	(56.5)
	10.5	(13.4)	(2.9)	(49.2)	46.3
Containership	49.3	52.7	102.0	135.8	(33.8)
	3.6	(14.0)	(10.4)	(48.8)	38.4
ONE as Equity-Method Company	4.5	(0.5)	4.0	(20.1)	24.1
Others	17.3	15.0	32.3	33.2	(0.9)
	0.7	1.0	1.7	1.1	0.6
Adjustment	-	-	-	-	-
	(2.6)	(2.8)	(5.4)	(7.8)	2.4
Total	372.4	362.9	735.3	836.7	(101.4)
	13.4	(6.0)	7.4	(48.9)	56.3

Coping with the Current Business Conditions and Business Continuity

Market conditions and the impact on our business performance

Continuing our business growth in fiscal 2020 will first require a specific plan to deal with the impact from the COVID-19 pandemic.

The International Monetary Fund predicts that the worldwide COVID-19 pandemic will cause a 4.9% contraction in global GDP in 2020. The stagnating global economy has the potential for significantly slow marine cargo movement and deeply affect our business performance.

We expect our car carrier and dry bulk businesses to be strongly impacted. Temporary declines in demand from developments like production stops at automobile manufacturers and suspended operations at construction sites will likely be significant in the first half of the fiscal year, particularly in the first quarter, and then linger to some degree in the second half. Demand from steelmakers is also down, and we expect production cutbacks from major steelmakers shutting down their blast furnace operations to severely impact demand in the first half. In the Energy Resource

Transport segment, there is some concern about repercussion for the offshore support vessel business, but the impact on businesses for other types of vessels will likely be limited because they are mostly charted vessels under medium- and long-term contracts.

Damage control and financial preparation

The fundamental approach we are taking for dealing with the COVID-19 pandemic is to quickly respond to the current business conditions while also preparing for a changed business landscape after the pandemic has faded.

We are responding to temporary declines in demand by controlling our vessel capacity and lowering operating costs. While closely monitoring demand trends, we will cut costs by reducing ships speed, decreasing frequency of sailings, and laying up ships out of service. We will also return charter ships to owners and actively dispose of our own vessels, especially older ships.

To prepare for a reduction in revenue, we are ensuring we have ample ready liquidity in the form of cash reserves and bank lines of credit, and are preparing for revenue declining by more than double the amount of during the 2008 global financial crisis. At the same time, we are examining ways to prepare for even greater uncertainty.

While the COVID-19 pandemic remains during fiscal 2020, we plan to supplement our equity capital by disposing of old ships and selling real estate and other assets.

Business continuity plan to keep logistics moving

The shipping industry is a lifeline for the world distributing energy, food, raw materials, and manufactured goods to businesses, and it must continue operating during the current COVID-19 pandemic and any emergency situation. To continue providing stable logistics services, the Group is constantly taking steps to fully support the safety and health of its officers and employees both at sea and on land.

When COVID-19 started to spread, we immediately took comprehensive steps to prevent infections onboard our vessels in accordance with our disease prevention manual and promptly delivered protective clothing and the necessary supplies to our employees. We are facing a problem, however, because many countries have implemented border entry and exit travel restrictions, forcing seafarers to stay aboard ships even after their scheduled working period. While we work with the relevant organizations to quickly resolve the matter, we are providing mental and physical care to crew members on the ships, standby crew, and their families.

Onshore, we shifted employees around the world to work from home and have maintained generally normal operations. Our effective response is the result of the business continuity plan we formulated during the SARS outbreak in 2003 and subsequently modified and improved during the Great East Japan Earthquake in 2011 and through regular reviews. We had instituted a work-at-home format in January 2019, and when the COVID-19 pandemic emerged this year, we promptly shifted employees to use the system.

Fortifying our Sustainable Management

Business in a COVID-19 world

The COVID-19 pandemic is expected to lead to restrained investment in a wide range of industries. Under the previous medium-term management plan, the Group established a stable revenue base by increasing the number of medium- and long-term contracts. With the increased uncertainty, we fully anticipate our customers to be very cautious about the long-term business prospects, but we aim to always be "a company of choice" whether a contract is short or long.

Our adamant pursuit of safety, environment, and quality

The growing demand to create sustainable societies is making it more important than ever that we strengthen our safety in navigation, environmental performance, and transportation quality.

Safety is the foundation of the "K" LINE Group whose core business is ocean transportation. We combine AI and big data digital technology with expertise accumulated over more than a century at sea to construct systems for providing customers with shipping services that are safe, economical, and fully meet their needs. Supporting these operations by securing and cultivating top-notch personnel is also essential.

In the post-COVID-19 world, establishing a sustainable society will be even more critical, and we believe protecting and supporting the environment will be more important than ever. "K" LINE is renowned for its environmental activities, but the rapidly changes in our society are leading to even greater expectations for environmental performance. We believe holding ourselves to high expectations puts us in the best position to address future needs. In June 2020, we revised our Environmental Vision 2050 with a new target to improve CO_2 emission efficiency in 2030 by 50% compared to 2008, exceeding the international target set by the International Maritime Organization for a 40% from 2008. We believe that providing environmentally friendly services is part of what we can to promote a sustainable society.

Safety and environmental performance are the foundations of quality in transportation operations and services, and we raising the quality we offer through meticulous ship management and superior maritime technologies. In the 50 years since 1970 when "K" LINE launched Japan's first pure car carrier, we have earned customer trust to provide world top class transportation quality by continuously refining our ability to transport unpackaged cargo, such as automobiles, in their original condition free of damage. For our transportation of automobiles and all other cargo, we will apply digital technologies and the skills of our professional crew to continue honing the quality of our transportation operations and services.

By developing our activities in this way, we aim to be a corporate group providing safe, environmentally friendly, and high-quality transportation services that contributes to a sustainable society and that earns the trust of our customers so they desire to maintain long-term relationships.

The "K" LINE's business environment is undergoing a sea change as we face the global impact of the COVID-19 pandemic, geopolitical risk, the revolution in AI, IoT, and digital technologies, and increasingly stringent environmental regulations. Yet, we are the company we are now because of our history of thinking flexibly and overcoming challenges. As we have throughout our history, we will use the strengths of the safety, environment, and quality of our business operations to overcome the changing conditions and continue steadily increasing our corporate value.

I look forward to the continued understanding and support of all of our stakeholders.

President and CEO

Message from the CFO

We will raise our corporate value by revising our investment strategy and strengthening our financial base while closely monitoring the impact of the COVID-19 pandemic.

Representative Director
Senior Managing Executive Officer, CFO
Yukio Toriyama

Review of the Medium-Term Management Plan

Rebuilding portfolio strategy in deteriorating market conditions

Our previous medium-term management plan that ended in March 2020 focused on completing the three priority initiatives of rebuilding portfolio strategy, advancement of management and function-specific strategies and ESG initiatives. Although our business performance for the year left us short of our quantitative targets, the progress we made with our priority initiatives has set up our business management structure to lead us forward.

We reformed our portfolio strategy by downsizing businesses susceptible to market fluctuations, which we achieved by spinning off the containership business and withdrawing from the heavy-lifter vessel and petroleum product tanker businesses while stabilizing our revenue by increasing the number of medium- and long-term contracts, particularly for LNG carriers. In fiscal 2018, we also terminated charter contracts for 23 containership and dry bulk vessels. These types of vessels carry high costs, and cancelling the contracts midterm has saved us approximately ¥11 billion annually beginning in fiscal 2019 and will enable us to more definitely boost ordinary income in coming years.

Advancement of management and function-specific strategies included instituting a new process for measuring the risk and return in all of our business activities. We are currently working to enhance our ability to accurately gather and process more detailed information. ESG initiatives advanced during the year included introducing the automated kite system, adding LNG-fueled vessels, and other new technologies that help reduce our environmental footprint. We also successfully made the major leap to switch to compatible fuel oil as part of our efforts to comply with global SOx regulations. In addition, we fortified corporate governance by increasing the number of directors and reducing the volume of cross-shareholdings. We have now reduced our cross-shareholdings from 23 companies at the end of March 2015 to just four companies at the end of March 2020.

While making significant progress with our priority strategies, our business performance fell short of the plan's quantitative targets for return on assets (ROA), equity ratio, and dividend distribution. There were two reasons for the shortfalls. The first was the widespread market deterioration with the markets for containerships and dry bulk transportation mired in the historically low level since 2016, which undermined our efforts to reach our profit targets for the year. Recognizing the unforgiving market conditions, we decided to make quick progress in reforming our portfolio strategy and gauged the burden of temporary expenses our financial status could safely accommodate and then reformed our business structure by terminating charter contracts and returning ships. This led to the second reason for the quantitative target shortfall: we recorded an unplanned loss for a second straight term in fiscal 2018. Although our equity capital declined substantially, the decrease was a temporary development allowed profitability to improve the next year and will lead to beneficial effects in coming years.

The Impact from COVID-19 Pandemic and Future Outlook

Varying impacts on our businesses and fleets. Full recovery will take time

The COVID-19 pandemic has strongly impacted the global society and economy and is having major repercussions for the real economy.

We expect varying degrees of impact from the pandemic on our businesses in fiscal 2020 while anticipating the strongest negative impacts on our car carrier and dry bulk carrier operations. Our car carrier business saw a sharp drop in demand as sales were stopped in the major auto markets of Europe and the United States. Demand for dry bulk cargo was impacted by the reduced demand for steel with the dip in car sales and as construction projects were put on hold, and the temporary drop in demand for cape-size carrier impacted earnings from ships that were not under medium- or long-term contracts. Dedicated vessel contract on cape-size carrier was not immediately impacted by major steelmakers lowering output and halting blast furnaces, but postponements to the fulfillment periods of some quantity-based contracts are expected to have a corresponding impact on revenue in the coming year.

Compared to the above two businesses, the impact from the COVID-19 pandemic has been relatively limited on the Energy Resource Transport segment, Product Logistics segment, and Containership Business. Nevertheless, a pandemic of this magnitude is unprecedented and we are carefully monitoring how it might affect our businesses over the medium and long term.

The cargos we transport are essential resources and materials for production and people's everyday lives, and it is hard to imagine that a drop in transportation demand for a period will lead to demand disappearing completely. After a certain period, we expect demand to recover and rebalance with additional demand. However, each type of cargo will recover at a different pace, and it will likely be some time until the volumes return to normal for all items. While necessarily preparing in case the current conditions become prolonged, we will work with our customers to ensure we have accurate forecast and can flexibly adjust our fleets so we will be ready to immediately respond when demand returns.

Revisions to Our Investment Strategy

Meticulous investment selection and concentration and a more sophisticated risk management system

The current circumstances make it virtually impossible to set a concrete investment plan because of the uncertain outlook for the global economy and inability to foresee any possible changes in the industrial structure. Nevertheless, the nature of the shipping industry requires that we prepare for the future. We plan to limit our total investment budget for the next five years or so, and will shift our strategy to selecting and concentrating on businesses and vessel types that can leverage our competitive advantages. In the four core businesses of Dry Bulk segment, Energy Resource Transport segment, Car Carrier Business, and Logistics Business, our basic approach continues to be to consider the competitiveness and growth potential of each operations and invest to secure stable earnings by focusing on specific areas and raising investment efficiency.

However, we must also objectively consider how the COVID-19 pandemic and the changes to the future economic situation will impact demand for transportation in each business. In the Car Carrier Business where cargo volume is currently down sharply, we will closely monitor the demand trends and recovery periods in all of the delivery regions. Furthermore, while eliminating surplus vessels in our current fleet, we will also create a structure that will enable us to flexibly respond by building new ships and hiring short-term charter ships when demand starts to recover. Similarly, in the Dry Bulk segment, we will need to be in close touch with our major steelmakers customers in Japan and overseas who have downsized their production structures so we can anticipate when and to what extent production will rise again and be ready to quickly and flexibly prepare our fleets. In the post-COVID-19 world, there is no certainty that the distribution of manufactured goods in the Car Carrier Business or the Dry Bulk segment will return to how it was prior to the pandemic. Shipping companies are facing a true test of their abilities to prepare for uncertainty and show if they have the dexterity to add and subtract services to meet the diverse needs of customers.

The impact of COVID-19 pandemic on the Energy Resource Transport segment has been limited because customers charter our vessels regardless of cargo volume typically in this segment and there are few situations where the Company bears the risk of a ship being idle during the pandemic. The segment also has a high ratio of vessels with long-term contracts along with a policy of not keeping vessels without contracts. The Logistics Business is similar in that most of its operations do not have operating assets, so there is little concern of loss from idle assets due to the pandemic. In addition, the wide variety of operations in both Japan and overseas is also dispersing the impact of the COVID-19 pandemic such that the overall impact on the segment is minimal. I expect the Energy Resource Transport segment and Logistics Business to continue to focus on extending and strengthening the Company's medium- and long-term strategy.

The Containership Business generally saw freight rates drop sharply when cargo volume declines as steeply as it has, and the impact on earnings tends to be earlier and larger than other businesses. During the global financial crisis in 2008, for example, containership sales and earnings declined substantially as cargo volume dipped by 20% and the average freight rate fell as much as 40%. This year, cargo volume is down a steep 30% from a year ago but freight rates have remained steady so we have been able to secure a certain level of earnings. The characteristics of the current supply and demand balance are the reasons earnings have held relatively firm. On the supply side, global consolidation of containership companies and shipping alliances has given the optimal supply capacity and the ability to flexibly respond to demand fluctuations. Also, the orderbooks of containership building are much smaller than the industry has had in the past.

Reformulating our investment strategy includes advancement of our business management by further developing our risk-return management methods to make them more effective. We have changed from having individual evaluation criteria for investment decisions in each business segment to uniform investment criteria for all business segments, giving us a better ability to compare the relative merits of each investment. We use criteria including "K" VaCS and "K" RIC to measure the amount of risk for each department and the Company as a whole. For new investments, we aim to secure return commensurate to the risk ("K" VaCS plus internal rate of return) with an appropriate balance of overall risk and investment capital ("K" RIC). We are currently treating each business department as an independent entity and using this risk management approach to create separate financial statements for each department as a way to further strengthen our investment strategies and further improve capital efficiency.

"K" VaCS – "K" LINE Value after Cost of Shareholders' equity –	"K" RIC – "K" LINE Return on Invested Capital –
• A profit indicator that represents economic value corresponding to the cost of shareholders' equity • Aims to optimize the Group's business portfolio by using the measured business risk	• A efficiency indicator promoting corporate value enhancement that factors in the cost of capital • Accelerate return on invested capital by establishing a profitability baseline • Sets hurdle rates for each business and the Group overall by using business risk
Formula "K" VaCS = Net income after tax – (Business risk based on the Group's business attributes x Cost of shareholders' equity) (*) If "K" VaCS is greater than zero, then corporate value is enhanced	**Formula** "K" RIC = Earnings before interest after taxes ÷ invested capital (*) As a general rule, "K" RIC should be above the hurdle rate; among viable hurdle rate candidates is the weighted-average cost of capital (WACC)

Strengthening our Financial Foundation

Adapting to the circumstances by securing liquidity and bolstering equity capital

In the highly volatile shipping industry, the last bastion for stabilizing management is to secure ready liquidity, particularly cash and deposits. Until the COVID-19 pandemic is over, our priorities will be to secure cash and ample ready liquidity, including financing. Our quarterly earnings during the global financial crisis fell by the equivalent of 1.24 months, so this time we have prepared cash and deposits and commitment lines that will give us cash on hand equivalent to three months of earnings. We are taking extra precautions to ensure our financial status in the event of further unanticipated developments.

We also recognize that increasing equity capital, a key issue for our Company, is more important than ever. Our basic policy is still to enhance equity capital by building a broader base for earnings stability, but in the current circumstance we are also taking the urgent measure of boosting equity capital by selling off assets. Our biggest assets are our vessels, and we have created a list of roughly 20 ships, mostly older vessels, that would be candidates for sale. We are also considering selling real estate holdings, shareholdings, and businesses of affiliated companies.

In our business portfolio, we are taking countermeasures where the COVID-19 pandemic is causing a decline operating cash flow and conducting a comprehensive review of our existing investment plans. We want to shift to a "muscular financial structure" by prioritizing investment on maintaining and increasing our revenue scale rather than seeking to preserve the size of our fleet.

We have been advancing our business management with risk-return management and will rigorously review all contracts with the aim of maintaining commercial rights and not solely based on profitability. Through these comprehensive efforts, we will invest appropriate management resources in both our core and growth businesses to enhance our value creation ability and market competitiveness.

Increasing our Corporate Value is the Ultimate Objective

Raising our equity capital and TSR to boost our market capitalization, the most important KPI

Our investment strategy, as mentioned earlier, is to apply risk-return management to stringently guide our investment choices, and to invest with an emphasis on profitability. We believe focusing on businesses that can generate returns surpassing cost of capital will necessarily raise our ROE.

ROE and ROA are important KPIs for management, but the ultimate objective is to raise our corporate value. There are two KPIs for measuring corporate value, the first is equity capital and the other is market capitalization.

Building up equity capital is a top priority. The major structural reforms over the past two years have lowered our equity capital to a present level near ¥100 billion. Looking ahead to after the COVID-19 pandemic, we expect the improved revenue stability and our other measures to boost equity capital to the ¥150 billion level by the mid-2020s. Beyond that, we intend to create business plans to continue raising equity capital to the ¥250 billion level.

Although a company cannot directly increase the second KPI of market capitalization, it can take the first step of improving total shareholder return (TSR). We will use the KPIs of ROE and ROA as tools for PDCA management to raise our equity capital and market capitalization. We will set KPIs for each business department as benchmarks for improving their individual earnings performances, and the cumulative effect of improving indices for the departments will be to raise the corporate value of the entire Group.

Shareholder Return Policy

Strengthen the financial base for sustainable management with the aim of early resuming dividend payments

We remain fully committed to providing dividend payments to shareholders even during periods of fluctuation in the business environment, and we are strongly dedicated to early resuming payments and reestablishing stable payouts. As explained above, however, the highest priority in our financial strategy is to raise our corporate value. We believe we have an obligation to pay dividends to our shareholders. As the CFO, it is my responsibility to objectively decide which will lead to higher corporate value—paying a dividend or reestablishing earnings growth as quickly as possible by fortifying our ability to increase equity capital and restore trust in the company. Increasing our equity capital and raising our TSR will raise our corporate value, and a subsequent rise in the stock price would provide shareholder return. We will be closely monitoring that balance while making every effort to resume dividend payments as soon as possible.

First on the agenda, however, is to ensure we come through the COVID-19 pandemic in solid shape as a company. Our top priority is to prepare a stable business foundation for the "new normal" after the COVID-19 and to construct a solid financial foundation for sustainable management.

Aiming for new heights, and becoming the preferred shipping company

— How we are raising our corporate value environmentally and socially—

Yukikazu Myochin President and CEO
Kawasaki Kisen
Kaisha, Ltd.

× **Naoya Hasegawa** Professor
Faculty of
Sustainability Studies
Hosei University

Global Infrastructure for Industry and our Way of Life

— To begin, please tell us your thoughts on what role shipping companies should play in our lives

Hasegawa International shipping has been indispensable to Japan since the Meiji Era a century ago. However, people may not realize how integral it is to society because of the minimal direct contact between the consumer and the shipping companies.

Myochin The shipping industry is certainly fundamental but relatively unseen yet it plays a crucial role in globalization by transporting huge volumes of goods with relatively small environmental impact.

Hasegawa Yes, shipping is certainly essential infrastructure for industry and for our way of life. Manufacturing today relies on global supply chains, and nothing could be made without energy, resources, and goods being transported from around the world. The shipping industry is not only essential to the global supply chain; we should not forget that is a huge factor supporting Japan's earning power.

Myochin Japan is reliant on resources and raw materials from overseas, and the growth of our industries has come from processing them and exporting goods overseas.

Hasegawa I've always felt that, rather than the largest company, it is more important to be the best company. "K" LINE seeks to fulfill its mission to support society's infrastructure through environmentally sound and safe shipping operations. I think that is the very definition of the best type of shipping company.

Myochin Thank you. We consider safety, environmental performance, and quality to be fundamental to our operations, and understand that our customers and society expect us to constantly seek to improve in those areas. Our goal is to be a company offering a consistently high level of service.

Ambitious Environmental Targets

— How does "K" LINE approach environmental issues?

Myochin Since marine transportation companies carry out their business in the world's oceans and run their ships primarily on fossil fuels, reducing our environmental impact is a major issue.

We are implementing numerous environmental measures under the Environmental Vision 2050 we adopted in 2015. We have been lauded for meeting our medium-term target for CO_2 reduction well ahead of schedule, but the views of society and our stakeholders have changed substantially in the past five years, including the growing urgency for decarbonization following the Paris Agreement and other developments. Our customers' requests concerning the environmental aspects of our services are also becoming stricter, and we feel a real sense of urgency to provide the services that meet their environmental demand or else our customers may not feel comfortable about asking us to take care of their freight transportation.

Hasegawa In Europe and other countries, it's not uncommon for investors to ask a company, "Why did you choose to use that logistics company?" In other words, the cargo owner also bears the responsibility of accountability. Presenting a clear environmental vision and targets thus build great trust in "K" LINE.

Myochin We completely revised our environmental vision in June 2020 to take into account the social conditions and the expectations of our customers concerning environmental issues. We reexamined our goals for 2050 and set new interim milestones for 2030.

Hasegawa I understand that the Company's new target for reducing greenhouse gas (GHG) emissions is stricter than the target set by the International Maritime Organization (IMO).

Myochin Yes, it is. In our new Environmental Vision we set a goal of having half the level of total GHG in 2050 that we had in 2008. And our interim milestones for 2030 are to improve CO_2 emission efficiency by 50% versus 2008, exceeding the IMO target for a 40% improvement. Setting ambitious targets stimulates each of our business departments to think deeply about what measures are possible and to push the limits on what we can achieve, essentially forcing us to look for innovation.

Hasegawa A top-down approach is really the only way to tackle environmental problems of that scale. It's extremely important because the decisions by top management are what lead to innovation.

— How do you advance environmental measures across so many business fields?

Myochin The organizational structure is essential company-wide mobilization. That's why we set up the Fuel Strategy & Procurement Group in January 2020. The Fuel Group and the Advanced Technology Group created in 2017 provide a centralized leadership for our fuel strategies, including for new fuels like LNG and hydrogen.

We have also set up two project teams under direct control of the president encompassing sales and technical departments that accelerate our activities in all areas while helping us meet all customer needs. The first is the Alternative Fuel Project Team. This team is creating our roadmap for achieving our GHG targets, accelerating our

Profile Naoya Hasegawa

Professor Hasegawa joined The Yasuda Fire & Marine Insurance Co., Ltd in 1982 and later Sompo Japan Nipponkoa Asset Management where he oversaw the asset management business in the finance and securities, stock, and financial planning departments. He created the Buna no Mori ecofund in 1999. In 2002, he earned a Master of Law degree at the Waseda University Graduate School of Law and in 2005 a Doctorate of Business Administration at the Yokohama National University Graduate School of International Social Sciences. He was appointed associate professor at the University of Yamanashi Graduate School in 2006, and professor at the Faculty of Sustainability Studies at Hosei University in 2011. He is a Certified Member Analyst (CMA) of the Securities Analysts Association of Japan.

shift to LNG-fueled vessels and the LNG fuel supply business, and to advance research in energy-saving technologies. The team is also examining the viability of ammonia, hydrogen, and other potential next-generation fuels.

The second is the Safety and Environmental Technology Project Team. As its name says, this team is deeply focused on safety and specifically on digitalizing and leveraging the massive amount of data we have accumulated on ship navigation and weather and sea conditions. The team is actively working with partner companies inside and outside the Group to improve our service quality by supporting safe navigation and reducing the environmental impact of our operations.

Focus on Digital Technologies and Human Resource Development

— Digital technology is attracting lots of attention, but what is the actual status of its use for safety in ship navigation?

Myochin We are deeply dedicated to using our technologies and our experience to provide safety in navigation. Digital technology is not only helping us improve our safety, it is also enabling us to improve our environmental performance and enhance the quality of our services. The Kawasaki Integrated Maritime Solutions, which is the system we developed with the Kawasaki Heavy Industries Group, enhances safety through real-time communications from ship to shore about a wide range of data from ship position and speed to the status of its engine and equipment. The system also uses ship data and the latest weather and sea condition information to select the optimal navigation route for safety and economic efficiency. The ship captain always makes the final decisions, but the system provides information enabling the best decision.

We are also digitalizing our document processes onboard to reduce the paperwork for our seafarers, which lets our professional crews focus on ship navigation and will enhance employee satisfaction and productivity.

Hasegawa Climate change is affecting on weather and sea conditions, and experience and intuition may not be enough for some of the abnormal conditions that could occur. Using big data and other analytics could be very useful in those incidents.

— With the shortage of human resources throughout the industry, human resource development is also an important issue

Myochin We provide comprehensive training for our seafarers from apprenticeship to ship captain and chief engineer and rotate their job assignments between positions at sea and on land to give them wide-ranging experience.

Of the approximately 6,500 crewmembers of our vessels, a little over 200 are Japanese and over 60% of the rest are from the Philippines. Because training is critical, we established the "K" LINE Maritime Academy in the Philippines where 54 staff present some 930 lectures to as many as 10,000 people each year to ensure they acquire the necessary knowledge and skills. The academy has training facilities, including engine plants replicating those on actual ships and ship-handling simulators, and full accommodation and medical facilities.

Hasegawa It sounds like your efforts are not only positive for your company's development, but that "K" LINE is a making a very positive contribution toward meeting the basic human need for educational opportunities and employment, which aligns with the United Nations Sustainable Development Goals of quality education and decent work and economic growth.

Myochin Education and training take time. The most effective way to develop crew members who are familiar with our standards of safety and our technologies is to teach them at the training center and then have them on our ships not once but multiple times.

— The COVID-19 pandemic has affected cargo movement, but how has it affected your crews?

Myochin Our Filipino crewmembers usually contract for eight or nine months on a ship. The stricter immigration controls, however, have led to many of them continuing working onboard ships for longer. I've heard that as many as 150,000 seafarers worldwide are bound to ships. The United Nations is working to solve the problem, but it will likely take some time.

Hasegawa Not knowing when you can be relieved of your duty must create worry about physical and mental fatigue.

Myochin Yes, that can affect their health as well as the safety of ship navigation. We are doing all we can to reduce the stress on the crew members onboard our ships, and not only to them but to their families as well as to seafarers who are stuck waiting for their work contracts to start.

Increased Importance of the Environment and Society after the COVID-19 Pandemic

— Structure must be in place for environmental and social activities to make progress

Myochin Our CSR & Environmental Committee oversees two bodies with specific tasks: the Environmental Sub-Committee operates the environmental management system, and the CSR Sub-Committee promotes CSR activities. The Ship Safety Promotion Committee, which is overseen by the Crisis Management Committee, is in charge of all aspects of verification and deliberation concerning safety in navigation and cargo operations. The CSR & Environmental Committee and the Ship Safety Promotion Committee, both of which I serve as the chairperson, are discussing various initiatives.

In addition to our internal structure for promoting environmental and social activities, we are also joining international frameworks for promoting the ESG initiatives and the SDGs. And in April 2020, "K" LINE signed the United Nations Global Compact and registered as a participating company.

Hasegawa Active measures for ESG and the SDGs will increase society's trust in the company. Plus, the activities you are leading to strengthen the company's environmental performance and safety should also build trust in the company. I believe that trust from society is an intangible asset that leads to profits.

Myochin The COVID-19 pandemic is creating great changes to our world. So that society can move in a better direction under what will become the new normal, I think we will start asking ourselves what we really need to do to meet social needs and raise awareness about safety and the environment so we can realize a sustainable society.

Hasegawa Lately, there is an increasing sense that more consumers are engaging in "belief-driven buying," which is consumption based on a person's values. This means, for example, buying products from a company that

responds in a positive way to a problem, and conversely stop buying from a company that does not respond appropriately to a problem.

This trend suggests that a company's environmental and safety activities will become increasingly important and directly impact their corporate value. I am eagerly looking forward to "K" LINE's inspiring efforts in these areas.

Myochin Thank you very much.

Management Strategies and ESG/CSR Management

Realizing a sustainable society and creating new values

The "K" LINE Group seeks to "build a management structure that emphasizes social responsibility" and built on a dual framework of "managing the impact of our business activities" and "creating new values." By recognizing and actively addressing the important issues in each framework, we contribute to building a sustainable society while bolstering our long-term competitive advantages and creating new values (see pages 12-17 and pages 22-25).

☆☆☆ : Most Important Issues

Basic CSR Policy	Priority Themes/Material Issues	Key Initiatives	Related SDGs
Building a Management Structure that Emphasizes Social Responsibility	**Corporate governance** ▶ P. 34-39 Establishment of a management structure that responds to the demands of society	• Introduce a Unit Supervisory System • Introduce a Nomination Advisory Committee and Remuneration Advisory Committee • Appoint outside directors (40% of directors)	
	Stakeholder engagement Promotion of dialogue with stakeholders	• Engage in investor relations in Japan and overseas • Provide full disclosure • Share feedback from shareholders and investors with managers and throughout the Company • Open dialogue and collaborate with NPOs and NGOs • Be a signatory of the United Nations Global Compact	17
Managing the Impact of our Business Activities	☆☆☆ **Environmental preservation** ▶ P. 30-31 Reinforcement of environmental management Environment-friendly business activities	• Reduce CO_2 emissions and improve emission efficiency (aiming for decarbonization in 2050) • Promote the transport and supply of new energy for a low-carbon society • Reduce the shipping operation's impact on the sea and air, including zero oil spills • Step up our activities and support for public environmental improvement efforts	3, 7, 8, 9, 11, 12, 13, 14, 15, 17
	☆☆☆ **Safety in navigation and cargo operations** ▶ P. 32 Prevention of major accidents	• Enhance the Safety Management System • Strengthen the Ship Management System • Secure and train maritime technical personnel	7, 13, 14
	Human rights Prevention of discrimination Respect of basic labor rights Prevention of forced labor and child labor	• Understand human rights issues by attending international conferences and engage with NGOs and international organizations	5, 8, 10
	Labor practices ▶ P. 33 Prevention of over-long working hours Promotion of diverse work styles Improvement of occupational health and safety	• Become a certified Health & Productivity Management Outstanding Organization (Large Enterprise Category) in 2020 • Receive a Kurumin "next-generation" mark in 2020 as a company supporting childcare • Renew our certification as a leading company for prevention of seafarer labor accidents	5, 8
	Compliance Prevention of corruption Prevention of anti-competitive behavior	• Create a system to prevent Competition Law violation recurrence • Create a bribery prevention system • Create a system for compliance to economic sanctions • Enhance the internal reporting system (register as a Whistleblowing Compliance Management System (WCMS)) • Expand our educational programs	16
	Risk management BCPs (Business Continuity Plans) to response to large-scale disasters Enhancement of response capabilities for major accidents Crisis and risk management system	• Launch a BCP for the COVID-19 pandemic • Conduct response drills for a large-scale accident • Have the Crisis Management Committee and the Management Risk Committee apply the PDCA cycle to risk management	

Basic CSR Policy	Priority Themes/Material Issues	Key Initiatives	Related SDGs
Creating New Values	★★★ **Human resource development** ▶ P. 33 Improvement of corporate culture Development of global leaders Promotion of diversity	• Expand and strengthen position-based training • Create new training systems, including on-ship training for all employees and accounting and finance training • Introduce a headquarters work program for non-Japanese seafarers	8
	Innovation ▶ P. 28-29 New value proposals through reduction of environmental burden and improvement of service quality	• Use the Kawasaki Integrated Maritime Solutions to enhance our safety and environmental performance • Install the Seawing automated kite system on ships to harness natural energy • Introduce LNG-fueled car carriers	7, 9, 11, 12, 13, 14, 15
	Community involvement and development Assistance in recovery / reconstruction from natural disasters Promotion of social contribution activities utilizing corporate resources	• Donate to areas affected by natural disasters • Collaborate with free cargo transport operations to emerging countries	1, 3, 4, 11, 17
	Employment creation and skills development Support for education and employment creation	• Host ship and training center tours for children and teachers • Send lecturers to maritime education institutions to assist in the cultivation of future maritime technical personnel	4, 17

Process to Identify Materiality

The "K" LINE Groups uses the following process and refers to international regulations and initiatives and GRI guidelines to identify important (material) issues.

STEP 1

Specify Themes Related to "K" LINE Group's Business Activities

The "K" LINE Group, through dialogue with internal and external stakeholders and by referring to OECD Guidelines for Multinational Enterprises, ISO26000, GRI Guidelines, and other frameworks, has specified environmental and social themes that the Group's operations around the world may affect or contribute to.

STEP 2

Select "Material Issues"

The Group has selected ten of the themes identified in STEP 1 to prioritize in terms of the significance of their economic, environmental, and social impacts and the effects on stakeholder evaluations and decision-making. These themes and two additional themes deemed essential to establish the relevant management structure to address them have been designated "material issues" requiring action by the Group.

STEP 3

Formulate CSR Action Plans

The Group has set medium- and long-term targets for the 12 material issues designated in STEP 2 and formulates annual CSR Action Plans geared to each target.

STEP 4

Match with SDGs

The Group has aligned the CSR Action Plans outlined in Step 3 with the 17 SDGs adopted by the United Nations in 2015 to ensure the objectives are compatible.

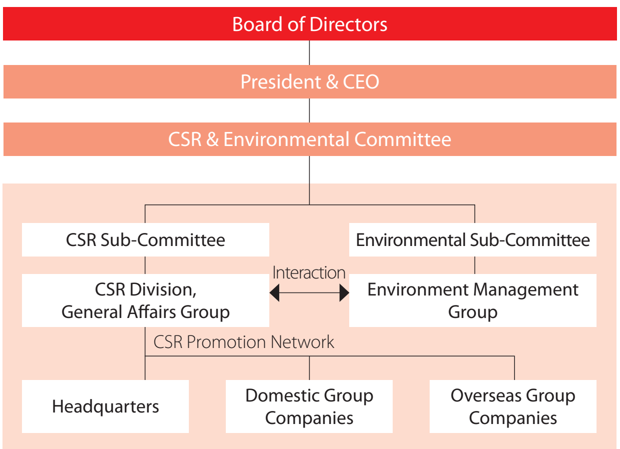
STEP 5

Review

The Group semiannually reviews the progress of the CSR Action Plans, and revises or modifies them as necessary. At the end of each fiscal year, the Group evaluates the progress and results of the CSR Action Plans and, based on the progress toward the medium- and long-term goals and the social changes relevant to its businesses, formulates new plans for the next fiscal year.

ESG and CSR Promotion Structure

The Group's management system is designed to promote ESG- and CSR-driven management centered on the material issues. The CSR & Environmental Committee, which is chaired by the President & CEO, and the CSR Sub-Committee and Environmental Sub-Committee form the policies for the Group's CSR activities and are responsible for executing the Environmental Management System formulated in accordance with the "K" LINE Group Environmental Policy. The Group's ESG and CSR initiatives are further strengthened by the CSR Promotion Network encompassing all Group companies.



WEB **Additional information about the "K" LINE Group ESG and CSR is available at the following webpage.**
Home > CSR

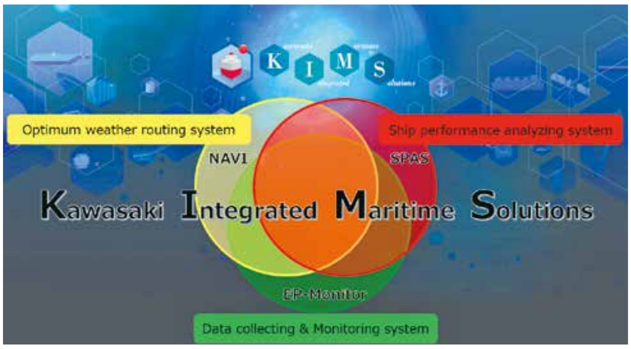
Innovation

Initiatives to introduce advanced technologies that create new value

Safety, environment, and quality are the foundation and the areas of strength of our business. Providing new value to our customers and society by improving them is a priority for "K" LINE. By constantly applying the expertise we have accumulated over many years of operation as well as by introducing new equipment and service technologies through collaboration with our customers and business partners, we strive to further reduce our environmental footprint and raise the quality of our services.

Initiative Improvement of operating safety and environmental performance by using Kawasaki Integrated Maritime Solutions

Kawasaki Integrated Maritime Solutions is an integrated vessel operation and performance management with data collection device from each vessel. The system can be used for real time monitoring and analysis for ship propulsion performance and engine plant condition based on actual ship operational data. The optimum weather routing system then integrates this information with the latest meteorological data and ship performance model that has been created from actual operational data to calculate the recommended navigation route for each vessel. This system enables us to visualize ship's condition from various perspectives through the big data analysis. For example, the system helps earlier and accurate detection of an increase in fuel consumption due to a ship's performance deterioration, giving us the ability to take preventive improvement measures. The optimum weather routing system also improves the environmental performance making it possible to reduce CO_2 emissions while maintaining our ship and cargo safety standards.



Conceptual framework

Display screen

Message from a Team Member

Kyohei Noda
Energy & Performance Management Team
Advanced Technology Group

For more effective use of Kawasaki Integrated Maritime Solutions throughout the Group

I am engaged in the development and operation of this system, where I am pouring my knowledge and experience from eight years as a "K" LINE seafarer. I have put particular effort into creating the system structure and viewer design to find the best way to make the various types of analysis result easy to understand. I wanted to create an intuitive and effective interface especially for function of ship propulsion performance analysis that can be seamlessly used in the daily workflow of not just technical divisions including the Group's ship management companies, but by business and operation divisions as well. We regularly hold explanatory meetings and propose new uses for this system as part of our goal to make the system easily operable by all "K" LINE employees. We are also constantly working to improve the system's functionality and usability. I believe those enhancement improve our safety.

Initiative Introduction of Seawing, automated kite system utilizing natural energy

The Seawing automated kite system is mounted on the forecastle of the vessel and is unfolded by simple operation from the bridge under certain conditions of natural wind power and wind direction, and assists propulsion power of the vessel utilizing wind force effectively. A controlled flying kite can provide greater power than a fixed-sail device with the same surface area. The combination of air and sea technologies by bringing the aircraft flight control technology to ships and augmenting it using performance analysis by Kawasaki Integrated Maritime Solutions is leading to breakthrough innovations for ship performance. "K" LINE is also a member of the International Windship Association actively promoting the use of wind energy in the shipping industry.

Seawing installation image

Message from a Stakeholder

Vincent Bernatets
Founder and CEO
AIRSEAS SAS

"K" LINE is committed to cut emissions using wind

It is an honour and a great satisfaction to work alongside "K" LINE to contribute to the Society. Airseas is a young high-tech company combining aeronautical and maritime expertise, with the mission to reduce the environmental footprint of shipping. Our large Seawing automated kites allow to save 20% of fuel and related emissions in order to make the existing and future ships more eco-friendly.

As a company, "K" LINE is taking the challenge of our disruptive technology to continue being a pioneer in maritime eco efficiency, in line with its history and values.

We are glad we have built a trustful relationship with the "K" LINE team which motivates us even more to outperform: through our collaboration, we have the opportunity to integrate more of the operational context so as to further develop the Seawing benefits for "K" LINE.

Overall, I see our two companies sailing hand in hand through prosperous winds of change to be market leaders!

Initiative Government-supported launch of an LNG-fueled car carrier

"K" LINE placed an order for an LNG-fueled car carrier with Imabari Shipbuilding Co., Ltd. The order was made possible with support of the "Model Project for Maximize Reduction of CO_2 Emissions from LNG fueled Vessels", a joint project between the Ministry of the Environment and the Ministry of Land, Infrastructure, Transport and Tourism. The volume per calorific value of LNG is 1.7 times greater than that of heavy fuel oil and it begins to vaporize at about -161°C. LNG-fueled ships must therefore be specially designed to secure the storage space and control the pressure and temperature of LNG fueled tank. However, LNG's benefits are substantial, as LNG fuel emits 25-30% less CO_2 than heavy oil.

LNG-fueled car carrier conceptual drawing

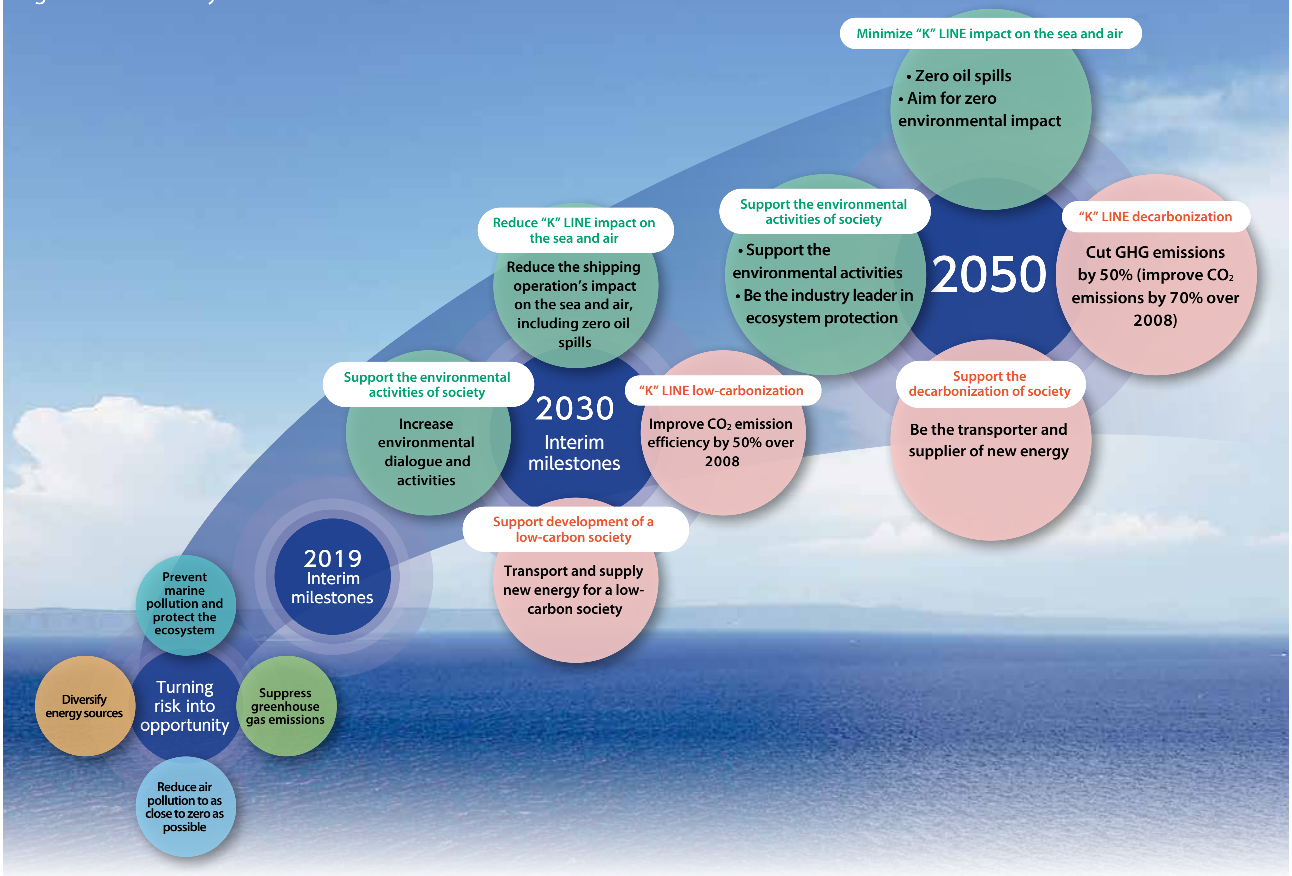
Environmental Preservation

Creating a business enabling people worldwide to enjoy the benefits of highly efficient shipping with low environmental impact

"K" LINE Environmental Vision 2050

The "K" LINE Environmental Vision 2050 announced in March 2015 set specific milestones to reach by 2019, the 100th anniversary of our founding. We have achieved many of the milestones, however, the dramatic changes in the environment around the world have made it necessary to reassess some of our goals for 2050 and set new milestone markers for 2030.

Today, tomorrow, to 2050 and beyond, we will continue our voyage of supporting sustaining and flourishing growth for society and "K" LINE.



Scenario Analysis

We used our scenario analysis to formulate the strategies needed to reach our future targets and to ensure we are prepared for any eventuality.

Climate change is expected to expose humankind to major physical risk, such as serious natural disasters. To prevent this risk, it is widely believed that global warming must be held below a 2°C increase, and achieving this will require worldwide effort, such as environmental regulations to significantly reduce greenhouse gas (GHG) emissions. The "K" LINE Group is taking steps to reduce GHG emissions from the Group's business activities based on the assumption that the below 2°C warming scenario will be realized. At the same time, we recognize that efforts to reduce GHG emissions may be insufficient, and that the 4°C warming scenario and intensifying physical risk is a possibility.

The Group must build the resilience to adapt to those conditions to ensure its business operations will continue. We formulated roadmaps for how the Group should prepare for the anticipated negative (risk) and positive (opportunity) aspects of both the "below 2°C warming scenario" and the "4°C warming scenario."

Two Scenarios	The Future We Aim For	Below 2°C Warming Scenario
	The Future We Prepare For Just In Case	4°C Warming Scenario

WEB

Additional information about the scenario analysis is available at the following webpage.
Home > CSR > Environment > Environmental Promotion System > "K" LINE Environmental Vision 2050 "Blue Seas for the Future"

2030 Interim Milestones and Action Plan

We have formulated concrete action plans to drive us to the 2030 interim milestones on our way to the 2050 targets and further toward realizing a zero emissions world.

Priority issues	Action Plan to 2030
"K" LINE low-carbonization	· Improve CO_2 emission efficiency by 50% over 2008 ⇒ Surpassing the IMO target of a 40% improvement · Strengthen ties with shipbuilding sites, customers, governments, investors, and all stakeholders to realize and launch zero-emission vessels
Support development of a low-carbon society	· Develop and expand new businesses that contribute to a low-carbon society · Explore and develop new businesses that contribute to achieving a low-carbon society
Reduce "K" LINE impact on the sea and air	· Initiatives to maintain zero oil spills · Reduce the environmental impact of ship operations
Support the environmental activities of society	· Increase environmental dialogue and activities

Initiative Establish the LNG fuel supply business — Business start scheduled for 2020 —

We will establish a business to provide a stable supply of LNG for ship fuel. LNG has strong potential as an alternative to heavy oil and is an attractive fuel source with the increasingly stringent international regulations on ship emissions.

We have created a four-company alliance with JERA, Toyota Tsusho, and NYK Line to launch Japan's first LNG bunkering vessel. LNG is an optimal fuel for lowering emissions to meet the stringent international regulations. Using LNG instead of heavy fuel oil can reduce emissions of sulfur oxides (SOx) and particulate matter (PM) by virtually 100%, nitrogen oxides (NOx) by as much as 80%, and carbon dioxide (CO_2) by roughly 30%.

LNG fuel supply ship (illustration courtesy of Kawasaki Heavy Industries, Ltd.)

Initiative Projects to execute Action Plan 2030

Our sustainability management system is a cross-departmental organization administered directly by the president & CEO. The system is the backbone of our high-quality logistics services, which includes our strength areas of safety in navigation and environmental response, and is key to continuing to enhance our competitiveness. The Safety and Environmental Technology Project Team is devoted to accelerating the incorporation of equipment and management technologies throughout the Group to enhance the safety of our services and further improve our service quality to meet customer needs. The Alternative Fuel Project Team considers measures to prepare for wider use of LNG-fueled vessels and the global development of LNG fuel supply business.

President & CEO

Safety and Environmental Technology Project Team

Leader

Unit Supervising Executive Officer of the Information System and AI/Digitalization Strategy Unit, CIO

Member Groups

AI/Digitalization Strategy, Advanced Technology, Marine Human Resources, Safety and Quality Management, and other related sales and business groups

Alternative Fuel Project Team

Leader

Unit Supervising Executive Officer of the Energy Transportation Business Unit

Member Groups

Fuel Strategy & Procurement, Advanced Technology, Ship Technical, Safety and Quality Management, Environment Management, and other related sales and business groups

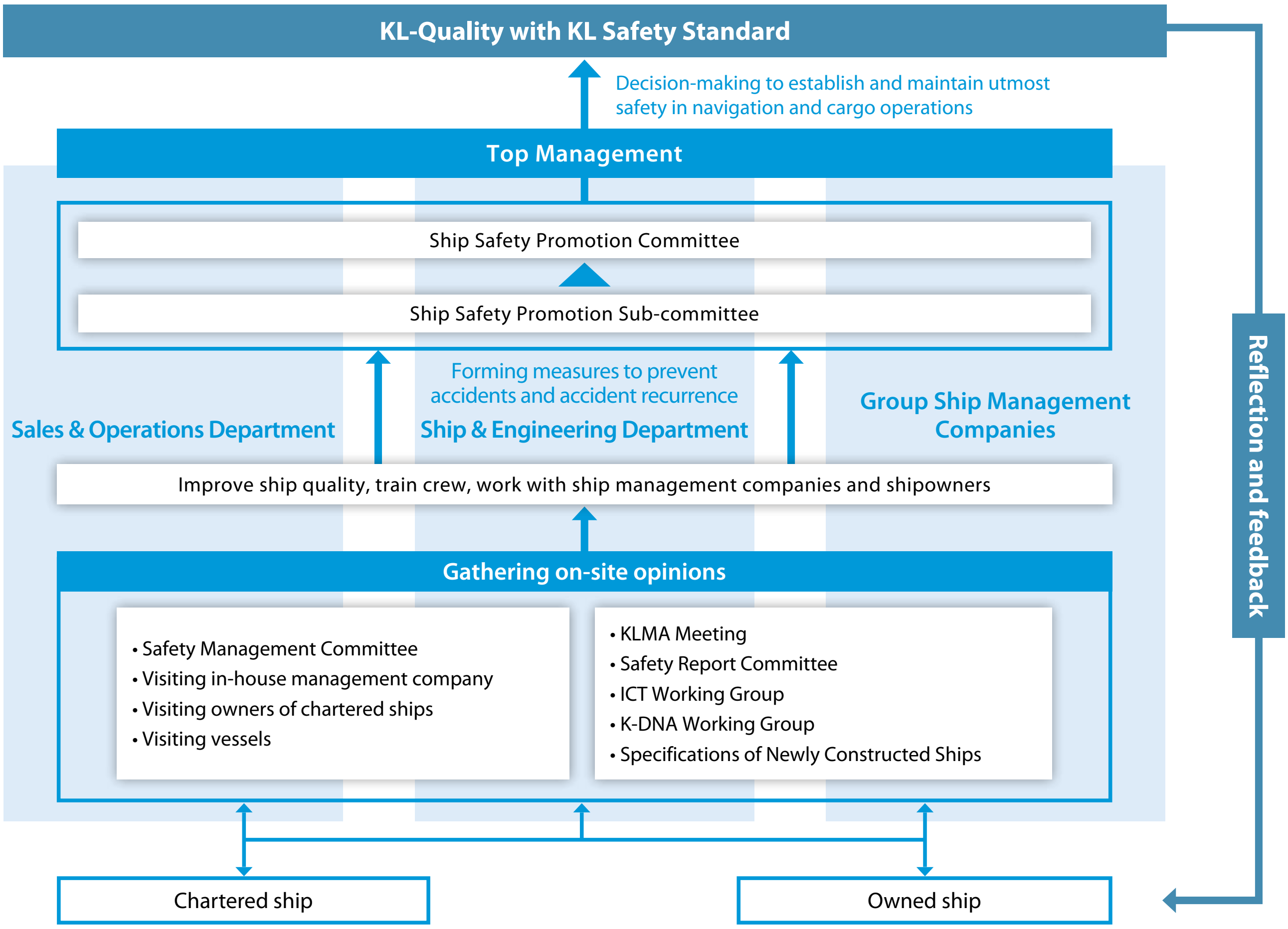
Safety in Navigation and Cargo Operations

Maintaining world-leading safety in navigation and cargo operations

Safety in navigation and cargo operations is an immutable mission in a shipping business. The "K" LINE Group's corporate principle and vision calls for "providing reliable and excellent services" and reflects our commitment to provide safe shipping operations for the benefit of society. The "K" LINE has three policy pillars: Enhancing the Safety Management System, Strengthening the Ship Management System, and Securing and Training Maritime Technical Personnel.

Enhancing the Safety Management System

The Ship Safety Promotion Committee, chaired by the President & CEO, is the top decision-making body covering operational safety. The committee determines accident prevention and safety measures for all ships operated by the Company—including owned, chartered, and entrusted vessels—and handles everything from basic policy formulation to the implementation of measures under the system shown below.



Initiative **Shipowner Safety Liaison Meeting**

"K" LINE's measures for safety in navigation and cargo operations includes convening an annual Shipowner Safety Liaison Meeting bringing together administrative managers from all of its main shipping operators. The meetings give us the opportunity to explain our navigation safety policies and environmental measures, share information, and exchange opinions, and are an important part of enhancing the quality of the fleet and improving safety. The meetings also allow us to recognize and honor charter ship owners for exhibiting outstanding performance based on our own quality guidelines called KL-Quality.

Human Resources

Cultivating our onshore and maritime employees who are key to sustainable growth

We are cultivating human resources who will be the driving force for the ever-changing challenge of innovation and developing world-class maritime technicians who will ensure our ongoing safe operations. We are also reforming the workstyle standards in the Company to support various work styles and increase productivity. In addition, we are seeking to cultivate an organizational culture to make full use of employee skills and individuality.

Onshore Employees

"K" LINE takes a "health management" approach to its labor practices and closely monitors overtime work to prevent employees from becoming overworked. The Company strongly encourages employees to take at least the minimum of five days of annual paid leave required by Japan's revised Labor Standards Act, and in fiscal 2019 all eligible employees took the leave. We are also preparing a variety of communication tools to broaden the use of the work-at-home system introduced in January 2019 to all departments.

The goal of our human resource development is to cultivate personnel capable of taking charge of business management from a global perspective and applying sophisticated practical skills and abundant creativity to propel business transformation. We revamped the training programs to gear courses to specific job positions and levels of experience and introduced training sessions on logical thinking, problem solving, and presentation skills to boost practical skills.

Initiative Certified as a 2020 *Kurumin* childcare support company

The Tokyo Labor Bureau of the Ministry of Health, Labour and Welfare certified "K" LINE as a 2020 *Kurumin* Childcare Support Company in recognition of our efforts to support balanced work and childcare, encourage male employees to take leave to participate in childcare, and persuade employees to use their annual paid holidays. We will continue providing a stable foundation accommodating diverse and flexible work styles so our employees can make the full use of their abilities, including supporting employees with children, and promoting a healthy work-life balance.

2020年認定
くるみん
子育てサポートしています

Maritime Employees

Securing and nurturing outstanding Japanese maritime employees to be leaders for crews of many nationalities is essential to international ocean shipping. In 2013, "K" LINE established a comprehensive in-house training program to foster outstanding maritime technical personnel and began recruiting students from non-maritime universities as well as seafarer training institutions.

Our training programs are designed for employees seeking to advance both onshore and offshore careers, and encompass both onshore training at the "K" LINE Maritime Academy in Machida, Japan, and on-ship training programs. We develop world-class maritime technicians through a structured instruction system for acquiring the requisite knowledge and technical expertise along with training in effective teamwork skills.

Initiative Renewed certification as a Business Operator Providing Superior Occupational Accident Prevention for Seafarers

In fiscal 2019, the Ministry of Land, Infrastructure, Transport and Tourism once again recognized "K" LINE as a Business Operator Providing Superior Occupational Accident Prevention for Seafarers (General Class 1). The MLIT created the program to recognize individual shipping fleet operators and provide official certification of companies that take voluntary measures to prevent occupational accidents for seafarers.

"K" LINE was the only international shipping company in Japan to receive the highest Class 1 ranking when it was created in 2008, and we have been certified at the highest level every year since. Class 1 distinction includes requiring a company to have no violations of the Mariners Law for the past five years.

Corporate Governance

Establishing sustainable growth and raising corporate value

"K" LINE is developing and strengthening its corporate governance and risk management structures to fulfill its social responsibility and its commitment to its shareholders and stakeholders, and to achieve sustainable growth. While thoroughly enforcing its corporate ethics across the entire Group, "K" LINE will continue developing an organic and effective governance framework, strengthening its earning and financial structures, and enhancing its corporate value.

Corporate Governance Reform

"K" LINE is constantly implementing measures to strengthen its corporate governance and risk management structures and adamantly enforces its corporate ethics throughout the Group. The Company is creating a system for organic and effective governance and fortifying its earning and financial structures to enhance its corporate value. This section introduces changes we have made to improve our corporate governance.

2004
- Established the Internal Audit Office

2006
- Reduce the size of the Board of Directors from maximum 25 to maximum 15
- Introduced the Executive Officer System
- Adopted the "K" LINE Group Charter of Conduct

2009
- Shortened the term of office for Directors from 2 years to 1 year
- Appointed the Company's first Outside Directors (2 positions)

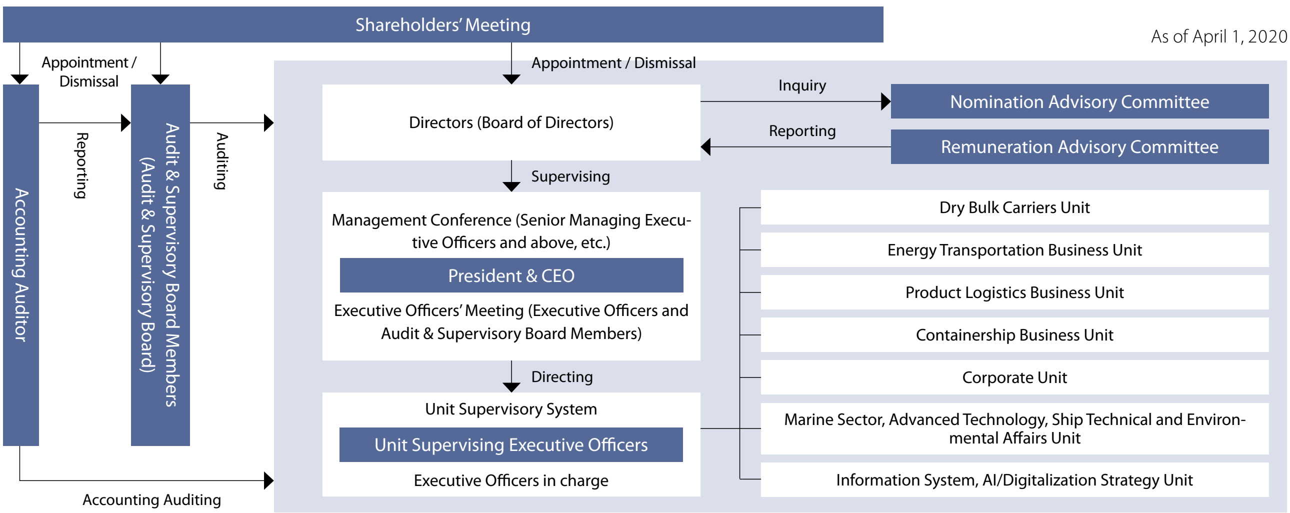
2015
- Takeover Defense Measures allowed to lapse
- Redefined the functions of the Board of Directors, Management Conference, and Executive Officers' Meeting
- Established the Nomination Advisory Committee and Remuneration Advisory Committee
- Adopted the Corporate Governance Guidelines
- Initiated Board of Director Effectiveness Evaluation

2016
- Initiated the Unit Supervisory System
- Increased the number of Outside Directors from 2 to 3 (one third of all Directors)
- Appointed the Company's first female executive
- Appointed a Lead Outside Director
- Adopted the "K" LINE Group Global Compliance Policy
- Initiated a Performance-based Share Remuneration Plan

2019
- Increased the number of Outside Directors from 3 to 4 (40% of all Directors)

Corporate Governance Structure

The Board of Directors and the Audit & Supervisory Board construct, apply, and monitor the corporate governance system, and several committees and other offices contribute to enhancing the system.



Unit Supervisory System

The "Corporate Governance Code" stipulates the primary role and responsibility of the Board of Directors is to "create an environment supporting appropriate risk-taking by senior management." Following this stipulation, "K" LINE adopted the Unit Supervisory System as part of the corporate governance structure to further streamline and enhance the business execution structure.

- **Clarified system for business execution responsibility**
- **Delegated authority to Unit Supervising Executive Officers**
- **Strengthened the supervisory function of the Board of Directors**

Improved business execution efficiency

Nomination Advisory Committee, Remuneration Advisory Committee

As a company structured with an Audit & Supervisory Board, "K" LINE voluntarily established a Nomination Advisory Committee and Remuneration Advisory Committee to enhance the function of the Board of Directors. The committees are composed of Independent Outside Directors, the Chairman, and the President & CEO. The Independent Outside Directors on each committee nominate and select an Independent Outside Director to serve as their committee chairperson.

Appointment of Outside Directors

"K" LINE actively appoints Outside Directors to take advantage of external perspectives that can enhance corporate value over the medium and long term.

WEB Additional information about the appointment of outside directors is available at the following webpage.

Home > CSR > Governance > Corporate Governance > Criteria for Independence of Outside Directors

Risk Management Structure

The Company maintains crisis and risk management system for recognizing and preparing for various business risks and for ensuring we fulfill our corporate responsibility when a risk event occurs. A Crisis Management Committee has been set up to supervise and promote overall risk management in four areas identified by the Group, each with a dedicated committee: risk related to ship operations, compliance, disasters, and other management operations.

The President & CEO appoints the chairperson for each committee and the committees convene regularly to review the status of risk and reinforce the risk management system.

Corporate Governance

Directors, Audit & Supervisory Board Members and Executive Officers (as of June 23, 2020)

Yukikazu Myochin
Representative Director
President & CEO

Atsuo Asano
Representative Director
Vice President Executive Officer

Yukio Toriyama
Representative Director
Senior Managing Executive Officer

Kazuhiko Harigai
Representative Director
Senior Managing Executive Officer

Yasunari Sonobe
Director
Senior Managing Executive Officer

Makoto Arai
Director
Managing Executive Officer

Daisuke Arai
Managing Executive Officer

Seiichi Tanaka
Outside Director

Keiji Yamada
Outside Director

Ryuhei Uchida
Outside Director

Kozue Shiga
Outside Director

Tsuyoshi Yamauchi
Audit & Supervisory Board Member

Kunihiko Arai
Audit & Supervisory Board Member

Atsumi Harasawa
Outside Audit & Supervisory Board Member

Shinsuke Kubo
Outside Audit & Supervisory Board Member

Directors

Yukikazu Myochin
Representative Director

Atsuo Asano
Representative Director

Yukio Toriyama
Representative Director

Kazuhiko Harigai
Representative Director

Yasunari Sonobe
Director

Makoto Arai
Director

Seiichi Tanaka
Outside Director

Keiji Yamada
Outside Director

Ryuhei Uchida
Outside Director

Kozue Shiga
Outside Director

Audit & Supervisory Board Members

Tsuyoshi Yamauchi
Audit & Supervisory Board Member

Kunihiko Arai
Audit & Supervisory Board Member

Atsumi Harasawa
Outside Audit & Supervisory Board Member

Shinsuke Kubo
Outside Audit & Supervisory Board Member

Executive Officers

Yukikazu Myochin
President & CEO

Atsuo Asano
Vice President Executive Officer
Assistant to President & CEO, Responsible for Dry Bulk Carriers Unit, Marine Sector, Advanced Technology, Ship Technical and Environmental Affairs Unit

Yukio Toriyama
Senior Managing Executive Officer
Responsible for Corporate Unit (General Affairs, Human Resources, Legal, Corporate Legal Risk & Compliance, Corporate Planning, Research, Finance, Accounting, Taxation, IR & PR), CFO (Chief Financial Officer)

Kazuhiko Harigai
Senior Managing Executive Officer
Responsible for Energy Transportation Business Unit

Yasunari Sonobe
Senior Managing Executive Officer
Responsible for Product Logistics Business Unit (Car Carriers, Port Business, Logistics, Affiliated Business Promotion)

Yutaka Nakagawa
Managing Executive Officer
Managing Director of K LINE (THAILAND) LTD.

Daisuke Arai
Managing Executive Officer
Responsible for Containerships Unit, Information System, AI/Digitalization Strategy Unit, CIO (Chief Information Officer)

Makoto Arai
Managing Executive Officer
In charge of Legal, Corporate Legal Risk & Compliance, Assistance to Internal Audit, CCO (Chief Compliance Officer)

Kiyotaka Aya
Managing Executive Officer
In charge of Marine Sector, CSO (Chief Safety Officer)

Shingo Kogure
Managing Executive Officer
In charge of General Affairs, CSR, Human Resources

Toyohisa Nakano
Executive Officer
In charge of Ship Technical and Environmental Affairs

Yuji Asano
Executive Officer
In charge of Finance, Accounting, Taxation, General Manager of Finance Group

Takahiko Tsurukawa
Executive Officer
In charge of Bulk Carrier Business, Drybulk Planning, General Manager of Bulk Carrier Group

Michitomo Iwashita
Executive Officer
In charge of Thermal Coal, General Manager of Thermal Coal Group

Takenori Igarashi
Executive Officer
In charge of Car Carrier Business, Car Carrier Planning & Development, Car Carrier Quality and Operations

Satoshi Kanamori
Executive Officer
In charge of LNG, Energy Business Planning, General Manager of Energy Business Planning Group

Masatoshi Taguchi
Executive Officer
In charge of Coal and Iron Ore Carrier Business, General Manager of Coal & Iron Ore Carrier Business Group

Noriaki Yamaga
Executive Officer
In charge of Corporate Planning, Research, IR & PR

Keiji Kubo
Executive Officer
In charge of Port Business, Logistics, Affiliated Business Promotion, General Manager of Logistics and Affiliated Business Promotion Group

Akihiro Fujimaru
Executive Officer
Assistance to Marine Sector, General Manager of Safety and Quality Management Group

Hisashi Nakayama
Executive Officer
In charge of Tankers, Fuel Strategy & Procurement, General Manager of Tanker Group

Director Skill Matrix

The expertise and experience of the Company's directors is as follows.

			Expertise and Experience				
	Age	Years as Director	Corporate Management & Strategy	Legal & Risk Management	Finance & Accounting	Technology	Global
Yukikazu Myochin	59	4	●	●			●
Atsuo Asano	59	2	●			●	●
Yukio Toriyama	60	1	●	●	●		●
Kazuhiko Harigai	60	1	●				●
Yasunari Sonobe	61	-	●				●
Makoto Arai	61	-	●	●			●
Seiichi Tanaka	67	4	●			●	●
Keiji Yamada	66	1		●			●
Ryuhei Uchida	42	1	●				●
Kozue Shiga	71	-		●			●

Board Evaluation

Article 22 of the Kawasaki Kisen Kaisha Corporate Governance Guidelines stipulates, "Each Director shall annually perform a self-evaluation on the effectiveness of the Board of Directors and their performance as a Director, and submit the results to the Board of Directors. Each year the Board of Directors shall, based on the self-evaluations, analyze and evaluate the overall effectiveness of the Board of Directors and disclose a summary of the results in a timely and proper manner."

Fiscal 2019 Evaluations

— Attributes of the Board of Directors that produced a particularly high evaluations —

We expect the following strengths cited in the previous fiscal year's effectiveness evaluations to be even stronger in the current fiscal year.

- Continuously reforming and improving governance
- A cooperative atmosphere due to the leadership of the Chairman
- Quick and appropriate decision-making process when executing duties
- Judicious monitoring by Outside Directors with diverse backgrounds
- Active discussions about capital efficiency including asset portfolio reviews

The latest evaluations contained comments that the "active discussion about capital efficiency and asset portfolio reviews" could include deeper discussion about the medium- and long-term capital strategy. The latest evaluations also indicated that "constructive dialogue with shareholders" was another strongpoint of the Board of Directors.

Current Issues

Although the Board of Directors has been evaluated as operating with sufficient effectiveness, the Company has set the following as areas requiring constant improvement to make the Board more effective.

- Strengthen Group governance
- Increase member diversity on the Board of Directors
- Hold deeper discussions about the medium- and long-term capital strategy
- Strengthen and rigorously update cyber security

Officer Remuneration System

The Company's Board of Directors determines remuneration levels for executives in consideration of the recommendations of the Remuneration Advisory Committee, which deliberates and determines the structure and level of compensation and reports its counsel to the Board.

Director remuneration comprises a monthly salary, performance-based compensation, and the Board Benefit Trust (BBT) Performance-based Share Remuneration Plan. BBT compensation is linked to the Company's total shareholders return (TSR) to provide incentive for directors to contribute to the medium- and long-term growth in earnings and corporate value. See below for an overview of the remuneration system.

Classification	Type of remuneration	Nature of remuneration	Method of determination	Maximum limit of remuneration
Director	Monthly remuneration	Fixed remuneration	Remuneration is determined in accordance with position and performance rating.	Within 600 million yen / year
	Bonuses based on consolidated performance*	Variable remuneration	Linked to the degree of achievement of consolidated performance targets in single fiscal years	
	Performance-based share remuneration (BBT)*		Linked to the Company's medium- to long-term total shareholders return (TSR) TSR = The rate of increase of the Company's shares over a fixed period + The dividend rate over the fixed period (Total dividend ÷ Initial share price)	Over the 4 fiscal years from FY ended March 31, 2018 up until FY ending March 31, 2021: (1) Amount contributed to the trust by the Company: 480 million yen (2) Maximum points awarded to Directors in any 1 FY: 620,000 points (equivalent to 62,000 shares)
Audit & Supervisory Board Member	Monthly remuneration only	Fixed remuneration	Determined following deliberation among Audit & Supervisory Board Members	Within 12 million yen / month

* Limited to Executive Directors

Training for Officers

Attending Officers	Timing of implementation	Content
Newly appointed Officers	Within 3 months of taking office	Providing opportunities to attend seminars on legal responsibilities pertaining to the Companies Act and the Financial Instruments and Exchange Act, etc.
All Officers	Yearly	Training related to compliance in such areas as competition law, insider trading regulations, and anti-bribery
Outside Directors/Outside Audit & Supervisory Board Members	Upon appointment	Explanations about the Group's business, financial, and organizational status, as well as the management status, operating environment, and business issues from heads of relevant divisions or Executive Officers in charge

Basis for Outside Officer Appointments

	Name	Basis of Appointment	Number of Board of Directors meetings attended in FY2019
Outside Directors	Seiichi Tanaka	Mr. Tanaka was appointed to contribute his experience and insight from his background with a master's degree in marine engineering and career at Mitsui & Co., Ltd. in the Ship and Marine Project Division and as Representative Director from 2008 to 2014.	14 / 14 meetings
	Keiji Yamada	Mr. Yamada's broad experience, personal networks, and insight from positions heading public administrative bodies will contribute to Group corporate governance. The Company looks forward to his astute advice on management and oversight of business execution.	10 / 10 meetings
	Ryuhei Uchida	Mr. Uchida offers astute advice and supervision of management and business execution from his abundant experience and insight enhancing corporate value from the perspective of shareholders. His input will help boost the Company's medium- to long-term corporate value and ensure we fulfill the expectations of general shareholders and all stakeholders.	10 / 10 meetings
	Kozue Shiga (Newly appointed)	Ms. Shiga has professional knowledge and experience as a lawyer and has served as an Outside Director and Outside Auditor at several listed companies, including as an Outside Audit & Supervisory Board member of the Company since June 2016. She was appointed as an Outside Director for her tangible contribution to improving the auditing functions of the Group and to increase the diversity of the Board of Directors.	13 / 14 meetings*
Outside Audit & Supervisory Board Members	Atsumi Harasawa	Ms. Harasawa has extensive professional knowledge and experience as a lawyer and in the transportation sector as a certified first-class aircraft maintenance technician at Japan Airlines Co., Ltd. Her presence as an Outside Officer on the Audit and Supervisory Board enhances Board diversity and the effectiveness of audits through an independent perspective.	10 / 10 meetings
	Shinsuke Kubo (Newly appointed)	Mr. Kubo is a certified accountant with wide-ranging experience and knowledge of auditing through positions at auditing firms in Japan and overseas, supporting companies seeking to list on stock exchanges, and related to corporate reorganization and M&A. He was appointed as an Outside Audit and Supervisory Board member to contribute an independent perspective to improve the effectiveness of the Company's audits.	-

* Attendance at Board of Directors meetings as an Audit & Supervisory Board member in the previous fiscal year.

Messages from Outside Directors

As described on page 35, the Company eagerly brings in outside officers to provide an external perspective that will help us raise our corporate value in the medium and long term. The current Outside Directors keep a constant eye on management from the perspectives of their personal careers and expertise and candidly provide opinions from the viewpoints of Outside Directors about the Company's strengths, weaknesses or what needs to be changed, and what is necessary for the Company's sustaining growth.

Seiichi Tanaka
Outside Director

After nearly 30 years working in the shipping business of a general trading company and the last 10 years in human resources and corporate planning departments, I am fully aware of how difficult it is to run a shipping operation that relies heavily on market conditions. As a director, my main focus is to verify the soundness and feasibility of each year's business plan and the medium-term management plan, and then on how each employee can break down the plans into individual concrete action plans with clear timelines.

"K" LINE's strength is its group of excellent and sincere employees. We have faced several years of a market plagued by chronic overcapacity of cargo space, creating business conditions preventing us from making the major investments our employees were hoping for. However, our continuous structural reform is finally starting to give us the framework to turn the ship. I would like our outstanding employees to expand their focus beyond their own areas of responsibility to apply our collective expertise as shipping professionals to meet the needs of our customers.

Keiji Yamada
Outside Director

In my career, mostly serving in local governments, I have attended nearly 1,000 press conferences, which is probably the most of anyone at "K" LINE. That experience has instilled in me the importance of counseling management not just on what it must do for legal compliance, but also what it should do from a balanced consideration of the point of views of the Company, the other party, and a third party. My intention is to provide various perspectives for the Company in all aspects of management.

Over "K" LINE's long history it has forged an impressive level of clarity in each department's roles and responsibilities and of pride in each department has for its management structure. However, this can also be a weakness in times of rapid change and fractious fluidity. I believe my role is to use my extensive experience in politics and government administration to communicate to management the changes in social trends.

Ryuhei Uchida
Outside Director

My career work has been to invest in businesses and work with management teams to raise corporate value. To fulfill my fiduciary duty to shareholders, I seek to understand the real situation on the ground, listen to investor expectations, and determine the best course for raising corporate value. Then, using information that is as objective as possible, I do my utmost to present the shareholder perspective in discussions with the Board of Directors.

"K" LINE has built up considerable trust by flexibly responding to customer feedback, as it did by introducing Japan's first pure car carrier and continuing to develop its carrier business. But there are also instances where investment seeking to pursue market shifts grew into a burden for management. The Company has integrated more sophisticated management that has helped it improve significantly in this area in recent years. While maintaining our high level of operational safety and environmental performance, I believe it is important to further build on our competitive advantages.

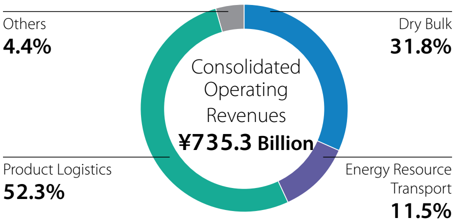
Kozue Shiga
Outside Director

No lawyer knows every law. I am constantly on alert and seeking new information and, while doing so, I pay close attention any time I start to feel "uneasy." Invariably, a calm and careful examination reveals some point that is not right. When I feel uneasy, I always make sure to investigate.

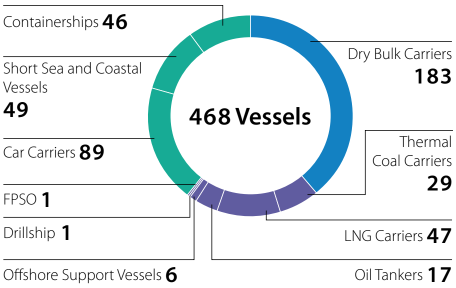
"K" LINE has accumulated a wealth of experiences in its 100-year history that have been passed down as a strong spirit in its employees. Because it is a shipping company, this history has naturally been created primarily by men. Today, the Company has numerous women interacting with its customers and business partners, and I would like to make their contributions another strength of the Company as quickly as possible.

At a Glance

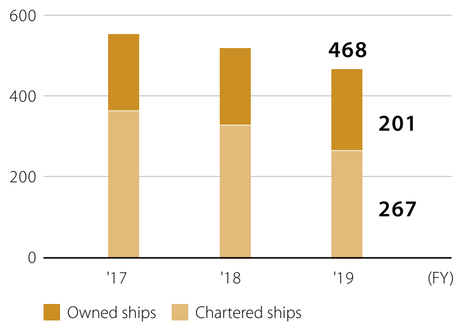
"K" LINE Group Operating Revenues by Segment (FY2019)



"K" LINE Group Vessels in Operation
(as of March 31, 2020)



Owned and Chartered Ship Fleets (unit: Vessels)



Segment	Business	
Dry Bulk	Coal & Iron Ore Carrier Business / Bulk Carrier Business	
Energy Resource Transport	Tanker Business / Fuel Strategy & Procurement Business	
	Thermal Coal Carrier Business	
	LNG Carrier Business / Offshore Business / Energy New Business	
Product Logistics	Car Carrier Business	
	Logistics and Port Business	
	Short Sea and Coastal Business	
	Containership Business	
Others		

Business Overview

Each year, we transport a large volume of dry bulk cargoes including iron ore, woodchip and pulp, grain and coal. We are expanding our business internationally by actively engaging in transportation of cargoes bound for not only Japan but also China, India and other emerging economies, as well as in trilateral transportation within the Atlantic region.

We engage in marine transportation of crude oil and liquefied petroleum gas (LPG). Since delivering our first large crude tanker in 1935 and our first LPG carrier in 1974, we have developed a global business for customers both in Japan and overseas, accumulating expertise in marine technical and safety operation. In addition to procuring fuel for "K" LINE fleets, the Fuel Business contributes to enhancing environmental performance by supplying LNG fuel and also conducting demonstration testing of liquefied hydrogen carriers.

This business involves transportation of coal, which is used as fuel for thermal power stations. Our "Corona Series" of wide-beam, shallow-draft coal carriers, developed in-house in accordance with port restrictions of Japan's thermal power stations, provide safe and reliable transportation of coal mainly from Australia and Indonesia to power companies in Japan and Taiwan.

We globally transport liquefied natural gas (LNG), a clean energy whose demand is increasing worldwide. In the Offshore Business, we provide Offshore Support Vessel (OSV) business in the North Sea and participates in Drillship project off Brazil and an FPSO (Floating Production Storage and Offloading System) off Ghana. In the Energy New Business, we provide services to customers with diversifying needs in the LNG value chain such as small-scale LNG transportation and develop green energy-related business.

Since 1970, when "K" LINE deployed Japan's first pure car carrier (PCC) into the transportation service of complete built-up cars, we have been recognized as a pioneer in safe and prompt transportation of passenger cars, trucks and other vehicles. The business is applying its transportation quality honed over 50 years to further enhance its RORO cargo services (roll-on, roll-off cargo services using specialized handling equipment). Fleet maintenance is also conducted with special care for environmental factors.

By combining the expertise and service networks of the entire "K" LINE Group, we provide comprehensive logistics services to meet various customer needs for sea transportation as well as air transportation, tugboat, land transportation, warehousing, buyers consolidation, and automotive logistics business from auto parts to complete built-up cars. In addition, we operate container terminals at four ports in Japan, Tokyo, Yokohama, Osaka, and Kobe.

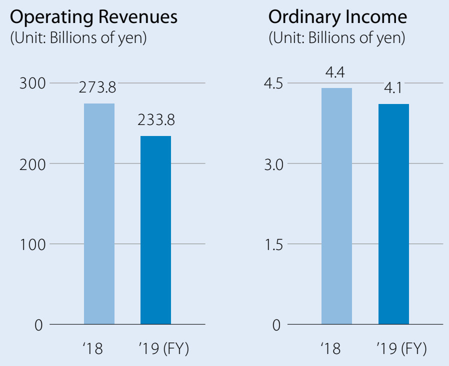
Kawasaki Kinkai Kisen Kaisha, Ltd. provides domestic marine transportation and ferry services. It operates passenger ferries, RORO cargo ships, dedicated carriers for limestone used in steel production, dedicated thermal coal carriers for electric power production and also general cargo carriers. It also operates general cargo vessels and bulk carriers for cargo to and from Asia. Furthermore, it has entered the offshore support vessel operations around Japan to further enhance the business.

The containership business in April 2018 integrated the containership businesses of three Japanese shipping companies to form a new company, ONE. Drawing on its enhanced route network, it provides stable, reliable, high-quality and competitive services and is capable of swiftly adapting to changes in the environment.

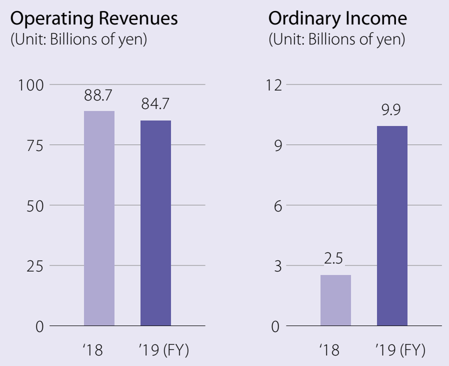
The "K" LINE Group also operates businesses engaging in ship management services, travel agency services and real estate rental and administration services.

Operating Revenues and Ordinary Income by Segment

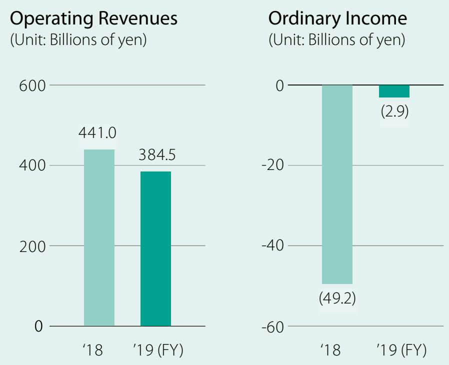
Dry Bulk



Energy Resource Transport



Product Logistics



Business Overview

Dry Bulk

Coal & Iron Ore Carrier Business /
Bulk Carrier Business

Executive Officer
Takahiko Tsurukawa
In charge of Bulk Carrier Business,
Dry Bulk Planning

Panamax bulk carrier

We aim to become an organization of choice that is trusted by customers and stakeholders.

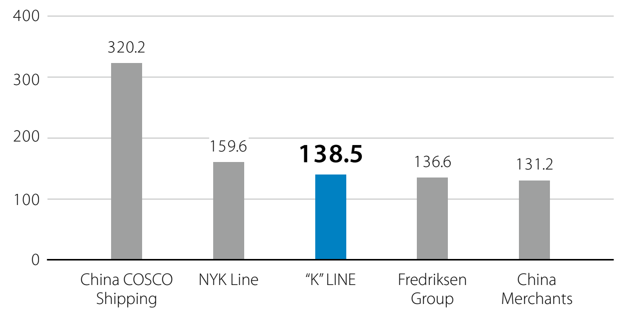
Basic Strategies

- Access customer needs
- Strictly maintain safety, quality, and environmental performance
- Strengthen earning power (efficient combination of voyage and making use of market rate differentials over trading zones to maximize profitability)
- Develop new fields (applying environmental shipping and digital technology)
- Fortify asset management (optimize fleets, improve cost competitiveness)
- Optimize the organization and cultivate global human resources

Strengths

- Integrated management of all sizes of vessels
- High-quality ship safety navigation and environmental technologies
- Sales capabilities and strong customer base
- Medium- and long-term charter partners (shipowners)
- Environmental shipping, digital technology, and other innovative approaches

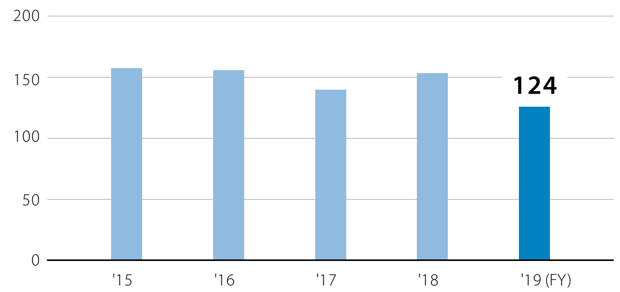
Dry Bulk (all sizes) Fleet Ranking (Unit: 100,000 DWT)



* as of June 2020
* Owned vessels and a part of chartered vessels

Source: Clarksons

"K" LINE Cargo Tonnage Carried by Dry Bulk Carriers (Unit: Million tons)



* From fiscal 2017 onward, cargoes handled by the thermal coal carrier business are excluded.

Overview of Fiscal 2019

Demand for dry bulk carrier transportation increased over the previous fiscal year as cargo movement was steady for coal, grain, and minor bulk items to China, India, and Southeast Asia while movement of iron ore from Brazil slowed in the latter part of the year. Vessel supply and demand did not significantly improve from the previous fiscal year as new shipbuilding continued but the growth in the number of demolition slowed. Market conditions were weak overall for the year. Conditions were improving heading into the summer demand season in the first half but weakened in the second half as large vessel cargo volume declined with iron ore exports from Brazil and small- and medium-sized vessels saw slower grain cargo movement from South America and steam coal for China. In addition, the COVID-19 pandemic affected cargo transportation demand for vessels of all sizes at the end of the year. The Company responded to these conditions by stepping up efforts to reduce shipping costs and improve ship allocation efficiency. Despite these efforts, the Dry Bulk Business ultimately recorded overall year-on-year declines in both sales and profits for the year.


Cape-size Bulk Carrier

Executive Officer
Masatoshi Taguchi
In charge of Coal and Iron Ore Carrier Business

TOPICS **Aiming to also be the industry environmental leader**

The Dry Bulk Carriers Unit is actively working to realize a sustainable society. The business is advancing environmental technology through research with Airseas, a spin-off company of aircraft manufacturer Airbus, into the Seawing automated kite system and plans to mount the innovative system on a large bulk vessel in fiscal 2021. The Seawing system harnesses renewable wind energy to boost vessel propulsion power and reduces CO_2 emissions by over 20% (see page 29). "K" LINE is employing the Kawasaki Integrated Maritime Solutions navigating system (see page 28), combining LNG and other alternative fuels, and making maximum use of wind power to reduce its greenhouse gas emissions to below the targets set for the international shipping industry.

The Dry Bulk Carriers Unit will continue constantly working to use its environmental and digital technologies to develop innovative approaches to meet customer needs.

Fiscal 2020 Business Strategies

The global economy has been greatly impacted by the COVID-19 pandemic, and demand for dry bulk carriers has fallen sharply from the sluggish worldwide demand for raw material transportation. At the same time, in the stagnant markets, increased demolition and decreased supply of new ships has eased the supply and demand pressure for ships. We expect these circumstances to lead to an improving ship supply and demand balance, particularly for large size vessels, that will lead to a gradual recovery in market conditions.

We are optimizing our fleet of iron ore carriers by reducing our number of ships in response to the recent dip in demand while maintaining a stable revenue base with medium- and long-term freight contracts for our high-quality transportation services.

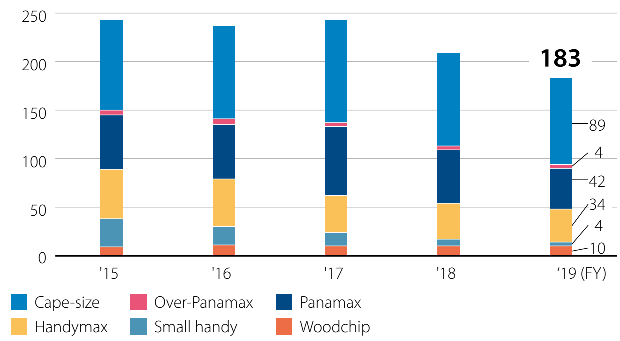
We will continue strengthening our market resilience in small and medium-sized vessels and woodchip and pulp carriers by optimizing our fleet composition and introducing new economical ships to update our fleets. We will also work to ensure we capture cargo demand and efficiently deploy vessels to fortify profitability.

Especially during the unprecedented COVID-19 pandemic, we will continue doing everything we can to provide the highest level of safe and secure cargo transportation.

BDI (Baltic Dry Index)

* Freight rate index for ocean-going bulk carriers, as issued by the Baltic Exchange in London. (January 4, 1985 =1,000)

Dry Bulk Carrier Fleet (Unit: Vessels)



Energy Resource Transport

Tanker Business / Fuel Strategy & Procurement Business

Executive Officer
Hisashi Nakayama
In charge of Tankers, Fuel Strategy & Procurement

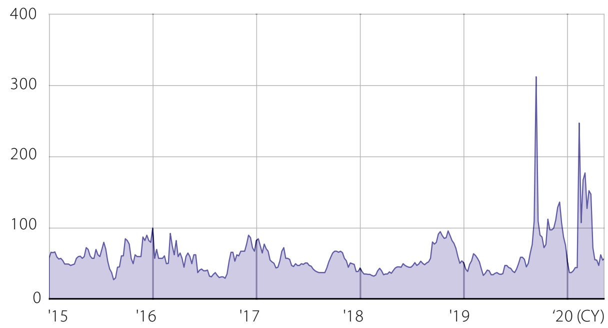

VLCC (Very Large Crude Carrier)

We provide safe, high-quality transportation services playing role of one element of the entire energy value chain.

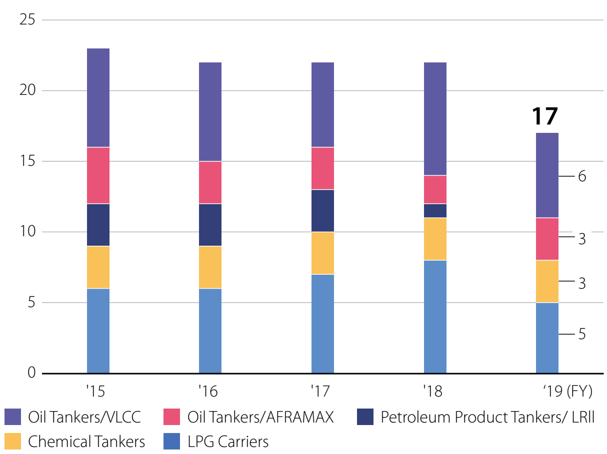
Basic Strategies
- Maintain and expand medium- and long-term contracts with superior domestic and overseas customers
- Correspond to environmental regulations and protection needs

Strengths
- Safe operation and high-quality ship management from over 80 years of successful energy resource transportation
- Steady business transactions with superior domestic and overseas customers built on long-term relationships of trust

Tanker Freight Index (WS: World Scale)



Tanker Fleet (Unit: Vessels)



Overview of Fiscal 2019

VLCCs (Very Large Crude Carriers) and VLGCs (Very Large Liquefied Petroleum Gas Carrier) contributed to our earnings, particularly through medium- and long-term charter contracts.

We took steps to strengthen our resilience to market fluctuations by reducing our market exposure through the sale of two VLCCs and two medium-sized LPG carriers that had completed medium- and long-term charter contracts.

Fiscal 2020 Business Strategies

We expect market conditions to continue to be difficult to predict as it depends on a number of factors including how global demand recovers after the COVID-19 pandemic and how the U.S.-China trade friction plays out.

In these conditions, we will continue to provide high-quality services with our VLCC and VLGC fleets to our key customers through medium- and long-term contracts and seek to smoothly transition to next-generation vessels anticipating future environmental regulations.

In the Fuel Strategy & Procurement Business, in 2020 we plan to launch an LNG fuel supply business in central Japan and a ship management business for an LNG fuel supply vessel in Singapore.

Energy Resource Transport

Thermal Coal Carrier Business

Executive Officer
Michitomo Iwashita
In charge of Thermal Coal

Thermal coal carrier (Corona Series)

We will contribute to deliver the fuel for base load electric-power plants by our high-quality dedicated thermal coal carrier fleet.

Basic Strategies

- Maintain our fleet of dedicated thermal coal carrier fleet
- Provide flexible vessel deployment adapting to fluctuations in coal demand
- Increase the number of medium- and long-term transportation contracts, which contribute to earnings stability
- Ensure efficient vessel allocation and optimized operation
- Meet customer needs related to environmental responsibilities and transportation quality control

Strengths

- Long-term relationships of trust with electric power companies
- High-quality transportation service built on dedicated thermal coal carrier fleet and good ship management
- Wide-ranging expertise in thermal coal transportation accumulated over many years

Overview of Fiscal 2019

In fiscal 2019, we added five newly-built vessels to our fleet and continued steady operations for the whole fleet under mainly medium- and long-term transportation contracts. Although demand for coal is strongly affected by seasonal factors, careful fleet management and efficient vessel deployment generated stable earning through the year.

TOPICS **Reliable transportation by dedicated fleets for Japan's coal-fired thermal power stations providing electricity nationwide**

Coal-fired power generation is a stable and economical means of power supply and a highly important fuel source in light of Japan's geographical limitations.

Japan's coal-fired thermal power stations mainly use highly efficient ultrasupercritical pressure and integrated gasification combined cycle (IGCC) power generation technologies that give them world-class environmental performance.

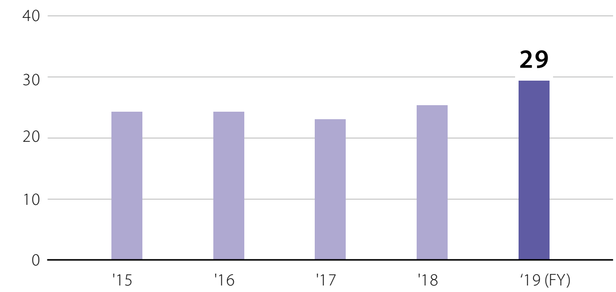
The Long-term Energy Supply and Demand Outlook of Japan's Agency for Natural Resources and Energy projects coal-fired power generation to supply 26% of domestic electricity needs in 2030. We will keep our dedicated thermal coal carrier fleet in top form and reduce our environmental footprint while continuing to provide steady support for transportation demand.

Fiscal 2020 Business Strategies

With the shutting down of nuclear power plants and delays restarting plants in Japan, we expect coal-fired power generation to continue to be an important source of electricity. Our high-quality dedicated thermal coal carrier fleet give us the flexibility to provide services in response to customers' transportation needs.

We will highlight our strengths by improving vessel fuel efficiency and integrating various types of environmental equipment to continue meeting the medium- and long-term transportation needs of our customers.

Thermal Coal Carrier Fleet (unit: Vessels)



Energy Resource Transport

LNG Carrier Business / Offshore Business / Energy New Business

Executive Officer
Satoshi Kanamori
In charge of LNG, Energy Business Planning

LNG Carrier

We will accumulate the long-term stable energy business centered on LNG carriers.

Basic Strategies

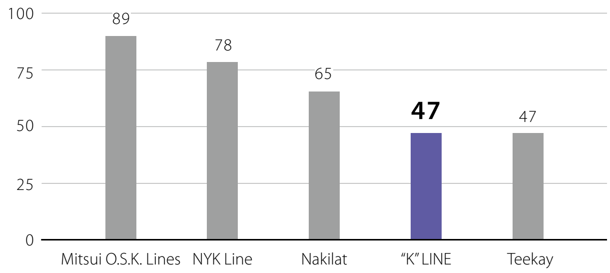
LNG Carrier Business
- Expand fleet of stable-earning vessels with medium- and long-term contracts
- Flexibly respond to demand from developing countries and diversifying customer needs

Offshore Business
- Broaden the stable profit base by stabilizing existing business earnings and developing new businesses

Energy New Business
- Respond to market needs in the LNG value chain
- Develop green energy-related businesses aligned to the IMO strategy to reduce greenhouse gas emissions

Strengths
- Stable and long-term relationship with customers worldwide
- Safe and high-quality ship management and operation for over 35 years in LNG transportation
- A broad domestic and overseas partner network constructed through our wide range of businesses
- A stable earnings foundation based on long-term charter contracts

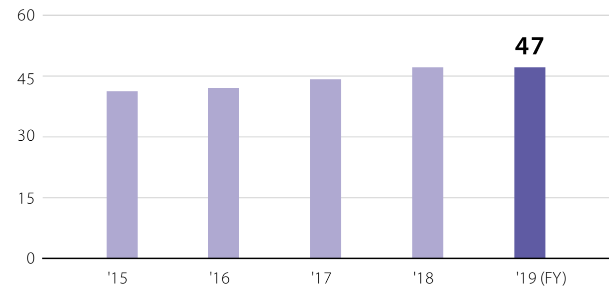
LNG Carrier Fleet Ranking (including co-owned) (Unit: Vessels)



* as of March 2020

Source: "K" LINE

LNG Carrier Fleet (Unit: Vessels)



Overview of Fiscal 2019

In the LNG Carrier Business, our existing fleets operated smoothly and contributed to earnings as a business with stable earnings on a solid base of medium- and long-term charter contracts. We also secured a stable source of future revenue by entering into a long-term charter contract for two LNG carriers to Petronas Group, Malaysia's national petroleum and gas conglomerate. In addition, final investment decisions were made for several large projects, and we began exploring new plans to expand our fleet.

The Drillship and FPSO businesses maintained high fleet uptime and secured long-term profit stability with long-term charter contracts in Brazil and Ghana.

The OSV business reported a loss for the year despite a shift toward recovery in the offshore energy E&P business, which is developing an operation in the North Sea, and improving market conditions for OSV.

The Energy New Business responded to growing demand for small-scale LNG transportation, particularly in Southeast Asia, and for the concept of "gas to power."


FPSO (Floating Production Storage and Offloading System) (Provided by: Yinson Holdings Berhad)

TOPICS

Long-term LNG carrier charter contract with Petronas

In January 2020, we signed a 12-year contract (with an option to renew for an additional 12 years) to supply two new LNG carriers with capacity of 79,960 m^3 to Petronas Group, Malaysia's national petroleum and gas conglomerate. The vessels will be built by China's Hudong-Zhonghua Shipbuilding (Group) Co., Ltd., with the aim of commencing LNG transportation from Bintulu Port in Malaysia to Shenergy Group Co., Ltd., in China from 2022.

The contract is the first long-term charter contract by the Petronas Group with a non-Malaysian company for newly built ships. The long-term contract builds on the strong relationship between Petronas and "K" LINE since we entered a two-year charter contract in 2014.

We will continue using the experience and networks we have accumulated in over 35 years transporting LNG to work with our trusted partners to develop various businesses related to LNG and meet the needs of the expanding energy value chain business.

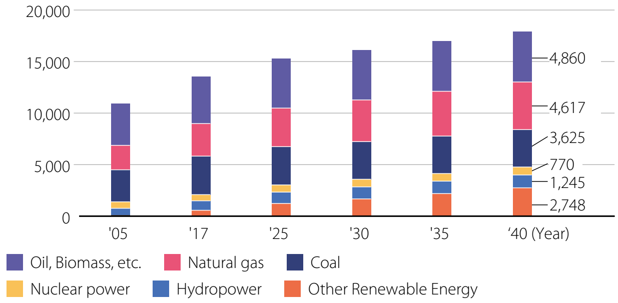
Fiscal 2020 Business Strategies

In the LNG Carrier Business, we expect demand for LNG, a clean energy source, to grow in the long-term. In line with this demand growth, we will expand our LNG fleet as well by acquiring long-term charter contracts which will increase stable earnings. We will also flexibly respond to demand from developing countries and diversifying customer needs.

In the Drillship and FPSO businesses, this year we decided to participate in the new FPSO project off Brazil, which we expect to lead to steady earnings under long-term charter contracts. The OSV business is anticipating declining demand and deteriorating business conditions after many oil and gas companies announced reduced development investment due to the COVID-19 pandemic and drop in oil prices. We keep trying to stabilize earnings by cutting costs and securing term contracts for each vessel with the aim of reducing exposure to market fluctuations.

In the Energy New Business, we will respond to demand for small-scale LNG transportation for customers in the LNG value chain and will create a new business model for green energy-related business aligned to the International Maritime Organization's strategy for reducing greenhouse gas emissions.

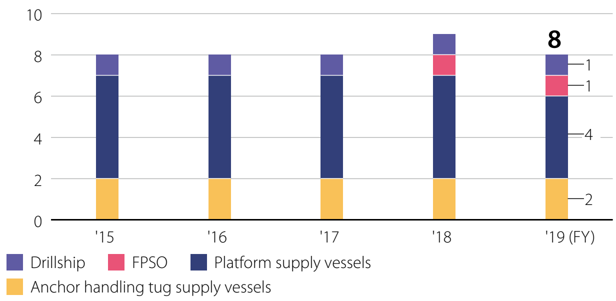
Worldwide Demand for Primary Energy (Unit: Million ton-oil equivalent)



* as of February 2019

Source: BP Energy Outlook 2019

Offshore Energy E&P Fleet (Unit: Vessels)



Product Logistics

Car Carrier Business

Executive Officer
Takenori Igarashi
In charge of Car Carrier Business,
Car Carrier Planning & Development,
Car Carrier Quality and Operations

Car Carrier

We will use our outstanding transportation quality and global network to meet diversifying complete built-up cars and RORO freight transportation needs and build customer trust.

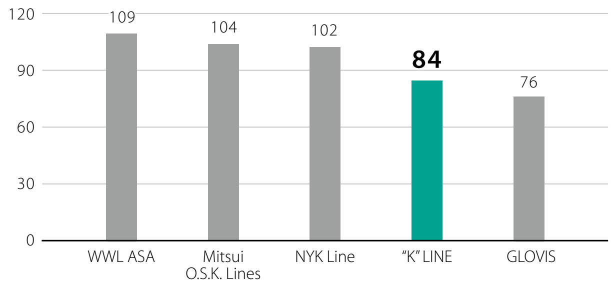
Basic Strategies

- Provide high-quality transportation services to meet diversifying customer needs
- Use our RORO business to spearhead environmental operations and innovation to create new value aligned to customer and social needs
- Use these strategies to establish profitability and long-term growth potential

Strengths

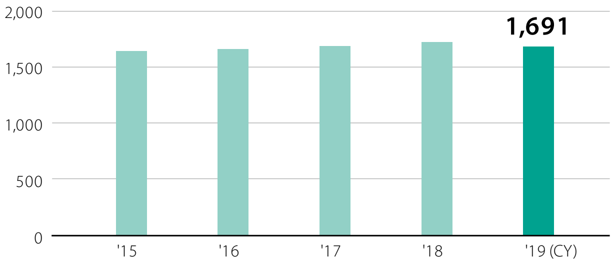
- A diverse fleet portfolio capable of providing high quality and cost competitive services for a wide variety of cargo
- Keep global service coverage and a flexible fleet size, which enables us to handle changes in cargo volume
- An integrated navigation support system that eliminates operation waste and inefficiency
- Unwavering commitment and new technology development for world-class operation quality aimed at zero cargo damage
- Synergies in the evolving complete built-up car logistics business from strong customer relationships and high-quality service cultivated in our marine transportation business

Car Carrier Fleet Ranking (Unit: Vessels)



Source: "K" LINE based on Clarksons *Shipping Intelligence Network* (May 2020)

Worldwide Car Ocean Transportation Volume (Unit: 10,000 Vehicles)



Source: Calculated by "K" LINE based on IHS Automotive data (May 2020 update)

Overview of Fiscal 2019

The automobile markets in major countries confronted various issues in fiscal 2019, including political unrest in the Middle East, the U.S.-China trade friction, Britain's departure from the European Union, the slow economic recovery in Argentina, and slowing auto sales in Australia. The total volume of complete built-up cars exported from Japan in fiscal 2019 was 4.82 million units, essentially unchanged from the previous year, and demand for marine transportation declined as global sea cargo movement contracted 2.1% to 16.91 million units.

The total volume of complete built-up cars shipped by the "K" LINE Group was 3.33 million vehicles in fiscal 2019, a roughly 8.0% decline from the 3.62 million vehicles in the previous fiscal year as volume was firm on routes in the Far East, but the Group suspended and reorganized operations on some unprofitable routes, including trilateral transportation.

To offset the impact of the reduced volume of transported vehicles, we implemented several measures to improve profitability, including enhancing shipping operation efficiency, adjusting freight rates, and optimizing the size of our fleet. As a result, although sales declined from the previous year, we successfully raised the operation into the black.

Car Carrier

TOPICS We aim to improve our services with environmental and innovative operations as a logistic partner.

In fiscal 2020, we will raise the value-added of our transportation services and actively work to meet environmental regulations, both of which will make great strides forward with the completion of LNG-fueled carriers.

One of the innovations we will implement is using the Kawasaki Integrated Maritime Solutions navigating system (see page 28) to optimize our shipping operations with real-time visualization of ship operating data. We will also employ the latest technologies to educate cargo handling personnel and raise the quality of our cargo handling operations.

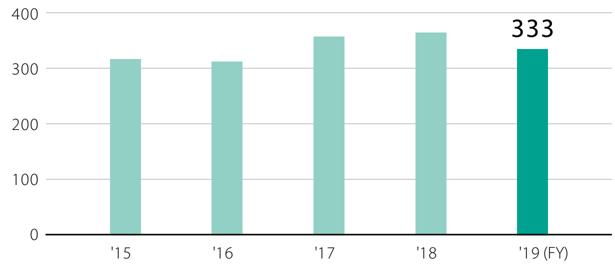
Fiscal 2020 Business Strategies

In fiscal 2020, we plan to expand customer and cargo segment portfolios to solidify our earnings base while also cutting costs to increase our competitiveness and develop our business. At this point, we are anticipating the worldwide COVID-19 pandemic leading to a sharp decline in demand for marine transportation, but plan to minimize the impact on earnings by improving fleet utilization and adjusting the size of our fleet by scrapping aging vessels.

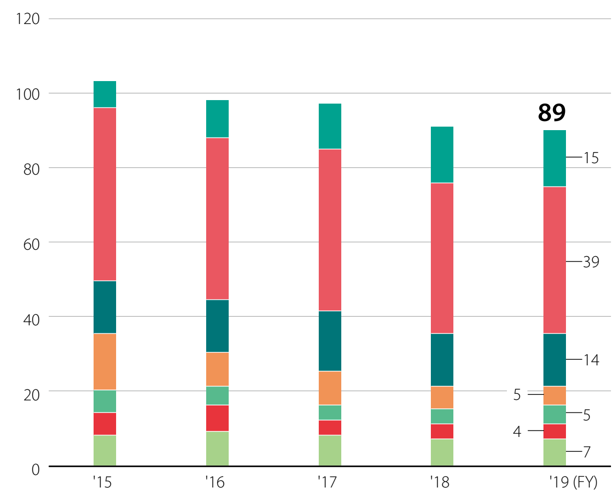
We will also reorganize our service networks and strengthen our business base so we can quickly and flexibly respond to increasingly complex and changing trade structure. We currently have 13 car carriers in our services, with a 7,500-vehicle capacity in each. We will strive to enhance our earnings base by making maximum use of large next-generation vessels equipped with significant capacity for loading construction machineries and rail cars with excellent fuel-efficient performance.

As we implement measures to improve our environmental performance and introduce our innovation, we will also be focused on another important initiative, which is to strengthen cooperation inside and outside the Company and reformulate our business structure to build our next-generation business model.

Vehicles Transported by "K" LINE (Unit: 10,000 Vehicles)



Car Carrier Fleet (Unit: Vessels)



(Includes short-term charter)

Product Logistics

Logistics and Port Business

Executive Officer
Keiji Kubo
In charge of Port Business, Logistics, Affiliated Business Promotion

Truck operated by Group company in Thailand

We deploy the Group's comprehensive strength to deliver high-quality logistics services.

Basic Strategies

- Create and strengthen business models across Group companies
- Reorganize and expand our global networks
- Strengthen locally-oriented logistics services, focused on the ASEAN region
- Develop project cargo freight service through collaboration between Group companies
- Expand buyers consolidation*[1] services
- Fortify the competitiveness of our domestic container terminals

Strengths

- Use of the "K" LINE Group's assets and global network
- Intra-group sharing and development of customer-first business model
- Ability to make proposals informed by our accumulated expertise and technological capabilities

*1. Buyers consolidation: Consolidation-distribution system in which a single buyer uses an agent to collect products from multiple local manufacturers and load them into containers for transportation to destination, providing greater shipping efficiency and reduction in cost, lead time, inventory and warehouse work.

Overview of Fiscal 2019

The domestic logistics business saw a decline in freight volume when the COVID-19 pandemic emerged at the end of the fiscal year. Tugboat business, air, and sea transportation were slowed while the warehousing business remained firm. The domestic terminals are effectively using its assets through KLKG Holdings Co., Ltd., a joint company established by "K" LINE and Kamigumi Co., Ltd. launched in fiscal 2019. The cooperative synergy effect with Kamigumi generated substantial business for our domestic terminal subsidiary even as the U.S.-China trade friction reduced the volume of sea container cargo.

In international logistics business, the U.S.-China trade friction caused a shift in shipment origins from China to Southeast Asia as to cargo movement to North America, particularly in the buyers consolidation segment. Shipments from China also plummeted temporarily when the COVID-19 pandemic began. Our international air freight handling volume also declined from last year inside Asia and for shipments to Europe and the United States.

Fiscal 2020 Business Strategies

The domestic logistics business will seek to establish a stable profit flow centered on the tugboat, land and sea intermodal transportation, and warehousing businesses. We will also deepen our cooperation with Kamigumi to improve our service efficiency, enhance our cost competitiveness, and raise our asset utilization efficiency. The domestic port business will continue to provide high-standard, high-quality terminal management and operations for the increasingly larger containerships. We are presently preparing to move our terminal at Yokohama Port from Daikoku to Minami Honmoku.

In international logistics business, anticipating continued brisk demand for e-commerce-related shipments, we will provide high value-added logistics services such as buyers consolidation, and fill out our business operations with expanded business sites and service menus.

We will also accelerate the restructuring of the global network of "K" Line Logistics, Ltd. and the expansion of the customer base of our NVOCC business*[2] to offer high-quality logistics services using the comprehensive strength of the Group.

*2. NVOCC business: Freight transportation business that includes incidental services, such as cargo handling, as an intermediary between shippers and carriers, during the cargo transportation process.

Cold storage facility in Vietnam

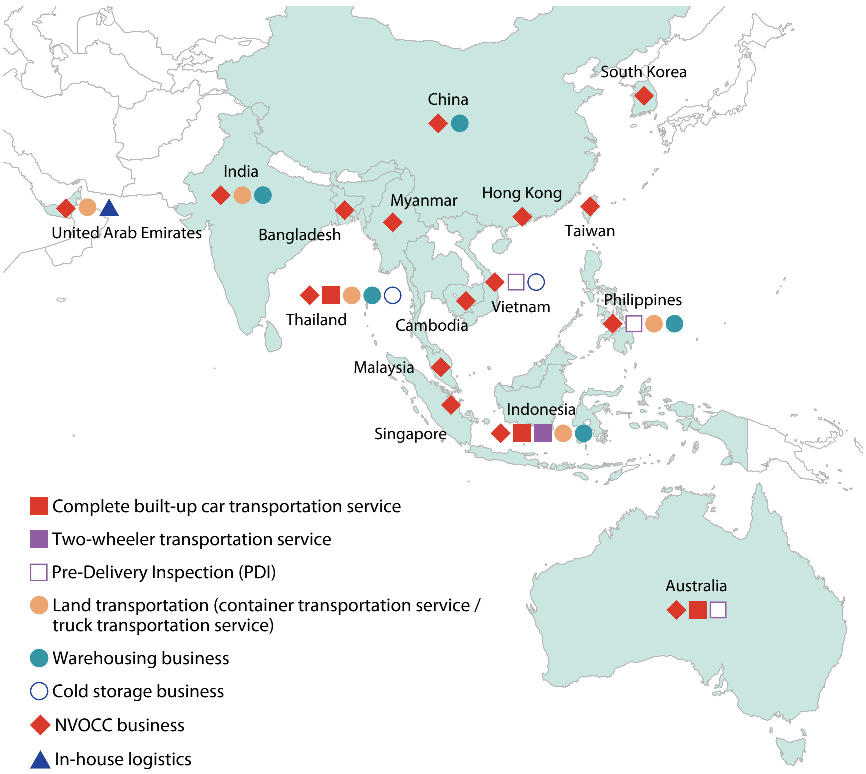
TOPICS Creating a truly global automotive logistics service

In fiscal 2020, we moved the automotive logistics business from the car carrier business division to the logistics business division to enable us to offer fully integrated automobile logistics services from auto parts to complete built-up cars.

Our automotive logistics offers a wide range of services spanning terminals, land transportation, pre-delivery inspection*, installation, and warehousing with our main bases across Asia and Australia and in South and Central America, including Mexico, Chile, and Brazil. Our newest service addition in February 2020 is a maintenance and cleaning facility for vehicles being prepared for export at complete built-up car terminal opened by a business partner in Mexico.

* Pre-delivery inspection (PDI) is vehicle inspection and maintenance prior to delivery to ensure a vehicle is fully functional. A PDI includes some basic installation work as per request by the customer.

"K" LINE Group Locally-Oriented Comprehensive Logistics Services in Asia




India: Land transportation


China: Warehousing business


Australia: PDI


Thailand: Cold storage business


Indonesia: Complete built-up car transportation


Vietnam: Cold storage business

Product Logistics

Short Sea and Coastal Business

Executive Officer
Keiji Kubo
In charge of Port Business, Logistics, Affiliated Business Promotion

RORO vessel operated by KAWASAKI KINKAI KISEN KAISHA, LTD.

We will promote the modal shift in our Coastal Business, improve the profitability of our Short Sea Business, and enhance our OSV* business.

Basic Strategies

- Improve profitability of the Coastal Business by promoting modal shift
- Capture market conditions and customer needs to maintain commercial rights and improve the Short Sea Business profitability
- Increase profitability by expanding the OSV business into peripheral fields

Strengths

- Ability to fully meet customer demands in the changing Short Sea and domestic logistics business conditions
- Multi-faceted businesses such as international, coastal, and OSV businesses
- OSV business in line with government policies
- Modal shift in response to the shortage of truck drivers

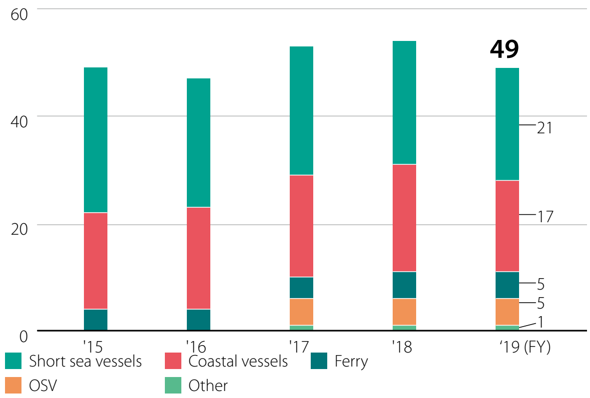
* OSV: Offshore support vessel

TOPICS

Increased ferry routes from Hachinohe Port in Aomori Prefecture

In April 2020, we responded to customer demand and revised daily round-trip ferry services on the route between Miyako Port in Iwate Prefecture, Hachinohe Port in Aomori Prefecture, and Muroran Port in Hokkaido to a round-trip route between Hachinohe and Muroran. The new schedule complements the four daily crossings between Hachinohe Port and Tomakomai Port. We will continue to be responsive to changing customer needs and enhance the efficiency of our route management.

Short Sea and Coastal Business Fleet (Unit: Vessels)



Overview of Fiscal 2019

The Short Sea business recorded a loss for the year amid a decrease in cargo volume, reduced operations, including charter vessels, and weak market conditions. The Coastal Business handled approximately the same cargo volume as in the previous year but profits increased as lower depreciation and amortization and dock fees more than offset reduced revenue owing to lower fuel surcharges because of the drop in fuel prices and due to reduced cargo space usage for redeliveries. OSV business activities included supporting Nankai Trough excavation operations and participating in rescue work. The results of these activities were declines in sales and profits from the previous year for the Short Sea and Coastal Business.

Fiscal 2020 Business Strategies

The Short Sea business will continue to closely monitor the changes in business conditions during the COVID-19 pandemic and seek to maintain our commercial rights and sustain stable earnings by properly grasping market and customer trends to provide an effective fleet composition. The Coastal Business will also keep close tabs on the pandemic and maintain earnings by responding appropriately and advancing the modal shift for RORO vessel and ferry services and maintaining stable earnings. The OSV business is planning to enter related areas with business potential and attract new customers.

Product Logistics

Containership Business

Managing Executive Officer
Daisuke Arai
Responsible for Containerships Unit,
Information System,
AI/Digitalization Strategy Unit

Containership

Ocean Network Express (ONE) achieved full-year profitability in fiscal 2019.

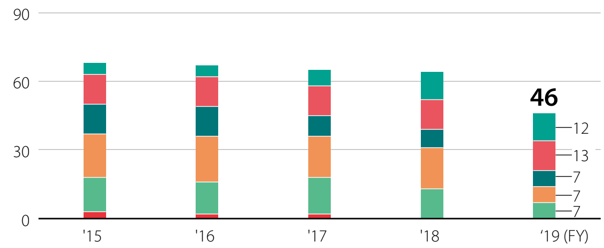
Overview of Fiscal 2019

Equity-method affiliate ONE made great strides in its second year of operation as scrupulous marketing along with sales activity momentum generated improvement in cargo volume, container capacity utilization, and the cargo mix in the first half of the fiscal year. We also took steps to enhance profitability by reorganizing and consolidating routes to lower operating costs and by trimming variable expenses. Although cargo movement slowed in the second half due to the COVID-19 pandemic, flexibly scaling back our service enabled us to raise profits year on year despite a dip in sales.

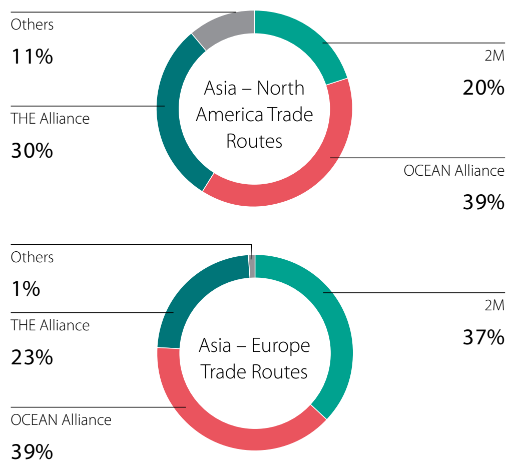
Fiscal 2020 Business Strategies

The COVID-19 pandemic has the potential to strongly impact earnings in fiscal 2020, and we are preparing for diminished demand during the year by reorganizing and streamlining our route structure and cutting back our service to lower our costs.

Containership Fleet (unit: Vessels)



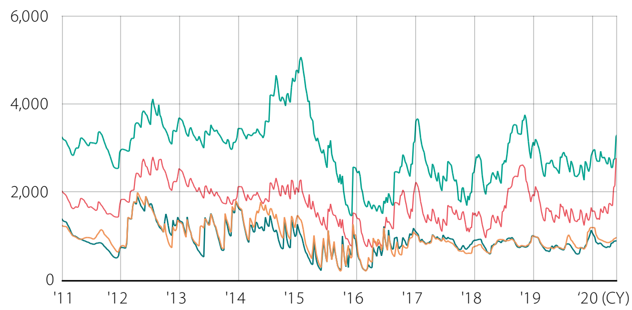
Trade Capacity Share by Alliance (as of June 2020)



THE Alliance: ONE, Hapag-Lloyd (UASC), Yang Ming
OCEAN Alliance: CMA CGM, COSCO, Evergreen, OOCL
2M: MSC, Maersk

Source: Alphaliner

Transition of SCFI (Shanghai Containerized Freight Index) (Unit: USD)



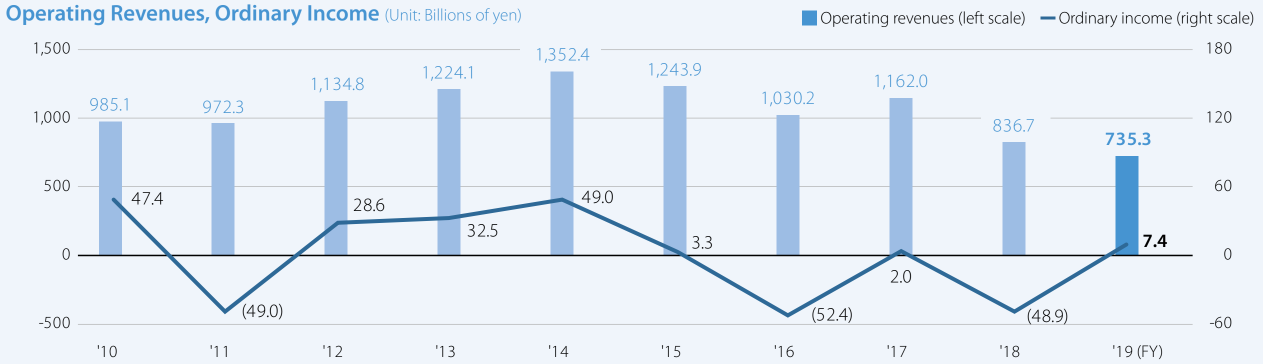
* SCFI: Shanghai Containerized Freight Index
* MED/N.EUR $ /TEU, USWC/USEC $ /FEU

Source: Shanghai Shipping Exchange

Financial and ESG Highlights*[1]

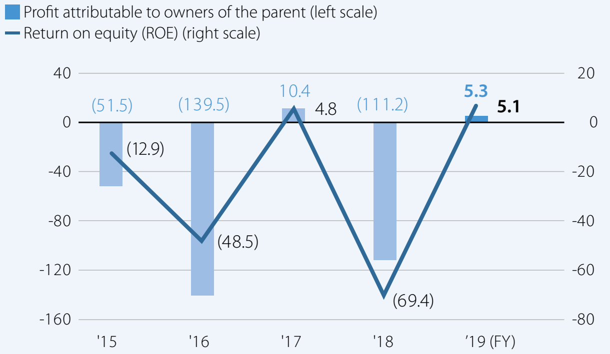
Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries
Consolidated fiscal years ended March 31

Operating Revenues, Ordinary Income (Unit: Billions of yen)



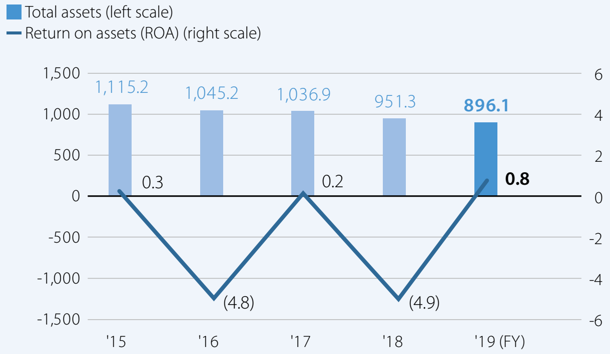
Operating revenues fell 12.1% year on year in fiscal 2019. The decline comes in the wake of the integration of the containership business into Ocean Network Express Pte. Ltd. (ONE) in fiscal 2018, which led to a portion of the containership business's revenue being taken off the books and also included structural reform of the containership and small- and medium-sized dry bulk vessels. In fiscal 2019, the result of that structural reform, major route reorganization and rationalization and rate restoration efforts that brought the car carrier business into the black, and the vast improvement in ONE earnings that also brought it into the black combined to establish a broader base of stable profits and lift overall ordinary income to a positive ¥7.4 billion.

Profit Attributable to Owners of the Parent (Unit: Billions of yen), Return on Equity (ROE) (Unit: %)



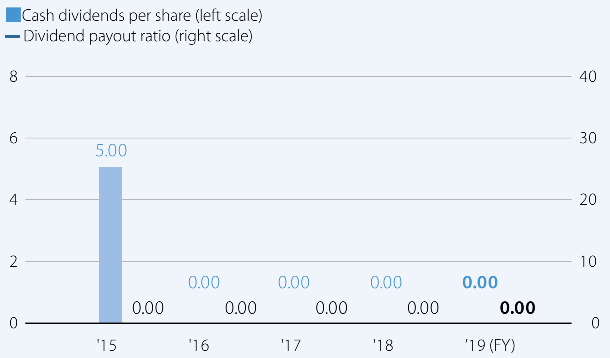
The structural reform implemented in fiscal 2018, the attainment of profitability from the greatly improved performances of the car carrier business and ONE, and the broader base of stable profits produced a significant increase in profit attributable to owners of the parent and lifted ROE to 5.1%.

Total Assets (Unit: Billions of yen), Return on Assets (ROA)*[2] (Unit: %)



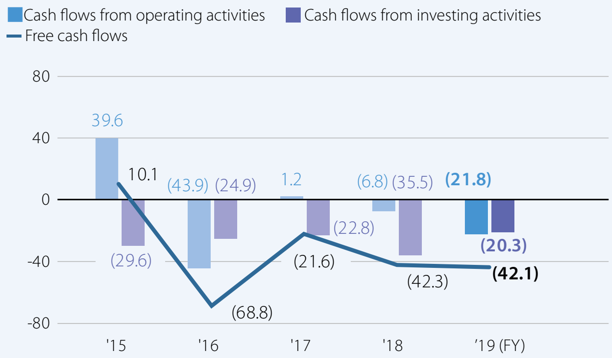
The vast improvement and attainment of positive profit attributable to owners of the parent lifted ROA into the positive in fiscal 2019.

Cash Dividends per Share (Unit: Yen), Dividend Payout Ratio (Unit: %)



In fiscal 2019, we regrettably maintained the suspension of dividend payments while we continued to prioritize improving our financial condition and stabilizing our business base.

Cash Flows (Unit: Billions of yen)

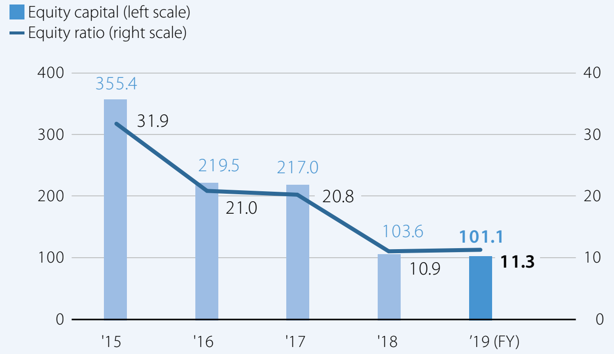


Free cash flows were negative ¥42.1 billion in fiscal 2019 owing to the acquisition of vessels and payments associated with cancellation of chartered vessels as part of the structural reform in fiscal 2018.

*1. Rounded to the nearest ¥0.1 billion yen (except for cash dividends per share/dividend payout ratios)

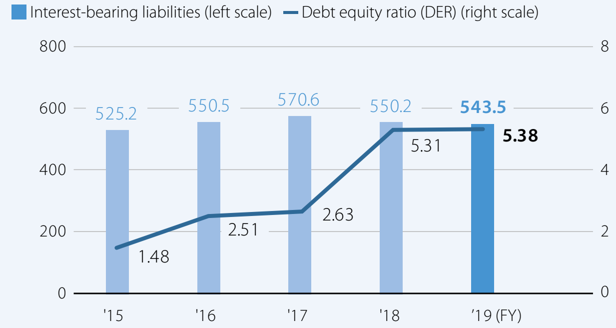
*2. "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on February 16, 2018), etc. has been applied from the beginning of fiscal 2018, and applied retroactively to the total assets and return on assets for fiscal 2017 for recalculation.

Equity Capital (Unit: Billions of yen), Equity Ratio (Unit: %)



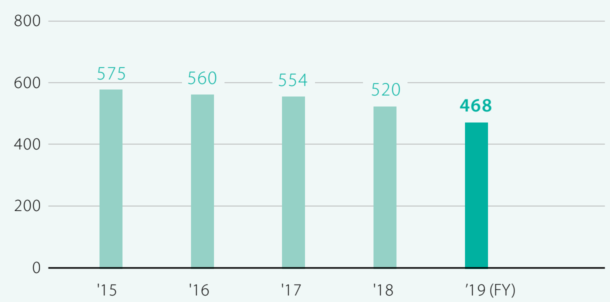
The equity ratio rose to 11.3% in fiscal 2019, essentially unchanged from the previous fiscal year, as an increase in shareholders' equity, mainly from the rise in profit attributable to owners of the parent, was offset by a decrease in accumulated other comprehensive income. We are actively implementing measures to bolster equity capital as quickly as possible.

Interest-Bearing Liabilities (Unit: Billions of yen), Debt Equity Ratio (DER) (Unit: Times)



Interest-bearing liabilities amounted to ¥543.5 billion and DER was 5.38 times in fiscal 2019, essentially unchanged from the previous fiscal year.

Number of Vessels in Operation (consolidated) (Unit: Vessels)

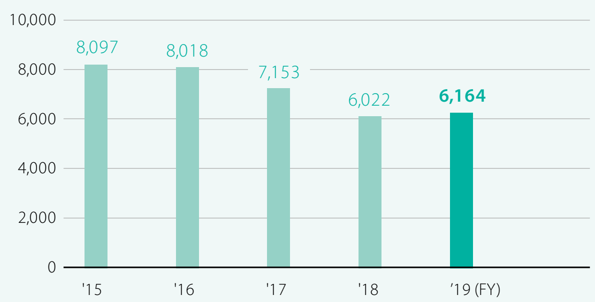


We continue to take steps to establish a core fleet of vessels, except short-term charters, that is resilient to market fluctuations.

Improvement Rate of CO_2 Emissions Reduction Base for 2011 (Unit: %)

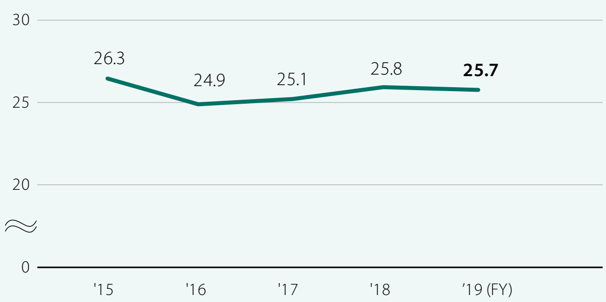
We are reducing the CO_2 emissions of our fleet by introducing environmentally friendly vessels and enhancing fleet operational efficiency. In 2019, we lowered CO_2 emissions by approximately 2% from 2018, bringing the total reduction from 2011 to 17.28%.

Number of Employees (consolidated) (Unit: People)



We seek to secure and train outstanding employees to maintain our world-class level of safety in navigation and cargo operations.

Percentage of Women (unconsolidated) (Unit: %)



We are advancing measures to ensure our employees can be globally active irrespective of their gender.

Please view this information in conjunction with the important financial data for the past 10 years on pages 56 and 57.

10-Year Financial and ESG Data

Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries
Years ended March 31

The Evolution of Medium-Term Management Plans		“K” LINE Vision 100 “Synergy for All		
		“KV” 2010	New Challenges	
		FY2010	FY2011	FY2012
Operating results (for the year)	Operating revenues	¥985,084	¥972,310	¥1,134,771
	Operating income	58,609	(40,563)	14,886
	Ordinary income *4	47,350	(48,955)	28,589
	Profit attributable to owners of the parent	30,603	(41,351)	10,669
Financial position (at year-end)	Total assets	1,032,505	1,066,648	1,180,433
	Net assets	314,986	259,934	361,975
	Equity capital *5	291,669	242,572	340,571
	Interest-bearing liabilities	483,362	592,522	629,864
	Capital expenditures	148,993	239,196	134,554
	Depreciation and amortization	44,722	50,044	59,667
	Cash flows from operating activities	84,901	(2,908)	59,756
	Cash flows from investing activities	(54,116)	(83,233)	(27,212)
	Free cash flows	30,785	(86,142)	32,544
	Cash flows from financing activities	(24,796)	86,306	26,364
Per share data	Profit attributable to owners of the parent (¥)	40.08	(54.14)	12.07
	Net assets (¥)	381.87	317.59	363.18
	Cash dividends applicable to the year (¥)	9.50	–	2.50
	Dividend payout ratio (%)	23.7	–	20.7
Management index	Return on equity (ROE) *6 (%)	10.2	(15.5)	3.7
	Return on assets (ROA) *7 (%)	4.6	(4.7)	2.5
	Debt equity ratio (DER) *8 (Times)	1.66	2.44	1.85
	Equity ratio (%)	28.2	22.7	28.9
Average during the period	Exchange rate (¥ / US$)	86	79	82
	Fuel oil price (US$ / ton)	489	672	671
Consolidated business data	Vessels in operation *9	522	559	566
Human resource data	Consolidated employees	7,895	7,703	7,667
	Unconsolidated employees	623	664	659
	On land	437	486	481
	At sea	186	178	178
	Women (%)	18.9	22.9	22.8
	Persons with disabilities (%)	1.60	1.60	1.90
	Industrial accidents — On land	0	0	0
	Industrial accidents — At sea	0	0	1
Management *10	Directors	14	13	13
	Outside Directors	2	2	2
	Audit & Supervisory Board Members	5	5	5
	Outside Audit & Supervisory Board Members	3	3	3
Environmental data *11	Fuel oil (thousands of tons)	3,802	3,949	3,966
	CO_2 emissions (thousands of tons)	11,838	12,298	12,352
	SOx emissions (thousands of tons)	208	214	209
	NOx emissions (thousands of tons)	308	323	319

*1. Rounded down to the nearest million yen
*2. “Partial Amendments to the Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, issued on February 16, 2018), etc. has been applied from the beginning of fiscal 2018, and applied retroactively to the total assets and return on assets for fiscal 2017 for recalculation.
*3. The Company consolidated its common stock at a ratio of ten shares to one share, effective October 1, 2017. The above figures for profit attributable to owners of the parent per share and net assets per share have been calculated on the assumption that the share consolidation took place at the beginning of the previous fiscal year (April 1, 2016).
*4. Ordinary income consists of operating income and non-operating income or expense.
*5. Equity capital: Net assets – (Non-controlling interests + Stock acquisition rights)

and Sustainable Growth"		Value for our Next Century				
Bridge to the Future			– Action for Future –	Revival for Greater Strides		
FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019** (Millions of yen)[*1]
¥1,224,126	¥1,352,421	¥1,243,932	¥1,030,191	¥1,162,025	¥836,731	**¥735,284**
28,854	47,988	9,427	(46,037)	7,219	(24,736)	**6,840**
32,454	48,980	3,338	(52,388)	1,962	(48,933)	**7,407**
16,642	26,818	(51,499)	(139,478)	10,384	(111,188)	**5,269**
1,254,741	1,223,328	1,115,223	1,045,209	1,036,886[*2]	951,261	**896,081**
410,688	467,440	379,913	245,482	243,094	181,233	**200,234**
388,837	441,531	355,375	219,484	217,010	103,576	**101,095**
643,794	536,846	525,152	550,512	570,584	550,211	**543,451**
93,377	89,501	116,592	68,048	101,105	97,911	**81,148**
52,243	53,526	48,302	47,421	43,410	40,789	**44,253**
88,228	101,825	39,635	(43,919)	1,167	(6,808)	**(21,797)**
(5,113)	(11,177)	(29,569)	(24,881)	(22,813)	(35,493)	**(20,286)**
83,115	90,648	10,066	(68,801)	(21,646)	(42,303)	**(42,083)**
(26,634)	(119,253)	(14,835)	26,436	22,239	19,290	**16,731**
17.75	28.60	(54.95)	(1,488.23)[*3]	111.13[*3]	(1,192.08)[*3]	**56.50[*3]**
414.66	471.10	379.18	2,341.93[*3]	2,326.65[*3]	1,110.48[*3]	**1,083.88[*3]**
4.50	8.50	5.00	–	–	–	**–**
25.4	29.7	–	–	–	–	**–**
4.6	6.5	(12.9)	(48.5)	4.8	(69.4)	**5.1**
2.7	4.0	0.3	(4.8)	0.2[*2]	(4.9)	**0.8**
1.66	1.22	1.48	2.51	2.63	5.31	**5.38**
31.0	36.1	31.9	21.0	20.9	10.9	**11.3**
100	109	121	109	111	111	**109**
626	541	295	265	349	450	**467**
583	584	575	560	554	520	**468**
7,703	7,834	8,097	8,018	7,153	6,022	**6,164**
652	676	716	735	724	756	**767**
478	504	541	552	531	552	**562**
174	172	175	183	193	204	**205**
24.4	25.4	26.3	24.9	25.1	25.8	**25.7**
1.93	1.87	1.94	2.29	2.40	2.05	**1.96**
0	0	0	1	2	0	**0**
3	1	0	1	1	1	**0**
13	10	9	9	9	9	**10**
2	2	2	3	3	3	**4**
4	4	4	4	3	3	**4**
3	3	3	2	2	2	**2**
3,651	3,646	3,942	3,872	4,102	3,824	**3,140**
11,377	11,360	12,300	12,079	12,797	11,932	**9,800**
190	182	190	183	195	188	**130**
292	283	290	274	284	262	**203**

*6. Return on equity: Profit attributable to owners of the parent / Equity capital
*7. Return on assets: Ordinary income / Total assets
*8. Debt equity ratio: Interest-bearing liabilities / Equity capital
*9. Includes project-use vessels owned by special purpose companies (SPCs)
*10. For Kawasaki Kisen Kaisha, Ltd.
*11. Total amounts calculated based on fuels supplied to vessels (the number of the vessels do not agree with that of vessels in operation), for which "K" LINE arranged fueling (including the portion purchased by ONE, to which all "K" LINE containerships have been chartered out). The figures are calculated on a calendar year basis.

Financial Analysis

Results of Operations

Operating revenues

In fiscal 2019, ended March 31, 2020, the "K" LINE Group reported consolidated operating revenues of ¥735,284 million, down 12.1% from fiscal 2018. By segment, operating revenues in Dry Bulk Segment declined 14.6% to ¥233,781 million. In the first half of fiscal 2019, although the market for large vessels improved and the small and medium vessels market was brisk, all size market weakened in the second half, and the COVID-19 pandemic caused an overall decline in demand.

The Energy Resource Transport segment recorded a 4.5% decline in operating revenues to ¥84,676 million. Medium- and long-term charter contracts supported steady operations in the tanker and thermal coal carrier businesses and as well as in the LNG carrier and offshore energy E&P businesses. Business conditions for the offshore support vessel operations also recovered and the supply and demand balance improved.

The Product Logistics segment posted a 12.8% decline in operating revenues to ¥384,508 million. The car carrier business reduced its volume of transported vehicles as it streamlined some unprofitable routes, including trilateral transportation, by rerouting or halting operations. The logistics business recorded a sharp decline in cargo volume in domestic business at the end of the fiscal year due to COVID-19 pandemic. In the international logistics business air freight handling declined year on year. In the short sea and coastal business, lumber and coal transport volume declined year on year in the short sea business, while coastal business transport volume increased. In the containership business Ocean Network Express Pte. Ltd. (ONE) implemented measures to improve the profitability of, but cargo movement slowed in the second half due to the COVID-19 pandemic.

Operating revenues in the Other segment declined 2.6% from the previous fiscal year.

Cost of sales and selling, general and administrative expenses

Cost of sales amounted to ¥671,387 million, a 16.1% or ¥129,110 million decline from ¥800,497 million in the previous fiscal year, due largely to the route rationalization and improved fleet efficiency in the car carrier business. The cost of sales ratio decreased 4.4 points to 91.3%. Selling, general and administrative expenses amounted to ¥57,057 million, a 6.4% or ¥3,913 million decline.

Operating income

Operating income amounted to ¥6,840 million, boosted by higher gross profit, up from a ¥24,736 million operating loss in the previous fiscal year.

Non-operating income (expenses)

Non-operating income amounted to ¥567 million, which was largely attributable to equity in earnings of subsidiaries and affiliates of ¥8,011 million. In the previous fiscal year, the Company recorded non-operating expense of ¥24,197 million with equity in loss of subsidiaries and affiliates of ¥18,875 million.

Profit before income taxes

Extraordinary income amounted to ¥10,203 million, which was largely due to gain on sales of vessels, property and equipment. Extraordinary losses amounted to ¥6,295 million, due mainly to loss on devaluation of investment securities and impairment loss. Profit before income taxes amounted to ¥11,315 million, versus loss before income taxes of ¥99,422 million in the previous fiscal year.

Income taxes

Income taxes amounted to ¥3,111 million, a decline of ¥6,248 million from ¥9,359 million in the previous fiscal year, due mainly to a decrease in deferred income taxes of the company submitting consolidated financial statements.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests amounted to ¥2,934 million, up from ¥2,405 million in the previous fiscal year, largely attributable to an increase in profit attributable to non-controlling interests of primarily KLKG Holdings, Co., Ltd.

Profit attributable to owners of the parent

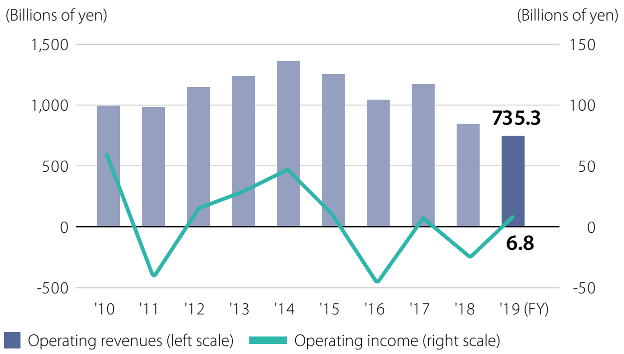
Profit attributable to owners of the parent amounted to ¥5,269 million, versus a loss attributable to owners of the parent of ¥111,188 million in the previous fiscal year. Profit attributable to owners of the parent per share was ¥56.50, versus a loss attributable to owners of the parent per share of ¥1,192.08 in the previous fiscal year.

Analysis of Sources of Capital and Liquidity

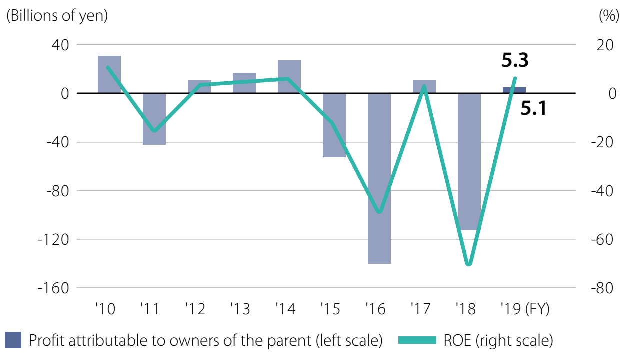
Cash flows

As of the end of the consolidated fiscal year, cash and cash equivalents stood at ¥111,933 million, a decline of ¥26,107 million from a year earlier. The details of cash flows are as follows.

Operating Revenues / Operating Income



Profit Attributable to Owners of the Parent / ROE



Net cash used in operating activities amounted ¥21,797 million, compared with ¥6,808 million used in the previous consolidated fiscal year. The primary factor was payment for cancellation of chartered vessels.

Net cash used in investing activities totaled ¥20,286 million, compared with ¥35,493 million used in the previous consolidated fiscal year. The main element was purchase of vessels.

Net cash provided by financing activities amounted to ¥16,731 million, compared with ¥19,290 million provided in the previous consolidated fiscal year. The main factor was proceeds from long-term loans.

Funding requirements

The "K" LINE Group's major working capital requirement comes from shipping business expenses in connection with dry bulk business and car carrier business. These expenses include operating costs such as port charges, cargo handling costs and fuel costs; vessel expenses such as crew expenses and expenses for overhaul of vessels; and chartering expenses. Other expenses are the costs of service operations such as labor costs in connection with the operation of our logistics business and general administrative expenses for the Group's business operations such as personnel expenses, information processing costs and other non-personnel expenses. Capital requirements include investments in vessels, logistics facilities and terminal facilities. During the consolidated fiscal year, the "K" LINE Group made capital investments of ¥81,148 million.

Financial policy

The "K" LINE Group prioritizes securing low-cost, stable funds to support its business continuity and expansion. The Company meets long-term funding requirements mainly by means of long-term debt from financial institutions, supplemented by the issuance of bonds and new shares. The Company procures short-term operating funds through bank loans, the issuance of commercial paper, and other methods and invests temporary surplus funds in highly stable and liquid financial assets. The Company employs a cash management system to effectively utilize surplus funds of Group companies in Japan and overseas.

The Company secures liquidity by preparing for any urgent capital requirements through a ¥60.0 billion commercial paper issuance program and an ¥80.0 billion multi-year commitment line with financial institutions in Japan.

As of June 23, 2020, the Japan Credit Rating Agency, Ltd. (JCR) maintained a rating on the Company of BBB- and a short-term credit rating (commercial paper rating) of J-2.

Financial Position

At the end of the consolidated fiscal year, total assets amounted to ¥896,081 million, down ¥55,180 million from a year earlier.

Current assets were ¥259,032 million, a decline of ¥29,838 million largely attributable to reduced cash and deposits.

Fixed assets amounted to ¥637,048 million, a decrease of ¥25,342 million. Within this amount, vessels, property and equipment was ¥431,089 million, a decline of ¥17,542 million primarily due to a decrease in construction in progress. Investments and other assets amounted to ¥201,629 million, a decrease of ¥7,752 million mainly due to a decrease in investment in securities.

Total liabilities at the end of the consolidated fiscal year amounted to ¥695,847 million, down ¥74,181 million from a year earlier. Current liabilities were ¥236,139 million and fixed liabilities were to ¥459,707 million, mainly as a result of a decline in accounts and notes payable – trade alongside an increase in short-term loans.

Net assets at the end of the consolidated fiscal year totaled ¥200,234 million, an increase of ¥19,000 million from a year earlier. Within this amount, shareholders' equity amounted to ¥108,852 million, mainly due to increases of ¥12,339 million in capital surpluses and ¥5,357 million in retained earnings. Accumulated other comprehensive income amounted to a loss of ¥7,756 million, down ¥20,179 million from a year earlier mainly due to a ¥8,885 million decline from translation adjustments.

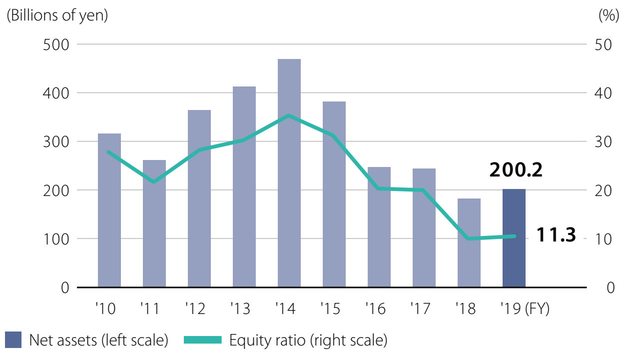
Dividend Policy

Maximizing return to shareholders is an important priority. The Company seeks to provide a stable dividend while retaining adequate reserves to conduct necessary capital investment and strengthen the Company's financial position for sustainable growth, which is a main priority of the management plan.

A year-end dividend (record date: March 31 of each year) is subject to resolution at the Annual Shareholders' Meeting, and an interim dividend is distributed as prescribed in the Articles of Incorporation, "by resolution of the Board of Directors, an interim dividend may be distributed by the Company as of the record date of September 30 of each year."

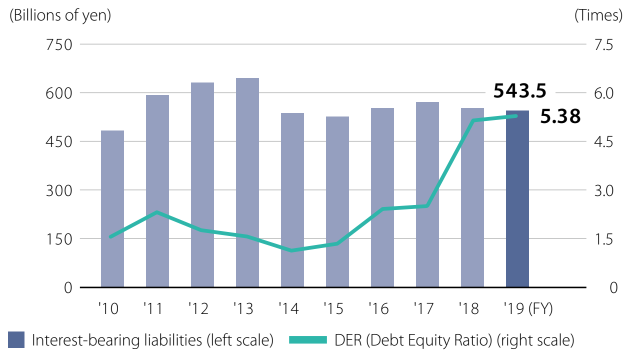
Management has determined that the current conditions, including the worldwide COVID-19 pandemic and ongoing U.S.-China trade friction, which are increasing concern about a global economic slowdown and a contraction in freight transport demand, require the Company to prioritize fortifying its financial standing and solidifying its business foundation. As such, management has regrettably decided that a year-end dividend will not be distributed for the fiscal year under review. At this time, it has not determined when dividend payments will resume.

Net Assets / Equity Ratio



• Equity ratio: Equity capital / Total assets
• Equity capital: Net assets – (Non-controlling interests + Stock acquisition rights)

Interest-Bearing Liabilities / DER



• DER: Interest-bearing liabilities / Equity capital

Consolidated Financial Statements

Consolidated Balance Sheet

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2020

Assets	2019 (Millions of yen)	**2020** (Millions of yen)
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**

Liabilities	2019	2020
	(Millions of yen)	
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**

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

Consolidated Statement of Operations

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020

	(Millions of yen)	
	2019	**2020**
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.

Consolidated Statement of Comprehensive Income

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020

	(Millions of yen)	
	2019	**2020**
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**

Consolidated Statement of Changes in Net Assets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
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

Consolidated Statement of Changes in Net Assets (continued)

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
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 change 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

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

Consolidated Statement of Cash Flows

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020

	(Millions of yen)	
	2019	**2020**
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)**

Consolidated Statement of Cash Flows (continued)

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020

	(Millions of yen)	
	2019	**2020**
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.

Notes to Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
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.

(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).

(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.

(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.

(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.

(v) Retirement benefits

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

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

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

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

(w) 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.

(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.

(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.

(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.

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:

(Millions of yen)

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

(Millions of yen)

	2020		
	Carrying value	**Estimated fair value**	**Difference**
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.

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

	(Millions of yen)		
	2019		
	Carrying value	Acquisition costs	Difference
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

	(Millions of yen)		
	2020		
	Carrying value	**Acquisition costs**	**Difference**
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:

	(Millions of yen)	
	2019	**2020**
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.

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:

			(Millions of yen)
Usage	Asset Description	Country	2019
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

(Millions of yen)

Usage	Asset Description	Country	2020
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**

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:

(Millions of yen)

	2019	2020
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:

(Millions of yen)

	2019	2020
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.

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

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%.

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:

	(Millions of yen)	
	2019	**2020**
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)**

(*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:

	(Millions of yen)	
At March 31, 2019	Vessels	Total
Acquisition costs	¥ 18,517	¥ 18,517
Accumulated depreciation	(4,393)	(4,393)
Net book value	¥ 14,123	¥ 14,123

	(Millions of yen)	
At March 31, 2020	**Vessels**	**Total**
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:

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

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:

	(Millions of yen)	
	2019	**2020**
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**

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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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**

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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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**

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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)
	2020
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.

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.

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.

(Millions of yen)

	2019		
	Carrying value	Estimated fair value	Difference
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)

(Millions of yen)

	2020		
	Carrying value	**Estimated fair value**	**Difference**
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.

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.

	(Millions of yen)	
	2019	**2020**
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.

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:

	(Millions of yen)			
	2020			
	Within 1 year	**Over 1 year within 5 years**	**Over 5 years within 10 years**	**Over 10 years**
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:

(Millions of yen)

		2020			
Method of hedge accounting	Transaction	**Total contract value (notional principal amount)**	**Contract value (notional principal amount) over one year**	**Estimated fair value (*1)**	**Gain on valuation**
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

(Millions of yen)

			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 (*1)
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

(Millions of yen)

Method of hedge accounting	Transaction	Major hedged item	2020 Total contract value (notional principal amount)	2020 Contract value (notional principal amount) over one year	2020 Estimated fair value (*1)
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.

Interest rate-related transactions

(Millions of yen)

Method of hedge accounting	Transaction	Major hedged item	2019 Total contract value (notional principal amount)	2019 Contract value (notional principal amount) over one year	2019 Estimated fair value (*)
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)

(Millions of yen)

Method of hedge accounting	Transaction	Major hedged item	2020 Total contract value (notional principal amount)	2020 Contract value (notional principal amount) over one year	2020 Estimated fair value (*)
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.

Others

			(Millions of yen)		
			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 (*)
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	¥ 4,275	¥ –	¥ 244
	Forward freight agreements	Ocean freight	974	–	1
	Total		¥ 5,249	¥ –	¥ 245

			(Millions of yen)		
			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 (*)**
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.

	(Millions of yen)	
	2019	**2020**
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:

	(Millions of yen)	
	2019	**2020**
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:

	(Yen)	
	2019	**2020**
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.

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:

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

	(Thousands of shares)	
	2019	**2020**
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.

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.

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

(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**

*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.

*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.

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**

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:

(Thousands of U.S. dollars)

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

(Millions of yen)

Details of business transaction	Amount of transaction	Account	Balance at the end of year
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.

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:

	(Millions of yen)	
	2019	**2020**
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

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.

EY
Building a better working world

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.

EY
Building a better working world

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.

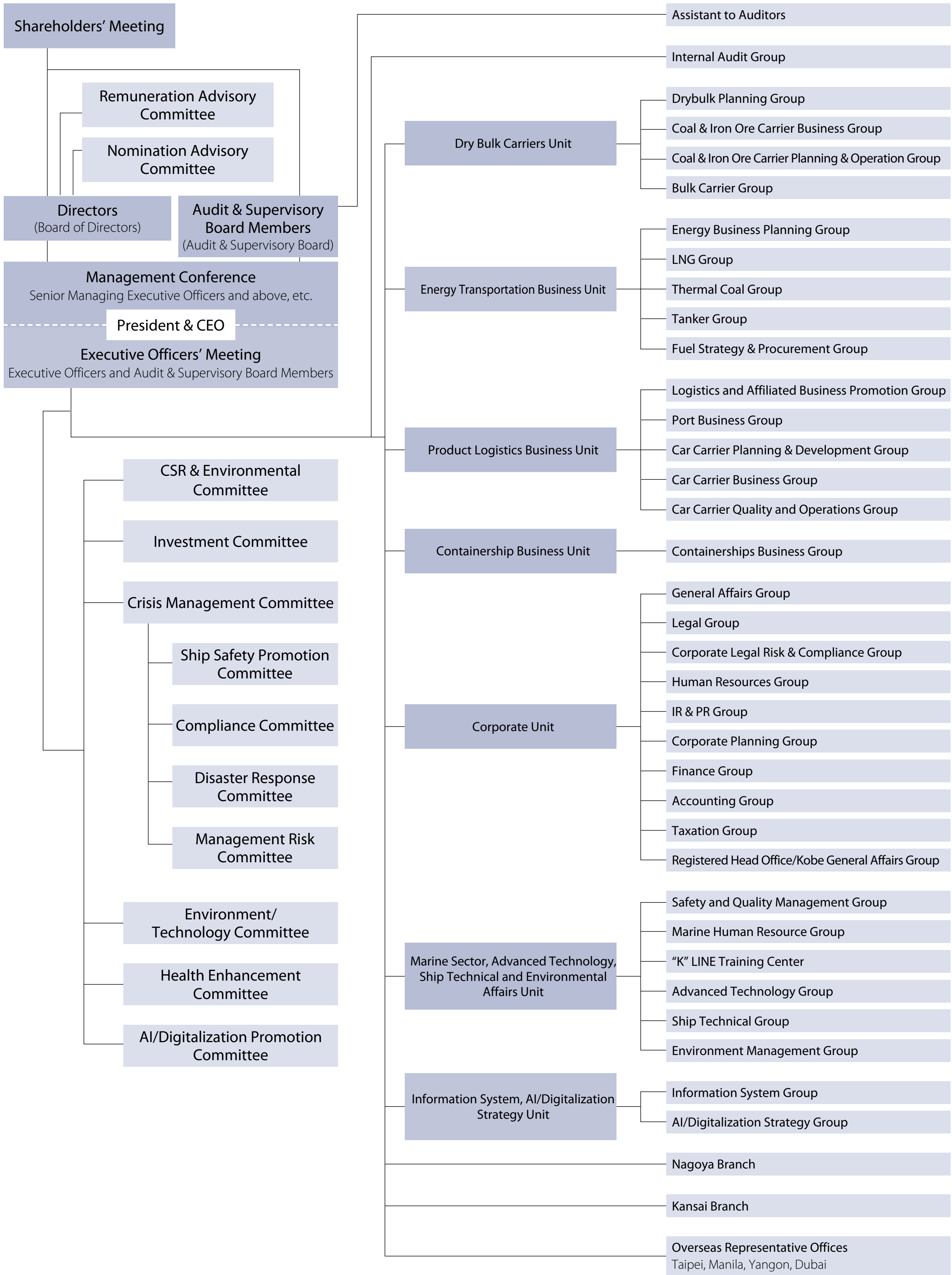
Ernst & Young ShinNihon LLC
Tokyo, Japan
June 23, 2020

北澄和也
Kazuya Kitazumi
Designated Engagement Partner
Certified Public Accountant

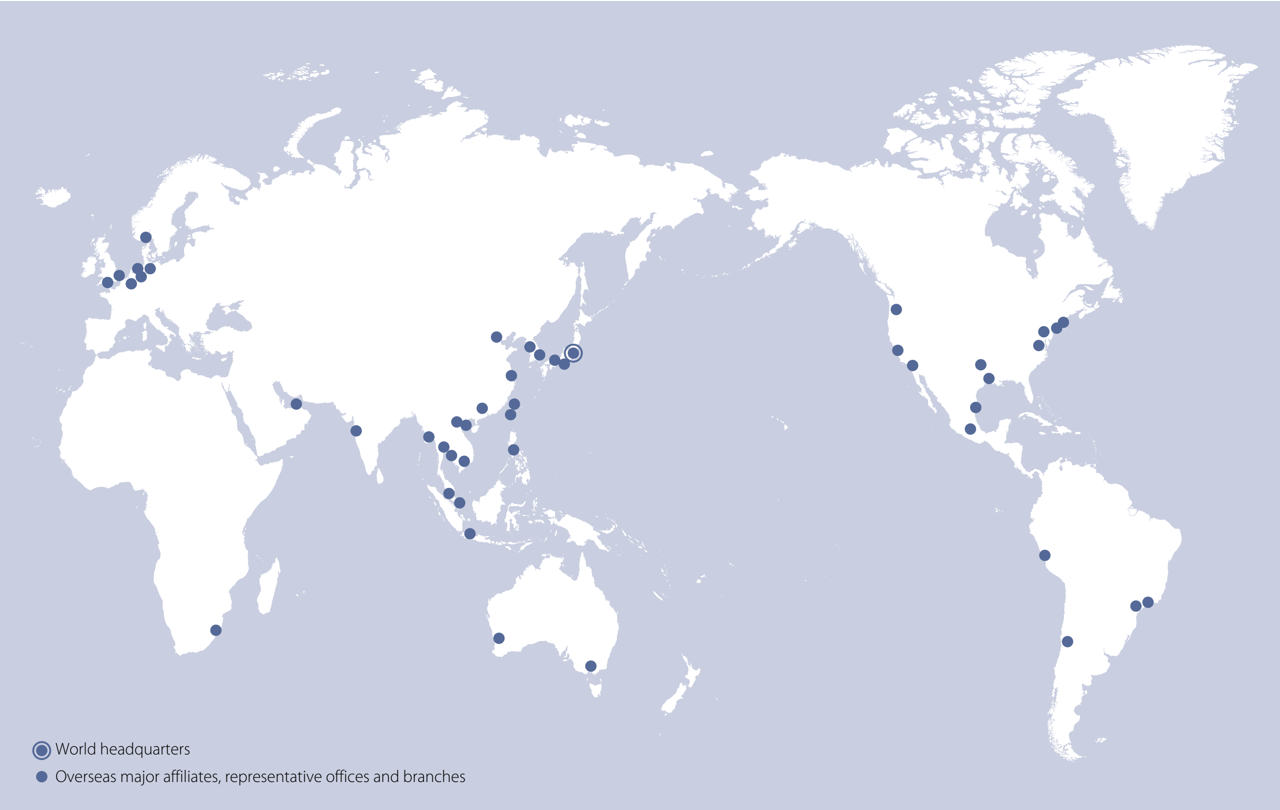
内田聡
Satoshi Uchida
Designated Engagement Partner
Certified Public Accountant

小林雅史
Masashi Kobayashi
Designated Engagement Partner
Certified Public Accountant

Organization (as of July 1, 2020)



Global Network



Japan

Tokyo (Head office)
Kobe (Registered head office)
Nagoya
Kansai

Europe

Belgium
Antwerp
Germany
Bremen
Bremerhaven
Hamburg
Norway
Arendal
U.K.
London
Southampton

Africa

South Africa
Durban

Middle East

United Arab Emirates
Dubai

Asia

China
Guangzhou
Shanghai
Tianjin
India
Mumbai
Indonesia
Jakarta
Korea
Busan
Seoul
Malaysia
Shah Alam
Myanmar
Yangon
the Philippines
Manila
Singapore
Singapore
Taiwan
Kaohsiung
Taipei
Thailand
Bangkok
Laem Chabang
Vietnam
Haiphong
Hanoi
Ho Chi Minh City

Oceania

Australia
Fremantle
Melbourne

North America

U.S.A.
Baltimore
Dallas
Houston
Los Angeles
New York
Portland
Preston
Richmond
San Francisco

Central & South America

Brazil
Rio de Janeiro
Sao Paulo
Chile
Santiago
Mexico
Altamira
Mexico City
Peru
Lima

Major Subsidiaries and Affiliates[*1] (as of March 31, 2020)

Domestic		Company name	"K" LINE's ownership (%) [*2]	Paid-in capital (millions yen) [*3]	Fiscal 2019 revenue (millions yen) [*3]
Marine transportation		Kawasaki Kinkai Kisen Kaisha, Ltd.	51.0	¥ 2,368	¥ 42,025
		Asahi Kisen Kaisha, Ltd.	100.0	100	204
	★	Shibaura Kaiun Co., Ltd.	100.0	20	752
Ship management		"K" Line Energy Ship Management Co., Ltd.	100.0	75	10,842
		"K" Line RoRo Bulk Ship Management Co., Ltd.	100.0	400	36,388
Harbor transportation / Warehousing		Daito Corporation[*4]	100.0	842	23,019
		Nitto Total Logistics Ltd.[*4]	100.0	1,596	14,586
		Hokkai Transportation Co., Ltd.	80.1	60	11,763
		Seagate Corporation[*4]	100.0	270	7,705
		Nitto Tugboat Co., Ltd.	100.0	150	4,174
	★	Rinko Corporation	25.1	1,950	16,803
		KLKG Holdings, Co., Ltd.	51.0	10	0
Logistics		"K" Line Logistics, Ltd.	91.9	600	24,132
Land transportation		Japan Express Transportation Co., Ltd.	100.0	100	2,802
		Shinto Rikuun Kaisha, Ltd.	100.0	10	736
		Maizuru Kousoku Yusou Co., Ltd.	100.0	25	703
Travel business		"K" Line Travel, Ltd.	100.0	100	5,232
Holding company	★	Ocean Network Express Holdings, Ltd.	31.0	50	224
Other business		"K" Line Engineering Co., Ltd.	100.0	50	1,620
		Shinki Corporation	85.5	80	2,664
		"K" Line Business Systems, Ltd.	100.0	40	1,070
		KMDS Co., Ltd.	100.0	40	1,163
		"K"Line Business Support, Ltd.	100.0	30	616
		Offshore Operation Co., Ltd.	55.8	26	2,063
		K Line Next Century GK	100.0	0.1	0

Overseas		Company name	"K" LINE's ownership (%) [*2]	Paid-in capital (millions) [*3]	Fiscal 2019 revenue (millions) [*3]
Marine transportation		"K" Line Pte Ltd	100.0	US$ 41	US$ 192
		"K" Line Bulk Shipping (UK) Limited	100.0	US$ 33	US$ 158
		"K" Line LNG Shipping (UK) Limited	100.0	US$ 35	US$ 88
		"K" Line European Sea Highway Services GmbH	100.0	EUR 5	EUR 104
		'K' Line (India) Shipping Private Limited	80.0	INR 609	INR 614
		K Line Offshore AS	100.0	NOK 2,296	NOK 421
	★	Northern LNG Transport Co., I Ltd.	49.0	US$ 47	US$ 22
	★	Northern LNG Transport Co., II Ltd.	36.0	US$ 52	US$ 22
	★	Ocean Network Express Pte. Ltd.[*5]	–	US$ 3,000	US$ 12,631
Shipping agency		"K" Line America, Inc.	100.0	US$ 15	US$ 17
		"K" Line (Australia) Pty Limited	100.0	A$ 0.0001	A$ 5
		"K" Line (Belgium) N.V.	51.0	EUR 0.06	EUR 1
		"K" Line Brasil Transportes Maritimos Ltda.	100.0	BRL 1	BRL 5
		KLine (China) Ltd.	100.0	US$ 2	CNY 21
		"K" Line Chile Ltda	100.0	US$ 0.6	US$ 0
		"K" Line (Deutschland) GmbH	100.0	EUR 0.1	EUR 6
		"K" Line (Europe) Limited	100.0	£ 0.01	£ 3

Overseas		Company name	"K" LINE's ownership (%) *2	Paid-in capital (millions) *3	Fiscal 2019 revenue (millions) *3
		"K" Line (Korea) Ltd.	100.0	KRW 400	KRW 6,258
		"K" Line Maritime (M) Sdn Bhd	57.5	MYR 0.3	MYR 0
		K Line Mexico SA de CV	100.0	MXN 0.8	US$ 1
		"K" Line Peru S.A.C.	100.0	PEN 1	PEN 2
		"K" Line Shipping (South Africa) Pty Ltd	51.0	ZAR 0.0001	ZAR 19
		"K" Line (Taiwan) Ltd.	60.0	NT$ 60	NT$ 55
		K Line (Thailand) Ltd.	39.0	THB 30	THB 2,022
		"K" Line (Vietnam) Limited	100.0	US$ 3	VND 19,679
		PT. K Line Indonesia	49.0	IDR 2,557	IDR 20,178
	★	'K' Line (India) Private Limited	50.0	INR 60	INR 360
Ship management		"K" Line Ship Management (Singapore) Pte.Ltd.	100.0	S$ 0.7	US$ 62
Terminal operator		International Transportation Service, Inc.	70.0	US$ 33	US$ 200
		Husky Terminal & Stevedoring, Inc.	100.0	US$ 0.1	US$ 94
Freight consolidation		Century Distribution Systems, Inc.	100.0	US$ 2	US$ 28
		Century Distribution Systems (Canada), Inc.	100.0	US$ 0.0001	US$ 0
		Century Distribution Systems (Europe) B.V.	100.0	EUR 0.01	EUR 1
		Century Distribution Systems (Hong Kong) Limited	100.0	HK$ 0.07	HK$ 41
		Century Distribution Systems (International) Limited	100.0	HK$ 1	HK$ 242
		Century Distribution Systems (Shenzhen) Limited	100.0	CNY 5	CNY 492
		Century Distribution Systems (Shipping) Limited	100.0	HK$ 0.000001	HK$ 0
Warehousing		Universal Logistics System, Inc.	100.0	US$ 12	US$ 0
		Universal Warehouse Co.	100.0	US$ 0.05	US$ 7
Logistics		"K" Line Logistics (Hong Kong) Ltd.	100.0	HK$ 8	HK$ 109
		"K" Line Logistics (Singapore) Pte. Ltd.	100.0	S$ 1	S$ 28
		K Line Logistics South East Asia Ltd.	95.0	THB 73	THB 0
		K Line Logistics (Thailand) Ltd.	86.5	THB 20	THB 958
		"K" Line Logistics (UK) Ltd.	100.0	£ 0.2	£ 5
		"K" Line Logistics (U.S.A.) Inc.	100.0	US$ 0.3	US$ 69
		K Line Total Logistics, LLC	100.0	US$ 0.01	US$ 16
Land transportation		ULS Express, Inc.	100.0	US$ 0.05	US$ 5
		PMC Transportation Company, Inc.	100.0	US$ 0	US$ 0
Container repairing		Bridge Chassis Supply LLC.	100.0	US$ 7	US$ 3
	★	Multimodal Engineering Corporation	100.0	US$ 0.1	US$ 14
Holding company		Kawasaki (Australia) Pty. Ltd.	100.0	A$ 4	A$ 7
		"K" Line Holding (Europe) Limited	100.0	£ 45	£ 0
		"K" Line Drilling/Offshore Holding, INC.	100.0	US$ 0.001	US$ 0
Other business		"K" Line TRS S.A.	100.0	US$ 0.006	US$ 0
	★	"K" Line Auto Logistics Pty Ltd.	50.0	A$ 67	A$ 0.1

*1. Includes main consolidated subsidiaries, equity-method subsidiaries and equity-method affiliates.
*2. Includes holdings of subsidiaries.
*3. Rounded down to the nearest million.
*4. KLKG Holdings, Co., Ltd. owns the company.
*5. Ocean Network Express Holdings, Ltd. owns 100% of the company.
★ Subsidiaries and affiliates accounted for with the equity method

¥: Japanese yen
US$: United States dollars
EUR: Euro
INR: Indian rupee
NOK: Norwegian krone
A$: Australian dollars
BRL: Brazil Real
£: Pounds sterling
KRW: Korean won
MYR: Malaysian ringgit
MXN: Mexican peso
PEN: Peruvian SOL
ZAR: South African rand
NT$: New Taiwan dollars
THB: Thai baht
VND: Vietnamese dong
IDR: Indonesian rupiah
S$: Singapore dollars
HK$: Hong Kong dollars
CNY: Chinese renminbi

Outline of the Company / Stock Information

Outline of the Company (as of March 31, 2020)

Name	Kawasaki Kisen Kaisha, Ltd. ("K" LINE)
Established	April 5, 1919
Paid-in capital	¥75,457.64 million
President	Yukikazu Myochin (Effective from April 1, 2019)
Employees	On-land Duty 562 At-sea Duty 205 Unconsolidated total 767 Consolidated total 6,164
Business lines	Marine transportation, Land transportation, Air transportation, Through transportation involving marine, land and air transportation, Harbor transportation, etc.

Offices

Head office	Iino Building, 1-1, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8540, Japan Phone: (+81) 3-3595-5000 Fax: (+81) 3-3595-5001
Registered head office	Shinko Building, 8 Kaigandori, Chuo-ku, Kobe 650-0024, Japan Phone: (+81) 78-332-8020 Fax: (+81) 78-393-2676
Branches	**Nagoya:** Nagoya International Center Building, 47-1, Nagono 1-chome, Nakamura-ku, Nagoya 450-0001, Japan Phone: (+81) 52-589-4510 Fax: (+81) 52-589-4585 **Kansai:** Shinko Building, 8 Kaigandori, Chuo-ku, Kobe 650-0024, Japan Phone: (+81) 78-325-8727 Fax: (+81) 78-393-2676
Overseas representative offices	Taipei, Manila, Yangon, Dubai
Overseas agents	Korea, China, Taiwan, Thailand, Singapore, Malaysia, Indonesia, Vietnam, India, Australia, U.K., Germany, Belgium, Denmark, Turkey, U.S.A., Mexico, Chile, Peru, Brazil, South Africa, etc.
Affiliated companies (to be consolidated)	27 (domestic), 292 (overseas)

Stock Information (as of March 31, 2020)

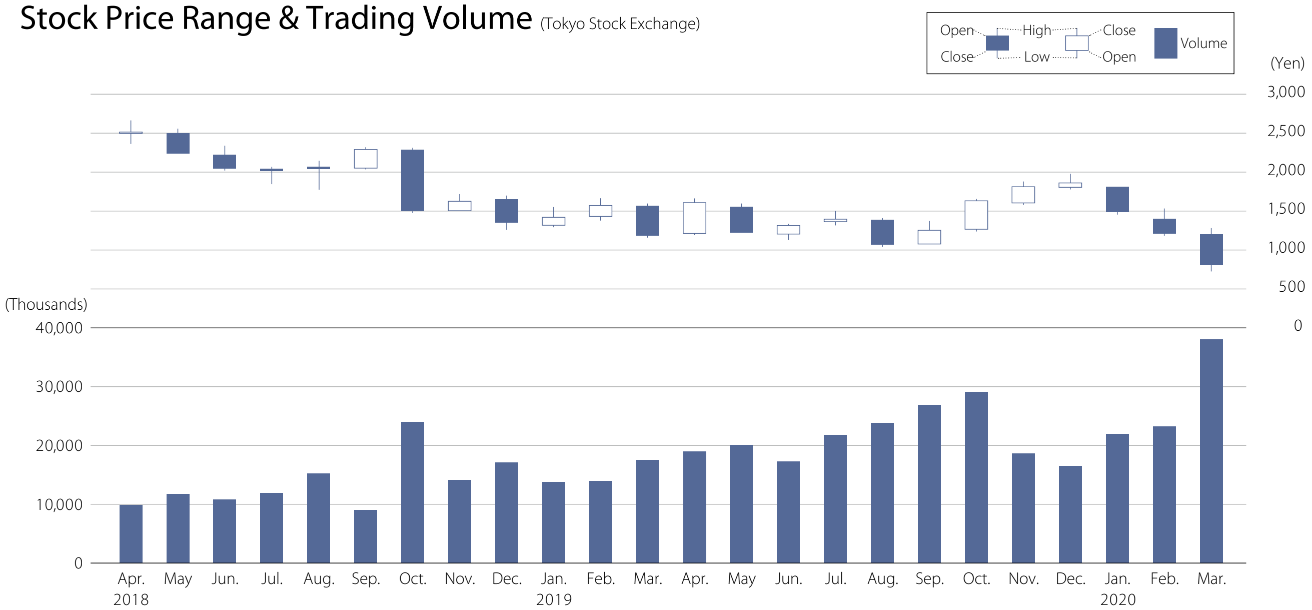
Authorized	200,000,000 shares of common stock
Issued	93,938,229 shares of common stock
Number of shareholders	27,533
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Listing of shares	Tokyo, Nagoya and Fukuoka

Principal Shareholders (as of March 31, 2020)

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
ECM MF	12,716	13.56
GOLDMAN SACHS INTERNATIONAL	10,516	11.21
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	5,651	6.02
J.P. MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SEGR ACCT	4,330	4.61
CGML PB CLIENT ACCOUNT/COLLATERAL	3,708	3.95
Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust & Banking Co., Ltd.)	3,392	3.61
IMABARI SHIPBUILDING CO., LTD.	3,283	3.50
The Master Trust Bank of Japan, Ltd. (trust account)	2,811	2.99
Japan Trustee Services Bank, Ltd. (trust account)	2,417	2.57
Sompo Japan Insurance Inc.	1,910	2.03

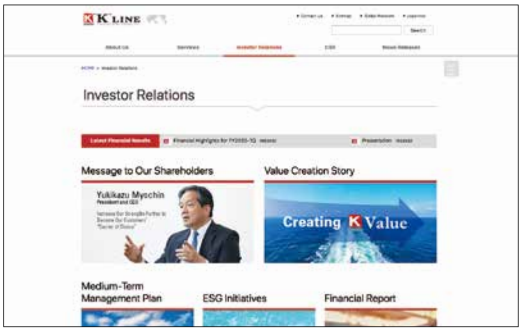
* Percentage of shares held is calculated excluding treasury stock (195,683 shares).

Stock Price Range & Trading Volume (Tokyo Stock Exchange)



"K" LINE's Websites

In addition to this report, more information is available on "K" LINE's website, including the Charter of Conduct for "K" LINE Group Companies and environmental data.

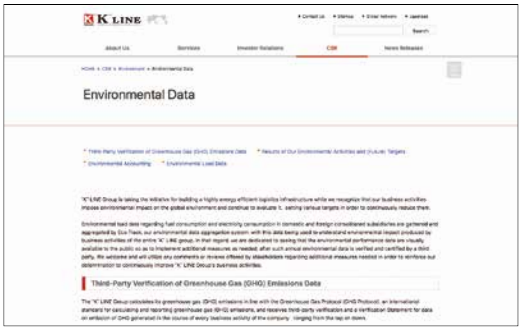


Investor Relations

WEB HOME > Investor Relations

CSR

WEB HOME > CSR



Environmental Data

WEB HOME > CSR > Environment > Environmental Data

Corporate Governance Report

WEB HOME > CSR > Governance > Corporate Governance > Corporate Governance Report

External Recognition

In recognition of our CSR initiatives, "K" LINE has been selected as a component in Socially Responsible Investment (SRI) and ESG indices used all over the world.

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- ETHIBEL EXCELLENCE Investment Register
- Dow Jones Sustainability Asia/Pacific Index
- S&P/JPX Carbon Efficient Index

In recognition of our disclosure of climate change information and efforts to reduce greenhouse gases, we have been selected for the CDP Climate Change A List for four consecutive years and for the Supplier Engagement Leaderboard in 2019.

WEB Additional information about external recognition is available at the following webpage.
HOME > CSR > External Recognition

FTSE4Good

FTSE Blossom Japan

member of the INVESTMENT REGISTER ETHIBEL EXCELLENCE

MEMBER OF Dow Jones Sustainability Indices In collaboration with SAM

S&P/JPX Carbon Efficient Index

CDP A LIST 2019 CLIMATE

CDP SUPPLIER ENGAGEMENT LEADER 2019

(As of June 2020)

KAWASAKI KISEN KAISHA, LTD.

Iino Building, 1-1,
Uchisaiwaicho 2-chome,
Chiyoda-ku, Tokyo 100-8540, Japan
Phone : (+81) 3-3595-5000 (Switchboard)
Fax : (+81) 3-3595-5001
https://www.kline.co.jp/en/