

FINANCIAL HIGHLIGHTS

Brief report of the six months ended September 30, 2020

Kawasaki Kisen Kaisha, Ltd.

[Two Year Summary]

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

	Six months ended September 30, 2019	Six months ended September 30, 2020
Consolidated		
Operating revenues	¥ 372,396	¥ 300,101
Operating income (loss)	11,065	(10,202)
Profit (loss) attributable to owners of the parent	16,311	9,629
Profit (loss) attributable to owners of the parent per share (Yen)		
Basic	174.88	103.24
Diluted	-	-

	Year ended March 31, 2020	Six months ended September 30, 2020
Total assets	¥ 896,081	¥ 923,729
Net assets	200,234	206,973

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net cash provided by (used in) operating activities	¥ (39,617)	¥ 14,138
Net cash provided by (used in) investing activities	(13,265)	(2,424)
Net cash provided by (used in) financing activities	28,503	27,335

1. Qualitative Information and Financial Statement

(1) Qualitative Information about the Consolidated Operating Result

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

	Six months ended September 30, 2019	Six months ended September 30, 2020	Change	% Change
Operating revenues	372.4	300.1	(72.3)	(19.4%)
Operating income (loss)	11.1	(10.2)	(21.3)	—
Ordinary income (loss)	13.4	10.0	(3.4)	(25.4%)
Profit (loss) attributable to owners of the parent	16.3	9.6	(6.7)	(41.0%)

Exchange Rate (¥/US\$) (6-month average)	¥109.18	¥106.82	(¥2.36)	(2.2%)
Fuel oil price (US\$/MT) (6-month average)	US\$440	US\$353	(US\$87)	(19.9%)

Performance per segment was as follows.

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

		Six months ended September 30, 2019	Six months ended September 30, 2020	Change	% Change
Dry bulk	Operating revenues	116.3	88.0	(28.3)	(24.3%)
	Segment profit (loss)	0.2	(9.3)	(9.5)	—
Energy resource transport	Operating revenues	43.8	37.8	(6.1)	(13.8%)
	Segment profit (loss)	4.6	3.4	(1.2)	(26.0%)
Product logistics	Operating revenues	194.9	161.7	(33.2)	(17.0%)
	Segment profit (loss)	10.5	18.7	8.3	79.1%
Other	Operating revenues	17.3	12.5	(4.8)	(27.6%)
	Segment profit (loss)	0.7	0.6	(0)	(6.5%)
Adjustments and eliminations	Segment profit (loss)	(2.6)	(3.5)	(1.0)	—
Total	Operating revenues	372.4	300.1	(72.3)	(19.4%)
	Segment profit (loss)	13.4	10.0	(3.4)	(25.4%)

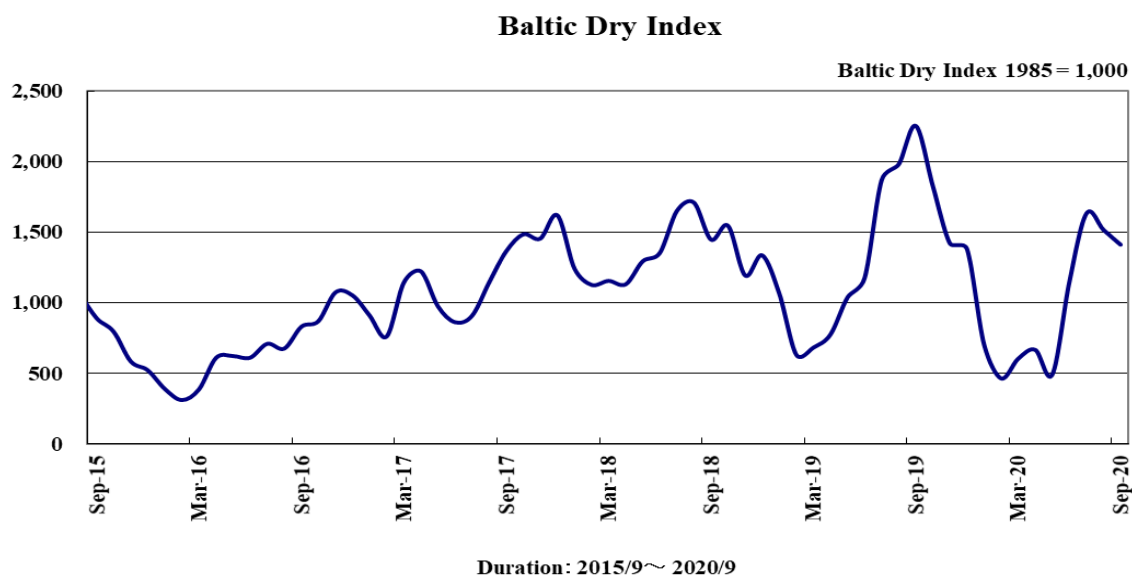
(i) **Dry Bulk Segment**

Dry Bulk Business

In the Cape-size sector, market rates stayed at a high level at the beginning of the second quarter due to the recovery of movements of iron ore mainly from Brazil by the increase in demand for steel materials in China. In the middle of the second quarter and thereafter, market rates weakened after the supply-demand balance relaxed, following the gradual resolution of port congestion in China, which had been caused by the concentration of vessels. However, market rates picked up at the end of the quarter, staying robust overall.

In the medium and small vessel sector, although the shipments of grains from South America peaked out, the demand for shipments expanded due to the rapid increase in United States agricultural products purchased by China, and shipments of iron ore from India also increased more than usual, resulting in market rates staying robust. The vessel supply-demand balance did not recover, because new vessels were delivered one after another for all types of vessels, while the number of scrapped vessels did not increase as expected due to the decline in the operating rate of scrap yards due to the prolonged lockdown in India.

Under these circumstances, the Group strove to reduce operation costs and improve vessel operation efficiency, but remaining effect of weakened market rates in first quarter, the overall Dry Bulk Segment recorded a year-on-year decrease in revenue and a loss was recorded.



(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.

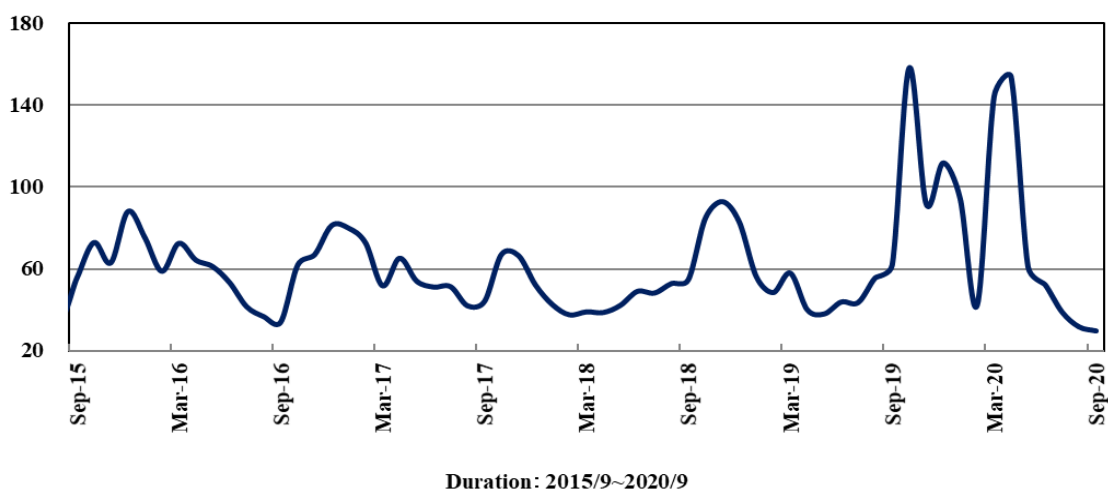
LNG Carrier and Offshore Energy E&P Business

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 vessel operation stoppage, temporary trade service revision, and fleet restructure by sale or redelivery, the car carrier business recorded a year-on-year decrease in revenue and a loss was recorded.

Logistics Business

In the domestic logistics sector, cargo volume declined due to the spread of COVID-19.

In the international logistics sector, while air and ocean cargo transportation were affected significantly by a decline in cargo movements, cargo movements related to buyers' consolidations mainly targeting e-commerce business operators as major customers stayed robust as in the first quarter. 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, although the transportation volume of biomass fuel increased year-on-year due to the robust demand for environmentally responsive energy sources, 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 transportation volume decreased year-on-year despite dealing with food and dairy products to make up for a decline in major cargo movements (e.g., paper and automobile) 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. In the tramp service, the business of vessels carrying limestone or coal stayed firm, but the transportation volume of limestone decreased year-on-year due to the decline in steel demand. As a result, the short sea and coastal business overall recorded a year-on-year decline in revenue and a profit was narrowed due to a lower transportation volume.

Port Business

The domestic terminal service sector recorded a year-on-year decrease both in revenue and profit despite robust container shipments in trunk lines. The international terminal service sector recorded a year-on-year increase both in revenue and profit due to robust container shipments as large size containership operated by The Alliance called at the Group's container terminal (managed by INTERNATIONAL TRANSPORTATION SERVICE, INC.) in North America.

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.

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

Due to significant business performance improvement of "ONE", the background is that robust cargo movement in east-west traffic and overall market rate improvement, the Company recorded 23,554 million yen as Equity in earnings of subsidiaries and affiliates.

(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 2nd Quarter of this fiscal year were ¥923.729 billion, an increase of ¥27.648 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 ¥20.909 billion to ¥716.756 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 ¥206.973 billion, an increase of ¥6.739 billion compared to the end of the previous fiscal year as a result of an increase in retained earnings and other factors.

(3) Qualitative Information on the Consolidated Prospects for FY2020

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

	Prior Forecast (at the time of announcement of the 1st Quarter result)	Current Forecast (at the time of announcement of the 2nd Quarter result)	Change	% Change
Operating revenues	600.0	590.0	(10.0)	(1.7%)
Operating income (loss)	(27.0)	(25.0)	2.0	–
Ordinary income (loss)	(28.0)	0	28.0	–
Profit (loss) attributable to owners of the parent	0	20.0	20.0	–

Exchange Rate (¥/US\$)	¥107.25	¥105.98	(¥1.27)	(1.2%)
Fuel Oil Price (US\$/MT)	US\$368	US\$362	(US\$7)	(1.8%)

In the Dry Bulk Segment, although 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, there are also concerns over the second spread of COVID-19, mainly in Europe. Therefore, it will take some time to see a complete recovery of market rates. 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. In the drillship business, there is a possibility of worsening business results due to anticipated market rates after on-going time charter party.

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, fleet restructure by sale or redelivery. In the logistics business, transportation volume and work volume are expected to gradually recover from the impact of the spread of COVID-19, starting in the third quarter. The Group will continue to strive to reduce fixed costs and improve profitability by securing additional cargoes while closely watching cargo movements related to e-commerce business, which have been increasing due to the global change in lifestyle in this fiscal year. In the containership business, with the uncertain outlook for cargo movements in the third quarter and beyond due to the spread of COVID-19, ONE will continue to implement various measures to improve profitability, while closely watching market trends.

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 Company will make a concerted effort to further improve its financial results, but it is with sincere regret that the Company announces it has decided to pay no interim dividend. The year-end 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.

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	Six months ended September 30, 2020
ASSETS		
Current assets :		
Cash and deposits	¥ 115,394	¥ 153,438
Accounts and notes receivable-trade	60,022	53,106
Raw materials and supplies	25,859	17,807
Prepaid expenses and deferred charges	41,302	34,535
Other current assets	17,669	16,532
Allowance for doubtful receivables	(1,215)	(971)
Total current assets	259,032	274,449
Non-current assets :		
(Vessels, property and equipment)		
Vessels, net	375,507	369,590
Buildings and structures, net	12,438	11,390
Machinery and vehicles, net	9,874	9,529
Land	18,336	16,453
Construction in progress	8,532	10,864
Other, net	6,399	4,106
Total vessels, property and equipment	431,089	421,935
(Intangible assets)		
Other intangible assets	4,329	3,634
Total intangible assets	4,329	3,634
(Investments and other assets)		
Investments in securities	150,993	170,043
Long-term loans receivable	16,857	17,677
Asset for retirement benefits	600	616
Other investments and other assets	34,255	36,553
Allowance for doubtful receivables	(1,077)	(1,180)
Total investments and other assets	201,629	223,709
Total non-current assets	637,048	649,279
Total assets	¥ 896,081	¥ 923,729

Consolidated Balance Sheet

(Millions of yen)

	Year ended March 31, 2020	Six months ended September 30, 2020
LIABILITIES		
Current liabilities :		
Accounts and notes payable-trade	¥ 47,673	¥ 43,794
Short-term loans and current portion of long-term loans	104,576	182,411
Accrued income taxes	2,118	1,356
Allowance for loss related to the Anti-Monopoly Act	834	357
Allowance for loss on chartering contracts	16,474	8,183
Other allowance	2,614	2,901
Other current liabilities	61,848	63,826
Total current liabilities	236,139	302,830
Non-current liabilities :		
Bonds	7,000	7,000
Long-term loans, less current portion	379,104	337,034
Allowance for directors' and audit and supervisory board members' retirement benefits	377	361
Allowance for directors' stock benefits	16	8
Accrued expenses for overhaul of vessels and other assets	11,548	12,216
Liability for retirement benefits	7,313	7,462
Other non-current liabilities	54,346	49,841
Total non-current liabilities	459,707	413,925
Total liabilities	695,847	716,756
NET ASSETS		
Shareholders' equity:		
Common stock	75,457	75,457
Capital surplus	13,723	13,720
Retained earnings	22,050	31,667
Treasury stock	(2,379)	(2,372)
Total shareholders' equity	108,852	118,473
Accumulated other comprehensive income :		
Net unrealized holding gain on investments in securities	148	79
Deferred gain on hedges	(3,152)	(3,975)
Revaluation reserve for land	4,631	4,631
Translation adjustments	(4,821)	(8,232)
Retirement benefits liability adjustments	(4,562)	(4,258)
Total accumulated other comprehensive income	(7,756)	(11,755)
Non-controlling interests	99,138	100,254
Total net assets	200,234	206,973
Total liabilities and net assets	¥ 896,081	¥ 923,729

Consolidated Statement of Operations

(Millions of yen)

	Six months ended September 30, 2019		Six months ended September 30, 2020	
Marine transportation and other operating revenues	¥	372,396	¥	300,101
Marine transportation and other operating costs and expenses		332,247		283,055
Gross Profit		40,148		17,046
Selling, general and administrative expenses		29,083		27,249
Operating income (loss)		11,065		(10,202)
Non-operating income :				
Interest income		625		256
Dividend income		1,419		1,776
Equity in earnings of subsidiaries and affiliates		6,643		23,554
Other non-operating income		1,329		788
Total non-operating income		10,018		26,375
Non-operating expenses :				
Interest expenses		5,183		4,778
Exchange loss		1,833		411
Other non-operating expenses		693		1,004
Total non-operating expenses		7,710		6,194
Ordinary income (loss)		13,373		9,978
Extraordinary income :				
Gain on sales of vessels, property and equipment		2,556		4,785
Other extraordinary income		4,137		12
Total extraordinary income		6,694		4,797
Extraordinary losses :				
Loss on impairment of vessels, property and equipment		289		1,014
Loss on cancellation of chartered vessels		-		812
Other extraordinary losses		495		425
Total extraordinary losses		784		2,252
Profit (loss) before income taxes		19,283		12,523
Income taxes :				
Current		2,412		1,431
Deferred		(726)		91
Total income taxes		1,686		1,523
Profit (loss)		17,596		11,000
Profit (loss) attributable to non-controlling interests		1,285		1,370
Profit (loss) attributable to owners of the parent	¥	16,311	¥	9,629

Consolidated Statement of Comprehensive Income

	(Millions of yen)			
	Six months ended September 30, 2019		Six months ended September 30, 2020	
Profit (loss)	¥	17,596	¥	11,000
Other Comprehensive income				
Net unrealized holding gain (loss) on investments in securities		(3,489)		(89)
Deferred gain (loss) on hedges		(2,708)		(79)
Translation adjustments		(7,260)		(1,124)
Retirement benefits liability adjustments		214		325
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method		(4,158)		(3,060)
Total other comprehensive income		<u>(17,401)</u>		<u>(4,029)</u>
Comprehensive income	¥	195	¥	6,971
(Breakdown)				
Comprehensive income attributable to owners of the parent	¥	(881)	¥	5,630
Comprehensive income attributable to non-controlling interests		1,076		1,340

Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended		Six months ended	
	September 30, 2019		September 30, 2020	
Cash flows from operating activities :				
Profit (loss) before income taxes	¥	19,283	¥	12,523
Depreciation and amortization		21,988		21,862
Increase (decrease) in liability for retirement benefits		(29)		160
(Increase) decrease in asset for retirement benefits		17		(15)
Increase (decrease) in retirement benefits liability adjustments		171		324
Increase (decrease) in allowance for directors' and audit and supervisory board members' retirement benefits		(487)		(16)
Increase (decrease) in accrued expenses for overhaul of vessels		(1,155)		655
Increase (decrease) in allowance for loss on chartering contracts		(7,674)		(8,291)
Interest and dividend income		(2,045)		(2,033)
Interest expense		5,183		4,778
Exchange (gain) loss, net		(1,160)		498
Loss on impairment of vessels, property and equipment		289		1,014
Equity in (earnings) loss of subsidiaries and affiliates, net		(6,643)		(23,554)
Loss on cancellation of chartered vessels		-		812
(Gain) loss on sales of vessels, property and equipment, net		(2,555)		(4,766)
(Increase) decrease in accounts and notes receivable – trade		(168)		6,722
(Increase) decrease in inventories		2,393		7,963
Increase (decrease) in accounts and notes payable – trade		(3,909)		(3,767)
Other, net		(3,231)		4,322
Subtotal		20,265		19,194
Interest and dividends received		2,781		2,677
Interest paid		(6,399)		(4,778)
Payments for cancellation of chartered vessels		(51,774)		(807)
Payments related to the Anti-Monopoly Act		(2,573)		-
Income taxes paid		(1,918)		(2,148)
Net cash provided by (used in) operating activities		(39,617)		14,138
Cash flows from investing activities :				
Payments into time deposits		(3,765)		(2,142)
Proceeds from withdrawal of time deposits		4,618		2,948
Purchases of marketable securities and investments in securities		(926)		(231)
Proceeds from sales of marketable securities and investments in securities		583		22
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation		(142)		-
Purchases of vessels, property and equipment		(52,150)		(11,241)
Proceeds from sales of vessels, property and equipment		40,180		10,079
Purchases of intangible assets		(495)		(127)
Payments of long-term loans receivable		(542)		(990)
Collection of long-term loans receivable		427		567
Other, net		(1,052)		(1,309)
Net cash provided by (used in) investing activities		(13,265)		(2,424)
Cash flows from financing activities :				
Increase (decrease) in short-term loans, net		(33,225)		44,636
Proceeds from long-term loans		60,516		53,115
Repayments of long-term loans and obligations under finance leases		(29,761)		(66,592)
Redemption of bonds		(1,809)		(3,000)
Cash dividends paid to non-controlling interests		(456)		(843)
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation		33,241		-
Other, net		(1)		19
Net cash provided by (used in) financing activities		28,503		27,335
Effect of exchange rate changes on cash and cash equivalents		(115)		(207)
Net increase (decrease) in cash and cash equivalents		(24,494)		38,841
Cash and cash equivalents at beginning of the period		138,040		111,933
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries		118		-
Cash and cash equivalents at end of the period	¥	113,664	¥	150,774

(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.

(Transfer of Shares involving a consolidated subsidiary)

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.

In connection with this decision, the Company concluded a share transfer agreement with MIP V BidCo, LLC.

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:	December 2020

Segment information

Six months ended September 30, 2019

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 116,321	¥ 43,812	¥ 194,931	¥ 17,331	¥ 372,396	¥ -	¥ 372,396
Inter-group revenues and transfers	3	0	4,085	24,660	28,750	(28,750)	-
Total revenues	¥ 116,324	¥ 43,812	¥ 199,017	¥ 41,991	¥ 401,146	¥ (28,750)	¥ 372,396
Segment profit (loss)	¥ 197	¥ 4,603	¥ 10,452	¥ 695	¥ 15,949	¥ (2,576)	¥ 13,373

Six months ended September 30, 2020

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 88,043	¥ 37,762	¥ 161,746	¥ 12,549	¥ 300,101	¥ -	¥ 300,101
Inter-group revenues and transfers	15	-	6,035	21,497	27,548	(27,548)	-
Total revenues	¥ 88,058	¥ 37,762	¥ 167,782	¥ 34,047	¥ 327,650	¥ (27,548)	¥ 300,101
Segment profit (loss)	¥ (9,264)	¥ 3,408	¥ 18,716	¥ 649	¥ 13,509	¥ (3,530)	¥ 9,978