Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd.
and Consolidated Subsidiaries

March 31, 2021
with Independent Auditor's Report

Consolidated Financial Statements

March 31, 2021

Contents

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Consolidated Balance Sheet

March 31, 2021

	2020	**2021**
	(Millions of yen)	
Assets		
Current assets:		
Cash and deposits *(Notes 14 and 17)*	¥ 115,394	**¥ 132,371**
Accounts and notes receivable-trade *(Note 14)*	60,022	**56,125**
Raw materials and supplies	25,859	**22,309**
Prepaid expenses and deferred charges	41,302	**38,790**
Short-term loans receivable	2,019	**1,844**
Other current assets	15,649	**15,685**
Allowance for doubtful receivables	(1,215)	**(915)**
Total current assets	259,032	**266,210**
Non-current assets:		
Vessels, property and equipment net of accumulated depreciation *(Notes 2, 4, 5, 10, 12 and 20)*:		
Vessels	375,507	**352,981**
Buildings and structures	12,438	**10,641**
Machinery, equipment and vehicles	9,874	**3,338**
Land	18,336	**16,356**
Construction in progress	8,532	**3,877**
Other	6,399	**4,137**
Total vessels, property and equipment	431,089	**391,334**
Intangible assets *(Note 4)*:		
Other intangible assets	4,329	**3,551**
Total intangible assets	4,329	**3,551**
Investments and other assets:		
Investment securities *(Notes 3, 5, 11, 14 and 20)*	150,993	**257,522**
Long-term loans receivable	16,857	**19,043**
Asset for retirement benefits *(Note 8)*	600	**857**
Deferred tax assets *(Note 6)*	5,877	**3,378**
Other non-current assets *(Note 11)*	28,377	**33,964**
Allowance for doubtful receivables	(1,077)	**(1,253)**
Total investments and other assets	201,629	**313,512**
Total non-current assets	637,048	**708,398**
Total assets *(Note 20)*	¥ 896,081	**¥ 974,608**

	2020	2021
	(Millions of yen)	
Liabilities		
Current liabilities:		
Accounts and notes payable – trade *(Note 14)*	¥ 47,673	**¥ 51,661**
Short-term loans and current portion of long-term loans *(Notes 5 and 14)*	104,576	**138,002**
Current portion of obligations under finance leases *(Note 5)*	15,633	**6,023**
Accrued income taxes *(Note 6)*	2,118	**1,404**
Allowance for loss related to the Anti-Monopoly Act	834	**357**
Allowance for loss on liquidation of a subsidiary	113	**62**
Allowance for loss on chartering contracts *(Note 2)*	16,474	**15,556**
Allowance for bonuses	2,344	**2,655**
Allowance for directors' bonuses	155	**117**
Other current liabilities	46,214	**45,688**
Total current liabilities	236,139	**261,529**
Non-current liabilities:		
Bonds *(Notes 5 and 14)*	7,000	**7,000**
Long-term loans, less current portion *(Notes 5 and 14)*	379,104	**325,803**
Obligations under finance leases, less current portion *(Note 5)*	34,136	**30,176**
Deferred tax liabilities *(Note 6)*	7,609	**5,759**
Deferred tax liabilities on land revaluation *(Notes 6 and 12)*	1,174	**1,174**
Allowance for directors' and audit and supervisory board members' retirement benefits	377	**353**
Allowance for directors' stock benefits	16	**48**
Accrued expenses for overhaul of vessels and other assets	11,548	**11,904**
Liability for retirement benefits *(Note 8)*	7,313	**6,499**
Derivative liabilities *(Notes 14 and 15)*	7,277	**5,045**
Other non-current liabilities	4,147	**3,150**
Total non-current liabilities	459,707	**396,916**
Total liabilities	695,847	**658,446**
Net assets		
Shareholders' equity *(Note 9)*:		
Common stock		
Authorized – 200,000,000 shares in 2020 and 2021		
Issued – 93,938,229 shares in 2020 and 2021	75,457	**75,457**
Capital surplus	13,723	**14,295**
Retained earnings	22,050	**130,723**
Treasury stock – 666,130 shares in 2020 and 664,331 shares in 2021	(2,379)	**(2,373)**
Total shareholders' equity	108,852	**218,103**
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on investments securities	148	**3,960**
Deferred gain (loss) on hedges	(3,152)	**(3,657)**
Revaluation reserve for land *(Note 12)*	4,631	**4,630**
Translation adjustments	(4,821)	**(1,963)**
Retirement benefits liability adjustments	(4,562)	**(2,879)**
Total accumulated other comprehensive income	(7,756)	**90**
Non-controlling interests	99,138	**97,968**
Total net assets	200,234	**316,162**
Total liabilities and net assets	¥ 896,081	**¥ 974,608**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Operations

Year ended March 31, 2021

	2020	2021
	(Millions of yen)	
Marine transportation and other operating revenues *(Notes 2 and 20)*	¥ 735,284	**¥ 625,486**
Marine transportation and other operating costs and expenses	671,387	**590,046**
Gross profit (loss)	63,897	**35,440**
Selling, general and administrative expenses	57,057	**56,726**
Operating income (loss)	6,840	**(21,286)**
Non-operating income:		
Interest income *(Note 20)*	1,123	**541**
Dividend income	2,565	**1,977**
Equity in earnings of unconsolidated subsidiaries and affiliates *(Note 20)*	8,011	**118,165**
Reversal of allowance for loss related to the Anti-Monopoly Act	375	**–**
Exchange gain	–	**1,401**
Other non-operating income	1,608	**1,461**
Total non-operating income	13,685	**123,547**
Non-operating expenses:		
Interest expenses *(Note 20)*	10,177	**10,056**
Exchange loss	1,583	**–**
Other non-operating expenses	1,357	**2,705**
Total non-operating expenses	13,117	**12,762**
Ordinary income (loss) *(Note 20)*	7,407	**89,498**
Extraordinary income:		
Gain on sales of vessels, property and equipment	4,756	**11,947**
Gain on sales of shares of subsidiaries *(Note 19)*	576	**19,894**
Other extraordinary income	4,869	**496**
Total extraordinary income	10,203	**32,339**
Extraordinary losses:		
Loss on impairment of fixed assets *(Notes 2, 4 and 20)*	604	**6,307**
Loss on cancellation of chartered vessels	–	**1,061**
Other extraordinary losses *(Note 3)*	5,691	**613**
Total extraordinary losses	6,295	**7,982**
Profit (loss) before income taxes	11,315	**113,854**
Income taxes *(Note 6)*:		
Current	3,392	**2,628**
Deferred	(280)	**143**
Total income taxes	3,111	**2,772**
Profit (loss)	8,204	**111,082**
Profit (loss) attributable to non-controlling interests	2,934	**2,386**
Profit (loss) attributable to owners of the parent	¥ 5,269	**¥ 108,695**

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2021

	2020	**2021**
	(Millions of yen)	
Profit (loss)	¥ 8,204	**¥ 111,082**
Other comprehensive income *(Note 16)*:		
Net unrealized holding gain (loss) on investments securities	(4,207)	**4,048**
Deferred gain (loss) on hedges	(4,094)	**(756)**
Translation adjustments	(7,915)	**6,142**
Retirement benefits liability adjustments	(958)	**1,813**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	(3,893)	**(2,374)**
Total other comprehensive income	(21,069)	**8,873**
Comprehensive income	¥ (12,865)	**¥ 119,956**
(Breakdown)		
Comprehensive income attributable to owners of the parent	¥ (14,886)	**¥ 116,542**
Comprehensive income attributable to non-controlling interests	2,020	**3,413**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2021

(Millions of yen)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain (loss) on investments securities	Deferred gain (loss) on hedges
Balance at April 1, 2019	¥ 75,457	¥ 1,383	¥ 16,692	¥ (2,381)	¥ 91,152	¥ 4,414	¥ 2,999
Cumulative effects of change in accounting policies	–	–	19	–	19	–	–
Restated balance	75,457	1,383	16,712	(2,381)	91,172	4,414	2,999
Change in items during the year							
Profit (loss) attributable to owners of the parent	–	–	5,269	–	5,269	–	–
Purchases of treasury stock	–	–	–	(1)	(1)	–	–
Disposal of treasury stock	–	(0)	–	2	1	–	–
Change in treasury stock arising from change in equity in entities accounted for under the equity method	–	(0)	–	0	0	–	–
Change in ownership interests due to transactions with non-controlling interests	–	12,340	–	–	12,340	–	–
Reversal of revaluation reserve for land	–	–	24	–	24	–	–
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	43	–	43	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	(4,266)	(6,152)
Net changes during the year	–	12,339	5,337	1	17,679	(4,266)	(6,152)
Balance at March 31, 2020	¥ 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	–	–	–	–	–	19
Restated balance	4,655	4,063	(3,710)	12,423	77,657	181,253
Change in items during the year						
Profit (loss) attributable to owners of the parent	–	–	–	–	–	5,269
Purchases of treasury stock	–	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	–	–	1
Change in treasury stock arising from change in equity in entities accounted for under the equity method	–	–	–	–	–	0
Change in ownership interests due to transactions with non-controlling interests	–	–	–	–	–	12,340
Reversal of revaluation reserve for land	–	–	–	–	–	24
Net change in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	43
Net changes in items other than shareholders' equity	(24)	(8,885)	(851)	(20,179)	21,480	1,300
Net change during the year	(24)	(8,885)	(851)	(20,179)	21,480	18,980
Balance at March 31, 2020	¥ 4,631	¥ (4,821)	¥ (4,562)	¥ (7,756)	¥ 99,138	¥ 200,234

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2021

(Millions of yen)

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

(Millions of yen)

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2021

	2020	2021
	(Millions of yen)	
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 11,315	**¥113,854**
Depreciation and amortization	44,253	**43,869**
Increase (decrease) in liability for retirement benefits	1,110	**(739)**
(Increase) decrease in asset for retirement benefits	72	**(256)**
Increase (decrease) in retirement benefits liability adjustments	(1,047)	**1,930**
Increase (decrease) in allowance for directors' and audit and supervisory board members' retirement benefits	(516)	**(9)**
Increase (decrease) in accrued expenses for overhaul of vessels	(691)	**327**
Increase (decrease) in allowance for loss related to the Anti-Monopoly Act	(375)	**–**
Increase (decrease) in allowance for loss on chartering contracts	1,338	**(917)**
Interest and dividend income	(3,689)	**(2,519)**
Interest expenses	10,177	**10,056**
Exchange gain, net	(445)	**(1,482)**
Loss on impairment of fixed assets	604	**6,307**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates, net	(8,011)	**(118,165)**
Loss on cancellation of chartered vessels	–	**1,061**
(Gain) loss on sales of vessels, property and equipment, net	(4,755)	**(11,923)**
Gain on sales of shares of subsidiaries	(561)	**(19,893)**
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and notes receivable – trade	1,840	**(2,109)**
(Increase) decrease in raw materials and supplies	383	**3,039**
(Increase) decrease in other current assets	(55)	**(2,853)**
Increase (decrease) in accounts and notes payable – trade	(9,148)	**8,039**
Other, net	(254)	**883**
Subtotal	41,541	**28,498**
Interest and dividends received	5,211	**19,938**
Interest paid	(11,397)	**(10,039)**
Payments for cancellation of chartered vessels	(51,774)	**(1,061)**
Payments related to the Anti-Monopoly Act	(2,573)	**(630)**
Income taxes paid	(2,804)	**(3,308)**
Net cash provided by (used in) operating activities	¥ (21,797)	**¥ 33,397**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2021

	2020	2021
	(Millions of yen)	
Cash flows from investing activities:		
Payments into time deposits	¥ (5,171)	**¥ (5,199)**
Proceeds from withdrawal of time deposits	6,646	**6,535**
Purchases of marketable securities and investment securities	(1,113)	**(237)**
Proceeds from sales of marketable securities and investment securities	4,141	**296**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	**25,784**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(143)	**–**
Purchases of vessels, property and equipment	(71,361)	**(41,718)**
Proceeds from sales of vessels, property and equipment	52,502	**41,369**
Purchases of intangible assets	(787)	**(405)**
Payments of long-term loans receivable	(1,402)	**(4,309)**
Collection of long-term loans receivable	972	**1,906**
Other, net	(4,567)	**(7,033)**
Net cash provided by (used in) investing activities	(20,286)	**16,987**
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	(36,390)	**(921)**
Proceeds from long-term loans	73,044	**110,274**
Repayments of long-term loans and obligations under finance leases	(50,743)	**(140,191)**
Redemption of bonds	(1,809)	**(3,000)**
Cash dividends paid to non-controlling interests	(963)	**(849)**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	(80)	**(241)**
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	33,768	**4**
Other, net	(94)	**78**
Net cash provided by (used in) financing activities	16,731	**(34,845)**
Effect of exchange rate changes on cash and cash equivalents	(873)	**2,527**
Net increase (decrease) in cash and cash equivalents	(26,225)	**18,066**
Cash and cash equivalents at beginning of the year	138,040	**111,933**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	118	**1**
Cash and cash equivalents at end of the year *(Note 17)*	¥ 111,933	**¥ 130,001**

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2021

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, 2020 to the 2021 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 279 and 267 subsidiaries for the years ended March 31, 2020 and 2021, respectively. The principles of consolidation are to include significant subsidiaries, whose voting interests are owned 40 per cent or more by the consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, significant affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways are accounted for by the equity method.

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

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

1. Summary of Significant Accounting Policies (continued)

(c) Accounting period

The Company and 257 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.

1. Summary of Significant Accounting Policies (continued)

(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.

1. Summary of Significant Accounting Policies (continued)

(k) Leases

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

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

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

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

Research and development costs are charged to income as incurred.

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

(m) Allowance for doubtful receivables

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

(n) Allowance for bonuses

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

(o) Allowance for directors' bonuses

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

1. Summary of Significant Accounting Policies (continued)

(p) Allowance for directors' and audit and supervisory board members' retirement benefits

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

(q) Accrued expenses for overhaul of vessels

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

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

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

(s) Allowance for loss on liquidation of a subsidiary

In order to prepare for loss accompanied by liquidation of a subsidiary, the estimated amount of loss is recognized.

(t) Allowance for directors' stock benefits

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

(u) Allowance for loss on chartering contracts

In order to prepare for potential future loss under certain contracts where charter rates fall below hire rates, the probable and reasonably estimated amount of loss is recognized based on available information as of the end of the current fiscal year.

1. Summary of Significant Accounting Policies (continued)

(v) Retirement benefits

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

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

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

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

(w) Derivatives and hedging activities

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

(w) Derivatives and hedging activities (continued)

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

The Company has adopted "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No.40, issued on September 29, 2020) from the end of the fiscal year ended March 31, 2021.

Summary of adoption of ASBJ PITF No,40
(1) Hedge accounting method: Deferral hedge accounting method
(2) Types of financial instruments used as hedging instruments: Interest rate swaps
(3) Types of financial instruments to be hedged: Long-term loans
(4) Type of hedging transactions: Cash flow hedge

(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.

1. Summary of Significant Accounting Policies (continued)

(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 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 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).

1. Summary of Significant Accounting Policies (continued)

(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), and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19). On March 26, 2021, the ASBJ issued "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30). 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 major impact of the adoption of the "Accounting Standard for Revenue Recognition" on the consolidated financial statements is a change in the accounting treatment of shipping revenues and corresponding shipping expenses. In the past, the Group has adopted the voyage completion method whereby revenues and expenses were recorded at the time of completion of the voyage (revenues from container vessels were accounted for by the complex transportation progress method). However, from the beginning of the fiscal year ending March 31, 2022, revenues and expenses will be recorded on a pro rata basis over the estimated voyage duration according to the number of passage days. The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

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

(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 consolidated financial statements.

2. Significant Accounting Estimates

Effective from the year ended March 31, 2021, the Company adopted “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31) and discloses information in the notes related to significant accounting estimates. However, comparative information for the prior year was omitted in accordance with provisional treatment in paragraph 11 in the standard.

(1) Impairment loss of vessels

(a) Amount recognized in consolidated financial statements for the current fiscal year

Consolidated Statement of Operations
Loss on impairment of fixed assets: ¥6,307 million (of which ¥5,587 million is related to vessels)

Consolidated Balance Sheet
Vessels (net book value): ¥352,981 million

(b) Information related to significant accounting estimates for the identified item

(i) Calculation method of the amount recognized in the consolidated financial statements for the current fiscal year.

When an impairment loss on an asset or asset group is recognized, the amount of the carrying value is reduced to the recoverable amount and the difference is recognized as impairment loss. The recoverable amount is the higher of net selling value and value in use of the asset or asset group. Net selling value is an objective fair value evaluation obtained from a third-party vessel valuation specialist. Value in use of the asset or asset group is calculated based on future cash flows expected to result from continuous usage and disposal after usage.

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the current fiscal year.

Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the current fiscal year include the future cash flow period, freight and transportation volume forecasts, which serve as the basis of the business plan, a growth rate of the business (inflation rate or stress rate) during the period after the business plan, and the discount rate used to calculate the discounted present value.

2. Significant Accounting Estimates (continued)

(1) Impairment loss of vessels (continued)

(b) Information related to significant accounting estimates for the identified item (continued)

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the current fiscal year. (continued)

The future cash flow estimated in determining whether to recognize impairment loss and calculating the value in use is based on freight, charter market conditions, bunker fuel market conditions, transportation volume, which are basis of the medium- to long-term plan and budget approved by the Board of Directors, modifying as necessary to be consistent with information from external sources such as the business environment and internal information and estimated taking into consideration of the usage status of an asset or asset group or rational future utilization plan of an asset or asset group.

In addition, future cash flows for a period that exceeds the period of the medium- to long-term plan and budget are calculated using the figures from the medium- to long-term plan and budget approved by the Board of Directors, and estimated by assuming certain level of an inflation rate and stress rate based on the trends from the past medium- to long-term plan and budget.

The basis of determining the future cash flows period in determining whether to recognize impairment loss for an asset or asset group is the lesser of the remaining economic useful lives of the asset or the major asset in the asset group and 20 years.

The discount rate used to calculate the value in use is the weighted average cost of capital at the time of measurement of impairment loss.

(iii) Accounting estimates related to COVID-19

Due to the high degree of uncertainty regarding the spread of COVID-19 and when it will end, it is difficult to forecast a future outlook.

With regards to the estimation of future cash flows in calculating of value in use, it is based on the assumption that the effects of the infectious disease will remain at a certain level during the next fiscal year, but the global economy and the accompanying demand for freight transportation will continue to improve and it is assumed that it will recover subsequent to the next fiscal year.

2. Significant Accounting Estimates (continued)

(1) Impairment loss of vessels (continued)

(b) Information related to significant accounting estimates for the identified item (continued)

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

There is high uncertainty in the estimation of the significant assumptions such as the future cash flow period, freight and transportation volume forecasts, which serve as the basis of the business plan, a growth rate of the business (inflation rate or stress rate) during the period after the business plan, and the discount rate used to calculate the discounted present value, therefore it may affect the calculation of future cash flows, which are the basis of value in use.

In addition, due to the high degree of uncertainty in the above assumption including the spread of COVID-19 and when it will end, it may affect the calculation of future cash flows, which are the basis of value in use, depending on future circumstances.

(2) Estimate of allowance for loss on chartering contracts

(a) Amount recognized in consolidated financial statements for the current fiscal year.

Consolidated Statement of Operations
Charter hire in Marine transportation and other operating revenues: ¥15,278 million

Consolidated Balance Sheet
Allowance for loss on chartering contracts: ¥15,556 million

(b) Information related to significant accounting estimates for the identified item

(i) Calculation method of the amount recognized in the consolidated financial statements for the current fiscal year.

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

The allowance for loss on chartering contracts mentioned above is recognized in order to prepare for potential future loss under certain contracts where charter rates fall below hire rates with the probable and reasonably estimated amount of such loss based on available information as of the current fiscal year end.

2. Significant Accounting Estimates (continued)

(2) Estimate of allowance for loss on chartering contracts (continued)

(b) Information related to significant accounting estimates for the identified item (continued)

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the current fiscal year.

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

The range of vessels for which future charter contract losses are expected is based on the operation plan, which is based on the budget approved by the Board of Directors. The charter rate and hire rate of applicable vessels is based on the charter contract between the Company and the shipowner, and the charter contract between the Company and ONE.

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

(iii) Accounting estimates related to COVID-19

The future spread and end of the outbreak of COVID-19 may affect the calculation of the estimated losses arising from charter contracts, but the impact will be limited.

2. Significant Accounting Estimates (continued)

(2) Estimate of allowance for loss on chartering contracts (continued)

(b) Information related to significant accounting estimates for the identified item (continued)

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

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

In addition, due to the high degree of uncertainty in the above assumption including the spread of COVID-19 and when it will end, it may affect the calculation of the amount of estimated loss resulting from chartering contracts, depending on future circumstances.

3. Marketable Securities and Investment Securities

At March 31, 2020 and 2021, marketable securities and investment securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

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

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

There are no securities whose estimated fair value does not exceed their carrying value at March 31, 2020 and 2021.

3. Marketable Securities and Investment Securities (continued)

At March 31, 2020 and 2021 marketable securities and investment securities with quoted market prices classified as other securities are summarized as follows:

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

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

Proceeds from sales of investment securities classified as other securities for the years ended March 31, 2020 and 2021 are summarized as follows:

	2020	**2021**
	(Millions of yen)	
Proceeds from sales	¥ 3,866	**¥ 279**
Aggregate gain	1,265	**117**
Aggregate loss	0	**8**

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.

3. Marketable Securities and Investment Securities (continued)

The Company has recognized loss on devaluation of investment securities classified as other securities of ¥5,260 million and ¥4 million for the years ended March 31, 2020 and 2021, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥6 million and ¥1 million for the years ended March 31, 2020 and 2021, respectively. Loss on devaluation of investments in unconsolidated subsidiaries and affiliates recognized in other extraordinary losses in Consolidated Statement of Operations.

4. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2020 and 2021 are as follows:

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

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

4. Loss on Impairment of Fixed Assets (continued)

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

As profitability decreased significantly, the carrying values of business assets and assets group were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2020 and 2021.

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, 2020 and 2021.

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 7.5 per cent and 2.5 to 6.5 per cent for the years ended March 31, 2020 and 2021, respectively.

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

Short-term loans at March 31, 2020 and 2021 consisted of the following:

	2020	2021
	(Millions of yen)	
Short-term loans from banks	¥ 4,726	**¥ 3,816**

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.66 per cent and 0.47 per cent per annum at March 31, 2020 and 2021, respectively.

Long-term debt at March 31, 2020 and 2021 consisted of the following:

	2020	2021
	(Millions of yen)	
Long-term bank loans due within one year:		
Loans from banks and insurance companies due in installments through September 2057 at average interest rates of 1.25% and 1.52% per annum at March 31, 2020 and 2021, respectively	¥ 99,850	**¥ 134,186**
Long-term bank loans due after one year:		
Loans from banks and insurance companies due in installments through September 2057 at average interest rates of 1.25% and 1.52% per annum at March 31, 2020 and 2021, respectively	379,104	**325,803**
Bonds:		
0.69% bonds in yen, due August 31, 2020	3,000	**–**
1.05% bonds in yen, due August 31, 2022	7,000	**7,000**
Total	488,954	**466,989**
Amount due within one year	102,850	**134,186**
	¥ 386,104	**¥ 332,803**

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2021 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2022	¥ 134,186
2023	111,379
2024	39,488
2025	31,379
2026	25,595
2027 and thereafter	124,960
Total	¥ 466,989

The average interest rates applicable to the lease obligations due in installments through May 2029 are 3.00% and 3.17% at March 31, 2020, and 2021, respectively.

The aggregate annual maturities of obligations under finance leases subsequent to March 31, 2021 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2022	¥ 6,023
2023	4,654
2024	12,776
2025	3,128
2026	2,476
2027 and thereafter	7,141
Total	¥ 36,199

A summary of assets pledged as collateral at March 31, 2021 for short-term loans and current portion of long-term loans in the amount of ¥41,574 million, long-term loans of ¥155,704 million and loans to be incurred in the future is presented below:

	(Millions of yen)
Vessels	¥ 269,074
Investments in securities	19,153
Other	1,657
Total	¥ 289,885

Investments in securities of ¥19,153 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, 2021.

6. Income Taxes

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% of the statutory tax rate.

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

	2021
Statutory tax rate	28.5%
Difference in statutory tax rates of consolidated subsidiaries	1.0
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(29.2)
Items that are not permanently included in taxable income, such as dividends received	(0.9)
Changes in the valuation allowance	3.3
Other	(0.3)
Effective tax rate	2.4%

6. Income Taxes (continued)

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2020 and 2021 are analyzed as follows:

	2020	2021
	(Millions of yen)	
Deferred tax assets:		
Liability for retirement benefits	¥ 2,775	**¥ 2,600**
Allowance for loss on chartering contracts	5,597	**5,371**
Other allowances	1,565	**2,243**
Loss on impairment of fixed assets	1,999	**2,454**
Elimination of unrealized intercompany profit	883	**959**
Accounts and notes payable – trade	3,001	**3,431**
Loss on devaluation of investment securities	7,288	**7,420**
Deferred assets for tax purposes	1,131	**998**
Tax loss carried forward (*2)	77,623	**65,174**
Foreign tax credit carried forward	2,010	**1,550**
Deferred gain (loss) on derivatives under hedge accounting	348	**2,253**
Other	2,088	**1,557**
Gross deferred tax assets	106,314	**96,017**
Valuation allowance for tax loss carried forward (*2)	(75,302)	**(64,417)**
Valuation allowance for the total of deductible temporary differences and others	(23,432)	**(24,232)**
Valuation allowance subtotal (*1)	(98,734)	**(88,649)**
Total deferred tax assets	7,579	**7,368**
Deferred tax liabilities:		
Reserve for special depreciation	(132)	**(102)**
Deferred gain on tangible fixed assets for tax purposes	(797)	**(710)**
Unrealized holding gain on investment securities	(66)	**(1,705)**
Accelerated depreciation in overseas subsidiaries	(4,858)	**(1,720)**
Accumulated earnings tax	(81)	**(901)**
Deferred capital gain based on group corporate tax system	(192)	**(192)**
Tax effect of undistributed earnings of overseas unconsolidated subsidiaries and affiliates accounted for by the equity method	(860)	**(1,248)**
Other	(2,320)	**(3,166)**
Total deferred tax liabilities	(9,311)	**(9,749)**
Net deferred tax liabilities	¥ (1,731)	**¥ (2,381)**

6. Income Taxes (continued)

(*1) Valuation allowance decreased by ¥10,085 million for the year ended March 31, 2021. The main reasons for the decrease are the combination of a decrease of ¥10,885 million in valuation allowance for tax loss carried forward, and an increase of ¥800 million in total of deductible temporary differences and other. The increase in the total of deductible temporary differences and other mainly consists of an increase of ¥1,241 million in valuation allowance for deferred gain (loss) on derivatives under hedge accounting, and a decrease of ¥506 million in valuation allowance for foreign tax credit carried forward.

(*2) Tax loss carried forward and related deferred tax assets as of March 31, 2021 will expire as follows:

(Millions of yen)

	2021		
Year ending March 31,	Tax loss carried forward (*)	Valuation allowance for tax loss carried forward	Deferred tax assets related to tax loss carried forward
2022	¥ 2,047	¥ (2,047)	¥ –
2023	1,386	(1,386)	–
2024	–	–	–
2025	4,082	(4,082)	–
2026	21,157	(21,157)	–
2027 and thereafter	36,501	(35,743)	757
	¥ 65,174	¥ (64,417)	¥ 757

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

7. 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, 2020 and 2021, which would have been reflected in the accompanying Consolidated Balance Sheets if finance leases, other than those which transfer the ownership of the leased assets to the Group, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

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

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

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2020 and 2021 are summarized as follows:

	2020	**2021**
	(Millions of yen)	
Lease payments	¥ 1,061	**¥ 1,063**
Depreciation	753	**753**
Interest expenses	141	**127**

7. Leases (continued)

Future minimum lease payments subsequent to March 31, 2021 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2022	¥ 936
2023 and thereafter	5,851
Total	¥ 6,788

Future minimum lease payments or receipts subsequent to March 31, 2021 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	*(Millions of yen)*
2022	¥ 27,071
2023 and thereafter	119,745
Total	¥ 146,817

(As lessors)

Year ending March 31,	*(Millions of yen)*
2022	¥ 3,417
2023 and thereafter	3,874
Total	¥ 7,292

8. Retirement Benefits

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

The defined benefit plans

The changes in the retirement benefit obligation, except for plans which apply a simplified method, for the years ended March 31, 2020 and 2021 are as follows:

	2020	**2021**
	(Millions of yen)	
Retirement benefit obligation at beginning of the year	¥ 26,744	**¥ 27,987**
Service cost	1,574	**1,991**
Interest cost	70	**71**
Actuarial differences	631	**94**
Payment of retirement benefits	(1,006)	**(963)**
Foreign currency exchange rate changes	(28)	**38**
Other	–	**(194)**
Retirement benefit obligation at end of the year	¥ 27,987	**¥ 29,025**

8. Retirement Benefits (continued)

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2020 and 2021 are as follows:

	2020	**2021**
	(Millions of yen)	
Pension plan assets at fair value at beginning of the year	¥ 23,188	**¥ 23,271**
Expected return on pension plan assets	608	**421**
Actuarial differences	(854)	**1,316**
Contributions by the employer	1,314	**1,145**
Payment of retirement benefits	(982)	**(759)**
Foreign currency exchange rate changes	(2)	**2**
Other	–	**(123)**
Pension plan assets at fair value at end of the year	¥ 23,271	**¥ 25,273**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2020 and 2021 are as follows:

	2020	**2021**
	(Millions of yen)	
Liability for retirement benefits, net at beginning of the year	¥ 1,998	**¥ 1,997**
Retirement benefit expenses	453	**264**
Payment of retirement benefits	(313)	**(176)**
Contributions to the plans	(140)	**(116)**
Other	–	**(78)**
Liability for retirement benefits, net at end of the year	¥ 1,997	**¥ 1,890**

8. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the Consolidated Balance Sheets as of March 31, 2020 and 2021 for the Group's defined benefit plans:

	2020	**2021**
	(Millions of yen)	
Funded retirement benefit obligation	¥ 28,565	**¥ 29,882**
Plan assets at fair value	(25,251)	**(27,302)**
Subtotal	3,313	**2,579**
Unfunded retirement benefit obligation	3,399	**3,062**
Liability for retirement benefits, net	¥ 6,713	**¥ 5,642**
Liability for retirement benefits	¥ 7,313	**¥ 6,499**
Asset for retirement benefits	(600)	**(857)**
Liability for retirement benefits, net	¥ 6,713	**¥ 5,642**

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

Retirement benefit expenses for the Group for the years ended March 31, 2020 and 2021 are summarized as follows:

	2020	**2021**
	(Millions of yen)	
Service cost	¥ 1,574	**¥ 1,991**
Interest cost	70	**71**
Expected return on pension plan assets	(608)	**(421)**
Amortization of actuarial differences	499	**712**
Amortization of past service cost	(17)	**(18)**
Retirement benefit expenses calculated by a simplified method	453	**264**
Retirement benefit expenses	¥ 1,971	**¥ 2,600**

8. Retirement Benefits (continued)

Retirement benefits liability adjustments included in other comprehensive income before tax effects for the Group for the years ended March 31, 2020 and 2021 are summarized as follows:

	2020	2021
	(Millions of yen)	
Past service cost	¥ (17)	**¥ (18)**
Actuarial (gain) loss	(985)	**2,024**
Total	¥ (1,003)	**¥ 2,005**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2020 and 2021 are summarized as follows:

	2020	2021
	(Millions of yen)	
Unrecognized past service cost	¥ 88	**¥ 69**
Unrecognized actuarial differences	(4,843)	**(2,819)**
Total	¥ (4,755)	**¥ (2,750)**

The fair value of pension plan assets by major category as of March 31, 2020 and 2021 is as follows:

	2020	2021
Bonds	34%	**33%**
Equity	19	**22**
General account assets under insurance plan	30	**29**
Other	17	**16**
Total	100%	**100%**

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2020 and 2021 are as follows:

	2020	2021
Discount rates	Mainly 0.0%	**Mainly 0.0%**
Expected rates of return on plan assets	Mainly 3.6%	**Mainly 2.4%**
Rates of salary increase	Mainly 1.2% to 16.0%	**Mainly 1.2% to 16.0%**

Total contributions paid by consolidated subsidiaries to the defined contribution plans amounted to ¥602 million and ¥771 million for the years ended March 31, 2020 and 2021, respectively.

9. Shareholders' Equity

Movements in common stock and treasury stock of the Company for the years ended March 31, 2020 and 2021 are summarized as follows:

	Number of shares *(Thousands)*			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	93,938	–	–	93,938
Treasury stock (*1,2,3)	666	0	0	666

	Number of shares *(Thousands)*			
	April 1, 2020	**Increase**	**Decrease**	**March 31, 2021**
Common stock	**93,938**	**–**	**–**	**93,938**
Treasury stock (*4,5,6)	**666**	**0**	**2**	**664**

(*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 0 thousand shares is due to the decrease of 0 thousand shares resulting from providing shares related to the "Board Benefit Trust (BBT)" to officers.

(*3) 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.

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

(*6) 446 and 443 thousand shares, which are held by the Custody Bank of Japan, Ltd., are included in the number of shares in treasury stock at April 1, 2020 and March 31, 2021, respectively.

10. Accumulated Depreciation

Accumulated depreciation of vessels, property, plant and equipment at March 31, 2020 and 2021 is as follows:

	2020	2021
	(Millions of yen)	
Accumulated depreciation	¥ 434,991	**¥ 410,653**

11. Investments in Unconsolidated Subsidiaries and Affiliates

Amounts corresponding to unconsolidated subsidiaries and affiliates as of March 31, 2020 and 2021 are as follows:

	2020	2021
	(Millions of yen)	
Investment securities (Equity securities)	¥ 136,267	**¥ 237,248**
Other non-current assets (Investment funds)	3,275	**2,719**

12. 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.

12. Land Revaluation (continued)

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, 2020 and 2021, the fair value of land was lower than its carrying value after revaluation by ¥2,977 million and ¥2,862 million, respectively.

13. Commitments and Contingent Liabilities

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

	2021
	(Millions of yen)
Guarantees of loans	¥ 6,690
Obligations for additional investment, etc.	3,266

(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.

14. 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 36 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.

14. Financial Instruments (continued)

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

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

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

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

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

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

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

The fair value of financial instruments is based on market price, if available. When there is no market price, fair value is reasonably estimated. Fair value can fluctuate because different assumptions may be adopted for calculations of fair value considering various factors. In addition, the notional amounts of derivatives in Note 15. Derivatives and Hedging Activities are not necessarily indicative of the actual market exposure involved in the derivative transactions.

14. Financial Instruments (continued)

Estimated fair value of financial instruments

The carrying value of financial instruments on the Consolidated Balance Sheets as of March 31, 2020 and 2021, 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.

	2020		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
Cash and deposits	¥ 115,394	¥ 115,394	¥ –
Accounts and notes receivable – trade	60,022	60,022	–
Marketable securities and investment securities:			
Held to maturity debt securities	3	3	0
Other securities	7,409	7,409	–
Investments 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 and 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)

14. Financial Instruments (continued)

	2021		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
Cash and deposits	¥ 132,371	¥ 132,371	¥ –
Accounts and notes receivable – trade	56,125	56,125	–
Marketable securities and investment securities:			
Held to maturity debt securities	2	2	0
Other securities	12,870	12,870	–
Investments in unconsolidated subsidiaries and affiliates	3,910	1,607	(2,302)
Total assets	¥ 205,279	¥ 202,977	¥ (2,302)
Liabilities			
Accounts and notes payable – trade	¥ (51,661)	¥ (51,661)	¥ –
Short-term loans and current portion of long-term loans	(138,002)	(138,025)	(23)
Long-term debt, less current portion:			
Bonds	(7,000)	(6,812)	187
Long-term loans	(325,803)	(325,860)	(57)
Total liabilities	¥ (522,467)	¥ (522,360)	¥ 107
Derivative transactions (*)	¥ (6,591)	¥ (6,604)	¥ (12)

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

14. Financial Instruments (continued)

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

Fair value of debt securities is based on market prices provided by financial institutions. Fair value of equity securities and investment securities is based on market prices prevailing in the applicable stock exchange. For information on securities classified by holding purpose, please refer to Note 3. 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, 2020 and 2021 are summarized as follows.

	2020	**2021**
	(Millions of yen)	
Unlisted investment securities	¥ 142,645	**¥ 240,739**

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.

14. Financial Instruments (continued)

The redemption schedule as of March 31, 2021 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	2021			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
	(Millions of yen)			
Cash and deposits	¥132,371	¥ –	¥ –	¥ –
Accounts and notes receivable – trade	56,125	–	–	–
Marketable securities and Investment securities				
Held-to-maturity securities:				
Government, municipal bonds and others	0	1	–	–
Total	¥188,496	¥ 1	¥ –	¥ –

The redemption schedule as of March 31, 2021 for short-term loans and long-term debt is as provided in Note 5.

15. Derivatives and Hedging Activities

Information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2020 and 2021 are summarized as follows:

Interest rate-related transactions

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

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

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

15. Derivatives and Hedging Activities (continued)

Others

Excluding the above, information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2020 was not applicable and 2021 is summarized as follows:

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

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

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2020 and 2021 are summarized as follows:

15. Derivatives and Hedging Activities (continued)

Currency-related transactions

			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 (*1)
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 12,645	¥ 8,622	¥ 576
	EUR	Forecasted foreign currency transactions	7	–	(0)
	Selling:				
	USD	Forecasted foreign currency transactions	4,910	–	56
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	2,914	–	35
Fair value hedge (*2)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	701	–	109
	Receiving GBP, paying USD	Forecasted foreign currency transactions	687	–	13
	Total		¥ 21,866	¥ 8,622	¥ 791

15. Derivatives and Hedging Activities (continued)

Currency-related transactions (continued)

Method of hedge accounting	Transaction	Major hedged item	2021 Total contract value (notional principal amount)	2021 Contract value (notional principal amount) over one year	2021 Estimated fair value (*1)
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 8,279	¥ 2,453	¥ 779
	Selling:				
	USD	Forecasted foreign currency transactions	8,354	–	(250)
Fair value hedge (*2)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	711	–	(13)
	Total		¥ 17,345	¥ 2,453	¥ 515

(*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.

15. Derivatives and Hedging Activities (continued)

Interest rate-related transactions

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

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

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

15. Derivatives and Hedging Activities (continued)

Others

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

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

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

16. 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, 2020 and 2021.

	2020	**2021**
	(Millions of yen)	
Net unrealized holding gain (loss) on investment securities:		
Amount arising during the year	¥ 721	**¥ 5,840**
Reclassification adjustments to profit or loss	(6,390)	**(100)**
Amount before tax effect	(5,668)	**5,740**
Tax effect	1,461	**(1,691)**
Net unrealized holding gain (loss) on investment securities	(4,207)	**4,048**
Deferred gain (loss) on hedges:		
Amount arising during the year	(3,700)	**2,777**
Reclassification adjustments to profit or loss	(1,993)	**(439)**
Adjustments for acquisition costs of vessels due to valuation of hedges	(896)	**(35)**
Amount before tax effect	(6,590)	**2,302**
Tax effect	2,495	**(3,058)**
Deferred gain (loss) on hedges	(4,094)	**(756)**
Translation adjustments:		
Amount arising during the year	(4,625)	**5,562**
Reclassification adjustments to profit or loss	(3,289)	**580**
Translation adjustments	(7,915)	**6,142**
Retirement benefits liability adjustments:		
Amount arising during the year	(1,410)	**1,302**
Reclassification adjustments to profit or loss	407	**662**
Amount before tax effect	(1,003)	**1,964**
Tax effect	44	**(151)**
Retirement benefits liability adjustments	(958)	**1,813**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method:		
Amount arising during the year	(4,657)	**(3,538)**
Reclassification adjustments to profit or loss	763	**1,163**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	(3,893)	**(2,374)**
Total other comprehensive income	¥ (21,069)	**¥ 8,873**

17. Supplementary Information on Consolidated Statement of Cash Flows

INTERNATIONAL TRANSPORTATION SERVICE, INC. which had been a consolidated subsidiary was excluded from the scope of consolidation due to transfer of equity interest for the year ended March 31, 2021. The assets and liabilities derecognized upon the transfer were as follows:

	(Millions of yen)
Current assets	¥ 9,746
Fixed assets	6,629
Total assets	¥ 16,376

	(Millions of yen)
Current liabilities	¥ 5,455
Long-term liabilities	2,592
Total liabilities	¥ 8,047

Cash and cash equivalents in the accompanying Consolidated Statement of Cash Flows for the years ended March 31, 2020 and 2021 are reconciled to cash and deposits reflected in the accompanying Consolidated Balance Sheet as of March 31, 2020 and 2021 as follows:

	2020	**2021**
	(Millions of yen)	
Cash and deposits	¥ 115,394	**¥ 132,371**
Time deposits with a maturity of more than three months after the purchase date	(3,461)	**(2,369)**
Cash and cash equivalents	¥ 111,933	**¥ 130,001**

18. Amounts per Share

Amounts per share at March 31, 2020 and 2021 and for the years then ended are as follows:

	2020	2021
	(Yen)	
Net assets	¥ 1,083.88	**¥ 2,339.28**
Profit (loss) attributable to owners of the parent:		
Basic	56.50	**1,165.34**

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

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

Diluted profit attributable to owners of the parent per share for the years ended March 31, 2020 and 2021 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, 2020 and 2021 in the table above is summarized as follows:

	2020	2021
	(Millions of yen)	
Information used in computation of basic profit (loss) per share:		
Profit (loss) attributable to owners of the parent	¥ 5,269	**¥ 108,695**

	2020	2021
	(Thousands of shares)	
Weighted-average number of shares of common stock outstanding	93,272	**93,273**

The Company introduced a new performance-based share remuneration plan “Board Benefit Trust (BBT)” during the fiscal year ended March 31, 2018. The shares held by the Trust are included in treasury stock, which is deducted in calculating the number of treasury stock at the end of the year and the average number of shares of common stock outstanding when calculating the basic profit (loss) attributable to owners of the parent per share during the current year. The average number of shares of common stock outstanding was 446,238 and 444,192 shares for the years ended March 31, 2020 and 2021, respectively.

19. Business Combination

Business combination for the year 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

19. Business Combination (continued)

Business combination for the year ended March 31, 2020 (Continued)

Transaction under common control, etc. (continued)

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

2. Overview of accounting treatment

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

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

   (1) Main cause of change in capital surplus

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

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

   ¥12,662 million

19. Business Combination (continued)

Business combination for the year ended March 31, 2021

Business divestiture

(Transfer of subsidiary's shares)

1. Overview of business divestiture

   (1) Name of successor enterprise in business divestiture

   MIP V BidCo, LLC

   (2) Outline of the company to be divested

   Name of the company: INTERNATIONAL TRANSPORTATION SERVICE, INC. ("ITS") (*)

   (*) ITS includes Husky Terminal & Stevedoring, Inc., etc. a wholly owned subsidiary of ITS.

   Main business: Operation of container terminal in North America

   (3) Reason for business divestiture

   ITS has been operating a container terminal business at the Port of Long Beach, California since 1971. Husky also started a container terminal business in 1983 at Tacoma Port, Washington. Currently, both companies provide services to THE Alliance, as a main customer. OCEAN NETWORK EXPRESS PTE. LTD. ("ONE"), to which the Company transferred the containership business, is a member of THE Alliance. As part of the portfolio strategy of group companies that the Company has been promoting, the Company is reviewing the group company strategy related to the transfer of the container ship business to ONE, and the Company decided to transfer all shares of ITS to MIP V BidCo, LLC.

   (4) Date of business divestiture

   December 22, 2020

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

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

19. Business Combination (continued)

Business combination for the year ended March 31, 2021 (continued)

Business divestiture (continued)

(Transfer of subsidiary's shares) (continued)

2. Overview of accounting treatment

   (1) Gain or loss from the transaction

   Gain on sales of shares of subsidiaries: ¥19,955 million.

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

	(Millions of yen)
Current assets	¥ 9,746
Fixed assets	6,629
Total assets	¥ 16,376

	(Millions of yen)
Current liabilities	¥ 5,455
Long-term liabilities	2,592
Total liabilities	¥ 8,047

   (3) Accounting treatment

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

3. Reporting segment in which the divested company was included

   Product logistics segment

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

	(Millions of yen)
Operating revenues	¥ 27,773
Operating income	1,037

20. Segment Information

Segment information for the years ended March 31, 2020 and 2021

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 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.

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

Reporting segment information for the years ended March 31, 2020 and 2021 consisted of the following:

(Millions of yen)

	2020						
	Dry bulk	Energy resource transport	Product logistics	Other (*1)	Total	Adjustments and eliminations (*2)	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

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

(Millions of yen)

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

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

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

*2 (1) The adjustment and elimination of segment profit (loss) of ¥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.

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

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

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

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

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

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

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

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

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

Revenues by countries or geographical areas for the years ended March 31, 2020 and 2021 are summarized as follows(*):

(Millions of yen)

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

(Millions of yen)

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

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

At March 31, 2020 and 2021, vessels, property and equipment by countries or geographical areas are summarized as follows:

(Millions of yen)

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

(Millions of yen)

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

20. Segment Information (continued)

Segment information for the years ended March 31, 2020 and 2021 (continued)

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

Losses on impairment of fixed assets for the years ended March 31, 2020 and 2021 are as follows:

(Millions of yen)

	2020					
	Dry bulk	Energy resource transport	Product logistics	Other (*)	Adjustments and eliminations	Total
Loss on impairment of fixed assets	¥ 58	¥ 254	¥ 249	¥ 28	¥ 12	¥ 604

(Millions of yen)

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

(*) 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.

21. Related Party Transactions

1. Transactions with related parties

   There is no applicable item for the years ended March 31, 2020 and 2021.

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, 2021. The affiliate's summarized financial statements for the years ended March 31, 2020 and 2021 are as follows:

	2020	**2021**
	(Millions of yen)	
Total current assets	¥ 386,172	**¥ 820,570**
Total fixed assets	622,557	**633,268**
Total current liabilities	249,797	**357,812**
Total long-term liabilities	508,869	**505,863**
Total net assets	250,062	**590,162**
Operating revenues	1,374,870	**1,672,107**
Profit (loss) before income taxes	18,710	**391,773**
Profit (loss)	12,702	**385,606**

22. Subsequent Events

(Transfer of Subsidiary Shares and Fixed Assets)

Based on the resolution at the Board of Directors' meeting on April 30, 2021, as a result of undertaking a portfolio review of group companies, the Company has signed an agreement to transfer all shares of Century Distribution Systems, Inc. ("CDS"), a subsidiary of the Company, to Century Distribution Intermediate Holding, LLC, an investment fund managed by Sun Capital Partners, Inc. ("SUN"), a U.S.-based private investment firm. Based on the agreement, the Company transferred all shares of CDS on June 1, 2021.

On the same day, decision was made to transfer the certain fixed assets, such as buildings, structures and land, etc., owned in California, U.S.A., by Universal Logistics System, Inc. ("ULS"), a subsidiary of CDS, to a third party. Based on the decision, ULS transferred the fixed assets on June 1, 2021.

22. Subsequent Events (continued)

1. Transfer of CDS Shares

(1) Outline of the company to be transferred

Name of the company:	Century Distribution Systems, Inc. (The Company's share: 100%)
Main business:	Buyers' consolidation business, Non-Vessel Operating Common Carrier ("NVOCC") business, land transport business and warehouse and supply chain management business offering customers an IT system.
Business transaction with the Company:	The Company's local subsidiaries and some of its group companies operate an agency business in Europe and Asia for CDS's subsidiaries.

(2) Transferee

Name of the transferee:	Century Distribution Intermediate Holding, LLC (Investment fund managed by Sun Capital Partners, Inc.)

(3) Number of shares, transfer price, gain or loss, shareholding ratio after the transfer, and date of transfer

Number of shares:	22,550 shares
Transfer price:	Undisclosed due to confidentiality provision in the agreement
Gain or loss:	A gain on sales of shares of subsidiaries in the amount of ¥7.3 billion (*1) is recognized under extraordinary income in the Consolidated Statement of Operations for the year ending March 31, 2022.
Shareholding ratio after the transfer:	None
Date of transfer:	June 1, 2021

(*1) The amount includes expected cash dividends from CDS to be distributed following the sale of the fixed assets as described in 2. below. In addition, the final share transfer price is subject to change because the transfer price will be determined based on the terms and conditions of the Transfer Agreement, including the financial statements of the CDS Group.

(*2) The appropriate book values of assets and liabilities related to the transferred business and the main breakdown thereof, and the estimated amount of profit or loss related to the divested business to be recorded in the Consolidated Statement of Operations for the following fiscal year, are currently being calculated.

22. Subsequent Events (continued)

1. Transfer of CDS Shares (continued)

(4) Name of reporting segment in which the transferred company was included

Product logistics segment

2. Transfer of fixed assets owned by ULS

(1) Outline of the transfer of fixed assets

The Company has decided to sell the fixed assets (buildings, structures and land, etc.) owned by ULS to a third party in conjunction with the timing of the transfer of CDS shares as described in 1. above.

(2) Location and details

Location:	2850 E. Del Amo Blvd. Carson, CA 90221, U.S.A.
Details:	Buildings and structures (264,450 SF) and land (835,425 SF), etc.
Description:	Logistics warehouse

(*) The transfer price is not disclosed at the request of the transferee.

(3) Outline of transferee

The name of transferee is not disclosed at their request. However, there are no ownership or business relationships to be noted between the transferee and the Company or the Group, and the transferee is not a related party of the Company or the Group.

(4) Impact on profit or loss

In line with the transfer of the aforementioned fixed assets, the Company recognizes a gain on sales of fixed assets of approximately ¥12.2 billion as extraordinary income in the Consolidated Statement of Operations for the fiscal year ending March 31, 2022.

(5) Schedule of transfer

Date of transfer: June 1, 2021

Independent Auditor's Report

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, 2021, 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, 2021, 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.

Emphasis of Matter

We draw attention to "Subsequent Events" in the notes to the consolidated financial statements, which describes that the Company transferred all shares of a subsidiary, Century Distribution Systems, Inc. ("CDS"), on June 1, 2021. On the same day, Universal Logistics System, Inc., a subsidiary of CDS, transferred certain fixed assets, such as buildings, structures and land, etc., to a third party.

Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

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Impairment loss of vessel	
Description of Key Audit Matter	**Auditor's Response**
Kawasaki Kisen Kaisha, Ltd. (the "Company") recognized vessel of ¥352,981 million in the consolidated balance sheet as of March 31, 2021 and a related impairment loss of fixed assets of ¥6,307 million in the consolidated statement of operations for the year ended March 31, 2021. Impairment loss of vessel was ¥5,587 million out of impairment loss of fixed assets and information on impairment loss is described in Note 2 "Significant Accounting Estimate" and Note 4 "Loss on Impairment of Fixed Assets." Whenever there are indications of impairment for an asset or an asset group of vessels that are major business assets, the Company determines whether it is necessary to recognize an impairment loss. When the Company determines that an asset or an asset group is impaired, the Company reduces the carrying amount to the recoverable amount and recognizes the difference as an impairment loss. In recognizing and measuring impairment loss, the recoverable amount of the asset or the asset group is calculated based on the higher of net selling value and value in use. Net selling value is measured based on the valuations obtained from third-party vessel valuation specialists. Value in use is calculated as the discounted present value of estimated future cash flows. The estimated future cash flows generated from the continued use of an asset group are determined based on the business plan approved by the Board of Directors and the estimated future cash flow for a period that exceeds the period of the business plan are calculated by assuming certain level of growth rate of its business. As described in Note 2 "Significant Accounting Estimates," significant assumptions in estimating the value in use	The audit procedures we performed to assess the Company's judgement on impairment loss of vessel include the following, among others: ・ For net selling value obtained by the Company from third-party vessel valuation specialists, we understood the valuation method applied by the vessel valuation specialists and compared it with the Company's transaction history of selling and buying vessels and related information for other vessel markets to evaluate consistency. ・ We compared the cash flow projection period of value in use with the remaining economic lives of major assets. ・ We compared and recalculated the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. ・ For the freight and transportation volume forecasts which are significant assumption that serve as the basis of the business plan and a growth rate of its business during the period after the business plan, which are important assumptions that serve as the basis of the business plan, we inquired of the management and related departments, including the impact of the new coronavirus infection (COVID-19). In addition, considering the uncertainty, we examined the consistency of market forecasts with available external information including the information we independently obtained regarding market forecasts. ・ In order to evaluate whether any management bias existed in the estimates of the business plan, we compared the estimates made in the previous year and the business plans used for them with their actual results.

include the future cash flow period, freight and transportation volume forecasts, which serve as the basis of the business plan, a growth rate of its business (inflation rate or stress rate) during the period after the business plan, and the discount rate used to calculate the discounted present value. Given that the significance of the amount of the impairment loss recorded in the consolidated financial statements and the significant assumptions used to estimate the recoverable amount are subject to uncertainty and require management's judgement, we determined impairment of vessel to be a key audit matter.	• For the discount rate, we evaluated the consistency between the evaluation method and accounting standards and the consistency between the input information used to calculate the discount rate and the available external information.

Estimate of Allowance for loss on chartering contracts	
Description of Key Audit Matter	Auditor's Response
The Company recognized an allowance for loss on chartering contracts of ¥15,556 million in the consolidated balance sheet as of March 31, 2021. The Company recognized the allowance for loss on chartering contracts in order to prepare for potential future loss attributable to certain contracts where charter rates have fallen below hire rates, with the probable and reasonably estimated amount of loss based on available information as of the end of fiscal year as described in "(u) Allowance for loss on chartering contracts" in "1. Summary of significant accounting policies." As described in Note 2 "Significant Accounting Estimates," significant assumptions in estimating the allowance for loss on chartering contracts are the range of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of loss making from the contracts. The expected duration of loss making from the contracts is based on the term of the charter	The audit procedures we performed to assess the Company's judgement on significant assumptions related to the allowance for loss on chartering contracts include the following, among others: • We obtained details on the Company's chartering contracts for the applicable vessels, and confirmed the number of vessels, contract type, scheduled date of return to the shipowner, and other important information and compared with the relevant qualitative information and the audit results of previous years. • We compared the charter rates for the applicable vessels with the corresponding charter rate list agreed with the external charter contractors, and recalculated the charter amount. In addition, regarding whether or not the chartering contract will continue, we discussed with the management and related departments regarding the outlook for the future chartering contract amounts and charter rate, including the impact of COVID-19.

contract concluded with the lender, and the situation where the unfavorable results between the charter rate and hire rate is reasonably expected to continue from the end of the current fiscal year, even after the consideration of the market trends to which the vessel belongs to and the Group's policy of the charter contract. Given that the significance of the allowance for loss on chartering contracts in the consolidated financial statements and significant assumptions used to estimate allowance for loss on chartering contracts are subject to uncertainty and require management's judgement, we determined the allowance for loss on chartering contracts to be a key audit matter.	• We inquired of the management and related departments about the assumption that the management had set as the period during which the loss resulting from the chartering contracts is expected to continue. In addition, we evaluated whether the assumptions were consistent with the available external information regarding the market forecast corresponding to the applicable vessels. • To assess whether management bias exists, we compared the estimated amount of chartering contract loss and their significant assumptions in previous years with subsequent actual performance in the current year.

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.

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.

Independent Auditor's Report

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

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

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

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

Independent Auditor’s Report

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Building a better working world

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, 2021

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