

FINANCIAL HIGHLIGHTS

Brief report of the nine months ended December 31, 2022

Kawasaki Kisen Kaisha, Ltd.

[Two Year Summary]

(Million yen; rounded down to the nearest million yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Consolidated		
Operating revenues	556,495	728,791
Operating income (loss)	23,303	80,593
Profit (loss) attributable to owners of the parent	423,339	638,221
Profit (loss) attributable to owners of the parent per share (Yen)		
Basic	1,512.90	2,307.26
Diluted	-	-

* The Company split its common share on the basis of one (1) share into three (3) shares effective October 1, 2022. Accordingly, profit (loss) attributable to owners of the parent per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year ended March 31, 2022.

	Year ended March 31, 2022	Nine months ended December 31, 2022
Total assets	1,574,960	2,089,303
Total net assets	984,882	1,564,625

1. Qualitative Information and Financial Statement

(1) Qualitative Information about the Consolidated Operating Result

(Billion Yen; rounded to the nearest 100 million yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Change	% Change
Operating revenues	556.5	728.8	172.3	31.0%
Operating income (loss)	23.3	80.6	57.3	245.8%
Ordinary income (loss)	433.6	641.9	208.3	48.0%
Profit (loss) attributable to owners of the parent	423.3	638.2	214.9	50.8%

Exchange Rate (¥/US\$) (9-month average)	110.97	135.70	24.73	22.3%
Fuel oil price (US\$/MT) (9-month average)	521	808	286	54.9%

Due to significant business performance improvement of OCEAN NETWORK EXPRESS PTE. LTD. (hereinafter referred to as "ONE"), the company recorded 573.6 billion yen of equity in earnings of unconsolidated subsidiaries and affiliates for the consolidated cumulative third quarter. Within the recorded equity in earnings of unconsolidated subsidiaries and affiliates, "ONE" accounted for 567.0 billion yen in the cumulative third quarter, and 72.5 billion yen in the third quarter alone.

Performance per segment was as follows.

(Billion Yen; rounded to the nearest 100 million yen)

		Nine months ended December 31, 2021	Nine months ended December 31, 2022	Change	% Change
Dry bulk	Operating revenues	207.3	247.8	40.5	19.5%
	Segment profit (loss)	14.7	23.1	8.3	56.7%
Energy resource transport	Operating revenues	66.6	76.9	10.4	15.6%
	Segment profit (loss)	2.1	9.3	7.2	348.7%
Product logistics	Operating revenues	274.8	395.9	121.2	44.1%
	Segment profit (loss)	425.3	615.9	190.6	44.8%
Other	Operating revenues	7.9	8.2	0.2	3.1%
	Segment profit (loss)	0.2	0.5	0.4	187.8%
Adjustments and eliminations	Segment profit (loss)	(8.7)	(6.9)	1.8	—
Total	Operating revenues	556.5	728.8	172.3	31.0%
	Segment profit (loss)	433.6	641.9	208.3	48.0%

(i) Dry Bulk Segment

Dry Bulk Business

In the Cape-size sector, at the beginning of the quarter, as the vessel supply-demand balance tightened due to port congestion associated with COVID-19 control measures, market rates stayed high. However, in the middle of the quarter through the end of the year, market rates declined while showing some fluctuations as a result of the weakening of the impact of those measures and a decrease in demand for China-bound transportation.

In the medium and small vessel sector, market rates declined because of the effects of the easing of port congestion in China as well as a decline in demand for the transportation of coal to India and of steel products to Europe, which supported the market early in the quarter. However, the market stayed generally firm, supported mainly by an increase in demand for the transportation of grains to China.

Under these circumstances, the Group strived to manage the market exposures appropriately and reduce operation costs and improve vessel operation efficiency.

As a result, the overall Dry Bulk Segment recorded a year-on-year increase both in revenue and profit.

(ii) Energy Resource Transport Segment

LNG Carrier, Electricity Business, Tanker Carrier and Offshore Business

Concerning LNG carriers, thermal coal carriers, large crude oil tankers (VLCCs), LPG carriers, drillship and FPSO (Floating Production, Storage and Offloading system), the business stayed firm for mid- and long-term charter contracts and contributed to secure stable profit.

As a result, the overall Energy Resource Transport Segment recorded a year-on-year increase both in revenue and profit.

(iii) Product Logistics Segment

Car Carrier Business

In the global car sales market, production and shipments in some regions were affected by supply shortages of semiconductors and auto parts and the Russia-Ukraine situation, but the recovery from the impact of the COVID-19 continued. Meanwhile, the Group continued efforts to restore freight rates to the former levels and improve operational efficiency.

Logistics Business

In the domestic logistics and port business, although domestic container handling volume was on a downtrend with respect to shipments to China, overall volume remained similar to the level in the same quarter of the previous year. In the towage business and the warehousing business, work volume stayed firm. As for the international logistics sector, the downtrend in ocean and air cargo transportation demand continued in the forwarding business. In the

finished vehicle transportation business, both land transportation volume and storage volume declined due to volume adjustment for vehicles bound for Australia.

Short Sea and Coastal Business

In the short sea business, although coal transportation volume declined year-on-year due to the Russia-Ukraine situation, the overall market remained firm because of robust demand for the transportation of steel products and biomass fuels. In the coastal business, the recovery in the numbers of passenger cars and passengers transported continued as a result of the lifting of restrictions on activities associated with the COVID-19, and cargo transportation volume also increased year-on-year.

Containership Business

Since the third quarter, transportation demand and short-term freight market conditions were sluggish due to an increase in commodity inventories in consuming regions, mainly in Europe and the U.S., and a decline in consumer confidence due to inflation. However, the business performance of "ONE" improved year-on-year by the results of the first half of the year.

As a result, the overall Product Logistics Segment recorded a year-on-year increase in both revenue and profit.

(iv) Other

Other includes but not limited to the Group's ship management service, travel agency service, and real estate and administration service. The segment recorded a year-on-year increase in both revenue and profit.

(2) Qualitative Information on the Consolidated Financial Situation

Consolidated assets at the end of the consolidated 3rd Quarter of this fiscal year were ¥2,089.3 billion, an increase of ¥514.3 billion from the end of the previous fiscal year as a result of an increase in investment securities and other factors.

Consolidated liabilities decreased by ¥65.4 billion to ¥524.7 billion as a result of a decrease in short-term loans and current portion of long-term loans and other factors compared to the end of the previous fiscal year.

Consolidated net assets were ¥1,564.6 billion, an increase of ¥579.7 billion compared to the end of the previous fiscal year as a result of an increase in retained earnings and other factors.

(3) Qualitative Information on the Consolidated Prospects for FY2022

(Billion Yen; rounded to the nearest 100 million yen)

	Prior Forecast (at the time of announcement of the 2nd Quarter result)	Current Forecast (at the time of announcement of the 3rd Quarter result)	Change	% Change
Operating revenues	920.0	940.0	20.0	2.2%
Operating income (loss)	80.0	85.0	5.0	6.3%
Ordinary income (loss)	710.0	660.0	(50.0)	(7.0%)
Profit (loss) attributable to owners of the parent	700.0	650.0	(50.0)	(7.1%)

Exchange Rate (¥/US\$)	132.02	134.17	2.15	1.6%
Fuel Oil Price (US\$/MT)	780	772	(8)	(1.0%)

In the Dry Bulk Segment, market rates declined in the second half due to a multitude of uncertainties, including concerns over global inflation and recession and the timing of normalization of economic activity in China. However, market rates are expected to remain above a certain level because of an increase in demand for coal transportation due to the Russia-Ukraine situation and the tightening of the vessel supply-demand balance due to limited building of new ships. The Group will watch out for changes in transportation demand and trade patterns and make preparations to promptly respond. At the same time, amid growing need to deal with environmental problems, take advantage of its strength in high quality transportation, the Group will strive to secure stable profit by increasing vessel operation efficiency and reducing costs as well as increasing mid- and long-term contracts.

In the Energy Resource Transport Segment, the Group will continue efforts to secure stable profit as it expects to ensure smooth business operations, supported by mid- and long-term contracts, with respect to LNG carriers, thermal coal carriers, large crude oil tankers (VLCCs), LPG carriers, drillships, and FPSO (Floating Production, Storage and Offloading systems).

As for the Product Logistics Segment, regarding the car carrier business, while there are concerns over the impacts of shortages of semiconductors and auto parts, the continued inflationary trend, and the possible recession, mainly in the United States and Europe, the Group will continue to strive to improve operational efficiency through such measures as appropriate fleet restructuring and reorganization of the network of trades in addition to restoring freight rates to the former levels. In the logistics business, while the Group will keep a close watch on the negotiations over North American West Coast port labor-employer contracts, domestic container handling volume is expected to remain firm. As for the international logistics sector, as a result of a decline in ocean and air transportation, market rates have recently remained on a downtrend in the forwarding business. In the finished vehicle transportation business, handling volume is expected to increase due to continued robust demand for imported vehicles in Australia. In the containership business, recovery of transportation demand and short-term freight market conditions will take time, and the recovery in the current fiscal year is expected to be modest due to seasonal factors such as the Chinese New Year holiday in the fourth quarter. "ONE" will closely monitor the economic environment and strive for steady business operations while implementing measures to adapt to changes in supply and demand.

The Company's important management task is to maximize returns to our shareholders by maintaining awareness of optimal capital structure at any time, always ensuring capital efficiency, financial soundness, and strategically allocating our management resources to investments in order to improve our financial strength considering mid to long-term business environment.

Based on this basic policy, regarding dividend for the fiscal year ending March 31, 2023, the Company plans payment of a year-end dividend of 300.00 yen per share which increased by 200.00 yen per share of prior forecast.

Above will be implemented subject to the resolution at the Ordinary General Meeting of Shareholders scheduled in June 2023.

Consolidated Financial Statements

(All financial information has been prepared in accordance with accounting principles generally accepted in Japan)

Consolidated Balance Sheet

(Millions of yen)

	Year ended March 31, 2022	Nine months ended December 31, 2022
ASSETS		
Current assets :		
Cash and deposits	247,344	332,803
Accounts and notes receivable - trade and contract assets	103,699	116,158
Marketable securities	0	100,001
Raw materials and supplies	36,572	38,418
Deferred and prepaid expenses	17,659	20,870
Other current assets	26,857	19,214
Allowance for doubtful accounts	(1,044)	(1,006)
Total current assets	<u>431,089</u>	<u>626,461</u>
Non-current assets :		
(Vessels, property and equipment)		
Vessels, net	339,821	324,198
Buildings and structures, net	9,817	9,852
Machinery, equipment and vehicles, net	2,904	3,304
Land	15,730	15,530
Construction in progress	9,679	16,594
Other, net	4,076	5,312
Total vessels, property and equipment	<u>382,029</u>	<u>374,792</u>
(Intangible assets)		
Other intangible assets	3,513	3,567
Total intangible assets	<u>3,513</u>	<u>3,567</u>
(Investments and other assets)		
Investment securities	691,809	1,015,521
Long-term loans receivable	23,007	24,542
Asset for retirement benefits	1,228	1,250
Other investments and other assets	43,413	43,999
Allowance for doubtful accounts	(1,132)	(833)
Total investments and other assets	<u>758,326</u>	<u>1,084,481</u>
Total non-current assets	<u>1,143,870</u>	<u>1,462,841</u>
Total assets	<u>1,574,960</u>	<u>2,089,303</u>

Consolidated Balance Sheet

(Millions of yen)

	Year ended March 31, 2022	Nine months ended December 31, 2022
LIABILITIES		
Current liabilities :		
Accounts and notes payable - trade	62,756	60,052
Short-term loans and current portion of long-term loans	87,544	64,232
Accrued income taxes	3,051	1,246
Provision for loss related to the Anti-Monopoly Act	357	357
Provision for loss on liquidation of subsidiaries and affiliates	2,168	-
Provision for loss on chartering contracts	13,903	3,380
Other provisions	4,500	2,072
Other current liabilities	77,255	59,699
Total current liabilities	251,538	191,041
Non-current liabilities :		
Long-term loans, less current portion	277,992	276,461
Provision for directors' and audit and supervisory board members' retirement benefits	167	98
Provision for directors' stock benefits	307	295
Provision for periodic dry docking of vessels	13,392	13,385
Liability for retirement benefits	6,147	5,747
Other non-current liabilities	40,531	37,647
Total non-current liabilities	338,538	333,636
Total liabilities	590,077	524,678
NET ASSETS		
Shareholders' equity:		
Common stock	75,457	75,457
Capital surplus	14,214	29,484
Retained earnings	777,130	1,330,726
Treasury stock	(2,378)	(72,691)
Total shareholders' equity	864,424	1,362,977
Accumulated other comprehensive income :		
Net unrealized holding gain (loss) on investment securities	5,474	5,960
Deferred gain (loss) on hedges	(893)	3,422
Revaluation reserve for land	4,630	4,617
Foreign currency translation adjustments	12,954	101,802
Retirement benefits liability adjustments	(1,956)	(1,382)
Total accumulated other comprehensive income	20,209	114,421
Non-controlling interests	100,248	87,226
Total net assets	984,882	1,564,625
Total liabilities and net assets	1,574,960	2,089,303

Consolidated Statement of Operations

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Marine transportation and other operating revenues	556,495	728,791
Marine transportation and other operating costs and expenses	492,239	601,988
Gross profit (loss)	64,255	126,803
Selling, general and administrative expenses	40,952	46,209
Operating income (loss)	23,303	80,593
Non-operating income :		
Interest income	514	2,066
Dividend income	1,220	2,325
Equity in earnings of unconsolidated subsidiaries and affiliates	418,864	573,574
Foreign exchange gains	1,707	-
Other non-operating income	1,068	2,535
Total non-operating income	423,374	580,502
Non-operating expenses :		
Interest expenses	7,798	7,562
Foreign exchange losses	-	10,156
Other non-operating expenses	5,253	1,462
Total non-operating expenses	13,052	19,181
Ordinary income (loss)	433,626	641,914
Extraordinary income :		
Gain on sales of non-current assets	16,615	3,323
Other extraordinary income	9,798	260
Total extraordinary income	26,414	3,583
Extraordinary losses :		
Impairment losses	12,878	-
Loss on cancellation of chartered vessels	7,427	-
Provision for loss on liquidation of subsidiaries and affiliates	3,578	-
Loss on change in equity	-	864
Other extraordinary losses	226	371
Total extraordinary losses	24,111	1,236
Profit (loss) before income taxes	435,929	644,262
Income taxes :		
Current	6,563	3,271
Deferred	2,970	(584)
Total income taxes	9,533	2,686
Profit (loss)	426,395	641,575
Profit (loss) attributable to non-controlling interests	3,055	3,353
Profit (loss) attributable to owners of the parent	423,339	638,221

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit (loss)	426,395	641,575
Other Comprehensive income :		
Net unrealized holding gain (loss) on investment securities	75	362
Deferred gain (loss) on hedges	(378)	1,499
Foreign currency translation adjustments	3,180	11,467
Retirement benefits liability adjustments	358	552
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using equity method	6,628	80,832
Total other comprehensive income	9,865	94,713
Comprehensive income	436,260	736,288
(Breakdown)		
Comprehensive income attributable to owners of parent	433,258	732,446
Comprehensive income attributable to non-controlling interests	3,002	3,842

(Notes on Significant Changes in Amount of Shareholders' Equity)

The Company conducted a share exchange with the Company as the wholly owing parent company and Kawasaki Kinkai Kisen Kaisha, Ltd. as the wholly-owned subsidiary on June 1, 2022. As a result, capital surplus increased by ¥14,898 million and treasury stock decreased by ¥400 million. In addition, treasury stock increased by ¥70,721 million during the period following the Company's repurchase of 28,954,700 shares (after the stock split) of common stock in accordance with a resolution of the Board of Directors at its meeting held on November 4, 2022.

(Change in Accounting Standards)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 31, June 17, 2021; hereinafter "Implementation Guidance on Fair Value Measurement Standard") from the beginning of the first quarter ended June 30, 2022, and will prospectively apply the new accounting policies stipulated by the Implementation Guidance on Fair Value Measurement Standard, in accordance with the transitional treatment provided in Paragraph 27-2 of the Implementation Guidance on Fair Value Measurement Standard. There was no effect of the application of Implementation Guidance on Fair Value Measurement Standard on the quarterly consolidated financial statements for the nine-month period ended December 31, 2022.

(Additional Information)

(Application of Treatment for Accounting and Disclosure under Group Tax Sharing System)

The Company and certain domestic subsidiaries have transferred from the consolidated taxation system to the group tax sharing system from the beginning of the first quarter ended June 30, 2022. In accordance with the change, the Company and certain domestic subsidiaries have applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Issues Task Force ("PITF") No. 42, August 12, 2021; hereinafter "PITF No. 42"), which provides for accounting treatment and disclosure of corporate tax and local corporate taxes and tax effect accounting. In accordance with Paragraph 32 (1) of PITF No. 42, there is deemed to be no effect on the quarterly consolidated financial statements due to the change in accounting standards resulting from the application of PITF No. 42.

Segment Information

Nine months ended December 31, 2021

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Revenues from contracts with customers	203,334	62,544	270,363	7,852	544,094	-	544,094
Other revenues	3,933	4,021	4,387	58	12,400	-	12,400
Operating revenues from customers	207,267	66,565	274,751	7,910	556,495	-	556,495
Inter-group revenues and transfers	12	8	10,412	38,056	48,489	(48,489)	-
Total revenues	207,280	66,574	285,163	45,966	604,984	(48,489)	556,495
Segment profit (loss)	14,714	2,070	425,325	186	442,297	(8,671)	433,626

Nine months ended December 31, 2022

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Revenues from contracts with customers	243,927	73,609	391,116	8,061	716,714	-	716,714
Other revenues	3,834	3,319	4,829	92	12,077	-	12,077
Operating revenues from customers	247,761	76,929	395,945	8,154	728,791	-	728,791
Inter-group revenues and transfers	30	17	4,121	43,368	47,537	(47,537)	-
Total revenues	247,792	76,946	400,067	51,522	776,329	(47,537)	728,791
Segment profit (loss)	23,053	9,292	615,893	538	648,777	(6,862)	641,914