

NS United REPORT 2020

Financial Report

Year Ended March 31, 2020

NS United Kaiun Kaisha, Ltd.

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[Financial Information]

1. Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements of NS United Kaiun Kaisha, Ltd. (the Company) and its subsidiaries (the Group) are prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976) and the Rules on Financial Statements in the Shipping Industry (Public Notice of the Ministry of Transport No. 431 of 1954).

2. Audit Certification

The Company's consolidated financial statements for the current fiscal year (from April 1, 2019 to March 31, 2020) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Particular Efforts to Ensure the Appropriateness of the Consolidated Financial Statements and Others

The Company is making particular efforts to ensure the appropriateness of the consolidated financial statements and others. Specifically, the Company has become a member of the Financial Accounting Standards Foundation (hereinafter, the "Foundation") and participates in seminars and other programs sponsored by the Foundation in order to have an appropriate understanding about the contents of the accounting standards, and establish a system that allows the Company to properly respond to the changes in the accounting standards.

1. Consolidated Financial Statements and Supplementary Schedules

(1) Consolidated Financial Statements

1) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: Million yen)

	For the previous fiscal year (From April 1, 2018 to March 31, 2019)		For the current fiscal year (From April 1, 2019 to March 31, 2020)	
Revenues				
Shipping business revenue and other operating revenue		151,068		148,415
Operating expenses				
Shipping business expenses and other operating expenses	*1, *2	136,382	*1, *2	135,613
Gross profit		14,687		12,802
General and administrative expenses	*3	5,776	*3	5,762
Operating income		8,911		7,040
Non-operating income				
Interest income		81		72
Dividend income		116		130
Share of profit of entities accounted for using equity method		20		10
Foreign exchange gains		183		—
Gain on derivatives		97		146
Other		71		58
Total non-operating income		568		416
Non-operating expenses				
Interest expenses		1,648		1,486
Foreign exchange losses		—		275
Other		46		216
Total non-operating expenses		1,694		1,977
Ordinary income		7,784		5,479
Extraordinary income				
Gain on sales of fixed assets	*4	3,254	*4	2,881
Gain on sales of investment securities		—		7
Total extraordinary income		3,254		2,888
Extraordinary losses				
Loss on valuation of investment securities		—		1,041
Loss on cancellation of chartered vessels		495		50
Loss on sales of shares of subsidiaries		41		—
Reversal of foreign currency translation adjustment (Extraordinary losses)		—		79
Total extraordinary losses		536		1,170
Profit before income taxes		10,502		7,197
Income taxes - current		823		541
Income taxes - deferred		337		710
Total income taxes		1,160		1,251
Profit		9,342		5,947
Profit (loss) attributable to non-controlling interests		(0)		—
Profit attributable to owners of Parent		9,343		5,947

Consolidated Statement of Comprehensive Income

(Unit: Million yen)

	For the previous fiscal year (From April 1, 2018 to March 31, 2019)	For the current fiscal year (From April 1, 2019 to March 31, 2020)
Profit	9,342	5,947
Other comprehensive income		
Unrealized gains (losses) on securities	(422)	17
Deferred gains (losses) on hedges	2,741	(1,230)
Foreign currency translation adjustment	(52)	76
Remeasurements of defined benefit plans, net of tax	(58)	(138)
Share of other comprehensive income (loss) of entities accounted for using equity method	(31)	(6)
Total other comprehensive income (loss)	* 2,178	* (1,282)
Comprehensive income:	11,520	4,665
Comprehensive income attributable to owners of Parent	11,519	4,665
Comprehensive income (loss) attributable to non- controlling interests	0	—

2) Consolidated Statement of Changes in Net Assets

For the previous fiscal year (from April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2018	10,300	17,181	56,209	(993)	82,697
Changes of items during the year					
Dividends of surplus			(3,182)		(3,182)
Profit attributable to owners of Parent			9,343		9,343
Acquisition of treasury stock				(1)	(1)
Change of scope of consolidation			24		24
Net changes of items other than shareholders' equity					
Total changes of items during the year	-	-	6,185	(1)	6,184
Balance at March 31, 2019	10,300	17,181	62,394	(994)	88,881

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2018	406	(2,751)	(41)	365	(2,020)	14	80,691
Changes of items during the year							
Dividends of surplus							(3,182)
Profit attributable to owners of Parent							9,343
Acquisition of treasury stock							(1)
Change of scope of consolidation							24
Net changes of items other than shareholders' equity	(423)	2,741	(83)	(58)	2,177	(14)	2,163
Total changes of items during the year	(423)	2,741	(83)	(58)	2,177	(14)	8,347
Balance at March 31, 2019	(17)	(9)	(124)	307	157	-	89,038

For the current fiscal year (from April 1, 2019 to March 31, 2020)

(Unit: Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2019	10,300	17,181	62,394	(994)	88,881
Changes of items during the year					
Dividends of surplus			(2,592)		(2,592)
Profit attributable to owners of Parent			5,947		5,947
Acquisition of treasury stock				(1)	(1)
Change of scope of consolidation					
Net changes of items other than shareholders' equity					
Total changes of items during the year	-	-	3,354	(1)	3,354
Balance at March 31, 2020	10,300	17,181	65,748	(995)	92,235

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2019	(17)	(9)	(124)	307	157	-	89,038
Changes of items during the year							
Dividends of surplus							(2,592)
Profit attributable to owners of Parent							5,947
Acquisition of treasury stock							(1)
Change of scope of consolidation							
Net changes of items other than shareholders' equity	17	(1,230)	69	(138)	(1,282)	-	(1,282)
Total changes of items during the year	17	(1,230)	69	(138)	(1,282)	-	2,072
Balance at March 31, 2020	(0)	(1,239)	(55)	169	(1,125)	-	91,110

3) Consolidated Balance Sheet

(Unit: Million yen)

	For the previous fiscal year (As of March 31, 2019)	For the current fiscal year (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	22,308	19,803
Trade notes and accounts receivable	15,674	18,650
Securities	4,500	—
Inventories	*4 7,143	*4 5,876
Prepaid expenses	2,851	3,027
Derivatives	3,658	1,379
Other current assets	1,147	1,773
Allowance for doubtful accounts	(20)	(24)
Total current assets	57,261	50,484
Fixed assets		
Tangible fixed assets		
Vessels, net	*3 136,112	*3 176,472
Buildings, net	445	422
Land	703	703
Construction in progress	16,515	9,636
Other tangible fixed assets, net	75	61
Total tangible fixed assets	*1 153,849	*1 187,295
Intangible fixed assets	2,594	2,546
Investments and other assets		
Investment securities	*2 3,908	*2 2,599
Long-term loans receivable	31	28
Deferred tax assets	3,816	3,537
Retirement benefit asset	1,501	1,480
Other investments and other assets	569	552
Allowance for doubtful accounts	(2)	—
Total investments and other assets	9,823	8,197
Total fixed assets	166,267	198,038
Total assets	223,528	248,522

(Unit: Million yen)

	For the previous fiscal year (As of March 31, 2019)	For the current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Trade notes and accounts payable	6,764	6,097
Short-term borrowings	*3 16,464	*3 37,733
Lease obligations	—	351
Accounts payable - other	138	737
Accrued expenses	295	227
Income taxes payable	601	284
Advances received	1,578	1,201
Provision for bonuses	439	425
Provision for bonuses for directors (and other officers)	69	52
Derivatives liabilities	3,672	3,115
Other current liabilities	2,120	2,408
Total current liabilities	32,140	52,630
Long-term liabilities		
Long-term borrowings	*3 97,337	*3 94,681
Lease obligations	—	4,729
Deferred tax liabilities	1,823	1,600
Provision for special repairs	3,047	3,609
Retirement benefit liability	140	161
Other long-term liabilities	3	2
Total long-term liabilities	102,350	104,783
Total liabilities	134,490	157,412
Net assets		
Shareholders' equity		
Common stock	10,300	10,300
Capital surplus	17,181	17,181
Retained earnings	62,394	65,748
Treasury stock, at cost	(994)	(995)
Total shareholders' equity	88,881	92,235
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	(17)	(0)
Deferred gains (losses) on hedges	(9)	(1,239)
Foreign currency translation adjustment	(124)	(55)
Accumulated remeasurements of defined benefit plans	307	169
Total accumulated other comprehensive income	157	(1,125)
Total net assets	89,038	91,110
Total liabilities and net assets	223,528	248,522

4) Consolidated Statement of Cash Flows

(Unit: Million yen)

	For the previous fiscal year (From April 1, 2018 to March 31, 2019)	For the current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flow from operating activities		
Profit before income taxes	10,502	7,197
Depreciation and amortization	14,631	15,046
Increase (decrease) in allowance for doubtful accounts	2	2
Increase (decrease) in provision for bonuses	19	(14)
Increase (decrease) in provision for bonuses for directors (and other officers)	11	(17)
Increase (decrease) in provision for special repairs	(816)	566
Increase (decrease) in retirement benefit asset and retirement benefit liability	(176)	(152)
Interest and dividend income	(197)	(202)
Interest expenses	1,648	1,486
Foreign exchange losses (gains)	(47)	131
Share of loss (profit) of entities accounted for using equity method	(20)	(10)
Loss (gain) on sales of tangible fixed assets and intangible fixed assets	(3,255)	(2,881)
Loss (gain) on sales of investment securities	(0)	(7)
Loss (gain) on valuation of investment securities	—	1,041
Loss (gain) on sales of shares of subsidiaries	41	—
Decrease (increase) in trade receivables	(896)	(2,976)
Decrease (increase) in inventories	(1,021)	1,267
Increase (decrease) in trade payables	1,430	(666)
Increase (decrease) in accounts payable - other	(1,063)	1
Other, net	1,130	(958)
Subtotal	21,922	18,854
Interest and dividends received	386	387
Interest paid	(1,747)	(1,496)
Income taxes paid	(604)	(840)
Net cash provided by (used in) operating activities	19,957	16,905
Cash flow from investing activities		
Decrease (increase) in time deposits	—	20
Purchase of vessels	(18,358)	(55,428)
Proceeds from sales of vessels	13,418	15,666
Purchase of other fixed assets	(244)	(200)
Proceeds from sales of other fixed assets	1	—
Purchase of investment securities	(5)	(4)
Proceeds from sales and redemption of investment securities	0	9
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(8)	—
Collection of loans receivable	121	—
Other, net	44	2
Net cash provided by (used in) investing activities	(5,031)	(39,935)
Cash flow from financing activities		
Net increase (decrease) in short-term borrowings	(50)	(100)
Proceeds from long-term borrowings	13,358	41,176
Repayments of long-term borrowings	(25,605)	(22,289)
Purchase of treasury stock	(1)	(1)
Dividends paid	(3,180)	(2,590)
Dividends paid to non-controlling interests	(0)	—
Other, net	(13)	(97)
Net cash provided by (used in) financing activities	(15,491)	16,099

(Unit: Million yen)

	For the previous fiscal year (From April 1, 2018 to March 31, 2019)	For the current fiscal year (From April 1, 2019 to March 31, 2020)
Effect of exchange rate changes on cash and cash equivalents	11	(55)
Net increase (decrease) in cash and cash equivalents	(554)	(6,985)
Cash and cash equivalents at the beginning of the year	27,276	26,738
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	16	—
Cash and cash equivalents at the end of the year	* 26,738	* 19,753

[Notes to Consolidated Financial Statements]

(Going Concern Assumption)

Not applicable

(Basis for the Preparation of the Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 52

Names of major consolidated subsidiaries:

NS United Naiko Kaiun Kaisha, Ltd.

NS United Coastal Tanker Kaisha, Ltd.

During the current fiscal year, NS UNITED TANKER PTE. LTD. was excluded from the scope of consolidation due to the completion of liquidation procedures.

(2) Names and others of major non-consolidated subsidiaries

Major non-consolidated subsidiaries:

NS UNITED BULK PTE. LTD.

(Reason for exclusion from the scope of consolidation)

The amounts of total assets, revenues, profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest) and others of the non-consolidated subsidiaries do not have a material impact on the consolidated financial statements and are all insignificant in general, therefore such subsidiaries are excluded from the scope of consolidation.

2. Application of the equity method

(1) Number of equity-method affiliates: 3

Names of non-consolidated subsidiaries accounted for by the equity method:

NS UNITED SHIPPING (U.K.) LTD.

NS UNITED SHIPPING (U.S.A.) INC.

NS UNITED SHIPPING (H.K.) CO., LTD.

(2) Amounts such as profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest) and others of non-consolidated subsidiaries (NS UNITED BULK PTE. LTD. and others) and affiliates (SHINSHO SENPAKU KAISHA, LTD. and others) do not have a material impact on the consolidated financial statements and are all insignificant in general, therefore such non-consolidated subsidiaries and affiliates are excluded from the scope of equity method.

(3) The fiscal year-end dates of equity-method affiliates are different from the consolidated fiscal year-end date, but the consolidated financial statements are prepared using the non-consolidated financial statements for the fiscal year of each equity-method affiliate.

3. Accounting policies

(1) Basis and methods of valuation of significant assets

1) Securities

a. Held-to-maturity bonds

Stated at amortized cost (straight-line method)

b. Other securities

Securities with fair value

Stated at fair value based on the market price and others as of fiscal year-end (all valuation differences are included in net assets and costs of securities sold are principally calculated by the moving-average method)

Securities without fair value

Stated at cost using the moving-average method

2) Inventories

Stated at cost determined primarily by the first-in first-out method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability)

(2) Depreciation and amortization method for significant depreciable and amortizable assets

1) Tangible fixed assets (excluding leased assets)

- a. Vessels
 - Primarily calculated using the straight-line method. However, for certain vessels, depreciation is calculated using the declining balance method.
 - The useful lives of major vessels range from 13 years to 25 years.
- b. Buildings (excluding facilities attached to buildings)
 - Primarily calculated using the straight-line method.
- c. Other assets
 - Calculated using the declining balance method. However, facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.
- 2) Intangible fixed assets (excluding leased assets)
 - Calculated using the straight-line method. Software for internal use is amortized over the estimated internal useful life (five years) and contract-related intangible assets are amortized over the contract period.
- 3) Leased assets
 - a. Leased assets under finance lease transactions which transfer ownership
 - The same depreciation method as applied to self-owned fixed assets is used.
 - b. Leased assets under finance lease transactions which do not transfer ownership
 - Calculated using the straight-line method over the useful life of the lease term, with no residual value.
- (3) Reporting basis for significant allowances and provisions
 - 1) Allowance for doubtful accounts
 - To provide for bad debt expenses arising from trade receivables, loans receivable, and other credits, the estimated uncollectible amount is recognized based on actual bad debt rates for general receivables, and individual collectability for specified debts including possible bad debts.
 - 2) Provision for bonuses
 - Provision for bonuses is established to cover bonus payments to employees and is provided in the amount based on the estimated amount of payment.
 - 3) Provision for bonuses for directors (and other officers)
 - Provision for bonuses for directors (and other officers) is established to cover bonus payments to directors and officers and is provided in the amount based on the estimated amount of payment.
 - 4) Provision for special repairs
 - Provision for special repairs is established to provide for special repairs (regular inspections) of vessels and is provided in the amount calculated based on the actual cost of regular inspections and others.
- (4) Method of accounting for retirement benefit plans
 - 1) Method of attributing estimated retirement benefits to the periods
 - In calculating retirement benefit obligations, the benefit formula basis is applied to attribute estimated retirement benefits to the period up to the end of the current fiscal year.
 - 2) Method of amortization of actuarial gains and losses and prior service costs
 - Prior service cost is amortized using the straight-line method over a fixed number of years (8 to 10 years) within the estimated average remaining service years of the employees at the time of cost incurrence.
 - Actuarial gains and losses for each fiscal year are amortized proportionally from the following fiscal year using the straight-line method over a fixed number of years (8 to 10 years) within the estimated average remaining service years of employees at the time of incurrence.
 - 3) Adoption of simplified method at small-scale companies and others
 - Certain consolidated subsidiaries use the simplified method, which uses the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as the retirement benefit obligations, to calculate net retirement benefit liability and retirement benefit expenses.
- (5) Standards for translation of significant foreign currency-denominated assets or liabilities into Japanese yen
 - Foreign currency-denominated monetary claims and liabilities are translated into Japanese yen at the spot exchange rates prevailing on the fiscal year-end date, and the resulting exchange differences are recorded as exchange gains or losses.
 - Foreign currency-denominated claims and liabilities hedged by forward exchange contracts and currency swaps eligible for the allocation method are translated into the Japanese yen amount of such forward exchange contracts and currency swaps. Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates prevailing on the fiscal year-end date, and revenue and expenses are translated into Japanese yen at the average exchange rates

prevailing over the period, with the differences resulting from such translations recorded as foreign currency translation adjustment under net assets.

(6) Standards for recording significant revenue and expenses

Revenue and expenses of the shipping business are calculated primarily on a daily pro rata basis based on the number of days of voyage.

(7) Method of significant hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is applied primarily, while some interest rate swap transactions meeting the requirements for the special treatment are accounted for using the special treatment, and some forward exchange contracts and currency swaps are accounted for using the allocation method.

2) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied are as follows:

a. Hedging instruments: Interest rate swaps

Hedged items: Interest on borrowings

b. Hedging instruments: Currency swaps

Hedged items: Borrowings in foreign currencies

c. Hedging instruments: Forward exchange contracts

Hedged items: Forecasted transactions in foreign currencies

d. Hedging instruments: Fuel oil swaps

Hedged items: Fuel oil prices

e. Hedging instruments: Futures transactions

Hedged items: Freight rates, charter rates

3) Hedging policy

Regarding the execution and management of derivative transactions at the Company, transactions involving interest rate swaps, currency swaps, and forward exchange contracts, among others, are managed by the Finance and Accounting Group; transactions involving fuel oil swaps are managed by the Energy Group; and futures transactions on freight and charter rates are managed by each sales division group. All transactions are executed upon receiving approval of related items including purposes, notional principal amounts, contract terms, and structures by the director in charge each time derivative transactions are entered into.

Regarding derivative transactions conducted by Group companies based on guarantee or reservation of guarantee by the Company, transactions are managed by each Group company, as well as by the Finance and Accounting Group of the Company in an integrated manner after the prior approval of the transaction terms by the Company. Other derivative transactions are executed and managed by the General Manager or other senior staff of the Accounting Department of each company upon receiving the approval of the director in charge in accordance with the Accounting Rules, etc., and are reported to the Company. In entering into derivative transactions, the Company conducts transactions only with highly creditworthy financial institutions to minimize credit risk.

4) Method of assessing hedging effectiveness

The Company verifies the hedging effectiveness of individual transactions under the risk management system in accordance with the Accounting Rules, etc., and regularly reports the results to authorities including the Board of Executive Officers.

(8) Scope of funds in the consolidated statement of cash flows

Funds (cash and cash equivalents) in the consolidated statement of cash flows consist of cash on hand, deposits in banks which can be withdrawn at any time, and short-term investments with a maturity of three months or less from the date of acquisition which can easily be converted to cash and are subject to little risk of change in value.

(9) Other significant items for the preparation of consolidated financial statements

1) Method of recording interest expenses paid on loans for ship construction

Of the interest expenses paid on loans for ship construction, interest expenses incurred during the period up until completion are included in the acquisition cost.

2) Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax exclusion method.

(Accounting Standards Not yet Adopted)

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, issued on March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued on March 31, 2020)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed comprehensive accounting standards for revenue recognition and the Revenue from Contracts with Customers was issued in May 2014 (IFRS 15 issued by the IASB, and Topic 606 issued by the FASB). IFRS 15 is effective from fiscal years beginning on or after January 1, 2018, and Topic 606 is effective from fiscal years beginning after December 15, 2017. Based on such a situation, the ASBJ developed the comprehensive accounting standard for revenue recognition and issued such standard along with the implementation guidance.

The ASBJ’s basic policy in developing accounting standard for revenue recognition was to set an accounting standard that incorporates the basic principles of IFRS 15 as a starting point from the viewpoint of comparability among financial statements which is one of the merits for consistency with IFRS 15. If there are any items which should be considered among current practices in Japan, alternative treatments would be added to the extent where comparability is not impaired.

(2) Planned date for adoption

These accounting standards will be adopted from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of adopting these accounting standards

The financial impact from the application of Accounting Standards for Revenue Recognition and the associated guidance on the Company’s consolidated financial statements is under evaluation at this time.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

Based on the fact that International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) have already established similar detailed guidance on the measurement of fair value (IFRS 13 “Fair Value Measurement” issued by the IASB and Accounting Standards Codification Topic 820 “Fair Value Measurement” issued by the FASB), the ASBJ has worked to establish the consistency in accounting standards between Japanese and international standards, mainly for the guidance and disclosure of fair value of financial instruments, and issued “Accounting Standard for Fair Value Measurement” and other standards.

The ASBJ’s basic policy in developing accounting standards for measurement of fair value was to employ a unified accounting standard that incorporates all the basic principles of IFRS 13 from the viewpoint of improving comparability among financial statements of domestic and overseas companies. Considering items among current practices in Japan, alternative treatments on individual items would be added to the extent where comparability is not significantly impaired.

(2) Planned date for adoption

These accounting standards will be adopted from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of adopting these accounting standards

The financial impact from the application of “Accounting Standards for Fair Value Measurement” and the associated guidance on the Company’s consolidated financial statements is undetermined at this time.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued on March 31, 2020)

(1) Overview

The purpose of this standard is to disclose information for users to understand the financial statements on accounting estimates in items at risk of significant impact in the next fiscal year among figures with accounting estimates in the items on the statements in the current fiscal year.

(2) Planned date for adoption

This accounting standard will be adopted from the end of the fiscal year ending March 31, 2021.

[Additional Information]

It is highly uncertain at the present moment about the future spread/suppression of COVID-19 outbreak. A future forecast, including any impact on the Group’s business activities, is very difficult to determine; however, the impact of COVID-19 is expected to persist until the latter half of 2020 at the earliest and assessments of impairment of vessels and the recoverability of deferred tax assets, etc., are made as properly as possible, considering all available information overall. For the next fiscal year and beyond, if the spread of COVID-19 is prolonged and its impact on the economy changes, there is a possibility that financial position, business performance and cash flow of the Group may be affected.

(Consolidated Statement of Income)

*1 The amounts of provisions recorded for the items below are as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Provision for bonuses	172 million yen	170 million yen
Retirement benefit expenses	72	82
Provision for special repairs	1,504	1,589

*2 Gain or loss on valuation of inventories based on the write-down method (reversal) is as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Write-down of inventories (reversal of write-downs)	(13) million yen	1,006 million yen

*3 Major items of general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Remuneration for directors (and other officers) and employee salaries	2,971 million yen	3,106 million yen
Depreciation and amortization	89	79
Provision of allowance for doubtful accounts	2	2
Provision for bonuses	273	255
Provision for bonuses for directors (and other officers)	69	52
Retirement benefit expenses	121	97

*4 Breakdown of gain on sales of fixed assets is as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Vessels	3,254 million yen	2,881 million yen

(Consolidated Statement of Comprehensive Income)

* Amounts of reclassification adjustments and tax effects relating to other comprehensive income (loss)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Unrealized gains (losses) on securities:		
Gains (losses) incurred during the year	(474) million yen	(1,122) million yen
Reclassification adjustments to profit	(16)	1,034
Amount before tax effects	(489)	(89)
Tax effects	67	105
Unrealized gains (losses) on securities	(422)	17
Deferred gains (losses) on hedges:		
Gains (losses) incurred during the year	4,093	86
Reclassification adjustments to profit	564	491
Adjustments of asset acquisition cost	(845)	(2,298)
Amount before tax effects	3,813	(1,721)
Tax effects	(1,072)	491
Deferred gains (losses) on hedges	2,741	(1,230)
Foreign currency translation adjustment:		
Gains (losses) incurred during the year	(52)	(3)
Reclassification adjustments to profit	-	79
Foreign currency translation adjustment	(52)	76
Remeasurements of defined benefit plans, net of tax:		
Gains (losses) incurred during the year	(8)	(103)
Reclassification adjustments to profit	(74)	(91)
Amount before tax effects	(82)	(195)
Tax effects	24	56
Remeasurements of defined benefit plans, net of tax	(58)	(138)
Share of other comprehensive income of entities accounted for using equity method:		
Gains (losses) incurred during the year	(31)	(6)
Total of other comprehensive income (loss)	2,178	(1,282)

(Consolidated Statement of Changes in Net Assets)

Previous fiscal year (from April 1, 2018 to March 31, 2019)

1. Class and total number of issued shares and class and number of treasury stock

	Number of shares at the beginning of the year (Thousand shares)	Increase during the year (Thousand shares)	Decrease during the year (Thousand shares)	Number of shares at the end of the year (Thousand shares)
Issued shares				
Common stock	23,971	-	-	23,971
Total	23,971	-	-	23,971
Treasury stock				
Common stock (Note 1)	403	0	-	404
Total	403	0	-	404

(Notes) 1. The increase in the number of common stock of treasury stock is due to the purchase of shares less than one unit.

2. The number of shares is rounded down to the nearest thousand shares.

2. Dividends

(1) Amount of dividends paid

(Resolution)	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 27, 2018	Common stock	2,003	85.00	March 31, 2018	June 28, 2018
The Board of Directors meeting held on October 31, 2018	Common stock	1,178	50.00	September 30, 2018	December 5, 2018

(2) Dividends whose record date falls in the current fiscal year but whose effective date falls in the following fiscal year

(Resolution)	Class of shares	Total amount of dividends (Million yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2019	Common stock	1,532	Retained earnings	65.00	March 31, 2019	June 27, 2019

Current fiscal year (from April 1, 2019 to March 31, 2020)

1. Class and total number of issued shares and class and number of treasury stock

	Number of shares at the beginning of the year (Thousand shares)	Increase during the year (Thousand shares)	Decrease during the year (Thousand shares)	Number of shares at the end of the year (Thousand shares)
Issued shares				
Common stock	23,971	–	–	23,971
Total	23,971	–	–	23,971
Treasury stock				
Common stock (Note 1)	404	0	–	404
Total	404	0	–	404

(Notes) 1. The increase in the number of common stock of treasury stock is due to the purchase of shares less than one unit.

2. The number of shares is rounded down to the nearest thousand shares.

2. Dividends

(1) Amount of dividends paid

(Resolution)	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2019	Common stock	1,532	65.00	March 31, 2019	June 27, 2019
The Board of Directors meeting held on October 31, 2019	Common stock	1,061	45.00	September 30, 2019	December 5, 2019

(2) Dividends whose record date falls in the current fiscal year but whose effective date falls in the following fiscal year

(Resolution)	Class of shares	Total amount of dividends (Million yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 25, 2020	Common stock	825	Retained earnings	35.00	March 31, 2020	June 26, 2020

(Consolidated Balance Sheet)

*1 Accumulated depreciation of tangible fixed assets

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Accumulated depreciation of tangible fixed assets	105,565 million yen	114,992 million yen

*2 Assets or liabilities related to non-consolidated subsidiaries and affiliates included in each account are as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Investment securities (shares)	1,016 million yen	835 million yen

*3 Assets pledged as collateral

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Vessels	124,789 million yen	148,976 million yen

Liabilities corresponding to the aforementioned assets pledged as collateral are as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Short-term borrowings	14,901 million yen	29,789 million yen
Long-term borrowings	90,586	86,225

*4 Inventories

The breakdown of inventories is as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Raw materials and supplies	7,143 million yen	5,876 million yen

(Consolidated Statement of Cash Flows)

* The relationship between cash and cash equivalents at year-end and cash and deposits in the consolidated balance sheet

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash and deposits	22,308 million yen	19,803 million yen
Time deposits whose deposit term is over three months	(70)	(50)
Securities with a maturity of three months or less from the date of acquisition	4,500	-
Cash and cash equivalents	26,738	19,753

(Lease Transactions)

1. Finance lease transactions

Finance lease transactions which transfer ownership

1) Details of leased assets

Tangible fixed assets

Vessels in international shipping business.

2) Method of depreciation of leased assets

Leased assets on finance lease transactions which transfer ownership

The same depreciation method as applied to self-owned fixed assets is used.

(Impairment Loss)

No impairment loss was recognized on leased assets.

2. Operating lease transactions

Unexpired lease payments for non-cancellable operating lease transactions

(Unit: Million yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Due within one year	1,210	1,163
Due after one year	3,022	2,426
Total	4,233	3,589

(Financial Instruments)

1. Status of financial instruments

(1) Policy for financial instruments

The Group obtains necessary funds through borrowings from financial institutions, by primarily taking into consideration its capital investment plan for conducting the marine transportation services and related businesses. In addition, the Group also procures short-term working capital through borrowings from financial institutions. The Group invests its funds in short-term deposits and the like, as well as in safe and secure financial assets. The Group uses derivative transactions to hedge the risks described below, and does not enter into any speculative transactions.

(2) Content and risks of financial instruments

Trade notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. Securities are negotiable deposit and are exposed to the credit risk of issuers. Shares are investment securities, primarily constituted of shares of companies with which the Group has business relationships, and are exposed to the risk of market price fluctuations.

Trade notes and accounts payable, which are trade payables, mostly have payment due dates within one year. Borrowings are mainly for the purpose of obtaining funds required for capital investment, with maturity up to 15 years after the fiscal year-end date. Borrowings with floating interest rates are exposed to the risk of interest rate fluctuations. Trade payables and borrowings are exposed to liquidity risk (risk of not being able to make payments when due).

The Group companies which are primarily engaged in the international shipping business are required to hedge foreign exchange risk since most of their operating revenue and expenses are denominated in foreign currencies. In addition, the Company is required to hedge the risk of price fluctuations of fuel oil for the operation of vessels. For these purposes, the Group enters into derivative transactions.

Specifically, the Group enters into interest rate swaps to hedge the risk of interest rate fluctuations related to borrowings, forward exchange contracts and the like to hedge exchange rate fluctuation risk related to revenue and expenses in foreign currencies, and fuel oil swap transactions to hedge fuel oil price fluctuation risk. In addition, the Group conducts currency swap transactions to hedge exchange rate fluctuation risk related to certain foreign currency-denominated borrowings. Further, the Group sometimes enters into in futures contracts to hedge the risk of fluctuations in freight and charter rates.

(3) Risk management system for financial instruments

The Group monitors the collection of trade receivables, manages their balance by customer, and promptly grasps and addresses concerns about collection of trade receivables due to reasons such as deterioration of customers' financial position. Regarding securities, the Group invests in bonds and the like with high credit ratings in accordance with internal rules, and therefore is exposed to minimal credit risk. Regarding shares of which are investment securities, the Group periodically reports on reviews of their fair value to the Board of Directors.

The liquidity risk of trade payables and borrowings is managed by each Group company by means such as creating a monthly cash flow plan.

Regarding the execution and management of derivative transactions at the Company, transactions involving interest rate swaps, currency swaps, and forward exchange contracts, among others, are managed by the Finance and Accounting Group; transactions involving fuel oil swaps are managed by the Energy Group; and futures transactions on freight and charter rates are managed by each sales Group. All transactions are executed upon receiving approval of related items including purposes, notional principal amounts, contract terms, and structures by the director in charge each time derivative transactions are entered into.

Regarding derivative transactions conducted by the Group companies based on guarantee or reservation of guarantee by the Company, transactions are managed by each Group company, as well as by the Finance and Accounting Group of the Company in an integrated manner after the prior approval of the contents of the transactions by the Company. Other derivative transactions are executed and managed by the General Manager or other senior staff of the Accounting Department of each company upon receiving the approval of the director in charge in accordance with the Accounting Rules, etc., and are reported to the Company. In entering into derivative transactions, the Company conducts transactions only with highly creditworthy financial institutions to minimize credit risk.

(4) Supplementary explanation on matters related to the fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount and other amounts of derivative transactions described below in "2. Fair value of financial instruments" does not itself represent the market risk of the derivative transactions.

2. Fair value of financial instruments

The carrying amount on the consolidated balance sheet, fair value, and the difference between them are as follows. Financial instruments for which it is deemed extremely difficult to measure the fair value are not included in the table below. (Please refer to (Note 2).)

Previous fiscal year (as of March 31, 2019)

	Carrying amount on the consolidated balance sheet (*1) (Million yen)	Fair value (*1) (Million yen)	Difference (Million yen)
(1) Cash and deposits	22,308	22,308	—
(2) Trade notes and accounts receivable	15,674	15,674	—
(3) Securities	4,500	4,500	—
(4) Investment securities	2,628	2,628	—
(5) Trade notes and accounts payable	[6,764]	[6,764]	—
(6) Short-term borrowings	[700]	[700]	—
(7) Long-term borrowings	[113,101]	[113,372]	(271)
(8) Derivative transactions (*2)			
Hedge accounting not applied	—	—	—
Hedge accounting applied	[15]	[107]	(92)

(*1) Figures in square brackets indicate financial instruments classified as liabilities.

(*2) Receivables and payables arising from derivative transactions are presented as net amounts. Figures in square brackets represent net liabilities.

Current fiscal year (as of March 31, 2020)

	Carrying amount on the consolidated balance sheet (*1) (Million yen)	Fair value (*1) (Million yen)	Difference (Million yen)
(1) Cash and deposits	19,803	19,803	—
(2) Trade notes and accounts receivable	18,650	18,650	—
(3) Securities	—	—	—
(4) Investment securities	1,501	1,501	—
(5) Trade notes and accounts payable	[6,097]	[6,097]	—
(6) Short-term borrowings	[600]	[600]	—
(7) Long-term borrowings	[131,814]	[132,384]	(569)
(8) Derivative transactions (*2)			
Hedge accounting not applied	—	—	—
Hedge accounting applied	[1,735]	[1,381]	354

(*1) Figures in square brackets indicate financial instruments classified as liabilities.

(*2) Receivables and payables arising from derivative transactions are presented as net amounts. Figures in square brackets represent net liabilities.

(Note 1) Method for measuring the fair value of financial instruments and information on securities and derivative transactions

(1) Cash and deposits and (2) Trade notes and accounts receivable

The carrying amounts are used as fair values as these items are settled within a short period of time and the fair values are approximately equal to the carrying amounts.

(3) Securities

The carrying amount is used as fair value as this item is settled within a short period of time and the fair value is approximately equal to the carrying amount.

For information on securities by holding purpose, please refer to “Securities.”

(4) Investment securities

Fair value of shares is based on prices quoted on stock exchanges.

For information on securities by holding purpose, please refer to “Securities.”

(5) Trade notes and accounts payable and (6) Short-term borrowings

The carrying amounts are used as fair values as these items are settled within a short period of time and the fair values are approximately equal to the carrying amounts.

Please note that (6) Short-term borrowings do not include the current portion of long-term borrowings.

(7) Long-term borrowings

Fair value of long-term borrowings with fixed interest rates is determined by discounting the total amount of principal and interest using the interest rates assumed to be applied if similar borrowings were newly made. Fair value of long-term borrowings with floating interest rates is based on the carrying amount, as the fair value is approximately equal to the carrying amount considering that floating interest rates reflect the market rate in a short time and the credit standing of the Group has not changed significantly after the execution of borrowings. Please note that (7) Long-term borrowings include the current portion of long-term borrowings.

(8) Derivative transactions

Please refer to “Derivative Transactions.”

(Note 2) Unlisted shares are not included in (4) Investment securities as they have no market price and it is deemed extremely difficult to measure the fair value.

(Unit: Million yen)

Classification	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Shares of subsidiaries and affiliates	1,016	835
Other unlisted shares	264	264
Total	1,280	1,099

(Note 3) Scheduled redemption amounts of monetary receivables and securities with maturity dates after the fiscal year-end date

Previous fiscal year (as of March 31, 2019)

	Due within one year (Million yen)
Cash and deposits	22,306
Trade notes and accounts receivable	15,674
Securities	4,500
Total	42,481

Current fiscal year (as of March 31, 2020)

	Due within one year (Million yen)
Cash and deposits	19,801
Trade notes and accounts receivable	18,650
Securities	—
Total	38,451

(Note 4) Scheduled repayment amounts of short-term borrowings and long-term borrowings after the fiscal year-end date

Previous fiscal year (as of March 31, 2019)

	Due within one year (Million yen)	Due after one year but within two years (Million yen)	Due after two years but within three years (Million yen)	Due after three years but within four years (Million yen)	Due after four years but within five years (Million yen)	Due after five years (Million yen)
Short-term borrowings	700	—	—	—	—	—
Long-term borrowings	15,764	34,584	22,650	8,050	7,007	25,046
Total	16,464	34,584	22,650	8,050	7,007	25,046

Current fiscal year (as of March 31, 2020)

	Due within one year (Million yen)	Due after one year but within two years (Million yen)	Due after two years but within three years (Million yen)	Due after three years but within four years (Million yen)	Due after four years but within five years (Million yen)	Due after five years (Million yen)
Short-term borrowings	600	—	—	—	—	—
Long-term borrowings	37,133	25,148	10,656	9,612	11,344	37,921
Total	37,733	25,148	10,656	9,612	11,344	37,921

(Securities)

1. Trading securities

Not applicable

2. Held-to-maturity bonds

Previous fiscal year (as of March 31, 2019)

	Type	Carrying amount on the consolidated balance sheet (Million yen)	Fair value (Million yen)	Difference (Million yen)
Bonds whose fair value exceeds their carrying amount on the consolidated balance sheet	(1) Government bonds/ Local government bonds, etc.	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Others	–	–	–
	Subtotal	–	–	–
Bonds whose fair value does not exceed their carrying amount on the consolidated balance sheet	(1) Government bonds/ Local government bonds, etc.	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Others	4,500	4,500	–
	Subtotal	4,500	4,500	–
Total		4,500	4,500	–

Current fiscal year (as of March 31, 2020)

Not applicable

3. Other securities

Previous fiscal year (as of March 31, 2019)

	Type	Carrying amount on the consolidated balance sheet (Million yen)	Acquisition cost (Million yen)	Difference (Million yen)
Securities whose carrying amount on the consolidated balance sheet exceeds their acquisition cost	(1) Shares	993	571	422
	(2) Bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	993	571	422
Securities whose carrying amount on the consolidated balance sheet does not exceed their acquisition cost	(1) Shares	1,635	1,891	(256)
	(2) Bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	1,635	1,891	(256)
Total		2,628	2,462	166

Current fiscal year (as of March 31, 2020)

	Type	Carrying amount on the consolidated balance sheet (Million yen)	Acquisition cost (Million yen)	Difference (Million yen)
Securities whose carrying amount on the consolidated balance sheet exceeds their acquisition cost	(1) Shares	582	425	156
	(2) Bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	582	425	156
Securities whose carrying amount on the consolidated balance sheet does not exceed their acquisition cost	(1) Shares	919	998	(79)
	(2) Bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	919	998	(79)
Total		1,501	1,423	78

4. Sales of other securities

Previous fiscal year (from April 1, 2018 to March 31, 2019)

Type	Proceeds from sales (Million yen)	Total gain on sales (Million yen)	Total loss on sales (Million yen)
(1) Shares	0	0	—
(2) Bonds			
1) Government bonds/ Local government bonds, etc.	—	—	—
2) Corporate bonds	—	—	—
3) Other bonds	—	—	—
(3) Others	—	—	—
Total	0	0	—

Current fiscal year (from April 1, 2019 to March 31, 2020)

Type	Proceeds from sales (Million yen)	Total gain on sales (Million yen)	Total loss on sales (Million yen)
(1) Shares	9	7	—
(2) Bonds			
1) Government bonds/ Local government bonds, etc.	—	—	—
2) Corporate bonds	—	—	—
3) Other bonds	—	—	—
(3) Others	—	—	—
Total	9	7	—

5. Impairment loss on securities

Previous fiscal year (as of March 31, 2019)

Not applicable

Current fiscal year (as of March 31, 2020)

An impairment loss of 1,041 million yen (1,041 million yen for shares of other securities) was recognized.

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

Not applicable

2. Derivative transactions for which hedge accounting is applied

(1) Currency-related transactions

Previous fiscal year (as of March 31, 2019)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Forward exchange contracts				
	Short position U.S. dollar	Trade receivables	1,153	—	5
	Long position U.S. dollar	Funds to purchase vessels	62,397	23,959	3,389
Total			63,550	23,959	3,394

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

Current fiscal year (as of March 31, 2020)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Forward exchange contracts				
	Short position U.S. dollar	Trade receivables	2,374	—	36
	Long position U.S. dollar	Funds to purchase vessels	30,800	—	1,341
Allocation treatment for forward exchange contracts	Forward exchange contracts Long position U.S. dollar	Lease obligations	5,384	4,917	429
Total			38,559	4,917	1,806

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

(2) Interest-related transactions

Previous fiscal year (as of March 31, 2019)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Interest rate swap transactions Paying fixed interest/Receiving floating interest	Interest on borrowings	83,113	72,161	(3,471)
Special treatment for interest rate swaps	Interest rate swap transactions Paying fixed interest/Receiving floating interest	Interest on borrowings	7,292	6,903	(92)
Total			90,405	79,064	(3,564)

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

Current fiscal year (as of March 31, 2020)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Interest rate swap transactions Paying fixed interest/Receiving floating interest	Interest on borrowings	75,251	59,590	(3,012)
Special treatment for interest rate swaps	Interest rate swap transactions Paying fixed interest/Receiving floating interest	Interest on borrowings	6,903	6,406	(75)
Total			82,154	65,996	(3,087)

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

(3) Fuel oil-related transactions

Previous fiscal year (as of March 31, 2019)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Fuel oil swap transactions	Fuel oil price	548	—	63

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

Current fiscal year (as of March 31, 2020)

Hedge accounting method	Transaction type	Major hedged item	Contract amount, etc. (Million yen)	Of contract amount, etc., transactions due over one year (Million yen)	Fair value (Million yen)
Principle method	Fuel oil swap transactions	Fuel oil price	235	—	(100)

(Note) Method of measuring fair value

The fair value is calculated based on amounts such as prices quoted by the counterparty financial institutions.

(Retirement Benefits)

1. Outline of adopted retirement benefit plans

The Company and its domestic consolidated subsidiaries have established a lump-sum retirement payment plan as a defined benefit plan. The Company has established a retirement benefit trust for its lump-sum retirement payment plan.

The Company and one of its consolidated subsidiaries have adopted a contract-type defined benefit corporate pension plan, and certain consolidated subsidiaries have adopted the Smaller Enterprise Retirement Allowance Mutual Aid (SERAMA) Scheme.

Certain employees may be entitled to additional special retirement benefits.

2. Defined benefit plan

(1) Reconciliation between the beginning and ending balances of retirement benefit obligations (excluding plans that apply the simplified method)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance of retirement benefit obligations	4,310 million yen	4,305 million yen
Service cost	263	252
Interest cost	26	26
Actuarial gains or losses	(21)	(35)
Retirement benefits paid	(273)	(378)
Ending balance of retirement benefit obligations	4,305	4,169

(2) Reconciliation between the beginning and ending balances of pension assets (excluding plans that apply the simplified method)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance of pension assets	5,700 million yen	5,785 million yen
Expected return on plan assets	57	58
Actuarial gains or losses	(29)	(138)
Contributions by business owners	303	297
Retirement benefits paid	(247)	(369)
Ending balance of pension assets	5,785	5,633

(3) Reconciliation between the beginning and ending balances of retirement benefit liability of the plans that apply the simplified method

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Beginning balance of retirement benefit liability	171 million yen	118 million yen
Retirement benefit expenses	35	52
Retirement benefits paid	(23)	(11)
Contributions to the plans	(15)	(14)
Exclusion from the scope of consolidation	(49)	-
Ending balance of retirement benefit liability	118	145

(4) Reconciliation of the ending balance of retirement benefit obligations and pension assets with retirement benefit liability and retirement benefit asset recorded in the consolidated balance sheet

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Funded retirement benefit obligations	4,359 million yen	4,229 million yen
Pension assets	(5,785)	(5,633)
	(1,426)	(1,404)
Unfunded retirement benefit obligations	64	85
Net amount of liabilities and assets recorded in the consolidated balance sheet	(1,362)	(1,319)
Retirement benefit liability	140	161
Retirement benefit asset	(1,501)	(1,480)
Net amount of liabilities and assets recorded in the consolidated balance sheet	(1,362)	(1,319)

(Note) Plans that apply the simplified method are included.

(5) Amounts of retirement benefit expenses and their components

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Service cost	263 million yen	252 million yen
Interest cost	26	26
Expected return on plan assets	(57)	(58)
Amortization of actuarial gains or losses	(101)	(119)
Amortization of prior service cost	27	27
Retirement benefit expenses calculated using the simplified method	35	52
Retirement benefit expenses for defined benefit plan	192	179

(6) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans (before tax effect deduction) are as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Prior service cost	27 million yen	27 million yen
Actuarial gains or losses	(109)	(222)
Total	(82)	(195)

(7) Accumulated remeasurements of defined benefit plans

Components of accumulated remeasurements of defined benefit plans (before tax effect deduction) are as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Unrecognized prior service cost	(34) million yen	(7) million yen
Unrecognized actuarial gains or losses	464	242
Total	430	235

(8) Pension assets

1) Major components of pension assets

The proportion of each major category to the total pension assets is as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Bonds	48%	48%
Shares	22	20
Cash and deposits	20	21
Others	10	11
Total	100	100

2) Method for setting long-term expected rate of return

In determining the long-term expected rate of return on pension assets, the current and projected allocations of pension assets and the current and projected long-term rate of returns on various assets constituting pension assets are taken into account.

(9) Assumptions used for actuarial calculations

Major assumptions for actuarial calculations

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Discount rate	0.2 – 0.7%	0.1~0.7%
Long-term expected rate of return	0.2 – 1.5%	0.2~1.5%
Expected rate of salary increase	3.7 – 5.2%	3.6~5.2%

(Stock Options and Others)

Not applicable

(Tax Effect Accounting)

1. Significant components of deferred tax assets and deferred tax liabilities

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Deferred tax assets		
Allowance for doubtful accounts	15 million yen	9 million yen
Provision for bonuses	140	135
Retirement benefit liability	85	86
Loss on valuation of securities, etc.	514	513
Accrued enterprise tax	29	20
Depreciation	114	80
Provision for special repairs	474	853
Business restructuring expenses	527	-
Deferred gains (losses) on hedges	5	496
Loss on cancellation of chartered vessels	754	493
Tax loss carryforwards (Note)	709	634
Impairment loss	1,405	1,308
Other	1,527	1,336
Subtotal deferred tax assets	6,299	5,963
Valuation allowance for tax loss carryforwards (Note)	(0)	(0)
Valuation allowance for the total of future deductible temporary differences, etc.	(2,172)	(2,246)
Subtotal valuation allowance	(2,172)	(2,246)
Total deferred tax assets	4,126	3,717
Deferred tax liabilities		
Reserve for special depreciation	582	461
Retirement benefit asset	351	403
Reserve for tax purpose reduction entry of fixed assets	10	8
Retained income of specified foreign subsidiary companies	867	778
Gain on valuation of assets (vessels) acquired by merger	158	86
Unrealized gains (losses) on securities	127	22
Other	37	23
Total deferred tax liabilities	2,132	1,780
Net deferred tax assets	1,993	1,937

(Note) Tax loss carryforwards and related deferred tax assets expire as follows:

Previous fiscal year (as of March 31, 2019)

	Due within one year (Million yen)	Due after one year but within two years (Million yen)	Due after two years but within three years (Million yen)	Due after three years but within four years (Million yen)	Due after four years but within five years (Million yen)	Due after five years (Million yen)	Total (Million yen)
Tax loss carryforwards (*1)	–	–	–	–	–	709	709
Valuation allowance	–	–	–	–	–	(0)	(0)
Deferred tax assets	–	–	–	–	–	709	(*2) 709

(*1) Tax loss carryforwards are multiplied by the effective statutory tax rate.

(*2) The Company has judged that tax loss carryforwards will be recoverable as it expects to record taxable income in the following fiscal year and thereafter.

Current fiscal year (as of March 31, 2020)

	Due within one year (Million yen)	Due after one year but within two years (Million yen)	Due after two years but within three years (Million yen)	Due after three years but within four years (Million yen)	Due after four years but within five years (Million yen)	Due after five years (Million yen)	Total (Million yen)
Tax loss carryforwards (*1)	–	–	–	–	–	634	634
Valuation allowance	–	–	–	–	–	(0)	(0)
Deferred tax assets	–	–	–	–	–	634	(*2) 634

(*1) Tax loss carryforwards are multiplied by the effective statutory tax rate.

(*2) The Company has judged that tax loss carryforwards will be recoverable as it expects to record taxable income in the following fiscal year and thereafter.

2. Reconciliation of the effective statutory tax rate and effective income tax rate

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Effective statutory tax rate	28.55%	28.55%
(Reconciliations)		
Entertainment and other expenses not deductible for income tax purposes	0.70	0.98
Non-taxable income such as dividend income	(0.6)	(0.14)
Change in valuation allowance	(2.33)	(1.07)
Deductible expenses related to revenues from Japanese vessels	(16.57)	(13.13)
Difference of effective statutory tax rate applicable to the Company and its consolidated subsidiaries	0.44	0.29
Per capita inhabitant tax	0.14	0.21
Effect of liquidation of overseas subsidiaries	-	0.50
Other	0.71	1.19
Effective income tax rate	<u>11.04</u>	<u>17.38</u>

(Asset Retirement Obligations)

Previous fiscal year (as of March 31, 2019)

Description is omitted due to immateriality.

Current fiscal year (as of March 31, 2020)

Description is omitted due to immateriality.

(Segment Information and Others)

[Segment information]

1. Overview of reportable segments

The Company's reportable segments are the Group's constituent units for which discrete financial information is available and which are periodically reviewed by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating the business results.

The Group conducts business activities mainly in marine transportation services, and the reportable segments are classified based on operational regions of vessels. The two reportable segments are the international shipping business and the coastal shipping business.

In the international shipping business, the Group conducts business activities such as transportation of materials including iron ores, coking coals, steel products, and nonferrous metal ores by bulk carriers; transportation of crude oil, LPG, and other petroleum products by tankers; and vessel leasing. In the coastal shipping business, the Group conducts business activities such as transportation of materials including steel products, limestone, and cement by bulk carriers in domestic water areas; transportation of LPG, LNG, and other petroleum products by tankers; and vessel leasing.

2. Calculation method of the amounts of revenues, profit or loss, assets and other items by reportable segment

The accounting method for the reportable business segments is the same as "Basis for the Preparation of the Consolidated Financial Statements."

Segment profit consists of figures based on operating income.

Intersegment revenues and transfers are based on the current market prices.

3. Information on the amounts of revenues, profit or loss, assets and other items by reportable segment
 Previous fiscal year (from April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Reportable segment			Others (Note 1)	Total	Adjustments (Note 2) (Note 3)	Carrying amounts on the consolidated financial statements (Note 4)
	International shipping business	Coastal shipping business	Total				
Revenues							
Sales to external customers	126,557	24,261	150,817	251	151,068	–	151,068
Intersegment sales or transfers	–	9	9	332	340	(340)	–
Total	126,557	24,269	150,826	583	151,409	(340)	151,068
Segment profit (loss)	6,906	2,020	8,926	(23)	8,903	7	8,911
Segment assets	191,763	31,574	223,336	259	223,596	(68)	223,528
Other items							
Depreciation	12,599	2,001	14,600	31	14,631	–	14,631
Investment in equity- method affiliates	738	–	738	–	738	–	738
Increase in tangible fixed assets and intangible fixed assets	15,232	3,489	18,721	10	18,731	–	18,731

(Notes) 1. The “Others” segment includes land transportation services, information services, and others.

2. The adjustment of 7 million yen for segment profit (loss) is elimination of intersegment transactions.

3. The adjustment of (68) million yen for segment assets is elimination of intersegment transactions.

4. Segment profit (loss) is reconciled to operating income recorded in the consolidated statement of income.

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Unit: Million yen)

	Reportable segment			Others (Note 1)	Total	Adjustments (Note 2) (Note 3)	Carrying amounts on the consolidated financial statements (Note 4)
	International shipping business	Coastal shipping business	Total				
Revenues							
Sales to external customers	124,342	24,073	148,415	—	148,415	—	148,415
Intersegment sales or transfers	—	8	8	370	377	(377)	—
Total	124,342	24,081	148,423	370	148,792	(377)	148,415
Segment profit	5,853	1,185	7,038	0	7,039	2	7,040
Segment assets	218,443	29,935	248,377	216	248,594	(72)	248,522
Other items							
Depreciation	12,913	2,131	15,044	2	15,046	—	15,046
Investment in equity- method affiliates	557	—	557	—	557	—	557
Increase in tangible fixed assets and intangible fixed assets	59,590	1,809	61,399	2	61,401	—	61,401

(Notes) 1. The “Others” segment includes information services and other services.

2. The adjustment of 2 million yen for segment profit is elimination of intersegment transactions.

3. The adjustment of (72) million yen for segment assets is elimination of intersegment transactions.

4. Segment profit is reconciled to operating income recorded in the consolidated statement of income.

[Related information]

Previous fiscal year (from April 1, 2018 to March 31, 2019)

1. Information by product and service

Descriptions are omitted as revenues from marine transportation services account for more than 90% of revenues recorded in the consolidated statement of income.

2. Information by region

(1) Revenues

(Unit: Million yen)

Japan	Australia	Brazil	Asia (excluding Japan)	North America /South America (excluding Brazil)	Europe	Middle East	Others	Total
46,925	48,063	17,661	9,247	24,130	2,308	26	2,709	151,068

(Note) Regarding revenues, freight rates are based on the port of loading and vessel leasing fees are based on the port of delivery. Other revenues are classified by country or region based on customers' locations.

(2) Tangible fixed assets

Descriptions are omitted as the value of tangible fixed assets located in Japan accounts for more than 90% of the value of tangible fixed assets recorded in the consolidated balance sheet.

3. Information on major customer

(Unit: Million yen)

Name of customer	Revenues	Relevant segment
NIPPON STEEL & SUMITOMO METAL CORPORATION	85,056	International shipping business, coastal shipping business

(Note) NIPPON STEEL & SUMITOMO METAL CORPORATION changed its trade name to NIPPON STEEL CORPORATION on April 1, 2019.

Current fiscal year (from April 1, 2019 to March 31, 2020)

1. Information by product and service

Descriptions are omitted as revenues from marine transportation services account for more than 90% of revenues recorded in the consolidated statement of income.

2. Information by region

(1) Revenues

(Unit: Million yen)

Japan	Australia	Brazil	Asia (excluding Japan)	North America /South America (excluding Brazil)	Europe	Middle East	Others	Total
46,737	51,007	10,691	10,246	24,003	2,036	196	3,500	148,415

(Note) Regarding revenues, freight rates are based on the port of loading and vessel leasing fees are based on the port of delivery. Other revenues are classified by country or region based on customers' locations.

(2) Tangible fixed assets

Descriptions are omitted as the value of tangible fixed assets located in Japan accounts for more than 90% of the value of tangible fixed assets recorded in the consolidated balance sheet.

3. Information on major customer

(Unit: Million yen)

Name of customer	Revenues	Relevant segment
NIPPON STEEL CORPORATION	83,397	International shipping business, coastal shipping business

[Information on impairment loss on fixed assets by reportable segment]

Not applicable

[Information on amortization and unamortized balance of goodwill by reportable segment]

Not applicable

[Information on gain on negative goodwill by reportable segment]

Not applicable

[Information on related parties]

Previous fiscal year (from April 1, 2018 to March 31, 2019)

(1) Transactions between company submitting the consolidated financial statements and related parties

Type	Name of company, etc.	Location	Capital or investment in capital (Million yen)	Description of business or profession	Percentage of the voting rights holding (held)	Relationship with related parties	Details of transactions	Transaction amount (Million yen)	Account	Year-end balance (Million yen)
Other related company	NIPPON STEEL & SUMITOMO METAL CORPORATION	Chiyoda-ku, Tokyo	419,524	Manufacturing and sales, etc., of steel products	[Held] Direct: 33.40%	Transportation of steel raw materials and products Concurrent Directors Transfer of Directors	(Business transactions) Transportation of steel raw materials and products	73,934	Trade accounts receivable	5,342
									Trade accounts payable	70

- (Notes) 1. Freight rates and other terms and conditions of transactions are decided upon negotiation with the abovementioned company, taking into consideration market prices and costs at the Company.
 2. Transaction amount includes the freight rates for cargo relet, and freight rates are calculated based on a voyage-completion basis. Transaction amount also includes the amount of transactions conducted via trading firms and the like.
 3. Transaction amount does not include consumption and other taxes.
 4. NIPPON STEEL & SUMITOMO METAL CORPORATION changed its trade name to NIPPON STEEL CORPORATION on April 1, 2019.

(2) Transactions between consolidated subsidiaries of company submitting the consolidated financial statements and related parties

Type	Name of company, etc.	Location	Capital or investment in capital (Million yen)	Description of business or profession	Percentage of the voting rights holding (held)	Relationship with related parties	Details of transactions	Transaction amount (Million yen)	Account	Year-end balance (Million yen)
Other related company	NIPPON STEEL & SUMITOMO METAL CORPORATION	Chiyoda-ku, Tokyo	419,524	Manufacturing and sales, etc., of steel products	[Held] Indirect: 100.00%	Transportation of steel raw materials and products Transfer of Directors	(Business transactions) Transportation of steel raw materials and products	10,053	Trade accounts receivable	2,466
									Trade accounts payable	45

- (Notes) 1. Freight rates and other terms and conditions of transactions are decided upon negotiation each period, taking into consideration costs and the current market prices.
 2. Transaction amount includes freight rates for cargo relet, and also includes those for transactions with Nippon Steel & Sumikin Logistics Co., Ltd., which are substantively transactions with NIPPON STEEL & SUMITOMO METAL CORPORATION.
 3. Transaction amount does not include consumption and other taxes.
 4. NIPPON STEEL & SUMITOMO METAL CORPORATION changed its trade name to NIPPON STEEL CORPORATION on April 1, 2019.

Current fiscal year (from April 1, 2019 to March 31, 2020)

(1) Transactions between company submitting the consolidated financial statements and related parties

Type	Name of company, etc.	Location	Capital or investment in capital (Million yen)	Description of business or profession	Percentage of the voting rights holding (held)	Relationship with related parties	Details of transactions	Transaction amount (Million yen)	Account	Year-end balance (Million yen)
Other related company	NIPPON STEEL CORPORATION	Chiyoda-ku, Tokyo	419,524	Manufacturing and sales, etc., of steel products	[Held] Direct: 33.40%	Transportation of steel raw materials and products Concurrent Directors Transfer of Directors	(Business transactions) Transportation of steel raw materials and products	73,245	Trade accounts receivable	8,363
									Trade accounts payable	106

- (Notes) 1. Freight rates and other terms and conditions of transactions are decided upon negotiation with the abovementioned company, taking into consideration market prices and costs at the Company.
 2. Transaction amount includes the freight rates for cargo relet, and freight rates are calculated based on a voyage-completion basis. Transaction amount also includes the amount of transactions conducted via trading firms and the like.

3. Transaction amount does not include consumption and other taxes.

(2) Transactions between consolidated subsidiaries of company submitting the consolidated financial statements and related parties

Type	Name of company, etc.	Location	Capital or investment in capital (Million yen)	Description of business or profession	Percentage of the voting rights holding (held)	Relationship with related parties	Details of transactions	Transaction amount (Million yen)	Account	Year-end balance (Million yen)
Other related company	NIPPON STEEL CORPORATION	Chiyoda-ku, Tokyo	419,524	Manufacturing and sales, etc., of steel products	[Held] Indirect: 100.00%	Transportation of steel raw materials and products Transfer of Directors	(Business transactions) Transportation of steel raw materials and products	9,077	Trade accounts receivable	2,113
									Trade accounts payable	46

(Notes) 1. Freight rates and other terms and conditions of transactions are decided upon negotiation each period, taking into consideration costs and the current market prices.

2. Transaction amount includes freight rates for cargo relet, and also includes those for transactions with NIPPON STEEL LOGISTICS CO., LTD., which are substantively transactions with NIPPON STEEL CORPORATION.

3. Transaction amount does not include consumption and other taxes.

(Per Share Information)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net assets per share	3,778.08 yen	3,866.04 yen
Net income per share	396.42 yen	252.33 yen

(Notes) 1. Diluted net income per share after adjustment for residual securities is not stated as there are no residual securities.

2. The basis for calculation of net income per share is as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit attributable to owners of Parent (Million yen)	9,343	5,947
Amounts not attributable to shareholders of common stock (Million yen)	–	–
Profit attributable to owners of Parent pertaining to common stock (Million yen)	9,343	5,947
Average number of shares during the year (Shares)	23,567,096	23,566,804

(Significant Subsequent Events)

NEW GRACE MARITIME S.A., a consolidated subsidiary, sold an oceangoing vessel in May 2020 to a third-party overseas corporation as a part of its fleet upgrade plan. There are no capital, personal, or business relationships between this third party and the Group. The estimated amount of gain on sales of fixed assets is approximately 3,010 million yen. However, the transfer price cannot be disclosed due to a confidentiality agreement with the transferee.

5) Consolidated Supplementary Schedules

[Schedule of bonds payable]

Not applicable

[Schedules of borrowings]

Classification	Balance at the beginning of the year (Million yen)	Balance at the end of the year (Million yen)	Average interest rate (%)	Due
Short-term borrowings	700	600	0.33	—
Current portion of long-term borrowings	15,764	37,133	0.98	—
Current portion of lease obligations	—	351	2.24	—
Long-term borrowings (excluding current portion)	97,337	94,681	1.07	December 2034
Lease obligations (excluding current portion)	—	4,729	2.24	January 2023
Total	113,801	137,494	—	—

(Notes) 1. The average interest rate represents the weighted-average rate applicable to the year-end balance of borrowings.

2. The due date of long-term borrowings shown in the above table is the latest due date.

3. The payment schedule of long-term borrowings (excluding the current portion) within five years after the fiscal year-end date is as follows:

	Due after one year but within two years (Million yen)	Due after two years but within three years (Million yen)	Due after three years but within four years (Million yen)	Due after four years but within five years (Million yen)
Long-term borrowings	25,148	10,656	9,612	11,344
Lease obligations	349	4,380	—	—

[Schedule of asset retirement obligations]

Description is omitted due to immateriality.

(2) Other

Quarterly financial information for the current fiscal year

(Cumulative period)	First quarter	Second quarter	Third quarter	Current fiscal year
Revenues (Million yen)	36,244	71,943	109,978	148,415
Profit before income taxes (Million yen)	1,159	4,641	7,394	7,197
Profit attributable to owners of Parent (Million yen)	1,171	3,731	5,791	5,947
Net income per share (Yen)	49.67	158.32	245.75	252.33

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share (Yen)	49.67	108.66	87.42	6.59

Independent Auditor's Report

The Board of Directors
NS United Kaiun Kaisha, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of NS United Kaiun Kaisha, Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Emphasis of Matter

As described in Significant Subsequent Events, one of the Company's consolidated subsidiaries sold an oceangoing vessel in May 2020 to a third-party overseas corporation.

Our opinion is not qualified in respect of this matter.

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

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 25, 2020

石田勝也 

Katsuya Ishida
Designated Engagement Partner
Certified Public Accountant

鶴田純一郎 

Junichiro Tsuruta
Designated Engagement Partner
Certified Public Accountant