

# FINANCIAL HIGHLIGHTS

Brief report of the nine months ended December 31, 2020

Kawasaki Kisen Kaisha, Ltd.

[Two Year Summary]

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

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Consolidated		
Operating revenues	¥ 567,189	¥ 468,721
Operating income (loss)	21,627	(3,193)
Profit (loss) attributable to owners of the parent	25,223	63,248
Profit (loss) attributable to owners of the parent per share (Yen)		
Basic	270.43	678.10
Diluted	-	-

	Year ended March 31, 2020	Nine months ended December 31, 2020
Total assets	¥ 896,081	¥ 922,951
Net assets	200,234	261,335

## 1. Qualitative Information and Financial Statement

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

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

	Nine months ended December 31, 2019	<b>Nine months ended December 31, 2020</b>	Change	% Change
Operating revenues	567.2	<b>468.7</b>	(98.5)	(17.4%)
Operating income (loss)	21.6	<b>(3.2)</b>	(24.8)	—
Ordinary income (loss)	24.5	<b>42.9</b>	18.4	74.9%
Profit (loss) attributable to owners of the parent	25.2	<b>63.2</b>	38.0	150.8%

Exchange Rate (¥/US\$) (9-month average)	¥109.05	<b>¥106.14</b>	(¥2.91)	(2.7%)
Fuel oil price (US\$/MT) (9-month average)	US\$445	<b>US\$347</b>	(US\$99)	(22.1%)

Due to significant business performance improvement of OCEAN NETWORK EXPRESS PTE. LTD. (hereinafter referred to as "ONE"), the company recorded 527.67 million yen of equity in earnings of subsidiaries for the third quarter. Within the recorded equity in earnings of subsidiaries, "ONE" accounted for 519.46 million yen in consolidated cumulative third quarter, and 297.21 million yen in the third quarter alone.

Performance per segment was as follows.

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

		Nine months ended December 31, 2019	<b>Nine months ended December 31, 2020</b>	Change	% Change
Dry bulk	Operating revenues	181.9	<b>135.5</b>	(46.4)	(25.5%)
	Segment profit (loss)	4.0	<b>(7.6)</b>	(11.6)	—
Energy resource transport	Operating revenues	65.0	<b>57.6</b>	(7.4)	(11.4%)
	Segment profit (loss)	7.7	<b>4.0</b>	(3.7)	(48.3%)
Product logistics	Operating revenues	295.1	<b>254.0</b>	(41.1)	(13.9%)
	Segment profit (loss)	15.7	<b>51.9</b>	36.2	231.3%
Other	Operating revenues	25.3	<b>21.6</b>	(3.6)	(14.5%)
	Segment profit (loss)	1.3	<b>0.7</b>	(0.7)	(51.2%)
Adjustments and eliminations	Segment profit (loss)	(4.1)	<b>(6.0)</b>	(1.9)	—
Total	Operating revenues	567.2	<b>468.7</b>	(98.5)	(17.4%)
	Segment profit (loss)	24.5	<b>42.9</b>	18.4	74.9%

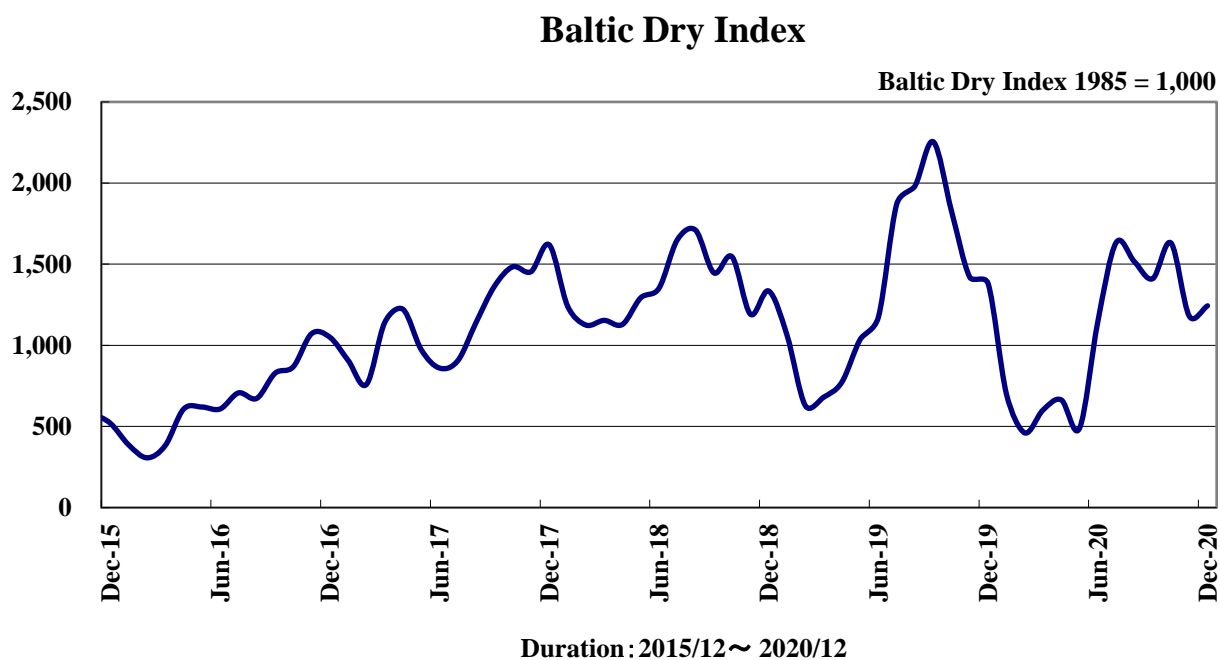
## (i) Dry Bulk Segment

### Dry Bulk Business

In the Cape-size sector, market rates rose at the beginning of the third quarter because of increased vessel supply demand due to a recovery in crude steel production in major producing countries in addition to robust demand for steel in China. However, the rates dropped steeply later as a result of the effects of unfavorable weather at iron ore-loading locations in Brazil and a decline in shipment volume due to maintenance.

In the medium and small vessel sector, market rates stayed firm throughout the third quarter, supported by robust demand for Australian coal for shipment to India, Japan and South Korea as well as brisk transportation of grains from the United States to China. As for the vessel supply-demand balance, the completion rate of newly built ships rose to a high level due to a recovery in shipyards' operations that had slumped because of the spread of COVID-19. On the other hand, as there was little progress in scrapping of small and medium-size ships, the supply-demand gap did not improve.

Under these circumstances, the Group strove to reduce operation costs, improve vessel operation efficiency, and fleet restructure by sale of old vessel initiatively but remaining effect of weakened market rates in last 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

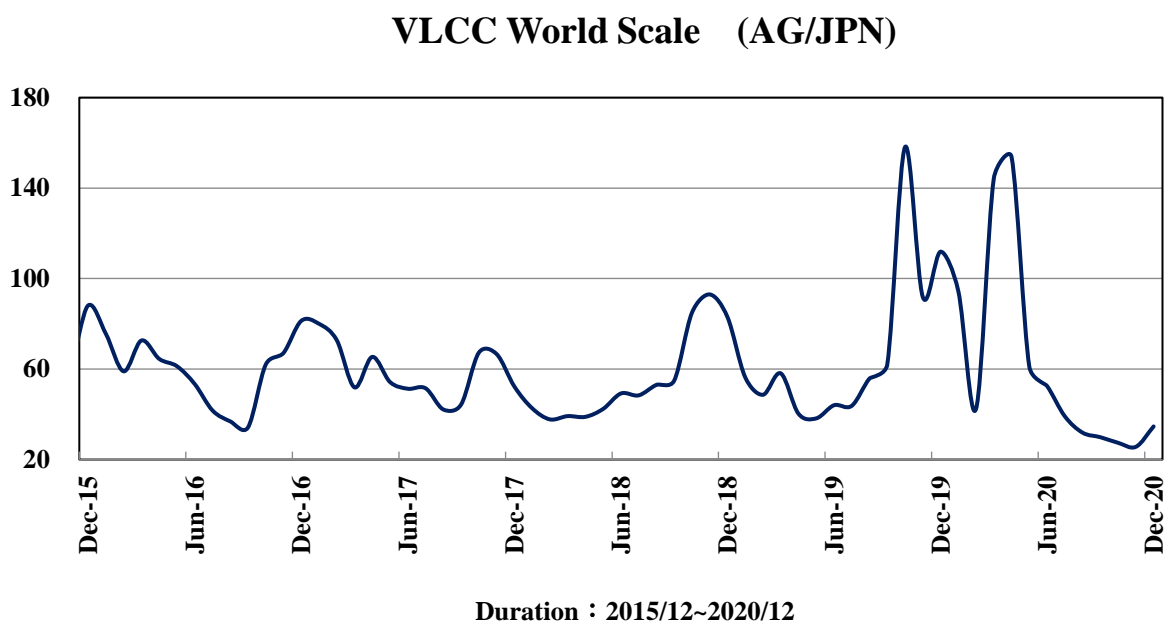
Concerning large crude oil tankers (VLCCs), LPG carriers, and thermal coal carriers, the business stayed firm for mid- and long-term charter contracts and contributed to secure stable profit.

### 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.



## (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, demand remained sluggish for steel and paper materials due to the effects of the spread of COVID-19, resulting in decreases in cargo movements and towing work. Regarding land transportation as well, cargo movements decreased year-on-year due to the effects of COVID-19. On the other hand, the warehousing business stayed firm.

In the international logistics sector, in the third quarter, cargo movements entered a recovery trend. Cargo movements related to e-commerce business, which have been increasing due to the global change in lifestyle in this fiscal year is staying robust. 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, regarding transportation of steel materials, as the shipment volume of steel products declined due to the effects of steelmakers' closures of blast furnaces in the first half, the Company's transportation volume also fell year-on-year. As for transportation of timber products, the transportation volume of imported plywood declined year-on-year because of sluggish demand, but the transportation volume of biomass fuel increased year-on-year due to the robust demand for environmentally responsive energy sources. As for bulk transportation, the transportation volume of Russian coal, the main cargo item, decreased year-on-year because of a fall in domestic demand.

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. Regarding ferrying of trucks, despite a decline in cargo movements of construction materials and some other goods, transportation volume declined only slightly year-on-year because the transportation of frozen goods and door-to-door delivery cargoes increased. In the tramp service, the transportation volume of limestone or coal decreased year-on-year due to the decline in 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

In the domestic terminal service sector, despite the effects of COVID-19, Trans pacific trade stayed firm and Intra-Asia trade also entered a recovery trend in the third quarter. Although handling in volume also increased, the domestic terminal sector recorded a year-on-year decline in revenue and a profit was narrowed.

The international terminal service sector, regarding the Group's container terminal (managed by INTERNATIONAL TRANSPORTATION SERVICE, INC.) in North America, cargo movements from Asia to North America increased steeply from summer onward due to "nesting" demand in the United States, so container handling volume remained on a firm trend. Moreover, as business with new users started in September, both revenue and profit increased.

## Containership Business

As for the performance of "ONE", profit increased year-on-year because of the effects of flexible operations adapted to robust demand and contributions from the continued high level of market rates.

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 3rd Quarter of this fiscal year were ¥922.951 billion, an increase of ¥26.870 billion from the end of the previous fiscal year as a result of an increase in investment securities and other factors.

Consolidated liabilities decreased by ¥34.230 billion to ¥661.616 billion as a result of a decrease in long-term loans and other factors compared to the end of the previous fiscal year.

Consolidated net assets were ¥261.335 billion, an increase of ¥61.100 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 2nd Quarter result)	Current Forecast (at the time of announcement of the 3rd Quarter result)	Change	% Change
Operating revenues	590.0	612.0	22.0	3.7%
Operating income (loss)	(25.0)	(21.0)	4.0	—
Ordinary income (loss)	0	50.0	50.0	—
Profit (loss) attributable to owners of the parent	20.0	65.0	45.0	225.0%

Exchange Rate (¥/US\$)	¥105.98	¥105.73	(¥0.25)	(0.2%)
Fuel Oil Price (US\$/MT)	US\$362	US\$358	(US\$3)	(0.9%)

In the Dry Bulk Segment, market rate was significantly affected in the first half by the stagnation of economic activity caused by the spread of COVID-19 in countries around the world. However, as demand for ocean transportation recovered later because of economy-stimulating measures implemented by various countries, demand for transportation is expected to remain firm in the second half. There is a possibility that there remains downside risk for economic recovery due to COVID-19 and restriction of operation (e.g. Crew change). In the Dry Bulk Segment, resiliency to market rate changes will be enhanced through appropriate fleet development and limitations on exposures, and at the same time, 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.

In 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, despite concerns over a resurgence of COVID-19, the impact on business is expected to be limited because the effects on movements of general cargoes are limited and also because the ongoing recovery in container handling volume is projected to continue for a while. On the other hand, the sluggish demand for steel and paper materials is unlikely to recover by the end of the current fiscal year. In the international logistics sector, cargo movements related to e-commerce business is expected to be staying robust. In addition, because of the current container shortage for ocean transportation, demand for cargo storage is expected to grow in the short term in some countries, causing demand in the warehousing business to become robust. In the port business, container handling volume at the Company's domestic terminals is expected to remain firm on the whole and revenue is expected to be stable due to the recovery trend in Asian traffic as well as

the continued firmness of North American traffic in the third quarter and later. Regarding International Transportation Service, Inc. (ITS), the Company completed the transfer of all shares of ITS to MIP V BidCo, LLC, an infrastructure investment fund operated by Macquarie Infrastructure and Real Assets in December, 2020. In the containership business, with the uncertain outlook for cargo movements in the fourth quarter and beyond due to the spread of COVID-19, “ONE” will continue to implement steady business operation, 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, 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	Nine months ended December 31, 2020
<b>ASSETS</b>		
Current assets :		
Cash and deposits	¥ 115,394	¥ 147,626
Accounts and notes receivable-trade	60,022	49,285
Raw materials and supplies	25,859	18,381
Prepaid expenses and deferred charges	41,302	35,722
Other current assets	17,669	16,032
Allowance for doubtful receivables	(1,215)	(959)
Total current assets	259,032	266,089
Non-current assets :		
(Vessels, property and equipment)		
Vessels, net	375,507	353,589
Buildings and structures, net	12,438	10,862
Machinery and vehicles, net	9,874	3,452
Land	18,336	16,289
Construction in progress	8,532	10,662
Other, net	6,399	3,735
Total vessels, property and equipment	431,089	398,590
(Intangible assets)		
Other intangible assets	4,329	3,547
Total intangible assets	4,329	3,547
(Investments and other assets)		
Investments in securities	150,993	200,617
Long-term loans receivable	16,857	16,072
Asset for retirement benefits	600	624
Other investments and other assets	34,255	38,576
Allowance for doubtful receivables	(1,077)	(1,168)
Total investments and other assets	201,629	254,723
Total non-current assets	637,048	656,862
Total assets	¥ 896,081	¥ 922,951

## Consolidated Balance Sheet

(Millions of yen)

	Year ended March 31, 2020	Nine months ended December 31, 2020
<b>LIABILITIES</b>		
Current liabilities :		
Accounts and notes payable-trade	¥ 47,673	¥ 40,988
Short-term loans and current portion of long-term loans	104,576	139,982
Accrued income taxes	2,118	1,111
Allowance for loss related to the Anti-Monopoly Act	834	357
Allowance for loss on chartering contracts	16,474	3,980
Other allowance	2,614	1,512
Other current liabilities	61,848	52,546
Total current liabilities	236,139	240,478
Non-current liabilities :		
Bonds	7,000	7,000
Long-term loans, less current portion	379,104	345,657
Allowance for directors' and audit and supervisory board members' retirement benefits	377	365
Allowance for directors' stock benefits	16	8
Accrued expenses for overhaul of vessels and other assets	11,548	12,334
Liability for retirement benefits	7,313	7,324
Other non-current liabilities	54,346	48,448
Total non-current liabilities	459,707	421,137
Total liabilities	695,847	661,616
<b>NET ASSETS</b>		
Shareholders' equity:		
Common stock	75,457	75,457
Capital surplus	13,723	13,827
Retained earnings	22,050	85,287
Treasury stock	(2,379)	(2,372)
Total shareholders' equity	108,852	172,199
Accumulated other comprehensive income :		
Net unrealized holding loss on investments in securities	148	1,782
Deferred gain (loss) on hedges	(3,152)	(3,067)
Revaluation reserve for land	4,631	4,631
Translation adjustments	(4,821)	(8,361)
Retirement benefits liability adjustments	(4,562)	(4,062)
Total accumulated other comprehensive income	(7,756)	(9,077)
Non-controlling interests	99,138	98,213
Total net assets	200,234	261,335
Total liabilities and net assets	¥ 896,081	¥ 922,951

## Consolidated Statement of Operations

(Millions of yen)

	Nine months ended December 31, 2019		Nine months ended December 31, 2020	
Marine transportation and other operating revenues	¥	567,189	¥	468,721
Marine transportation and other operating costs and expenses		502,116		430,435
Gross Profit		65,073		38,286
Selling, general and administrative expenses		43,446		41,479
Operating income (loss)		21,627		(3,193)
Non-operating income :				
Interest income		893		394
Dividend income		1,887		1,867
Equity in earnings of subsidiaries and affiliates		8,174		52,767
Other non-operating income		1,577		1,154
Total non-operating income		12,532		56,183
Non-operating expenses :				
Interest expenses		7,699		7,455
Exchange loss		910		1,250
Other non-operating expenses		1,009		1,374
Total non-operating expenses		9,620		10,079
Ordinary income (loss)		24,539		42,909
Extraordinary income :				
Gain on sales of vessels, property and equipment		2,692		10,345
Gain on sales of shares of subsidiaries and associates		302		19,955
Other extraordinary income		3,862		165
Total extraordinary income		6,857		30,466
Extraordinary losses :				
Loss on impairment of vessels, property and equipment		254		3,817
Other extraordinary losses		357		1,554
Total extraordinary losses		611		5,372
Profit (loss) before income taxes		30,784		68,003
Income taxes :				
Current		2,982		1,930
Deferred		(177)		517
Total income taxes		2,804		2,448
Profit (loss)		27,980		65,555
Profit (loss) attributable to non-controlling interests		2,757		2,306
Profit (loss) attributable to owners of the parent	¥	25,223	¥	63,248

## Consolidated Statement of Comprehensive Income

	(Millions of yen)			
	Nine months ended December 31, 2019		Nine months ended December 31, 2020	
Profit (loss)	¥	27,980	¥	65,555
Other Comprehensive income				
Net unrealized holding gain (loss) on investments in securities		(2,952)		1,562
Deferred gain (loss) on hedges		(2,301)		129
Translation adjustments		(4,525)		1,357
Retirement benefits liability adjustments		311		543
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method		(2,099)		(4,377)
Total other comprehensive income		(11,566)		(784)
Comprehensive income	¥	16,413	¥	64,770
(Breakdown)				
Comprehensive income attributable to owners of the parent	¥	13,977	¥	61,927
Comprehensive income attributable to non-controlling interests		2,435		2,843

(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.

## Segment information

Nine months ended December 31, 2019

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 181,886	¥ 64,989	¥ 295,064	¥ 25,250	¥ 567,189	¥ -	¥ 567,189
Inter-group revenues and transfers	7	0	6,480	37,053	43,541	(43,541)	-
<b>Total revenues</b>	<b>¥ 181,893</b>	<b>¥ 64,989</b>	<b>¥ 301,544</b>	<b>¥ 62,304</b>	<b>¥ 610,731</b>	<b>¥ (43,541)</b>	<b>¥ 567,189</b>
Segment profit (loss)	¥ 3,963	¥ 7,673	¥ 15,668	¥ 1,334	¥ 28,640	¥ (4,101)	¥ 24,539

Nine months ended December 31, 2020

(Millions of yen)

	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
Revenues							
Operating revenues from customers	¥ 135,517	¥ 57,607	¥ 253,996	¥ 21,600	¥ 468,721	¥ -	¥ 468,721
Inter-group revenues and transfers	23	-	9,461	32,105	41,589	(41,589)	-
<b>Total revenues</b>	<b>¥ 135,540</b>	<b>¥ 57,607</b>	<b>¥ 263,457</b>	<b>¥ 53,706</b>	<b>¥ 510,311</b>	<b>¥ (41,589)</b>	<b>¥ 468,721</b>
Segment profit (loss)	¥ (7,646)	¥ 3,963	¥ 51,914	¥ 650	¥ 48,882	¥ (5,972)	¥ 42,909