Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd.
and Consolidated Subsidiaries

March 31, 2023
with Independent Auditor's Report

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

March 31, 2023

Contents

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2023

	2022	**2023**
	(Millions of yen)	
Assets		
Current assets:		
Cash and deposits *(Notes 6, 15 and 18)*	¥ 247,344	**¥ 247,429**
Accounts and notes receivable-trade and contract assets *(Notes 6, 15 and 21)*	103,699	**107,522**
Marketable securities *(Notes 4 and 15)*	0	**102,001**
Raw materials and supplies *(Note 6)*	36,572	**38,356**
Deferred and prepaid expenses *(Note 6)*	17,659	**22,018**
Short-term loans receivable	4,749	**2,293**
Other current assets *(Notes 6 and 16)*	22,107	**16,345**
Allowance for doubtful accounts	(1,044)	**(1,074)**
Total current assets	431,089	**534,894**
Non-current assets:		
Vessels, net *(Note 6)*	339,821	**319,329**
Buildings and structures, net	9,817	**9,709**
Machinery, equipment and vehicles, net *(Note 5)*	2,904	**3,129**
Land *(Note 5)*	15,730	**15,537**
Construction in progress	9,679	**18,842**
Other, net	4,076	**5,599**
Total vessels, property and equipment *(Notes 11 and 22)*	382,029	**372,147**
Intangible assets *(Note 22)*:		
Other intangible assets	3,513	**3,808**
Total intangible assets	3,513	**3,808**
Investments and other assets:		
Investment securities *(Notes 4, 6, 12, 15, 20 and 22)*	691,809	**1,070,227**
Long-term loans receivable	23,007	**24,568**
Asset for retirement benefits *(Note 9)*	1,228	**1,400**
Deferred tax assets *(Note 7)*	2,589	**6,175**
Other investments and other assets *(Notes 5, 12 and 16)*	40,824	**41,323**
Allowance for doubtful accounts	(1,132)	**(1,930)**
Total investments and other assets	758,326	**1,141,765**
Total non-current assets	1,143,870	**1,517,722**
Total assets *(Note 22)*	¥ 1,574,960	**¥ 2,052,616**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet (continued)

March 31, 2023

	2022	2023
	(Millions of yen)	
Liabilities		
Current liabilities:		
Accounts and notes payable - trade *(Note 15)*	¥ 62,756	**¥ 62,803**
Short-term loans and current portion of long-term loans *(Notes 6 and 15)*	87,544	**50,691**
Lease obligations *(Note 6)*	26,870	**13,367**
Accrued income taxes *(Note 7)*	3,051	**2,095**
Provision for loss related to the Anti-Monopoly Act	357	**1,692**
Provision for loss on liquidation of subsidiaries and affiliates	2,168	**–**
Provision for loss on chartering contracts *(Note 2)*	13,903	**9,609**
Provision for bonuses	4,165	**4,489**
Provision for directors' bonuses	309	**523**
Other current liabilities *(Note 6)*	50,411	**40,106**
Total current liabilities	251,538	**185,378**
Non-current liabilities:		
Long-term loans, less current portion *(Notes 6 and 15)*	277,992	**267,313**
Lease obligations *(Note 6)*	24,047	**20,320**
Deferred tax liabilities *(Note 7)*	9,129	**4,044**
Deferred tax liabilities on land revaluation *(Note 13)*	1,174	**1,174**
Provision for directors' and audit and supervisory board members' retirement benefits	167	**83**
Provision for directors' stock benefits	307	**1,192**
Provision for periodic drydocking of vessels	13,392	**14,810**
Liability for retirement benefits *(Note 9)*	6,147	**6,441**
Other non-current liabilities *(Note 6)*	6,178	**5,177**
Total non-current liabilities	338,538	**320,558**
Total liabilities	590,077	**505,937**
Net assets		
Shareholders' equity *(Note 10)*:		
Common stock *(Note 20)*		
Authorized – 600,000,000 shares in 2022 and 2023		
Issued – 281,814,687 shares in 2022 and 250,712,389 shares in 2023	75,457	**75,457**
Capital surplus	14,214	**29,102**
Retained earnings	777,130	**1,302,769**
Treasury stock *(Note 20)* –1,995,630 shares in 2022 and 3,438,017 shares in 2023	(2,378)	**(6,550)**
Total shareholders' equity	864,424	**1,400,779**
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on investment securities	5,474	**6,482**
Deferred gain (loss) on hedges *(Note 16)*	(893)	**2,100**
Revaluation reserve for land *(Note 13)*	4,630	**4,682**
Foreign currency translation adjustments	12,954	**103,353**
Retirement benefits liability adjustments *(Note 9)*	(1,956)	**(2,000)**
Total accumulated other comprehensive income	20,209	**114,619**
Non-controlling interests	100,248	**31,280**
Total net assets	984,882	**1,546,679**
Total liabilities and net assets	¥ 1,574,960	**¥ 2,052,616**

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Operations

Year ended March 31, 2023

	2022	**2023**
	(Millions of yen)	
Marine transportation and other operating revenues *(Notes 2 and 21)*	¥ 756,983	**¥ 942,606**
Marine transportation and other operating costs and expenses *(Note 2)*	681,605	**799,881**
Gross profit (loss)	75,377	**142,724**
Selling, general and administrative expenses	57,714	**63,866**
Operating income (loss)	17,663	**78,857**
Non-operating income:		
Interest income *(Note 22)*	671	**2,805**
Dividend income	2,226	**2,517**
Equity in earnings of unconsolidated subsidiaries and affiliates *(Note 22)*	640,992	**627,759**
Foreign exchange gains	10,742	**–**
Other non-operating income	1,470	**2,950**
Total non-operating income	656,103	**636,033**
Non-operating expenses:		
Interest expenses *(Note 22)*	10,305	**9,996**
Foreign exchange losses	–	**9,723**
Loss on valuation of derivatives *(Note 16)*	2,003	**–**
Other non-operating expenses	3,954	**4,332**
Total non-operating expenses	16,263	**24,052**
Ordinary income (loss) *(Note 22)*	657,504	**690,839**
Extraordinary income:		
Gain on sales of non-current assets	19,758	**3,829**
Other extraordinary income	10,347	**919**
Total extraordinary income	30,105	**4,748**
Extraordinary losses:		
Impairment losses *(Notes 5 and 22)*	18,159	**18**
Loss on cancellation of chartered vessels	7,262	**–**
Provision for loss on liquidation of subsidiaries and affiliates	2,168	**–**
Loss on change in equity	–	**614**
Provision for loss related to the Anti-Monopoly Act	–	**1,335**
Other extraordinary losses *(Note 4)*	924	**742**
Total extraordinary losses	28,516	**2,710**
Profit (loss) before income taxes	659,093	**692,877**
Income taxes *(Note 7)*:		
Current	8,665	**3,864**
Deferred	3,794	**(9,982)**
Total income taxes	12,459	**(6,117)**
Profit (loss)	646,633	**698,994**
Profit (loss) attributable to non-controlling interests	4,209	**4,090**
Profit (loss) attributable to owners of the parent *(Note 19)*	¥ 642,424	**¥ 694,904**

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, 2023

	2022	**2023**
	(Millions of yen)	
Profit (loss)	¥ 646,633	**¥ 698,994**
Other comprehensive income *(Note 17)*:		
Net unrealized holding gain (loss) on investment securities	1,581	**894**
Deferred gain (loss) on hedges	1,470	**402**
Foreign currency translation adjustments	10,959	**12,014**
Retirement benefits liability adjustments	881	**(29)**
Share of other comprehensive income (loss) of unconsolidated subsidiaries and affiliates accounted for using the equity method	5,737	**81,759**
Total other comprehensive income	20,630	**95,042**
Comprehensive income	¥ 667,264	**¥ 794,036**
(Breakdown)		
Comprehensive income attributable to owners of parent	¥ 662,543	**¥ 789,261**
Comprehensive income attributable to non-controlling interests	4,720	**4,774**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2023

(Millions of yen)

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

(Millions of yen)

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

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2023

(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, 2022	¥ 75,457	¥ 14,214	¥ 777,130	¥ (2,378)	¥ 864,424	¥ 5,474	¥ (893)
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–
Restated balance	75,457	14,214	777,130	(2,378)	864,424	5,474	(893)
Change in items during the year							
Cash dividends	–	–	(84,613)	–	(84,613)	–	–
Profit (loss) attributable to owners of the parent	–	–	694,904	–	694,904	–	–
Purchase of treasury stock	–	–	–	(89,558)	(89,558)	–	–
Disposal of treasury stock	–	60	–	30	90	–	–
Cancellation of treasury stock	–	(381)	(84,574)	84,955	–	–	–
Share exchanges	–	14,898	–	400	15,299	–	–
Change in ownership interest of parent due to transactions with non-controlling interests	–	310	–	–	310	–	–
Reversal of revaluation reserve for land	–	–	(52)	–	(52)	–	–
Net changes in retained earnings from changes in scope of consolidation or equity method	–	–	(25)	–	(25)	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	1,007	2,994
Net changes during the year	–	14,888	525,639	(4,172)	536,355	1,007	2,994
Balance at March 31, 2023	¥ 75,457	¥ 29,102	¥ 1,302,769	¥ (6,550)	¥ 1,400,779	¥ 6,482	¥ 2,100

(Millions of yen)

	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2022	¥ 4,630	¥ 12,954	¥ (1,956)	¥ 20,209	¥ 100,248	¥ 984,882
Cumulative effects of changes in accounting policies	–	–	–	–	–	–
Restated balance	4,630	12,954	(1,956)	20,209	100,248	984,882
Change in items during the year						
Cash dividends	–	–	–	–	–	(84,613)
Profit (loss) attributable to owners of the parent	–	–	–	–	–	694,904
Purchase of treasury stock	–	–	–	–	–	(89,558)
Disposal of treasury stock	–	–	–	–	–	90
Cancellation of treasury stock	–	–	–	–	–	–
Share exchanges	–	–	–	–	–	15,299
Change in ownership interest of parent due to transactions with non-controlling interests	–	–	–	–	–	310
Reversal of revaluation reserve for land	–	–	–	–	–	(52)
Net changes in retained earnings from changes in scope of consolidation or equity method	–	–	–	–	–	(25)
Net changes in items other than shareholders' equity	52	90,398	(43)	94,409	(68,968)	25,441
Net changes during the year	52	90,398	(43)	94,409	(68,968)	561,796
Balance at March 31, 2023	¥ 4,682	¥ 103,353	¥ (2,000)	¥ 114,619	¥ 31,280	¥ 1,546,679

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2023

	2022	**2023**
	(Millions of yen)	
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 659,093	**¥ 692,877**
Depreciation and amortization	42,821	**42,396**
Increase (decrease) in liability for retirement benefits	(99)	**439**
(Increase) decrease in asset for retirement benefits	(371)	**(171)**
Increase (decrease) in retirement benefits liability adjustments	980	**(125)**
Increase (decrease) in provision for directors' and audit and supervisory board members' retirement benefits	(185)	**(79)**
Increase (decrease) in provision for periodic drydocking of vessels	1,463	**1,389**
Increase (decrease) in provision for loss related to the Anti-Monopoly Act	–	**1,335**
Increase (decrease) in provision for loss on chartering contracts	(1,652)	**(4,294)**
Interest and dividend income	(2,898)	**(5,323)**
Interest expenses	10,305	**9,996**
Foreign exchange losses (gains)	(8,291)	**7,786**
Impairment losses	18,159	**18**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(640,992)	**(627,759)**
Loss on cancellation of chartered vessels	7,262	**–**
Provision for loss on liquidation of subsidiaries and affiliates	2,168	**–**
(Gain) loss on sales of vessels, property and equipment	(19,756)	**(3,802)**
(Gain) loss on change in equity	–	**614**
(Increase) decrease in accounts and notes receivable – trade and contract assets	(28,855)	**(1,651)**
(Increase) decrease in inventories	(14,024)	**(1,642)**
(Increase) decrease in other current assets	1,754	**(8,586)**
Increase (decrease) in accounts and notes payable – trade	2,524	**(1,969)**
Increase (decrease) in other current liabilities	8,097	**(1,935)**
Other, net	(8,026)	**3,979**
Subtotal	29,476	**103,489**
Interest and dividends income received	217,357	**368,103**
Interest expenses paid	(10,435)	**(9,676)**
Payments for cancellation of chartered vessels	(6,715)	**(546)**
Payments related to the Anti-Monopoly Act	(328)	**(399)**
Income taxes paid	(2,894)	**(4,919)**
Net cash provided by (used in) operating activities	¥ 226,460	**¥ 456,049**

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2023

	2022	**2023**
	(Millions of yen)	
Cash flows from investing activities:		
Payments into time deposits	¥ (6,588)	**¥ (4,231)**
Proceeds from withdrawal of time deposits	6,114	**4,729**
Purchases of marketable securities and investment securities	(4,249)	**(21,669)**
Proceeds from sales of marketable securities and investment securities	252	**965**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	2,810	**4,882**
Purchases of vessels, property and equipment	(41,140)	**(67,641)**
Proceeds from sales of vessels, property and equipment	46,382	**37,746**
Purchases of intangible assets	(821)	**(867)**
Payments of long-term loans receivable	(6,824)	**(2,264)**
Collection of long-term loans receivable	1,331	**3,835**
Other, net	(3,115)	**(2,230)**
Net cash provided by (used in) investing activities	(5,848)	**(46,745)**
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	(244)	**(635)**
Proceeds from long-term loans	76,339	**44,450**
Repayments of long-term loans and obligations under finance leases	(190,309)	**(102,294)**
Redemption of bonds	–	**(7,000)**
Purchase of treasury stock	(4)	**(89,558)**
Cash dividends paid	(0)	**(84,506)**
Cash dividends paid to non-controlling interests	(1,124)	**(4,035)**
Repayments to non-controlling interests	–	**(56,875)**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	(663)	**(289)**
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	14	**11**
Other, net	(8)	**(57)**
Net cash provided by (used in) financing activities	(116,001)	**(300,790)**
Effect of exchange rate changes on cash and cash equivalents	9,705	**(6,001)**
Net increase (decrease) in cash and cash equivalents	114,314	**102,512**
Cash and cash equivalents at beginning of the year	130,001	**244,316**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	1	**2**
Cash and cash equivalents at end of the year *(Note 18)*	¥ 244,316	**¥ 346,831**

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2023

1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2022 to the presentation for the year ended March 31, 2023. 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 249 and 238 subsidiaries for the years ended March 31, 2022 and 2023, respectively. The principles of consolidation are to include significant subsidiaries, whose voting interests are owned 40 per cent or more by the consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, significant affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways are accounted for by the equity method.

For the year ended March 31, 2023, 6 consolidated subsidiaries were included in the scope of consolidation in terms of materiality and 17 companies were excluded from the scope of consolidation due to the sales of a part of shares and liquidation.

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

1. Summary of Significant Accounting Policies (continued)

(b) Principles of consolidation (continued)

The Company accounted for 14 unconsolidated subsidiaries and 32 affiliates using the equity method at March 31, 2023. The main affiliated company is OCEAN NETWORK EXPRESS PTE. LTD. For the year ended March 31, 2023, 4 unconsolidated subsidiaries were included in the scope of application of the equity method due to the sales of a part of shares and in terms of materiality.

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

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

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

(c) Accounting period

The Company’s accounting period begins each year on April 1 and ends the following year on March 31. During the fiscal year ended March 31, 2023, the Company and 229 consolidated subsidiaries have a March 31 year end, and the remaining 9 consolidated subsidiaries have a December 31 year end. 4 consolidated subsidiaries out of 9 consolidated subsidiaries have December 31 year end and used as the closing date for their financial statements. However, necessary adjustments have been made to address any significant transactions that occurred between closing dates to that of the Company. 5 consolidated subsidiaries out of 9 consolidated subsidiaries with a fiscal year end of December 31 provide financial statements based on provisional settlement of accounts as of March 31 to facilitate preparation of the consolidated financial statements.

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

1. Summary of Significant Accounting Policies (continued)

(d) Translation of foreign currencies

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

(e) Translation of accounts of overseas consolidated subsidiaries

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

(f) Cash and cash equivalents

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

(g) Raw material and supplies

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

1. Summary of Significant Accounting Policies (continued)

(h) Securities

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

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

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

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

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

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

(j) Capitalization of interest expense

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

1. Summary of Significant Accounting Policies (continued)

(k) Leases

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

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

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

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

Research and development costs are charged to income as incurred.

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

(m) Allowance for doubtful accounts

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

(n) Provision for bonuses

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

(o) Provision for directors' bonuses

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

1. Summary of Significant Accounting Policies (continued)

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

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

(q) Provision for periodic drydocking of vessels

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

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

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

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

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

(t) Provision for directors' stock benefits

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

(u) Provision for loss on chartering contracts

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

1. Summary of Significant Accounting Policies (continued)

(v) Retirement benefits

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

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

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

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

(w) Revenues and costs and expense recognition

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

(x) Derivatives and hedging activities

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

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

1. Summary of Significant Accounting Policies (continued)

(x) Derivatives and hedging activities (continued)

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

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

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

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

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

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

(y) Income taxes

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

1. Summary of Significant Accounting Policies (continued)

(z) Deferred assets

Bond issuance costs are charged to income as incurred.

(aa) Distribution of retained earnings

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

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

(ab) Group tax sharing system

The Company and certain domestic subsidiaries adopted the group tax sharing system.

(ac) Accounting standards issued but not yet effective

("Practical Solution on Accounting for and Disclosure of Issuance and Holding of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc." (PITF No. 43, August 26, 2022, ASBJ))

(1) Overview

The "Act for Partial Revision of the Act on the Financial Settlement for Responding to the Diversification of Financial Transactions Accompanying the Development of Information and Communication Technology" (Act No. 28 of 2019), which was enacted in May 2019, revised the Financial Instruments and Exchange Act, making so-called investment ICOs (Initial Coin Offering, a generic term for the act of raising funds from investors by issuing tokens (electronic records and symbols)) subject to the Financial Instruments and Exchange Act and establishing various provisions. Based on above, the ASBJ issued the practical solution to clarify the accounting for issuance and holding electronically recorded transferable rights that must be indicated on securities, etc. in the "Cabinet Office Order on Financial Instruments Business".

(2) Scheduled date of adoption

The standard will be applied from the beginning of the fiscal year ending March 31, 2024.

1. Summary of Significant Accounting Policies (continued)

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

(3) Effect of the adoption of implementation guidance

The effect of the application of "Practical Solution on Accounting for Issuance and Holding of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc." on the consolidated financial statements is currently under evaluation.

("Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022, ASBJ))
("Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022, ASBJ))
("Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, ASBJ))

(1) Overview

In February 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting" and others ("ASBJ Statement No. 28, etc."), which completed the transfer of practical guidelines on tax effect accounting at the JICPA to the ASBJ. These accounting standards issued but not yet effective on the following two issues, which were to be discussed again after the release of ASBJ Statement No. 28, etc. in the course of the deliberation, were deliberated and released.

- Classification of tax expenses (Taxation on other comprehensive income)
- Tax effect on the sale of shares of subsidiaries, etc. (shares of subsidiaries or affiliates) when the group corporate tax system is applied.

(2) Scheduled date of adoption

The accounting standard will be applied from the beginning of the fiscal year ending March 31, 2025.

(3) Effect of the adoption of implementation guidance

The effect of the application of the "Accounting Standard for Current Income Taxes" and other related accounting standards on the consolidated financial statements is currently under evaluation.

2. Significant Accounting Estimates

(1) Estimate of provision for loss on chartering contracts

(a) Amount recognized in consolidated financial statements for the years ended March 31, 2022 and 2023

	2022	**2023**
	(Millions of yen)	
Consolidated Statement of Operations:		
Marine transportation and other operating costs and expenses	¥ 13,690	**¥ 9,492**
Consolidated Balance Sheet:		
Provision for loss on chartering contracts	13,903	**9,609**

(b) Other information

(i) Calculation method of the amounts recognized in the consolidated financial statements for the year ended March 31, 2023

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

The provision for loss on chartering contracts mentioned above is recorded by estimating potential future losses from certain contracts where charter rates have fallen below hire rates when such future losses are deemed highly probable and reasonably estimable based on available information as of March 31, 2023.

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the year ended March 31, 2023

Significant assumptions used to calculate the amount recognized in the consolidated financial statements as of March 31, 2023 are the range of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of loss making from the contracts.

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

2. Significant Accounting Estimates (continued)

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

(b) Other information (continued)

(ii) Significant assumptions used to calculate the amount recognized in the consolidated financial statements for the year ended March 31, 2023 (continued)

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

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

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

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

2. Significant Accounting Estimates (continued)

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

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

(a) Amount of freight revenue marine included in transportation and other operating revenues for voyages not completed as of the end of the fiscal year in the consolidated financial statements for the fiscal years ended March 31, 2022 and 2023

	2022	**2023**
	(Millions of yen)	
Marine transportation and other operating revenues	¥ 29,170	**¥ 26,706**

(b) Other Information

(i) Calculation method of the amount recognized in the consolidated financial statements for the year ended March, 31, 2023

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

(ii) Significant assumptions in calculation the voyage progress for revenue recognition for the year ended March, 31, 2023

A significant assumption in calculating the voyage progress for revenue recognition is the total number of voyage days. The total number of voyage days may change depending on weather conditions, congestion at the ports of loading and unloading and other factors, which may affect the voyage progress.

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

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

3. Changes in Accounting Standards

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

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter “Implementation Guidance on Fair Value Measurement Standard”) from the beginning of the fiscal year ended March 31, 2023. The Company has prospectively applied the new accounting policies stipulated by the Implementation Guidance on Fair Value Measurement Standard, in accordance with the transitional treatment provided in Paragraph 27-2 of the Implementation Guidance on Fair Value Measurement Standard. There was no effect of the application of Implementation Guidance on Fair Value Measurement Standard on the consolidated financial statements for the fiscal year ended March 31, 2023.

4. Marketable Securities and Investment Securities

At March 31, 2022 and 2023, marketable securities and investment securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

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

	2023		
	Carrying value	**Estimated fair value**	**Difference**
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**¥ 1**	**¥ 1**	**¥ 0**
Securities whose estimated fair value does not exceed their carrying value:			
Bonds	**2,000**	**2,000**	**–**
Certificate of deposit	**100,000**	**100,000**	**–**
Total	**¥ 102,001**	**¥ 102,001**	**¥ 0**

4. Marketable Securities and Investment Securities (continued)

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

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

At March 31, 2023 marketable securities and investment securities with quoted market prices classified as other securities are summarized as follows:

	2023		
	Carrying value	**Acquisition costs**	**Difference**
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 14,759**	**¥ 6,542**	**¥ 8,216**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**119**	**156**	**(37)**
Bonds	**1,308**	**1,344**	**(36)**
Total	**¥ 16,186**	**¥ 8,044**	**¥ 8,142**

Proceeds from sales of investment securities classified as other securities for the years ended March 31, 2022 and 2023 are summarized as follows:

	2022	**2023**
	(Millions of yen)	
Proceeds from sales	¥ 251	**¥ 395**
Aggregate gain	126	**312**
Aggregate loss	3	**–**

4. Marketable Securities and Investment Securities (continued)

Loss on impairment is recorded on securities when whose fair value has declined by 50 per cent or more, or whose fair value has declined by 30 per cent or more, but less than 50 per cent, if the decline is deemed to be irrecoverable. Loss on impairment is recorded on unquoted securities if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers for the years ended March 31, 2022 and 2023.

The Company has recognized loss on devaluation of investment securities classified as other securities of ¥0 million and ¥14 million for the years ended March 31, 2022 and 2023, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥2 million and ¥237 million for the years ended March 31, 2022 and 2023, respectively. Loss on devaluation of investments in unconsolidated subsidiaries and affiliates recognized in other extraordinary losses in Consolidated Statement of Operations.

5. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2022 and 2023 are as follows:

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

Usage	Asset Description	Country	**2023**
			(Millions of yen)
Business assets	Machinery and equipment	Japan	**¥ 14**
Idle assets	Land	Japan	**3**
Total			**¥ 18**

5. 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.

For the assets or assets group for which profitability has decreased significantly, as it is considered to be difficult to recover investment due to the fact that the carrying values of business assets and assets group held for sales lower than selling values and the decrease in land price for idle assets, the carrying values were reduced to the respective recoverable amounts and loss on impairment was recognized for the years ended March 31, 2022 and 2023.

The recoverable amount in the measurement of impairment loss is measured by net realizable value for the years ended March 31, 2022 and 2023, and the net realizable value is based on a valuation reasonably calculated by a third party valuations.

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

Short-term loans at March 31, 2022 and 2023 consisted of the following:

	2022	**2023**
	(Millions of yen)	
Short-term loans from banks	¥ 3,571	**¥ 3,141**

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.62% and 0.50% per annum at March 31, 2022 and 2023, respectively.

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

Long-term debt at March 31, 2022 and 2023 consisted of the following:

	2022	**2023**
	(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 1.77% and 2.13% per annum at March 31, 2022 and 2023, respectively	¥ 83,973	**¥ 47,549**
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 1.77% and 2.13% per annum at March 31, 2022 and 2023, respectively	277,992	**267,313**
Bonds:		
1.05% bonds in yen, due August 31, 2022	7,000	**–**
Total	368,966	**314,863**
Amount due within one year	90,973	**47,549**
	¥ 277,992	**¥ 267,313**

The aggregate annual maturities of long-term debt subsequent to March 31, 2023 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2024	¥ 47,549
2025	41,853
2026	43,162
2027	45,117
2028	21,048
2029 and thereafter	116,131
Total	¥ 314,863

The average interest rates applicable to the lease obligations due in installments through May 2028 are 3.66% and 3.14% at March 31, 2022, and 2023, respectively.

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

The aggregate annual maturities of obligations under finance leases subsequent to March 31, 2023 are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2024	¥ 13,367
2025	9,295
2026	3,245
2027	1,750
2028	6,028
2029 and thereafter	–
Total	¥ 33,687

A summary of assets pledged as collateral at March 31, 2023 for short-term loans and current portion of long-term loans in the amount of ¥30,179 million, long-term loans of ¥145,143 million and loans to be incurred in the future is presented below:

	(Millions of yen)
Vessels	¥ 232,807
Investment securities	25,583
Other	4,160
Total	¥ 262,551

Investment securities of ¥25,583 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, 2023.

7. Income Taxes

The effective tax rate reflected in the accompanying Consolidated Statement of Operations for the years ended March 31, 2022 and 2023 differed from the statutory tax rate for the following reasons:

	2022	**2023**
Statutory tax rate	28.5%	**28.5%**
Difference in statutory tax rates of consolidated subsidiaries	0.5	**(0.4)**
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(27.7)	**(25.8)**
Effect of tonnage tax system	(1.2)	**(1.4)**
Changes in the valuation allowance	1.1	**(2.9)**
Other	0.6	**1.1**
Effective tax rate	1.9%	**(0.9)%**

7. Income Taxes (continued)

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2022 and 2023 are analyzed as follows:

	2022	**2023**
	(Millions of yen)	
Deferred tax assets:		
Liability for retirement benefits	¥ 3,004	**¥ 2,540**
Provision for loss on chartering contracts	5,508	**3,203**
Other allowances	2,712	**2,870**
Impairment loss of fixed assets	1,956	**1,688**
Elimination of unrealized intercompany profit	953	**842**
Accounts and notes payable – trade	4,299	**4,636**
Loss on devaluation of investment securities	14,247	**1,736**
Deferred assets for tax purposes	824	**632**
Tax loss carried forward (*2)	62,423	**64,577**
Deferred loss on derivatives under hedge accounting	3,191	**3,080**
Other	2,977	**2,098**
Gross deferred tax assets	102,098	**87,906**
Valuation allowance for tax loss carried forward (*2)	(62,193)	**(61,751)**
Valuation allowance for the total of deductible temporary differences and others	(33,161)	**(11,081)**
Valuation allowance subtotal (*1)	(95,354)	**(72,833)**
Total deferred tax assets	6,744	**15,073**
Deferred tax liabilities:		
Deferred gain on tangible fixed assets for tax purposes	(643)	**(586)**
Unrealized holding gain on investment securities	(2,351)	**(2,696)**
Accelerated depreciation in overseas subsidiaries	(1,693)	**(1,694)**
Accumulated earnings tax	(864)	**(365)**
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	(4,298)	**(3,930)**
Asset for retirement benefits	(373)	**(426)**
Deferred gain on derivatives under hedge accounting	(722)	**(1,295)**
Other	(2,143)	**(1,752)**
Total deferred tax liabilities	(13,284)	**(12,941)**
Net deferred tax assets	¥ (6,540)	**¥ 2,131**

7. Income Taxes (continued)

(*1) Valuation allowance decreased by ¥22,520 million for the year ended March 31, 2023. The main reasons for the decrease were a decrease in loss on devaluation of investment securities of ¥12,836 million, a decrease in provision for loss on chartering contracts of ¥3,275 million, a decrease in accounts and notes payable – trade of ¥1,667 million, a decrease in foreign tax credit carried forward of ¥1,087 million and a decrease in deferred loss on derivatives under hedge accounting of ¥870 million.

(*2) Tax loss carried forward and related deferred tax assets as of March 31, 2023 will expire as follows:

	(Millions of yen)		
	2023		
Year ending March 31,	**Tax loss carried forward (*)**	**Valuation allowance for tax loss carried forward**	**Deferred tax assets related to tax loss carried forward**
2024	**¥ –**	**¥ –**	**¥ –**
2025	**4,082**	**(1,333)**	**2,749**
2026	**21,156**	**(21,156)**	**–**
2027	**2,617**	**(2,617)**	**–**
2028	**8,900**	**(8,900)**	**–**
2029 and thereafter	**27,820**	**(27,744)**	**76**
	¥ 64,577	**¥ (61,751)**	**¥ 2,825**

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

(Accounting treatment of corporate tax and local corporate taxes or tax effect accounting)

The Company and certain domestic subsidiaries have applied the group tax sharing system from the fiscal year ended March 31, 2023. In accordance with the change, the Company and certain domestic subsidiaries have applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate tax and local corporate taxes and tax effect accounting.

8. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of assets, mainly vessels, leased to the Group at March 31, 2022 and 2023, 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, 2022	Vessels	Total
	(Millions of yen)	
Acquisition costs	¥ 18,517	¥ 18,517
Accumulated depreciation	(6,653)	(6,653)
Net book value	¥ 11,863	¥ 11,863

At March 31, 2023	**Vessels**	**Total**
	(Millions of yen)	
Acquisition costs	**¥ 18,517**	**¥ 18,517**
Accumulated depreciation	**(7,406)**	**(7,406)**
Net book value	**¥ 11,110**	**¥ 11,110**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2022 and 2023 are summarized as follows:

	2022	**2023**
	(Millions of yen)	
Lease payments	¥ 1,157	**¥ 1,243**
Depreciation	753	**753**
Interest expenses	122	**114**

Mainly, the difference between the total lease payments and the amount equivalent to the acquisition cost of the leased property is considered to be the amount equivalent to interest expenses, and the interest method is used to allocate the amount to each fiscal year.

8. Leases (continued)

Future minimum lease payments subsequent to March 31, 2023 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*
2024	¥ 1,129
2025 and thereafter	4,799
Total	¥ 5,928

Future minimum lease payments or receipts subsequent to March 31, 2023 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	*(Millions of yen)*
2024	¥ 18,970
2025 and thereafter	85,890
Total	¥ 104,861

(As lessors)

Year ending March 31,	*(Millions of yen)*
2024	¥ 1,655
2025 and thereafter	97
Total	¥ 1,752

9. Retirement Benefits

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

The defined benefit plans

The changes in the retirement benefit obligation, except for plans which apply a simplified method, for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Retirement benefit obligation at beginning of the year	¥ 29,025	**¥ 28,650**
Service cost	1,673	**1,658**
Interest cost	68	**78**
Actuarial differences	(265)	**(286)**
Payment of retirement benefits	(1,601)	**(1,238)**
Past service cost	–	**53**
Foreign currency exchange rate changes	108	**62**
Other	(359)	**–**
Retirement benefit obligation at end of the year	¥ 28,650	**¥ 28,979**

9. Retirement Benefits (continued)

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Pension plan assets at fair value at beginning of the year	¥ 25,273	**¥ 25,750**
Expected return on pension plan assets	466	**669**
Actuarial differences	117	**(895)**
Contributions by the employer	1,162	**1,154**
Payment of retirement benefits	(1,269)	**(936)**
Other	(0)	**–**
Pension plan assets at fair value at end of the year	¥ 25,750	**¥ 25,742**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Liability for retirement benefits, net at beginning of the year	¥ 1,890	**¥ 2,018**
Retirement benefit expenses	421	**324**
Payment of retirement benefits	(146)	**(212)**
Contributions to the plans	(147)	**(121)**
Other	–	**(205)**
Liability for retirement benefits, net at end of the year	¥ 2,018	**¥ 1,803**

9. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the Consolidated Balance Sheets as of March 31, 2022 and 2023 for the Group's defined benefit plans:

	2022	2023
	(Millions of yen)	
Funded retirement benefit obligation	¥ 30,605	**¥ 30,418**
Plan assets at fair value	(27,951)	**(27,650)**
Subtotal	2,653	**2,767**
Unfunded retirement benefit obligation	2,264	**2,272**
Liability for retirement benefits, net	¥ 4,918	**¥ 5,040**
Liability for retirement benefits	¥ 6,147	**¥ 6,441**
Asset for retirement benefits	(1,228)	**(1,400)**
Liability for retirement benefits, net	¥ 4,918	**¥ 5,040**

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

Retirement benefit expenses for the Group for the years ended March 31, 2022 and 2023 are summarized as follows:

	2022	2023
	(Millions of yen)	
Service cost	¥ 1,673	**¥ 1,658**
Interest cost	68	**78**
Expected return on pension plan assets	(466)	**(669)**
Amortization of actuarial differences	540	**512**
Amortization of past service cost	(19)	**(20)**
Retirement benefit expenses calculated by a simplified method	421	**324**
Retirement benefit expenses	¥ 2,219	**¥ 1,885**

9. Retirement Benefits (continued)

Retirement benefits liability adjustments included in other comprehensive income before tax effects for the Group for the years ended March 31, 2022 and 2023 are summarized as follows:

	2022	2023
	(Millions of yen)	
Past service cost	¥ (19)	**¥ (73)**
Actuarial (gain) loss	858	**(40)**
Total	¥ 839	**¥ (114)**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2022 and 2023 are summarized as follows:

	2022	2023
	(Millions of yen)	
Unrecognized past service cost	¥ 49	**¥ (23)**
Unrecognized actuarial differences	(1,961)	**(2,001)**
Total	¥ (1,911)	**¥ (2,025)**

The fair value of pension plan assets by major category as of March 31, 2022 and 2023 is as follows:

	2022	2023
Bonds	34%	**34%**
Equity	25	**24**
General account assets under insurance plan	29	**30**
Other	12	**12**
Total	100%	**100%**

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

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

9. Retirement Benefits (continued)

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
Discount rates	Mainly 0.0%	**Mainly 0.0%**
Expected rates of return on plan assets	Mainly 2.2%	**Mainly 3.4%**
Rates of salary increase	Mainly 1.2% to 16.0%	**Mainly 1.2% to 16.0%**

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution plans amounted to ¥661 million and ¥731 million for the years ended March 31, 2022 and 2023, respectively.

10. Shareholders' Equity

Movements in common stock and treasury stock of the Company for the years ended March 31, 2022 and 2023 are summarized as follows:

	Number of shares *(Thousands)*			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	93,938	–	–	93,938
Treasury stock (*1, 2)	664	0	–	665

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

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

	Number of shares *(Thousands)*			
	April 1, 2022	**Increase**	**Decrease**	**March 31, 2023**
Common stock (*1, 3, 4)	**93,938**	**190,310**	**33,536**	**250,712**
Treasury stock (*1, 2, 5, 6)	**665**	**36,399**	**33,626**	**3,438**

10. Shareholders' Equity (continued)

(*1) The Company split its common shares on the basis of one share into three shares effective October 1, 2022.

(*2) There were 443 thousand and 1,319 thousand shares, which are held by the Custody Bank of Japan, Ltd., included in the number of shares in treasury stock at April 1, 2022 and March 31, 2023, respectively.

(*3) The increase in the number of shares issued in common stock of 190,310 thousand shares is due to increase of 811 thousand shares (based on pre-stock split) by the issue of new shares and increase of 189,498 thousand shares by stock split as a result of a share exchange with the Company as the wholly owning parent company and Kawasaki Kinkai Kisen Kaisha, Ltd. as the wholly-owned subsidiary on June 1, 2022.

(*4) The decrease in the number of shares issued in common stock of 33,536 thousand shares is due to cancellation of treasury stock based on the resolution at the Board of Directors' meeting.

(*5) The increase in the number of shares in treasury stock of 36,399 thousand shares is due to increase of 1,157 thousand shares by the stock split and increase of 35,236 thousand shares (based on the post-stock split) by purchase of treasury stock based on the resolution at the Board of Directors' meeting, etc.

(*6) The decrease in the number of shares in treasury stock of 33,626 thousand shares is due to decrease of 33,536 thousand shares (based on the post-stock split) by cancellation of treasury stock based on the resolution at the Board of Directors' meeting, etc.

Dividends with the record date falling in the year ended March 31, 2022 and with the effective date falling in the following fiscal year:

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

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

10. Shareholders' Equity (continued)

Amounts of dividends distributed for the year ended March 31, 2023 as follows:

	Cash dividends per share	**Total amount of dividend**
	(Yen)	*(Millions of yen)*
Ordinary General Meeting of Shareholders to be held on June 23, 2022 (*1, 3)	**¥ 600**	**¥ 56,244**
Board of Directors' Meeting to be held on November 4, 2022 (*2, 3)	**300**	**28,388**

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

(*2) The total amount of dividends resolved at the Board of Directors' Meeting on November 4, 2022 includes ¥131 million of dividends on the Company's shares held by The Custody Bank of Japan, Ltd. as trust assets of the "Board Benefit Trust (BBT)".

(*3) The Company split its common share on the basis of one share into three shares effective October 1, 2022. "Dividend per share" is described at the pre-stock split amount.

Dividends with the record date falling in the year ended March 31, 2023 and with the effective date falling in the following fiscal year:

	Cash dividends per share	**Total amount of dividend**
	(Yen)	*(Millions of yen)*
Approved at the shareholders' meeting held on June 23, 2023	**¥ 300**	**¥ 74,593**

The total amount of dividends resolved at the Ordinary General Meeting of Shareholders on June 23, 2023 includes ¥395 million of dividends on the shares of the Company held by The Custody Bank of Japan, Ltd. as trust assets of the Board Benefit Trust (BBT).

11. Accumulated Depreciation

Accumulated depreciation of vessels, property, plant and equipment at March 31, 2022 and 2023 is as follows:

	2022	**2023**
	(Millions of yen)	
Accumulated depreciation	¥ 362,766	**¥ 374,355**

12. Investments in Unconsolidated Subsidiaries and Affiliates

Amounts corresponding to unconsolidated subsidiaries and affiliates as of March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Investment securities (Equity securities)	¥ 668,850	**¥ 1,043,301**
(For the portion of investments in jointly controlled entities)	(639,655)	**(992,490)**
Other investments and other assets (Investment funds)	1,462	**1,565**
(For the portion of investments in jointly controlled entities)	(1,092)	**(1,092)**

13. Land Revaluation

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

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

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

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

13. Land Revaluation (continued)

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, 2022 and 2023, the fair value of land was lower than its carrying value after revaluation by ¥2,771 million and ¥2,856 million, respectively.

14. Commitments and Contingent Liabilities

Contingent liabilities for guarantees of loans to affiliates and third-party companies and obligations for additional investment, etc. as of March 31, 2022 and 2023 are as follows:

	2022	**2023**
Guarantees of loans:	*(Millions of yen)*	
ICE GAS LNG SHIPPING CO., LTD.	¥ 4,631	**¥ 4,160**
BANGKOK COLD STORAGE SERVICE, LTD.	–	**1,219**
Other 9 (8 in the previous fiscal year)	1,319	**2,256**
Total	¥ 5,951	**¥ 7,636**

	2022	**2023**
Obligations for additional investment, etc.:	*(Millions of yen)*	
OCEANIC BREEZE LNG TRANSPORT S.A.	¥ 3,610	**¥ 3,939**
Total	¥ 3,610	**¥ 3,939**

(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 lawsuits for damages in some countries in relation to the same matter

15. Financial Instruments

Status of financial instruments

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

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

The Group has trade accounts and notes payable, which have payment due dates within one year. Funds for certain capital expenditures, such as construction of vessels denominated in foreign currencies, are exposed to foreign currency exchange risk, which are hedged by forward foreign exchange contracts. Future trade payables such as payments for bunker fuel are exposed to the risk of fluctuation of market prices, and some of them are hedged by bunker fuel swap contracts. Loans payable, bonds 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 34 years subsequent to the balance sheet date. Certain elements of these transactions are exposed to interest rate fluctuation risk. The Group hedges this risk by entering into interest rate swap transactions. The Group has entered into currency swap contracts to hedge foreign currency exchange risk against trade payables.

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

15. Financial Instruments (continued)

Status of financial instruments (continued)

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

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

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

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

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

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

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

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

15. Financial Instruments (continued)

Estimated fair value of financial instruments

The carrying value of financial instruments on the Consolidated Balance Sheets as of March 31, 2022, and the estimated fair value and the difference between them are shown in the following table. In addition, the fair value of "cash and deposits," "accounts and notes receivable – trade and contract assets," and "accounts and notes payable-trade," is omitted because they are cash and their fair value approximates carrying value due to the short maturities of these instruments.

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

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

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

15. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

The carrying value of financial instruments on the Consolidated Balance Sheet as of March 31, 2023, and the estimated fair value and the difference between them are shown in the following table. In addition, the fair value of "cash and deposits," "marketable securities," "accounts and notes receivable – trade and contract assets," and "accounts and notes payable-trade," is omitted because they are cash and their fair value approximates carrying value due to the short maturities of these instruments.

	2023		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Assets			
Investment securities:			
Other securities	**¥ 16,186**	**¥ 16,186**	**¥ –**
Investments in unconsolidated subsidiaries and affiliates	**4,429**	**1,055**	**(3,374)**
Total assets	**¥ 20,616**	**¥ 17,241**	**¥ (3,374)**
Liabilities			
Short-term debt:			
Short-term loans and current portion of long-term loans	**(50,691)**	**(50,677)**	**13**
Long-term debt, less current portion:			
Long-term loans	**(267,313)**	**(267,236)**	**77**
Total liabilities	**¥ (318,004)**	**¥ (317,913)**	**¥ 91**
Derivative transactions (*)	**¥ (1,304)**	**¥ (1,304)**	**¥ –**

Unquoted securities as of March 31, 2023 are as follows. They are not included in the table above.

	2023
	(Millions of yen)
Unlisted investment securities	**¥ 1,049,611**

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

15. Financial Instruments (continued)

The redemption schedule as of March 31, 2023 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	2023			
	Within 1 year	**Over 1 year within 5 years**	**Over 5 years within 10 years**	**Over 10 years**
		(Millions of yen)		
Cash and deposits	**¥247,429**	**¥ –**	**¥ –**	**¥ –**
Accounts and notes receivable-trade and contract assets	**107,522**	**–**	**–**	**–**
Marketable securities and Investment securities				
Held-to-maturity securities:				
Government, municipal bonds and others	**102,001**	**–**	**–**	**–**
Total	**¥456,954**	**¥ –**	**¥ –**	**¥ –**

The redemption schedule as of March 31, 2023 for short-term loans and long-term debt is as provided in Note 6.

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

Level 1: Fair value calculated based on quoted market prices for the assets or liabilities for which such fair value is available in active markets as the inputs used in the calculation of observable fair value
Level 2: Fair value calculated using inputs for the calculation of observable fair value other than Level 1 inputs
Level 3: Fair value calculated using inputs that are unobservable

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

15. Financial Instruments (continued)

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

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

15. Financial Instruments (continued)

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

	2023			
	Estimated fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	(Millions of yen)			
Investment securities:				
Other securities	**¥ 16,141**	**¥ –**	**¥ –**	**¥ 16,141**
Derivative transactions:				
Forward foreign exchange contracts	**–**	**574**	**–**	**574**
Forward freight agreements	**–**	**27**	**–**	**27**
Currency swaps	**–**	**–**	**–**	**–**
Interest rate swaps	**–**	**996**	**–**	**996**
Bunker fuel swaps	**–**	**4**	**–**	**4**
Total assets	**¥ 16,141**	**¥ 1,603**	**¥ –**	**¥ 17,744**
Derivative transactions:				
Forward foreign exchange contracts	**¥ –**	**¥ (124)**	**¥ –**	**¥ (124)**
Forward freight agreements	**–**	**(233)**	**–**	**(233)**
Currency swaps	**–**	**(973)**	**–**	**(973)**
Interest rate swaps	**–**	**(1,543)**	**–**	**(1,543)**
Bunker fuel swaps	**–**	**(31)**	**–**	**(31)**
Total liabilities	**¥ –**	**¥(2,907)**	**¥ –**	**¥ (2,907)**

15. Financial Instruments (continued)

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

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

15. Financial Instruments (continued)

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

	2023			
	Estimated fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Investment securities:				
Other securities	¥ –	¥ 45	¥ –	¥ 45
Investments in unconsolidated subsidiaries and affiliates	1,055	–	–	1,055
Total assets	¥ 1,055	¥ 45	¥ –	¥ 1,100
Short-term debt:				
Short-term loans and current portion of long-term loans	¥ –	¥ (50,677)	¥ –	¥ (50,677)
Long-term debt, less current portion:				
Long-term loans	–	(267,236)	–	(267,236)
Total liabilities	¥ –	¥(317,913)	¥ –	¥(317,913)

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

Marketable securities and investment securities

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

15. Financial Instruments (continued)

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

Short-term loans

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

Bonds

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

Long-term loans

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

Derivative transactions

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

16. Derivatives and Hedging Activities

Information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2022 and 2023 is summarized as follows:

Interest rate-related transactions

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

At March 31, 2023, there were no items to be disclosed.

Others

Excluding the above, information on the estimated fair value of the derivatives positions outstanding at March 31, 2022 and 2023 are summarized as follows:

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

		2023			
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	**¥ 676**	**¥ 36**	**¥ (47)**	**¥ (47)**
	Total	**¥ 676**	**¥ 36**	**¥ (47)**	**¥ (47)**

16. Derivatives and Hedging Activities (continued)

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2022 and 2023 are summarized as follows:

Currency-related transactions

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

Method of hedge accounting	**Transaction**	**Major hedged item**	**2023 Total contract value (notional principal amount)**	**2023 Contract value (notional principal amount) over one year**	**2023 Estimated fair value**
				(Millions of yen)	
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	**¥ 5,980**	**¥ 5,283**	**¥ 487**
	Selling:				
	USD	Forecasted foreign currency transactions	**10,915**	**580**	**(37)**
	Currency swaps				
	Selling:				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**6,972**	**6,972**	**(973)**
	Total		**¥ 23,867**	**¥ 12,836**	**¥ (523)**

16. Derivatives and Hedging Activities (continued)

Interest rate-related transactions

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

Method of hedge accounting	**Transaction**	**Major hedged item**	**2023 Total contract value (notional principal amount)**	**2023 Contract value (notional principal amount) over one year**	**2023 Estimated fair value**
				(Millions of yen)	
Deferral hedge	Interest rate swaps	Long-term loans			
	Receive floating / Pay fixed		**¥ 45,806**	**¥ 45,806**	**¥ (547)**
	Total		**¥ 45,806**	**¥ 45,806**	**¥ (547)**

16. Derivatives and Hedging Activities (continued)

Others

Method of hedge accounting	Transaction	Major hedged item	2022 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	¥ 842	¥ –	¥ 55
	Forward freight agreements	Ocean freight	854	–	(1)
	Total		¥ 1,697	¥ –	¥ 53

Method of hedge accounting	Transaction	Major hedged item	2023 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	**¥ 1,258**	**¥ 459**	**¥ (26)**
	Forward freight agreements	Ocean freight	**1,534**	**–**	**(159)**
	Total		**¥ 2,793**	**¥ 459**	**¥ (185)**

17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2022 and 2023.

	2022	**2023**
	(Millions of yen)	
Net unrealized holding gain (loss) on investment securities:		
Amount arising during the year	¥ 2,084	**¥ 1,294**
Reclassification adjustments to profit or loss	(7)	**(92)**
Amount before tax effect	2,077	**1,202**
Tax effect	(495)	**(307)**
Net unrealized holding gain (loss) on investment securities	1,581	**894**
Deferred gain (loss) on hedges:		
Amount arising during the year	1,124	**(3,176)**
Reclassification adjustments to profit or loss	2,226	**1,586**
Adjustments for acquisition costs of vessels due to valuation of hedges	(827)	**(490)**
Amount before tax effect	2,523	**(2,081)**
Tax effect	(1,053)	**2,484**
Deferred gain (loss) on hedges	1,470	**402**
Translation adjustments:		
Amount arising during the year	10,902	**10,300**
Reclassification adjustments to profit or loss	56	**1,713**
Translation adjustments	10,959	**12,014**
Retirement benefits liability adjustments:		
Amount arising during the year	192	**(607)**
Reclassification adjustments to profit or loss	521	**492**
Amount before tax effect	714	**(114)**
Tax effect	167	**85**
Retirement benefits liability adjustments	881	**(29)**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method:		
Amount arising during the year	5,365	**81,938**
Reclassification adjustments to profit or loss	372	**(179)**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	5,737	**81,759**
Total other comprehensive income	¥ 20,630	**¥ 95,042**

18. Supplementary Information on Consolidated Statement of Cash Flows

Cash and cash equivalents in the accompanying Consolidated Statement of Cash Flows for the years ended March 31, 2022 and 2023 are reconciled to cash and deposits reflected in the accompanying Consolidated Balance Sheet as of March 31, 2022 and 2023 as follows:

	2022	**2023**
	(Millions of yen)	
Cash and deposits	¥ 247,344	**¥ 247,429**
Time deposits with a maturity of more than three months after the purchase date	(3,028)	**(2,598)**
Certificate of deposit with a maturity within three months after the acquisition date and bonds	–	**102,000**
Cash and cash equivalents	¥ 244,316	**¥ 346,831**

The amounts of important non-financial transactions for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Cancellation of treasury stock	¥ –	**¥ 84,955**
Increase in capital surplus due to share exchange	–	**14,898**
Decrease in treasury stock due to share exchange	–	**400**

19. Amounts per Share

Amounts per share at March 31, 2022 and 2023 and for the years then ended are as follows:

	2022	2023
	(Yen)	
Net assets	¥ 3,161.45	**¥ 6,128.41**
Profit (loss) attributable to owners of the parent:		
Basic	2,295.85	**2,571.02**

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, 2022 and 2023 has not been presented because dilutive potential common shares do not exist.

The Company split its common share on the basis of one share into three shares effective October 1, 2022. Accordingly, net assets per share and profit (loss) per share are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year ended March 31, 2022.

The financial data used in the computation of basic profit (loss) per share for the years ended March 31, 2022 and 2023 in the table above is summarized as follows:

	2022	2023
	(Millions of yen)	
Profit (loss) attributable to owners of the parent	¥ 642,424	**¥ 694,904**

	2022	2023
	(Thousands of shares)	
Weighted-average number of shares of common stock outstanding	279,820	**270,283**

The Company introduced a performance-based share remuneration plan "Board Benefit Trust (BBT)". The shares held by the Trust are included in treasury stock, which is deducted in calculating the number of treasury stock at the end of the year and the average number of shares of common stock outstanding when calculating the basic profit (loss) attributable to owners of the parent per share during the current year. The average number of shares of treasury stock deducted from the calculation of the basic profit (loss) per share during the current year was 1,330,500 shares and 1,322,192 shares for the years ended March 31, 2022 and 2023, respectively.

20. Business Combination

Business combination for the year ended March 31, 2023

Transaction under common control, etc.

(Wholly owned subsidiary through simplified share exchange)

1. Overview of the transaction

   Based on the resolution at the Board of Directors' meeting on March 16, 2022, the Company concluded a share exchange agreement between Kawasaki Kinkai Kisen Kaisha, Ltd. (hereinafter, "Kawasaki Kinkai Kisen"), which had been a consolidated subsidiary of the Company, for the purpose of promoting the optimal and efficient utilization of the Group's management resources, the further sharing of business strategies between the companies, and the enhancement of their competitiveness. Based on the agreement, the Company carried out a share exchange on June 1, 2022. The share exchange is a simplified share exchange procedure with the Company as the wholly owning parent company and Kawasaki Kinkai Kisen as the wholly-owned subsidiary pursuant to the provisions of Article 796, paragraph (2) of the Companies Act of Japan.

2. Overview of accounting treatment

   The share exchange was accounted for as a capital transaction since this transaction involves acquiring additional shares of a consolidated company. As a result of the share exchange, capital surplus increased by ¥14,898 million and treasury stock decreased by ¥400 million in the consolidated financial statements due to transactions with noncontrolling shareholders.

3. Additional acquisition of shares of the subsidiary

   Details of acquisition cost and consideration

Consideration for acquisition (common stock):	¥9,095 million
Acquisition cost:	¥9,095 million

20. Business Combination (continued)

Business combination for the year ended March 31, 2023 (continued)

Transaction under common control, etc. (continued)

(Wholly owned subsidiary through simplified share exchange) (continued)

4. Ratio for share exchange, calculation method of allotment ratio and number of shares to be delivered upon the share exchange

(1) Ratio for share exchange

	The Company (Wholly-owning parent company in share exchange)	Kawasaki Kinkai Kisen (Wholly-owned subsidiary in share exchange)
Allotment ratio for share exchange	1	0.58

(2) Calculation method of share exchange ratio

In order to calculate the share exchange ratio, the Company appointed Mizuho Securities Co., Ltd. (hereinafter, “Mizuho Securities”) and Kawasaki Kinkai Kisen appointed KPMG FAS Co., Ltd. (hereinafter, “KPMG”), as their respective financial advisors and third-party appraisers, respectively.

Mizuho Securities conducted a market share price analysis, a comparable company analysis, and discounted cash flow analysis (hereinafter, “DCF Analysis”) for the Company and Kawasaki Kinkai Kisen.

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

(3) Number of shares to be delivered

888,234 shares

21. Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

Revenues arising from contracts with customers and other revenues are not presented separately. Information on disaggregation of revenue from contracts with customers for the year ended March 31, 2023 is described in Note 22 “Segment Information.”

2. Foundational information for understanding revenue from contracts with customers

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

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

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

(1) Freight revenue

Regarding voyage charter contracts, one voyage unit is judged a single performance obligation and contract based on understanding to agreement with customers. The transaction price is determined based on the amount billed per voyage and allocated to a performance obligation based on the amount agreed with the customers for each voyage and includes variable consideration such as demurrage charges and dispatch charges. If variable consideration is included in the consideration for the contract with customers, it is recorded in the transaction price only if it is highly likely that there will be no significant reduction in the revenue recorded up to the time when the degree of uncertainty regarding variable consideration is finally resolved. Given the nature of the voyage, it is expected that the customer will receive benefits as the entity fulfills its obligations in its contract with the customer. Therefore, the Company has determined that this is a performance obligation that will be satisfied as the voyage progresses, and recognizes revenue based on the degree of progress made in satisfying the performance obligation. Progress is measured based on the number of elapsed days of a voyage to the end of the period relative to the estimated total number of days of voyage days. The consideration for the transactions is mainly invoiced upon completion of loading of cargoes and the majority of the consideration is received by the completion of the voyage, while variable consideration, such as demurrage charges and dispatch charges, are invoiced after the berthing period is fixed. The consideration does not include a significant financing component.

21. Revenue Recognition (continued)

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

(2) Charter rates

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

3. Information for understanding the amounts for the year ended March 31, 2023 and subsequent years

(1) Balance of contract assets and contract liabilities

The breakdown of accounts receivable arising from contracts with customers, contract assets and contract liabilities as of March 31, 2022 and 2023 is as follows:

	2022	**2023**
	(Millions of yen)	
Accounts receivable arising from contracts with customers:		
Notes receivable	¥ 594	**¥ 546**
Accounts receivable	93,330	**100,343**
	93,925	**100,890**
Contract assets	9,774	**6,632**
Contract liabilities	¥ 17,573	**¥ 21,085**

The beginning balance of contract liabilities was mainly recognized in revenue for the year ended March 31, 2023. The timing of satisfying performance obligations and the normal timing of payments are described above in 2 "Foundational information for understanding revenue from contracts with customers." Changes in the balance of contract assets are mainly due to the recognition of revenues and transfer to accounts receivable. Changes in the balance of contract liabilities are mainly due to the receipt of considerations in advance from customers and the satisfaction of performance obligations. Revenue recognized for performance obligations satisfied (or partially satisfied) in past periods is immaterial. Receivables other than those arising from contracts with customers for the years ended March 31, 2022 and 2023 are not classified because their amounts are immaterial.

21. Revenue Recognition (continued)

3. Information for understanding the amounts for the year ended March 31, 2023 and subsequent years (continued)

(2) Transaction price allocated to remaining performance obligations

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

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

22. Segment Information

Segment information for the years ended March 31, 2022 and 2023

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 LNG carrier business, electricity business, tanker carrier business, and offshore business. The product logistics segment includes car carrier business, logistics business, short sea and coastal business, and containership business.

2. Calculation method of reporting segment profit (loss)

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

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (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, 2022 and 2023 consisted of the following:

(Millions of yen)

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

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (continued)

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

(Millions of yen)

	2023						
	Dry bulk	**Energy resource transport**	**Product logistics**	**Other (*1)**	**Total**	**Adjustments and eliminations (*4)**	**Consolidated**
1. Revenues:							
Revenues from contract with customers	**¥ 307,835**	**¥ 96,024**	**¥ 513,637**	**¥ 10,195**	**¥ 927,693**	**¥ –**	**¥ 927,693**
Other revenues	**4,431**	**4,201**	**6,156**	**123**	**14,912**	**–**	**14,912**
Operating revenues from customers	**¥ 312,267**	**¥ 100,225**	**¥ 519,794**	**¥ 10,318**	**¥ 942,606**	**¥ –**	**¥ 942,606**
Inter-group revenues and transfers	**42**	**24**	**5,516**	**57,421**	**63,004**	**(63,004)**	**–**
Total revenues	**¥ 312,309**	**¥ 100,225**	**¥ 525,310**	**¥ 67,739**	**¥ 1,005,610**	**¥ (63,004)**	**¥ 942,606**
2. Segment profit (loss) (*3)	**¥ 21,613**	**¥ 9,847**	**¥ 670,036**	**¥ 806**	**¥ 702,303**	**¥ (11,464)**	**¥ 690,839**
3. Segment assets	**¥ 289,480**	**¥ 248,776**	**¥ 1,486,078**	**¥ 47,468**	**¥ 2,071,804**	**¥ (19,187)**	**¥ 2,052,616**
4. Others							
Depreciation and amortization	**¥ 14,662**	**¥ 9,972**	**¥ 16,557**	**¥ 679**	**¥ 41,870**	**¥ 525**	**¥ 42,396**
Interest income	**242**	**719**	**326**	**128**	**1,417**	**1,388**	**2,805**
Interest expenses	**2,893**	**3,268**	**3,606**	**26**	**9,795**	**201**	**9,996**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net	**88**	**2,956**	**624,458**	**256**	**627,759**	**–**	**627,759**
Investments in unconsolidated subsidiaries and affiliates accounted for by the equity method	**589**	**38,046**	**974,412**	**5,102**	**1,018,150**	**–**	**1,018,150**
Increase in vessels, property and equipment and intangible assets	**4,481**	**32,411**	**33,971**	**246**	**71,112**	**715**	**71,827**

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (continued)

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

*1 The “Other” consists of business divisions 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 ¥11,715 million includes the following elements: ¥32 million of intersegment transaction eliminations and ¥11,682 million of corporate expenses, which are mainly general and administrative expenses not distributed to specific segments.

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

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

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

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

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

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (continued)

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

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

*4 (1) The adjustment and elimination of segment profit (loss) of ¥11,464 million includes the following elements: ¥49 million of intersegment transaction eliminations and ¥11,415 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 ¥19,187 million includes the following elements: ¥47,466 million of intersegment transaction eliminations and ¥28,278 million of corporate assets, which are not distributed to specific segments.

(3) The adjustment and elimination of depreciation and amortization of ¥525 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 ¥1,388 million includes the following elements: ¥65 million of intersegment transaction eliminations and ¥1,453 million of interest income, which are not distributed to specific segments.

(5) The adjustment and elimination of interest expenses of ¥201 million includes the following elements: ¥65 million of intersegment transaction eliminations and ¥266 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 ¥715 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (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, 2022 and 2023 are summarized as follows (*):

(Millions of yen)

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

(Millions of yen)

	2023					
	Japan	**U.S.A.**	**Europe**	**Asia**	**Others**	**Total**
Revenues	**¥ 847,438**	**¥ 12,549**	**¥ 30,254**	**¥ 50,871**	**¥ 1,492**	**¥ 942,606**

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

At March 31, 2022 and 2023, vessels, property and equipment by countries or geographical areas are summarized as follows:

(Millions of yen)

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

(Millions of yen)

	2023			
	Japan	**Singapore**	**Others**	**Total**
Vessels, property and equipment	**¥ 301,072**	**¥ 54,658**	**¥ 16,417**	**¥ 372,147**

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

22. Segment Information (continued)

Segment information for the years ended March 31, 2022 and 2023 (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, 2022 and 2023 are as follows:

(Millions of yen)

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

(Millions of yen)

	2023					
	Dry bulk	**Energy resource transport**	**Product logistics**	**Other (*)**	**Adjustments and eliminations**	**Total**
Loss on impairment of fixed assets	**¥ –**	**¥ –**	**¥ 14**	**¥ –**	**¥ 3**	**¥ 18**

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

23. Related Party Transactions

1. Transactions with related parties

No items to be reported for the years ended March 31, 2022 and 2023.

(*) Based on the resolution at the Board of Directors' meeting on November 4, 2022, the Company purchased ¥31,761 million in shares of treasury stock from Effissimo Capital Management Pte Ltd. at the closing price on November 7, 2022, the day before the transaction by Tokyo Stock Exchange Trading NeTwork System (ToSTNeT-3).

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, 2023. The affiliate's summarized financial statements for the years ended March 31, 2022 and 2023 are as follows:

	2022	**2023**
	(Millions of yen)	
Total current assets	¥ 2,340,700	**¥ 2,780,263**
Total non-current assets	696,874	**1,444,756**
Total current liabilities	540,282	**505,058**
Total non-current liabilities	525,499	**638,284**
Total net assets	1,971,792	**3,081,676**
Operating revenues	3,683,663	**3,909,998**
Profit (loss) before income taxes	2,064,882	**2,029,322**
Profit (loss)	2,050,560	**2,002,330**

24. Subsequent Events

No items to be reported for the year ended March 31, 2023.

Independent Auditor's Report

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. (the Company) and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Estimate of provision for loss on chartering contracts	
Description of Key Audit Matter	**Auditor's Response**
Provision for loss on chartering contracts in the amount of ¥9,609 million was recognized in the consolidated balance sheet as of March	The audit procedures we performed to examine the Company's judgment on significant assumptions related to the provision for loss on chartering

31, 2023. As described in "(u) Provision for loss on chartering contracts" in "1. Summary of significant accounting policies," the Company recorded the provision for loss on chartering contracts by estimating potential future losses from certain contracts where charter rates had fallen below hire rates when such future losses were deemed highly probable and reasonably estimable based on available information as of the end of the fiscal year. As described in Note 2 "Significant Accounting Estimates," significant assumptions in estimating the provision for loss on chartering contracts are the scope of vessels for which future charter contract losses are expected, the charter rate and hire rate of applicable vessels, and the expected duration of losses arising from the chartering contracts. The expected duration of losses arising from chartering contracts is referred as the period during which the situation where an unfavorable relation between charter rate and hire rate is reasonably expected to continue after the end of the fiscal year on a basis of the periods agreed in chartering contracts with charterers by taking into consideration the trends of markets to which the vessels belong to and the management's decision made in accordance with the Group's policy over such chartering contracts. These significant assumptions involve the uncertainty of estimating the future market trends and the balance between supply and demand for vessels. Given such estimation uncertainty and the significance of the	contracts include the following, among others: • In order to examine the completeness of the applicable vessels, we obtained detail lists of the Company's chartering contracts, and examined the number of vessels, contract types, scheduled date of return to a shipowner, and other relevant information, and compared them with our knowledge from the prior year audit as well as the relevant qualitative information to assess consistency. • For the charter rates and the hire rates for the applicable vessels, we compared the charter rates with the charter rate list included in the chartering contracts with the external charter contractors, and we compared the hire rates with the vessel contracts with the vessel owners on a sample basis, and also we performed recalculations of the revenue from chartering and the costs for hiring. In addition, we discussed with the management and persons in charge of related departments on the expected duration of the chartering contracts as well as the expected revenue from the chartering contracts including

impacts on the consolidated financial statements, we determined the estimate of provision for loss on chartering contracts to be a key audit matter.	applicable charter rates. • We inquired of the management and persons in charge of related departments on the duration of loss making from the contracts assumed by the management from the perspective of market trends and the Group's policy over the chartering contracts. In addition, we examined whether the assumptions were consistent with the available external information on forecast of the market to which the applicable vessels belong. • To assess whether any management bias exists, we compared the estimated amount of chartering contract losses and the related significant assumptions in the previous year with subsequent actual results in the current year.

Estimate of total voyage days for revenue recognition based on the number of elapsed days of a voyage	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 2 "Significant Accounting Estimates", out of marine transportation and other operating revenues of ¥942,606 million in the consolidated statement of operations for the year ended March 31, 2023, the marine transportation revenue recorded based on the number of elapsed days of voyages not completed as of the end of the fiscal year for the Company's ocean tramp shipping (excluding product logistics), which was more significant than others given the size of revenue and the length of voyages, was ¥26,706 million. Marine transportation revenues for voyages not completed as of the end of the fiscal year are measured based on the total freight revenue and the voyage progress. The voyage progress is calculated based on the number of elapsed days of a voyage by the end of the fiscal year to the estimated total voyage days, and the revenue is recognized in proportion to the voyage progress. A significant assumption in calculating the voyage progress is the estimate of the total voyage days. The Company designed, implemented and has been maintaining the business processes and related IT systems to comprehensively identify voyages not completed as of the end of the fiscal year and calculate the voyage progress based on the number of elapsed days of a voyage by the end of the fiscal year to the estimated total voyage days. If such business processes and IT systems do not function as intended and the required information on voyages is not accurately recorded, there could be a	The audit procedures we performed to examine the estimate of the total voyage days which is a significant assumption in revenue recognition, include the following, among others: • We assessed the effectiveness of the design and operation of internal controls over the business processes and related IT systems which capture the information required for revenue recognition, particularly the progress of the voyage. • For the estimate of the total voyage days for which the voyage was not completed as of the end of the fiscal year, we obtained from the Company the information including the number of days calculated based on voyage distance and speed, and the number of days docked at ports of loading and unloading based on the information including congestion status from local agents and inquired of the persons in charge of related departments regarding the estimation method. In addition, we compared the obtained information of the number of days calculated based on the voyage distance and speed with the past actual records, and the number of days staying at

significant impact on the consolidated financial statements. The estimate of the total voyage days, which is a significant assumption, may change depending on weather conditions, congestion at ports and other factors, which may then affect the voyage progress. Accordingly, we determined the estimate of the total number of voyage days, which is a significant assumption in the revenue recognition based on the number of elapsed days of a voyage, to be a key audit matter.	the ports of loading and unloading with the port anchoring period designated in the contract and port information from local agents. • In order to evaluate the reasonableness of the prior year's estimate of the total voyage days as of March 31, 2023 to see whether there was significant discrepancy between actual total voyage days and estimated total voyage days, we compared the estimated voyage days to the actual voyage days for which the voyage was completed in a certain period after the end of the fiscal year. For voyages not completed in a certain period after the end of the fiscal year, we compared the estimated voyage days to the latest data on ship locations, which we obtained from external available source by ourselves. • In order to assess the accuracy of calculation of voyage progress based on the estimated total voyage days and the revenue recognized in proportion to the calculated voyage progress, we also performed recalculations.

Other Information

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

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

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

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

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

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 23, 2023

Satoshi Uchida
Designated Engagement Partner
Certified Public Accountant

Yuichiro Sagae
Designated Engagement Partner
Certified Public Accountant

Masashi Kobayashi
Designated Engagement Partner
Certified Public Accountant

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copy (with electronic signature) is kept separately by the Company.