

# FINANCIAL HIGHLIGHTS

Brief report of the three months ended June 30, 2020

Kawasaki Kisen Kaisha, Ltd.

[Two Year Summary]

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

	Three months ended June 30, 2019	Three months ended June 30, 2020
Consolidated		
Operating revenues	¥ 183,312	¥ 152,185
Operating income (loss)	4,052	(6,581)
Profit (loss) attributable to owners of the parent	7,779	(955)
Profit (loss) attributable to owners of the parent per share (Yen)		
Basic	83.41	(10.24)
Diluted	-	-

	Year ended March 31, 2020	Three months ended June 30, 2020
Total assets	¥ 896,081	¥ 924,686
Net assets	200,234	199,981

## 1. Qualitative Information and Financial Statement

### (1) Qualitative Information about the Consolidated Operating Result

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

	Three months ended June 30, 2019	Three months ended June 30, 2020	Change	% Change
Operating revenues	183.3	152.2	(31.1)	(17.0%)
Operating income (loss)	4.1	(6.6)	(10.6)	—
Ordinary income (loss)	2.7	(1.0)	(3.7)	—
Profit (loss) attributable to owners of the parent	7.8	(1.0)	(8.7)	—

Exchange Rate (¥/US\$) (3-month average)	¥110.73	¥107.74	(¥2.99)	(2.7%)
Fuel oil price (US\$/MT) (3-month average)	US\$443	US\$377	(US\$66)	(15.0%)

Performance per segment was as follows.

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

		Three months ended June 30, 2019	Three months ended June 30, 2020	Change	% Change
Dry bulk	Operating revenues	55.5	45.2	(10.2)	(18.5%)
	Segment profit (loss)	(0.4)	(4.4)	(4.0)	—
Energy resource transport	Operating revenues	20.5	19.2	(1.3)	(6.2%)
	Segment profit (loss)	1.8	1.6	(0.2)	(11.3%)
Product logistics	Operating revenues	98.7	81.4	(17.3)	(17.5%)
	Segment profit (loss)	1.8	3.0	1.2	62.5%
Other	Operating revenues	8.6	6.3	(2.3)	(26.9%)
	Segment profit (loss)	0.3	0.2	(0.1)	(31.5%)
Adjustments and eliminations	Segment profit (loss)	(0.9)	(1.4)	(0.5)	—
Total	Operating revenues	183.3	152.2	(31.1)	(17.0%)
	Segment profit (loss)	2.7	(1.0)	(3.7)	—

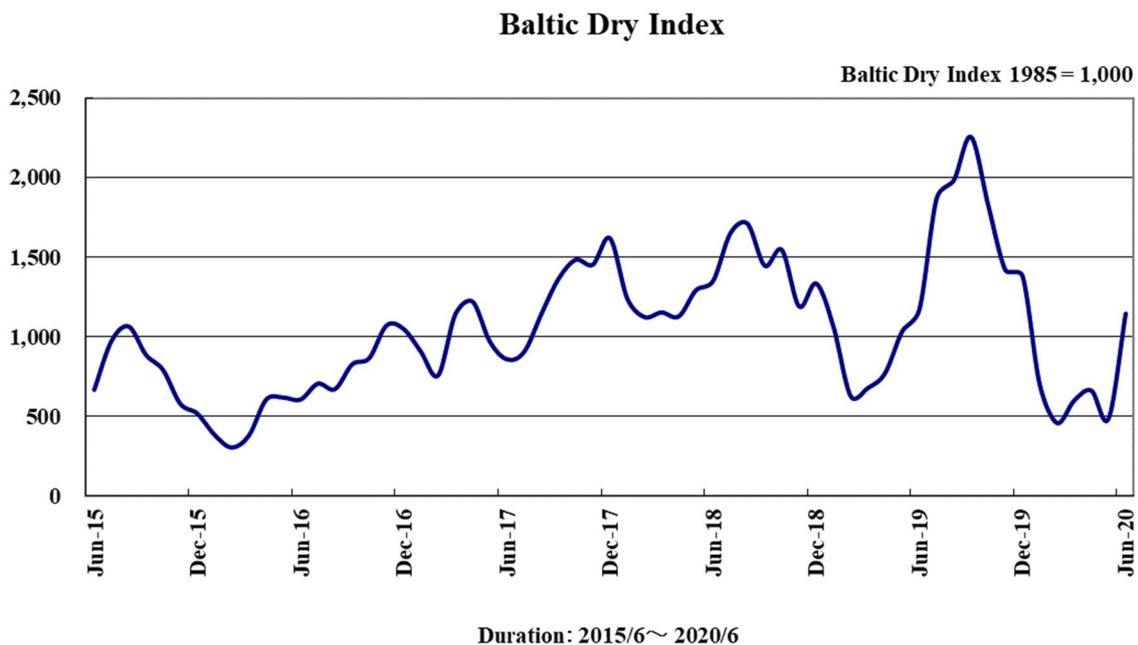
**(i) Dry Bulk Segment**

**Dry Bulk Business**

In the Cape-size sector, the market rates weakened because cargo movements of iron ore became sluggish worldwide due to the spread of COVID-19 and unfavorable weather conditions in production sites in Brazil and also because a large vessel supply surplus arose due to an excessive concentration of shipments to China, which remained robust, in short-distance sources. However, toward the end of the three-month period, market rates rose rapidly due to a recovery in exports from Brazil.

In the medium and small vessel sector, cargo movements were sluggish worldwide because of the spread of COVID-19. In particular, the market rates for Atlantic trades fell steeply due to the impact of lockdowns. However, market rates recovered rapidly due to effects of the resumption of economic activities in China, robust demand for shipments of grains from Brazil to China and a recovery in market rates in the Cape-size sector.

Under these circumstances, the Group strove to reduce operation costs and improve vessel operation efficiency, but the overall Dry Bulk Segment recorded a year-on-year decline revenue and a loss was expanded.



**(ii) Energy Resource Transport Segment**

Tanker and Thermal Coal Carrier Business

Concerning large crude oil tankers (VLCCs), LPG carriers, and thermal coal carriers, the business stayed firm for mid- and long-term charter contracts and contributed to secure stable profit.

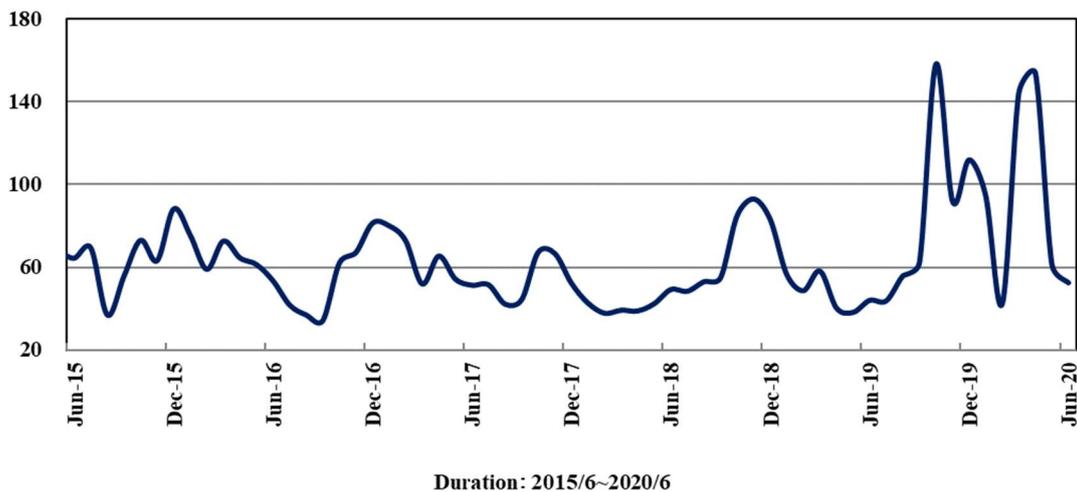
LNG Carrier and Offshore Energy E&P Business

Concerning LNG carriers, and drillship and FPSO (Floating Production, Storage and Offloading system), the business stayed firm for mid- and long-term charter contracts and contributed to secure stable profit.

Concerning the offshore support vessel business, market rates declined due to the impact of oil price decline.

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

**VLCC World Scale (AG/JPN)**



**(iii) Product Logistics Segment**

Car Carrier Business

Demand for ocean transportation declined steeply because of sluggish global sales and the production shutdown of factories in various countries due to the spread of COVID-19. Although the Group carried out to reduce costs by fleets adjustment measures such as vessel operation stoppage and temporary trade service revision, the car carrier business recorded a year-on-year decrease in revenue and a loss was recorded.

#### Logistics Business

In the domestic logistics sector, towage and container terminal operations were affected by a decline in cargo volume due to the spread of COVID-19.

In the international logistics sector, while air and ocean cargo transportation were at first affected significantly by a decline in cargo movements from China, cargo movements related to buyers' consolidations mainly targeting e-commerce business operators as major customers stayed robust. Consequently, the impact of the spread of COVID-19 was limited. As a result, the overall logistics business recorded a year-on-year increase in revenue, but a profit was narrowed.

#### Short Sea and Coastal Business

In the short sea business, the transportation volume decreased in steel materials, timber products and coal year-on-year basis due to the decline in cargo movement and the spread of COVID-19. In the coastal business, the Group carried out measures such as reducing the number of voyages for some trades due to a decline of major cargo movements in the liner transportation. In the ferry business, the number of passengers and the transportation volume of passenger vehicles recorded steep a year-on-year decline because the movement of people was restricted following declarations of emergency due to the spread of COVID-19. However, truck transportation volume remained flat. As a result, the short sea and coastal business overall recorded a year-on-year decline in revenue and a loss was expanded due to a lower transportation volume.

#### Containership Business

As for the performance of OCEAN NETWORK EXPRESS PTE. LTD. (hereinafter referred to as "ONE"), the Company's equity-method affiliate, global cargo movements declined due to the spread of COVID-19. However, profit increased year-on-year, as the company strove to improve profitability through such measures as flexibly reducing the number of voyages in accordance with demand, reducing operational costs through optimal vessel operation, and reorganizing the cargo portfolio. Consequently, the overall containership business recorded to become profitable.

As a result, the overall Product Logistics Segment recorded a year-on-year decline in revenue but a profit increased.

**(iv) Other Segment**

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

**(2) Qualitative Information on the Consolidated Financial Situation**

Consolidated assets at the end of the consolidated 1st Quarter of this fiscal year were ¥924.686 billion, an increase of ¥28.605 billion from the end of the previous fiscal year as a result of an increase in cash and deposits and other factors.

Consolidated liabilities increased by ¥28.857 billion to ¥724.704 billion as a result of an increase in short-term loans and other factors compared to the end of the previous fiscal year.

Consolidated net assets were ¥199.981 billion, a decrease of ¥0.252 billion compared to the end of the previous fiscal year as a result of a decrease in retained earnings and other factors.

**(3) Qualitative Information on the Consolidated Prospects for FY2020**

For the fiscal year ending March 31, 2021, the Group is projecting operating revenues of ¥ 600.0 billion, operating loss of ¥27.0 billion, ordinary loss of ¥28.0 billion and profit attributable to owners of the parent of ¥0 billion.

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

	Operating revenue	Operating income (loss)	Ordinary income (loss)	Profit (loss) attributable to owners of the parent
Fiscal Year 2020 (End March 2021)	600.0	(27.0)	(28.0)	0

(Exchange Rate(¥/US\$): ¥107.25 / Fuel Oil Price (US\$/MT): US\$368)

In the Dry Bulk Segment, amid concerns over the impact of the spread of COVID-19 on the global real economy, there are signs of recovery for the supply-demand environment for ocean transportation, mainly of raw materials, due to economic stimulus measures taken by various countries. However, it is expected to take some more time before a full-fledged recovery is realized. Under these circumstances, speculative investments in vessels are expected to be restrained and the pressure for vessel supply is expected to be kept low due to an increase in the scrapping of old and uneconomical ships related to the enforcement of environmental regulations. Therefore, market rates are expected to gradually recover, mainly for Cape-

size vessels. The Group will continue to implement measures to improve profitability, such as increasing vessel operation efficiency and reducing costs as well as to strive to secure stable profit by expanding mid- and long-term contracts that take advantage of its strength in high quality transportation.

In the Energy Resource Transport Segment, the Group will strive to secure stable profit under mid- and long-term contracts with respect to large crude oil tankers (VLCC's), LPG carriers, thermal coal carriers and LNG carriers. In the offshore support vessel business, the Group will continue efforts to improve profitability through several cost reductions and keep a close watch on the impact of oil price decline on profitability.

As for the Product Logistics Segment, demand for ocean transportation is expected to fall steeply in the car carrier business due to the spread of COVID-19. The Group will strive to further reduce costs by temporary trade service revision, vessel operation stoppage, as well as mooring vessels. In the logistics business, transportation volume and work volume are expected to continue to be affected by the spread of COVID-19 in the second quarter and later, but a recovery is expected to start gradually in the third quarter. In the first half, the Group will strive to reduce fixed costs in response to the decline in cargo demand and minimize the negative impact on profit by securing additional cargoes while closely watching cargo movements related to e-commerce business, which have remained firm. In the third quarter and beyond, when demand is expected to recover, the Group will strive to increase order receipts for cargo transportation while closely watching developments related to customers' supply chains. In the containership business, there are concerns that cargo movements will remain sluggish in the second quarter and beyond due to the spread of COVID-19. ONE will continue to implement various measures to improve profitability, including flexibly reducing the number of voyages in accordance with demand.

As explained above, regarding the Company's full-year results ending 31 March, 2021, a harsh business environment is expected with the spread of COVID-19, and the business environment surrounding the Company is to be kept uncertain, Placing the top priority on controlling the damage to the full-year results, the Group will steadily implement such measures as reducing operational costs through scaling-back of the fleet in accordance with the decline in cargo volume, rationalization of vessel allocation, suspension of vessel operation and mooring of vessels, securing sufficient liquidity on hand, and asset sales intended to support the capital base.

Our important task is to maximize returns to our shareholders while maintaining necessary internal reserves to fund our capital investment and strengthen our financial position for the sake of sustainable growth. The dividend policy remains yet to be determined. We will announce in due course, when we have judged that we can forecast dividend payments after comprehensively taking into consideration the forecasts of the full-year results and the Company's financial conditions.

Regarding our management policy, please refer to "Financial Highlights Brief Report for 1<sup>st</sup> Quarter FY 2020" which was disclosed today.

## Consolidated Financial Statements

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

### Consolidated Balance Sheet

	(Millions of yen)	
	Year ended March 31, 2020	Three months ended June 30, 2020
<b>ASSETS</b>		
Current assets :		
Cash and deposits	¥ 115,394	¥ 165,987
Accounts and notes receivable-trade	60,022	55,200
Raw materials and supplies	25,859	19,462
Prepaid expenses and deferred charges	41,302	32,279
Other current assets	17,669	15,483
Allowance for doubtful receivables	(1,215)	(980)
Total current assets	<u>259,032</u>	<u>287,432</u>
Non-current assets :		
(Vessels, property and equipment)		
Vessels, net	375,507	373,167
Buildings and structures, net	12,438	11,645
Machinery and vehicles, net	9,874	9,573
Land	18,336	16,495
Construction in progress	8,532	9,922
Other, net	6,399	5,295
Total vessels, property and equipment	<u>431,089</u>	<u>426,100</u>
(Intangible assets)		
Other intangible assets	4,329	3,819
Total intangible assets	<u>4,329</u>	<u>3,819</u>
(Investments and other assets)		
Investments in securities	150,993	155,636
Long-term loans receivable	16,857	17,198
Asset for retirement benefits	600	608
Other investments and other assets	34,255	35,081
Allowance for doubtful receivables	(1,077)	(1,191)
Total investments and other assets	<u>201,629</u>	<u>207,333</u>
Total non-current assets	<u>637,048</u>	<u>637,253</u>
Total assets	<u>¥ 896,081</u>	<u>¥ 924,686</u>

## Consolidated Balance Sheet

(Millions of yen)

	Year ended March 31, 2020	Three months ended June 30, 2020
<b>LIABILITIES</b>		
Current liabilities :		
Accounts and notes payable-trade	¥ 47,673	¥ 42,512
Short-term loans and current portion of long-term loans	104,576	155,616
Accrued income taxes	2,118	641
Allowance for loss related to the Anti-Monopoly Act	834	834
Allowance for loss on chartering contracts	16,474	12,351
Other allowance	2,614	1,770
Other current liabilities	61,848	61,681
Total current liabilities	236,139	275,406
Non-current liabilities :		
Bonds	7,000	7,000
Long-term loans, less current portion	379,104	371,412
Allowance for directors' and audit and supervisory board members' retirement benefits	377	356
Allowance for directors' stock benefits	16	8
Accrued expenses for overhaul of vessels and other assets	11,548	12,151
Liability for retirement benefits	7,313	7,420
Other non-current liabilities	54,346	50,947
Total non-current liabilities	459,707	449,297
Total liabilities	695,847	724,704
<b>NET ASSETS</b>		
Shareholders' equity:		
Common stock	75,457	75,457
Capital surplus	13,723	13,722
Retained earnings	22,050	21,095
Treasury stock	(2,379)	(2,376)
Total shareholders' equity	108,852	107,898
Accumulated other comprehensive income :		
Net unrealized holding gain on investments in securities	148	418
Deferred gain on hedges	(3,152)	(3,599)
Revaluation reserve for land	4,631	4,631
Translation adjustments	(4,821)	(4,726)
Retirement benefits liability adjustments	(4,562)	(4,413)
Total accumulated other comprehensive income	(7,756)	(7,690)
Non-controlling interests	99,138	99,773
Total net assets	200,234	199,981
Total liabilities and net assets	¥ 896,081	¥ 924,686

## Consolidated Statement of Operations

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Marine transportation and other operating revenues	¥ 183,312	¥ 152,185
Marine transportation and other operating costs and expenses	164,778	145,129
Gross Profit	18,533	7,055
Selling, general and administrative expenses	14,480	13,637
Operating income (loss)	4,052	(6,581)
Non-operating income :		
Interest income	312	156
Dividend income	703	1,134
Equity in earnings of subsidiaries and affiliates	1,441	5,945
Exchange gain	-	599
Other non-operating income	705	409
Total non-operating income	3,162	8,246
Non-operating expenses :		
Interest expenses	2,591	2,486
Exchange loss	1,442	-
Other non-operating expenses	467	187
Total non-operating expenses	4,501	2,674
Ordinary income (loss)	2,713	(1,008)
Extraordinary income :		
Gain on sales of vessels, property and equipment	2,056	2,893
Gain on liquidation of subsidiaries and affiliates	2,934	-
Other extraordinary income	888	3
Total extraordinary income	5,879	2,896
Extraordinary losses :		
Loss on impairment of vessels, property and equipment	-	994
Loss on change in equity	-	340
Other extraordinary losses	25	166
Total extraordinary losses	25	1,500
Profit (loss) before income taxes	8,567	386
Income taxes :		
Current	930	601
Deferred	(500)	313
Total income taxes	430	914
Profit (loss)	8,137	(528)
Profit (loss) attributable to non-controlling interests	358	426
Profit (loss) attributable to owners of the parent	¥ 7,779	¥ (955)

## Consolidated Statement of Comprehensive Income

	(Millions of yen)			
	Three months ended June 30, 2019		<b>Three months ended June 30, 2020</b>	
Profit (loss)	¥	8,137	¥	<b>(528)</b>
Other Comprehensive income				
Net unrealized holding gain (loss) on investments in securities		(2,269)		<b>300</b>
Deferred gain (loss) on hedges		(1,723)		<b>135</b>
Translation adjustments		(5,668)		<b>705</b>
Retirement benefits liability adjustments		121		<b>168</b>
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method		(2,889)		<b>(907)</b>
Total other comprehensive income		(12,430)		<b>402</b>
Comprehensive income	¥	(4,292)	¥	<b>(125)</b>
(Breakdown)				
Comprehensive income attributable to owners of the parent	¥	(4,369)	¥	<b>(889)</b>
Comprehensive income attributable to non-controlling interests		76		<b>763</b>

(Additional Information)

(Consolidated taxation system)

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

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

The Company and certain domestic subsidiaries applied tax laws in effect prior to the amendments to calculate deferred tax assets and deferred tax liabilities for certain items remeasured from the single tax return system in accordance with section 3 of ASBJ PITF No.39 as an alternative to the application of section 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28).

(Accounting Estimate related to COVID-19)

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

The Company made no changes to assumptions about COVID-19 made in the previous fiscal year as disclosed in the “Additional Information” section of the Company’s securities report.

(Significant Subsequent Event)

Based on the resolution at the Board of Directors' meeting on August 5, 2020, as a part of the integration of the containership business, the Company decided to enter into an agreement to transfer all shares of INTERNATIONAL TRANSPORTATION SERVICE, INC. to MIP V BidCo, LLC on the assumption that the relevant authorities will approve the transaction.

1. Outline of the company to be transferred

Name of the company:	INTERNATIONAL TRANSPORTATION SERVICE, INC. (The Company holds 70% of the shares of the company)
Main business:	Management of container terminal in North America
Business transaction:	Subcontracting of management of container terminal in North America

2. Number of shares, transfer price, and gain or loss, shareholding ratio after the transfer

Number of shares:	237,090 shares
Transfer price:	Undisclosed due to confidentiality provision in the agreement
Gain and loss:	Approximately ¥20.0 billion will be recognized as gain on sales of shares of subsidiary under extraordinary income, but which is subject to change as the transfer price has not yet been finalized.
Shareholding ratio after the transfer:	-
Scheduled date for transfer:	October 2020

## Segment information

Three months ended June 30, 2019

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 55,479	¥ 20,518	¥ 98,687	¥ 8,627	¥ 183,312	¥ -	¥ 183,312
Inter-group revenues and transfers	0	0	2,023	12,416	14,439	(14,439)	-
Total revenues	¥ 55,479	¥ 20,518	¥ 100,710	¥ 21,043	¥ 197,751	¥ (14,439)	¥ 183,312
Segment profit (loss)	¥ (353)	¥ 1,829	¥ 1,845	¥ 290	¥ 3,612	¥ (899)	¥ 2,713

Three months ended June 30, 2020

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 45,240	¥ 19,240	¥ 81,399	¥ 6,304	¥ 152,185	¥ -	¥ 152,185
Inter-group revenues and transfers	7	-	1,724	10,043	11,775	(11,775)	-
Total revenues	¥ 45,248	¥ 19,240	¥ 83,124	¥ 16,347	¥ 163,960	¥ (11,775)	¥ 152,185
Segment profit (loss)	¥ (4,387)	¥ 1,623	¥ 2,999	¥ 199	¥ 434	¥ (1,443)	¥ (1,008)