

Framework to secure appropriateness of operations

Matters on which the Company has passed a resolution at the Board of Directors as a framework to secure the appropriateness of operations are as follows.

This matter of this resolution shall be reviewed regularly and continuously when changes occur in the business environment.

(Basic policy about internal control system)

The Company, as a general distribution company, aims to realize continued growth and implement social responsibility by setting the management philosophy as “keeping up with the current of the times, keenly Responding to the demand of ever-changing society, we challenge the subject one step ahead of the day, we make efforts to enhance our corporate value and stability of our management, eventually, contribute to the realization of affluent society.”

For achieving this objective, the Company will establish and manage the framework and system, and carry out regular review and improvement by setting up the basic policy on the internal control system as follows.

- i) Framework to make performance of duties by directors and employees conform to laws and ordinances and Articles of Incorporation

The Company has set the compliance first as basis for corporate activities, and has established the “Kamigumi Group Charter of Corporate Behavior” that shall be applied to the entire Group for the purpose of establishing and practicing law-abiding spirit.

Based on the relevant Charter, in order to establish and promote the internal control system in the Group, the Company has set up the “Compliance Risk Management Committee,” has formulated internal rules including the “Compliance Rules,” etc., and shall improve and manage the whistle-blowing system called as the “Help Line for Corporate Ethics.”

In addition, for business monitoring, the Company shall set up the Internal Audit Department as an independent organization under the direct supervision of the President, which shall carry out the audit of the Group.

- ii) Framework to preserve and manage information about directors’ performance of duties

We appropriately preserve and manage information about implementation of duties by directors by recording it in writing, etc. in accordance with “Document Management Regulations” and other relevant regulations. Also, we promote an effective management system so that directors and audit & supervisory board members can easily access the information.

- iii) Rules about loss risk controls and other frameworks

Divisions responsible for relevant fields manage various risks in business operations in accordance with “Risk Control Rules,” etc. In addition, the Compliance Risk Management Committee operates cross-sectional control structure of the whole group.

- iv) Framework to secure efficient implementation of directors’ duties

The Group formulates the medium-term management plan in consideration of the business environment in the future, and draws up and carries out specific plans for achieving the relevant goal.

In addition, a regular meeting of the Board of Directors is held once a month in principle to decide on important matters related to the Company and the Group for ensuring the effectiveness and efficiency of execution of duties as well as carrying out the monitoring of the status of execution of duties performed by directors.

Furthermore, the Company aims to improve the efficiency of management by separating the decision-making and monitoring of management from the execution of operation through introducing the executive officer system.

- v) Framework to secure appropriateness of operations of the corporate group consisting of the Company and subsidiaries

The Company formulates the “Management Rules for Affiliates and Subsidiaries,” and obliges the Group to make a regular report about important matters on management, operating results, etc. in the Group.

In addition, the Compliance Risk Management Committee of the Company and Local Committees established in individual offices manage the compliance, and risk management structure and other systems necessary for internal control, decide on important policies, etc. on its operation and supervise the implementation status through the monitoring conducted by the Internal Audit Department of the Company.

- vi) Items on employees whom audit & supervisory board members request to appoint as their assistants in their duties
 We prepare a system for appointing appropriate persons as audit assistants from within the Company to support audit & supervisory board members' work in order to make audit more efficient and enhance the level of audit functions.
- vii) Items concerning keeping independence of the employees described in the preceding item from directors and ensuring effectiveness of instructions to the relevant employees
 When receiving an order necessary for audit work from audit & supervisory board members, the audit assistants defined in the preceding item preserve independence to be able to carry out an audit without being subjected to any unreasonable restriction from directors and employees with respect to the order. In addition, the audit assistants shall comply with the instructions of audit & supervisory board members upon the implementation of their duties.
- viii) Reporting framework enabling directors and employees to report to audit & supervisory board members
 Directors and employees of the Group report the following matters to audit & supervisory board members in time.
- Decision on important matters which have an effect on the Group
 - Business performance of the Company and the Group
 - Items on noncompliance of the Group
 - Items on the whistle-blowing contents in the Help Line for Corporate Ethics and survey results for the relevant whistle-blowing.
 - Cases discussed and reported at important meetings such as management conferences
 - Results of internal audits carried out by Internal Audit Department
 - Items which may cause substantial damage to the Group
- ix) System which ensures that a person who made a report to audit & supervisory board members based on the preceding item shall not be disadvantageously treated due to the fact that such person made such report
 The Company stipulates that it shall be prohibited that a person who made a report based on the preceding item may be disadvantageously treated due to the fact that such person made such report, and that a whistle-blower shall not be disadvantageously treated due to the fact of whistle-blowing.
- x) Items on the policy in relation to an advance payment of expenses or debt disposal incurred in connection with the execution of duties of audit & supervisory board members
 When an audit & supervisory board member claims to the Company an advance payment of expenses, etc. based on Article 388 of the Companies Act in association with the execution of the duties, the department in charge shall, after deliberation, settle the relevant expenses or debt promptly except the case where the relevant expenses or debt related to the relevant claim shall be deemed not to be necessary for the execution of the duties by such an audit & supervisory board member.
- xi) Other framework to ensure effective auditing by audit & supervisory board members
 The Company formulates a framework where audit & supervisory board members can receive reports and exchange opinions and information about performance of their duties at important meetings including meetings of the Board of Directors, and where audit & supervisory board members can have regular meetings and exchange opinions and information with respect to development and implementation, etc. of audit plans for individual fiscal terms with the Internal Audit Department and independent auditors.
 In addition, the Company formulates a framework that enables audit & supervisory board members to inspect important minutes of meetings, documents for final decision and others if necessary.
- (Operation of framework to secure appropriateness of operations)
- i) Operation regarding the compliance system
 The Compliance Risk Management Committee, which is responsible for establishing and promoting the internal control system, strives to fully disseminate compliance relating to internal rules and related laws and ordinances throughout the company using company portal site to share information and issuing newsletters. The Compliance Risk Management Committee also receives regular self-assessment reports from Local Committees and successively implements appropriate measures to strengthen compliance.
 In addition, the Company has formulated and managed the "Rules of Help Line for Corporate Ethics" as part of the whistle-blowing system, in order to identify violations of laws and ordinances and misconduct at an early stage, and prevent those acts.

- ii) Operation of risk control system
To prevent various risks that occur in the performance of everyday duties, the Group has formulated “Risk Control Rules.” Pursuant to the rules, meetings of the Compliance Risk Management Committee were held regularly (12 times during the fiscal term under review) to understand risks in the Group and plan and implement necessary measures.
- iii) Efforts to ensure appropriateness and efficiency of the execution of duties
The Board of Directors comprises eight directors, including three external directors. During the fiscal term under review, meetings of the Board of Directors were held 16 times with the attendance of four audit & supervisory board members, including three external audit & supervisory board members. Attendees actively exchanged opinions regarding items, thereby ensuring the effectiveness of decision-making and supervision.
The Company has adopted an executive officer system. During the fiscal term under review, meetings of the Board of Executive Officers were held 12 times with the attendance of all executive officers aiming to flexibly make decisions regarding the execution of duties.
- iv) Operation regarding ensuring the appropriateness of operations in the Group
Important matters of Group management are discussed at the meetings of the Board of Directors of the Company and other internal conferences or are reported in accordance with the “Management Rules for Affiliates and Subsidiaries.” In addition, the Company’s Internal Audit Department conducts audits for major subsidiaries based on the audit plan to ensure the appropriateness of business operations in the Group.
- v) Efforts to ensure the effectiveness of audits conducted by audit & supervisory board members
The Company’s audit & supervisory board members attend meetings of the Board of Directors and other important meetings, and have regular meetings with the Representative Directors to secure opportunities to exchange opinions on corporate management. They also receive reports on the results of internal audits from the Internal Audit Department, and receive important reports and documentary materials from related departments of the Company. In addition, they receive reports and collect documentary materials regarding group companies as needed. Moreover, they receive regular reports on audit results from the independent auditor and inquire about the status of audits to the independent auditor as necessary, thereby ensuring the effectiveness of audits conducted by audit & supervisory board members.

Consolidated Statements of Changes in Net Assets
(From April 1, 2023 to March 31, 2024)

(Million yen)

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the term	31,642	26,854	313,851	(14,292)	358,055
Changes in the term					
Dividends from surplus			(10,302)		(10,302)
Profit attributable to owners of parent			25,035		25,035
Purchase of treasury stocks				(11,700)	(11,700)
Disposal of treasury stocks		12		52	65
Cancellation of treasury stocks		(12)	(11,229)	11,242	-
Net changes of items other than shareholders' equity in the term					
Total changes in the term	-	-	3,503	(405)	3,098
Balance at end of the term	31,642	26,854	317,355	(14,697)	361,153

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Differences in valuation of available-for-sale securities	Foreign currency translation adjustment	Accumulated adjustment for employees' severance and retirement benefits	Total accumulated other comprehensive income		
Balance at beginning of the term	12,146	724	318	13,189	1,760	373,005
Changes in the term						
Dividends from surplus						(10,302)
Profit attributable to owners of parent						25,035
Purchase of treasury stocks						(11,700)
Disposal of treasury stocks						65
Cancellation of treasury stocks						-
Net changes of items other than shareholders' equity in the term	9,570	265	1,487	11,323	(136)	11,187
Total changes in the term	9,570	265	1,487	11,323	(136)	14,285
Balance at end of the term	21,717	989	1,806	24,513	1,624	387,290

Note: Figures of less than one (1) million yen have been omitted.

Notes to Consolidated Financial Statements

1. Notes on Fundamental Items in Preparation of the Consolidated Financial Statements, etc.

(1) Items on the scope of the consolidation

i) Consolidated subsidiaries

- Number of consolidated subsidiaries: 12
- The names of the consolidated subsidiaries:
Kamigumi Land Transport Co., Ltd., Kamigumi Marine Transport Co., Ltd., Kamigumi Air Service Co., Ltd., Izumi Sangyo Co., Ltd., Kamix Corp., Oita Koun Co., Ltd., Iwagawa Jozo Co., Ltd., MB Service Japan Co., Ltd., Japan Port Industry Co., Ltd., Kamigumi (Hong Kong) Co., Ltd., Kamigumi International Forwarding (Shanghai) Co., Ltd., and Kamigumi Global Solutions Malaysia Sdn. Bhd.

ii) Unconsolidated subsidiaries

- The name of principal unconsolidated subsidiary:
Kamitsu Unyu Co., Ltd.
- Reason for exclusion from the scope of consolidation
This unconsolidated subsidiary is excluded from the scope of consolidation since it is small in size, and total assets, net sales, profit (loss) (the amount proportionate to equity) and retained earnings (the amount proportionate to equity) of this company have little impact on the consolidated financial statements.

(2) Items on the application of equity method

i) Unconsolidated subsidiaries and affiliates subject to application of the equity method

- Number of unconsolidated subsidiaries subject to application of the equity method: 1
- The name of unconsolidated subsidiary subject to application of the equity method:
Kamitsu Unyu Co., Ltd.
- Number of affiliates subject to application of the equity method: 4
- The names of affiliates subject to application of the equity method:
EASTERN SEA LAEM CHABANG TERMINAL CO., LTD.
Shanghai Kamigumi Logistic Service Co., Ltd.
Toyotsu Kamigumi Logistics (Changshu) Co., Ltd.
KLKG Holdings Co., Ltd.

The Company has invested in four subsidiaries of KLKG Holdings Co., Ltd., and incorporated their profits and losses recognized using the equity method for profits and losses of KLKG Holdings Co., Ltd., because these subsidiaries' profits and losses had material impacts on the Company's consolidated financial statements. As a result, these four subsidiaries and KLKG Holdings Co., Ltd. are counted as one company of the entire KLKG Holdings group in reporting the number of affiliates subject to the application of the equity method.

ii) Unconsolidated subsidiaries and affiliates not subject to application of the equity method

Unconsolidated subsidiaries not subject to application of the equity method (KAMIGUMI SINGAPORE PTE. LTD. etc.) and unconsolidated affiliates not subject to application of the equity method (Kobe Port International Distribution Center Co., Ltd. etc.) are excluded from the scope of equity method since profit (loss) (the amount proportionate to equity) and retained earnings (the amount proportionate to equity) of each company have little impact on the consolidated financial statements even if they are excluded from the scope of equity method, as well as have minor significance as a whole.

(3) Items on fiscal term, etc. of consolidated subsidiaries

The final day of the fiscal term of all domestic consolidated subsidiaries excluding MB Service Japan Co., Ltd. and Japan Port Industry Co., Ltd. conforms to that of the consolidated fiscal term.

The final day of the fiscal term of Japan Port Industry Co., Ltd. is the end of February.

The final day of the fiscal term of MB Service Japan Co., Ltd. and the foreign consolidated subsidiaries is December 31.

In preparing consolidated financial statements, financial statements as of that date are used, and necessary adjustment is made with respect to significant transactions which occur between the end of consolidated fiscal term and the said date.

- (4) Items on accounting policy
- i) Valuation basis and methods for major assets:
 - a) Marketable securities
 - Held-to-maturity debt securities: Amortization method.
 - Available-for-sale securities
 - Securities other than stocks, etc., that do not have a market value: Market value method (any valuation gain or loss to be reported in a designated component of net assets; cost of sale to be computed mainly by the moving-average method).
 - Stocks, etc., that do not have a market value: Stated at cost based on the moving-average method.
 - b) Inventories
 - Merchandise, finished goods and raw materials:
 - Mainly stated based on the first-in, first-out cost method and the gross average method
 - Work in process: Stated at cost based on the gross average method
 - Supplies: Mainly stated at the last purchase price method
 - The book value stated in the balance sheet is written down based on the decreased profitability.
 - ii) Depreciation and amortization methods for major depreciable and amortizable assets:
 - a) Tangible fixed assets (excluding lease assets):
 - As for the Company, buildings (excluding fixtures) are depreciated mainly by straight-line method. As for tangible fixed assets other than buildings, straight-line method is applicable to real estate assets for rent, and declining-balance method is applicable to other tangible fixed assets. Domestic consolidated subsidiaries chiefly apply the straight-line method to buildings (excluding fixtures), the declining-balance method to tangible fixed assets other than buildings. However, fixtures and structures acquired on or after April 1, 2016 are depreciated by straight-line method.
 - As for the foreign consolidated subsidiaries, the straight-line method is applicable.
 - b) Intangible fixed assets (excluding lease assets):
 - Straight-line method
 - For software for internal use, straight-line method based on the internally estimated useful life (five years) is applied.
 - c) Lease assets:
 - For lease assets through finance lease transactions not involving the transfer of ownership, straight-line method over the lease period as the durable period and assuming no residual value.
 - iii) Appropriation standards applicable to important provisions:
 - a) Allowance for doubtful accounts:
 - The Company appropriates estimated non-recoverable amounts, based on actual bad debts with respect to general claims, and based on individual examinations of recoverability with respect to specified claims such as debt claims with default potential.
 - b) Allowance for employees' bonuses:
 - In order to provide for payment of employees' bonus, consolidated subsidiaries of the Company appropriate the corresponding amount based on the estimated payment obligation.
 - c) Allowance for retirement benefits for directors and audit & supervisory board members:
 - In order to provide for payment of retirement benefits for directors and audit & supervisory board members, the domestic consolidated subsidiaries appropriate the necessary amount for payment as of the end of the fiscal term in accordance with internal regulations.
 - d) Accrued expenses for overhaul of vessels:
 - In order to provide for payment of periodic overhaul of vessels stipulated in the Ship Safety Law, the Company appropriates the necessary amount based on the estimated expenses of overhauling vessels in the future.
 - e) Provision for loss on business of subsidiaries and associates:
 - In order to prepare against losses regarding subsidiaries and associates, the Company estimates required amounts in consideration of the financial conditions of subsidiaries and associates, their prospect of future recovery, etc.

iv) Appropriation standards applicable to revenue and expenses

The normal points in time for recognizing revenue and details regarding the fulfillment of major obligations in principal businesses are as follows:

a) Port and harbor transportation, road transportation, warehouse and factory cargo handling, international transportation

These main businesses of the Group are port and harbor transportation, which includes harbor cargo handling, container terminal operation, and shed services, road transportation business, which includes road transportation as well as consignment of and acting as an agency for road transportation, warehouse and factory cargo handling, which includes transportation of cargo on the premises of factories, warehouses, etc., and international transportation business, which includes overseas and international multimodal transportation. We are mainly obliged to carry out the relevant business based on the contracts entered into with each customer.

As a general rule, performance obligations are fulfilled by providing the various services required in these businesses, and so the Group recognizes revenue when said performance obligations are fulfilled. However, for performance obligations that are fulfilled over a specific period of time, such as international maritime transportation, the progress of fulfilment is estimated and revenue is recognized across a fixed amount of time based on that progress, except in the case of transportation operations that are exceptionally short. Progress of the fulfilment of performance obligations is estimated by calculating the ratio between the number of days elapsed with the estimated total number of days for transportation (output method). The cost recovery method is applied to transport operations for which the rate of progress for the fulfillment of obligations cannot be reasonably estimated and the costs incurred in the fulfilling of said obligations are expected to be recovered.

b) Warehousing

This main business of the Group is the storage of cargo and the loading/unloading of stored cargo. We are obliged to carry out the relevant business based on the contracts entered into with each customer.

With regard to cargo storage, since performance obligations are satisfied for specific periods of time, the Company recognizes revenue as the period elapses. For the loading/unloading of stored cargo, because performance obligations are satisfied through the loading of cargo into or unloading of cargo from the warehouse, revenue is recognized when the relevant obligations are fulfilled.

c) Heavy cargo transportation and construction and installation

These main businesses of the Group are the transportation of large and heavy cargo, design, construction, and dismantling/removal of factories, warehouses, etc., and transportation and installation work associated with the manufacture of various industrial facilities and equipment. We are obliged to carry out the relevant business based on the contract entered into with the customer.

For performance obligations related to contracts regarding construction work that are fulfilled over a specific period of time, with exception to work that is exceptionally short, the Group estimates the progress of the fulfillment of said obligations and recognizes revenue for a specific period of time based on that progress. If there is only one point for the fulfillment of performance obligations, revenue is recognized when the construction is completed. The method for estimating the progress of fulfillment of obligations is calculated using the ratio of incurred costs to the estimated total costs (input method). The cost recovery method is applied to work for which the rate of progress for the fulfillment of obligations cannot be reasonably estimated and the costs incurred in the fulfilling of said obligations are expected to be recovered.

If the Group is involved in the provision of services as an agent, revenue is recognized in net terms. Additionally, revenue is measured by deducting the compensation paid to the customer from the compensation promised in the contract with the customer.

Compensation for performance obligations is received within approximately one year after fulfillment of the obligations, in accordance with the terms of payment specified separately, and does not include any significant financial factors.

- v) Other fundamental items in preparation of the consolidated financial statements:
- a) Standards for translation of primary assets and liabilities denominated in foreign currencies into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot rate of foreign exchange as of the end of the consolidated fiscal term, and the resulting exchange differences are credited or charged to income. Assets and liabilities of the foreign consolidated subsidiary are translated into Japanese yen at the spot rate of foreign exchange as of the end of the consolidated fiscal term. Revenues and expenses of them are translated into Japanese yen at the average rate during the term. The resulting exchange differences have been recorded as “foreign currency translation adjustment” in net assets.

- b) Accounting method for employees’ severance and retirement benefits

In the calculation of liabilities for employees’ severance and retirement benefits, the benefit formula standard is used as the method to attribute the estimated payment obligation to the periods until the end of the fiscal term under review.

Any prior service cost is expensed by the fixed installment basis over a certain specific number of years (10 years) within the length of the average remaining period of service of the employees at the time of such accrual.

Any actuarial difference is expensed from the respective following term of such accrual on the pro-rata fixed installment basis over a certain specific number of years (10 years) within the length of the average remaining period of service of the employees at the time of each accrual of such a difference.

2. Notes on Accounting Estimates

Valuation of non-consolidated/non-equity method applicable subsidiary/associate stocks and subsidiary/associate investments

- (1) Amounts recorded in the consolidated financial statement for the consolidated fiscal term under review

	As of the end of the 85 th consolidated fiscal term
Shares of subsidiaries and associates ^(Note 1)	¥12,117 million
Investments in capital of subsidiaries and associates ^(Note 2)	¥174 million
Provision for loss on business of subsidiaries and associates	¥267 million

Notes: 1. Included in “Investment securities” for investments and other assets.

2. Included in “Others” for investments and other assets.

- (2) Information on details of important accounting estimates for identified items

Non-consolidated/non-equity method applicable subsidiary/associate stocks and subsidiary/associate capital held by the Company are stocks and capital that do not have a market value, and if the real value of equity in net assets decreases significantly compared to the acquisition price, a judgment is made regarding the possibility of recovery and a decision is made as to whether loss is necessary. For stocks, etc., acquired in consideration of excess earning power and management rights for the investee, the discounted present value of the investee’s future cash flow is set as the real value, and if the real value becomes significantly lower than the acquisition price, an impairment loss is recognized.

For impairment losses judged to be necessary for a subsidiary/associate in insolvency, of the insolvency amount, the amount expected to be borne as a loss is recorded as a provision for loss on business of subsidiaries and associates, in addition to recognizing impairment loss on stocks, etc.

If the financial condition and operating results deteriorate the following consolidated fiscal term, or if the assumptions for estimates such as the budget change, summing up additional losses for the subsidiary/associate’s stock and capital may be required, and additional provision or reversal may be required for the provision for loss on business of subsidiaries and associates.

3. Notes on Consolidated Balance Sheet, etc.

- (1) Balances for receivables, contract assets, and contract liabilities arising from contracts with customers
Balances for receivables, contract assets and contract liabilities arising from contracts with customers are as described in “(i) Contract balances,” “(3) Information for understanding revenue amounts for the consolidated fiscal term under review and following consolidated fiscal term” of “7. Notes on Revenue Recognition.”
- (2) Accumulated depreciation on tangible fixed assets: ¥306,225 million
- (3) Debt guarantee:
We guarantee the borrowing by the following companies from financial institutions, etc.
- | | |
|--|---------------------|
| Kobe Mega Container Terminal Co., Ltd. | ¥855 million |
| <u>Others</u> | <u>¥765 million</u> |
| Total | ¥1,620 million |
- (4) Transactions of notes receivable endorsement: ¥9 million
- (5) Promissory notes due on consolidated balance sheet date
Notes regarding promissory notes due on consolidated balance sheet date are settled on the date of exchange of notes, etc. As the end of the current fiscal term fell on a holiday of financial institutions, the following promissory notes due on consolidated balance sheet date are included in the balance at end of the term.
- | | |
|---|--------------|
| Notes receivable | ¥58 million |
| Electronically recorded monetary claims-operating | ¥37 million |
| Notes payable | ¥265 million |

4. Notes on Consolidated Statements of Income

Revenue generated from contracts with customers

For sales, revenue generated from contracts with customers and other revenue are not listed separately. Revenue amounts generated from contracts with customers are as described in “(1) Information that parses revenue generated from contracts with customers” of “7. Notes on Revenue Recognition.”

5. Notes on Consolidated Statements of Changes in Net Assets

(1) Items on total number of outstanding shares

Type of share	Number of shares as of the beginning of the 85 th consolidated fiscal term	Number of increased shares during the 85 th consolidated fiscal term	Number of decreased shares during the 85 th consolidated fiscal term	Number of shares as of the end of the 85 th consolidated fiscal term
Common share	116,376 thousand Shares	- thousand Shares	4,300 thousand Shares	112,076 thousand Shares

Note: The decrease in the number of outstanding common shares (4,300 thousand shares) is caused by the cancellation of treasury stocks based on a resolution of the Board of Directors.

(2) Items on dividends from surplus

i) Amount of dividends paid, etc.

- a) Items on dividends which were resolved on at the 84th Ordinary General Meeting of Shareholders held on June 29, 2023
- | | |
|---------------------------------|----------------|
| - Total amount of dividends | ¥5,503 million |
| - Amount of dividends per share | ¥50 |
| - Record date | March 31, 2023 |
| - Effective date | June 30, 2023 |
- b) Items on dividends which were resolved on at the Board of Directors meeting held on November 10, 2023
- | | |
|---------------------------------|--------------------|
| - Total amount of dividends | ¥4,799 million |
| - Amount of dividends per share | ¥45 |
| - Record date | September 30, 2023 |
| - Effective date | December 5, 2023 |

ii) Dividends record date of which is included in the fiscal term under review and which become effective in the following fiscal term

The following will be brought before the 85th Ordinary General Meeting of Shareholders to be held on June 27, 2024

- Total amount of dividends	¥5,855 million
- Source of dividends	Retained earnings
- Amount of dividends per share	¥55
- Record date	March 31, 2024
- Effective date	June 28, 2024

6. Notes on Financial Instruments

(1) Matters concerning the status of financial instruments

The Group manages temporary surplus funds mainly as safe and secure financial assets.

Notes receivable, trade accounts receivable and contract assets, and electronically recorded monetary claims-operating, which are operating receivables, are exposed to customer credit risk. Investment securities primarily consist of stocks and investment in Investment Limited Partnership, and the Company comprehends market values of listed stocks on a regular basis.

As for derivatives transactions, the Company uses forward exchange contracts within a necessary range.

(2) Matters concerning market value, etc., of financial instruments

Amounts recorded in the consolidated balance sheet, market value, and differences between them as of March 31, 2024 are stated below. Of the stocks, etc., that do not have a market value, unlisted stocks (¥48,358 million recorded in the consolidated balance sheet) are not included in i) Investment securities, and investments in partnerships and other similar entities in which the net amount corresponding to the Company's equity interest is recorded on the consolidated balance sheet (investment limited partnership, ¥10,000 million recorded in the consolidated balance sheet) are omitted by applying the handling of paragraph 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. Additionally, notes have been omitted for cash, as well as for deposits, notes receivable, trade accounts receivable, contract assets, electronically recorded monetary claims-operating, marketable securities, notes payable, and trade accounts payable, as the market value is close to the book value since they are settled within a short amount of time.

	Amounts recorded in the consolidated balance sheet	Market values	Differences
i) Investment securities	¥ 43,771 million	¥43,637 million	(¥133 million)
ii) Long-term loan receivable	¥13 million	¥13 million	(¥0 million)
iii) Long-term borrowings	¥30,000 million	¥29,871 million	(¥128 million)

(3) Matters concerning the breakdown, etc., of market value for financial instruments in each level

Market values for financial instruments are classified into one of the following three levels based on the observability and importance of the input related to the market value calculation.

Level 1 market value: Of the inputs related to the calculation of observable market value, market values calculated based on the market price of the asset or liability formed in an active market and subject to the calculation of market value

Level 2 market value: Of the inputs related to the calculation of observable market value, market values calculated using inputs related to the calculation of market value other than level 1 inputs

Level 3 market value: Market values calculated using inputs related to the calculation of unobservable market values

When multiple inputs are used that have a significant influence on the calculation of market value, the market value is classified into the lowest priority level for the market value calculation among the levels to which those inputs belong.

i) Financial assets and liabilities recorded in the consolidated balance sheet at market value

Item	Market values			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	¥42,071 million	–	–	¥42,071 million

ii) Financial assets and liabilities recorded in the consolidated balance sheet not at market value

Item	Market values			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturing securities				
Corporate bonds	–	¥1,565 million	–	¥1,565 million
Long-term loan receivable	–	¥13 million	–	¥13 million
Long-term borrowings	–	¥29,871 million	–	¥29,871 million

Note: An explanation of valuation techniques and inputs used to calculate market value

Investment securities

Listed stocks are valued using market prices. Since listed stocks are traded in active markets, their market values are classified as level 1 market values. Corporate bonds are evaluated using the prices offered by financial institutions, etc., and are not recognized as having a market price in an active market, and so their market value is classified as level 2 market values.

Long-term loan receivable

The market value of long-term loans receivable is classified by fixed periods and is calculated by the discounted present value method based on the interest rate obtained by adding the credit spread to appropriate indicators such as future cash flows and government bond yields for each credit risk category. These long-term loans receivable are classified as level 2 market values.

Long-term loan borrowing

The fair value of long-term borrowings is calculated using the discounted cash flow method based on interest rates considering the total amount of the sum of principal and interest, the remaining period of the concerned obligation, and the credit risk for each obligation, and this is categorized as a level 2 fair value.

7. Notes on Revenue Recognition

(1) Information on disaggregated revenue generated from contracts with customers

Revenue information broken down by major goods or services is as follows:

	Reporting segment		
	Logistics Business	Other Businesses	Total
Port and harbor transportation	¥124,496 million	–	¥124,496 million
Warehousing	¥37,493 million	–	¥37,493 million
Domestic transportation	¥29,728 million	–	¥29,728 million
Factory cargo handling	¥27,915 million	–	¥27,915 million
International transportation	¥10,434 million	–	¥10,434 million
Heavy cargo / Construction	–	¥12,491 million	¥12,491 million
Others	¥1,244 million	¥18,485 million	¥19,729 million
Revenue generated from contracts with customers	¥231,313 million	¥30,976 million	¥262,290 million
Other revenue	–	¥4,495 million	¥4,495 million
Sales amount to external customers	¥231,313 million	¥35,472 million	¥266,785 million

- (2) Information that acts as the basis for understanding the revenue generated from contracts with customers
As described in “1. Notes on Fundamental Items in Preparation of the Consolidated Financial Statements, etc.
(4) Items on accounting policy iv) Appropriation standards applicable to revenue and expenses.”

- (3) Information for understanding revenue amounts for the consolidated fiscal term under review and following consolidated fiscal term

i) Contract balances

Balances for receivables, contract assets, and contract liabilities arising from contracts with customers are as follows:

	85 th consolidated fiscal term
Revenue generated from contracts with customers (Balance at beginning of the term)	¥48,260 million
Revenue generated from contracts with customers (Balance at end of the term)	¥48,214 million
Contract assets (Balance at beginning of the term)	¥989 million
Contract assets (Balance at end of the term)	¥582 million
Contract liabilities (Balance at beginning of the term)	¥173 million
Contract liabilities (Balance at end of the term)	¥62 million

In the consolidated balance sheet, receivables and contract assets arising from contracts with customers are included in “Notes receivable, trade accounts receivable, and contract assets” and “electronically recorded monetary claims-operating,” and contract liabilities are included in “Others” for current liabilities. Additionally, contract liabilities of ¥173 million as of the beginning of the period have been recorded as revenue for the consolidated fiscal term under review.

ii) Transaction prices allocated to remaining performance obligations

Since there are no significant transactions for which the initial expected contract period will exceed one year, the Group has applied practical expedients and has omitted information on remaining performance obligations. Additionally, of the compensation arising from contracts with customers, there are no significant amounts not included in the transaction price.

8. Notes on Information per Share

- | | |
|------------------------------|-----------|
| (1) Net assets per share | ¥3,622.81 |
| (2) Basic earnings per share | ¥232.97 |

Non-Consolidated Statements of Changes in Net Assets
(From April 1, 2023 to March 31, 2024)

(Million yen)

	Shareholders' equity							
	Capital stock	Additional paid-in capital			Legal retained earnings	Retained earnings		
		Capital reserve	Other additional paid-in capital	Total additional paid-in capital		Other retained earnings		
					Reserve for employees' severance and retirement benefits	Reserve for cash dividends	Reserve for advanced depreciation of fixed assets	
Balance at beginning of the term	31,642	26,854	–	26,854	5,978	800	1,138	2,301
Changes in the term								
Provision of reserve for advanced depreciation of fixed assets								294
Reversal of reserve for advanced depreciation of fixed assets								(138)
Dividends from surplus								
Profit								
Purchase of treasury stocks								
Disposal of treasury stocks			12	12				
Cancellation of treasury stocks			(12)	(12)				
Net changes of items other than shareholders' equity in the term								
Total changes in the term	–	–	–	–	–	–	–	155
Balance at end of the term	31,642	26,854	–	26,854	5,978	800	1,138	2,456

(Million yen)

	Shareholders' equity						Valuation / translation differences, etc.		Total net assets
	Retained earnings				Treasury stock	Total shareholders' equity	Differences in valuation of available-for-sale securities	Total valuation / translation differences, etc.	
	Other retained earnings			Total retained earnings					
	General reserve	Retained earnings carried forward to the following term	Total other retained earnings						
Balance at beginning of the term	276,000	21,581	301,820	307,798	(14,292)	352,002	10,640	10,640	362,642
Changes in the term									
Provision of reserve for advanced depreciation of fixed assets		(294)	-	-		-			-
Reversal of reserve for advanced depreciation of fixed assets		138	-	-		-			-
Dividends from surplus		(10,302)	(10,302)	(10,302)		(10,302)			(10,302)
Profit		24,591	24,591	24,591		24,591			24,591
Purchase of treasury stocks					(11,700)	(11,700)			(11,700)
Disposal of treasury stocks					52	65			65
Cancellation of treasury stocks		(11,229)	(11,229)	(11,229)	11,242	-			-
Net changes of items other than shareholders' equity in the term							8,408	8,408	8,408
Total changes in the term	-	2,903	3,059	3,059	(405)	2,654	8,408	8,408	11,062
Balance at end of the term	276,000	24,484	304,879	310,857	(14,697)	354,656	19,048	19,048	373,704

Note: Figures of less than one (1) million yen have been omitted.

Notes to Non-Consolidated Financial Statements

1. Notes on Items of Important Accounting Policy

(1) Valuation basis and methods of assets

i) Valuation basis and methods of securities:

- a) Held-to-maturity securities: Held-to-maturity securities are stated at amortized cost.
- b) Investment in subsidiaries and affiliates: Stated at cost based on the moving-average method.
- c) Available-for-sale securities

Securities other than stocks, etc., that do not have a market value:

Market value method (any valuation gain or loss to be reported in a designated component of net assets; cost of sale to be computed by the moving-average method).

Stocks that do not have a market value:

Stated at cost based on the moving-average method.

ii) Valuation basis and method of inventories

Supplies: Supplies are stated at cost based on the last purchase price method (the book value stated in the balance sheet is written down based on the decreased profitability.)

(2) Depreciation and amortization method for fixed assets:

a) Tangible fixed assets (excluding lease assets):

Buildings (excluding fixtures) are depreciated mainly by straight-line method. As for tangible fixed assets other than buildings, straight-line method is applicable to real estate assets for rent, and declining-balance method is applicable to other tangible fixed assets.

However, fixtures and structures acquired on or after April 1, 2016 are depreciated by straight-line method.

b) Intangible fixed assets (excluding lease assets):

Amortization method for intangible fixed assets: by straight-line method

For software for internal use, straight-line method based on the internally estimated useful life (five years) is applied.

c) Lease assets:

Depreciation of lease assets through finance lease transactions not involving the transfer of ownership is computed on the straight-line method over the lease period as the durable period and assuming no residual value.

(3) Appropriation standards applicable to provisions:

a) Allowance for doubtful accounts:

The Company appropriates estimated non-recoverable amounts, based on actual bad debts with respect to general claims, and based on individual examinations of recoverability with respect to specified claims such as debt claims with default potential.

b) Allowance for employees' severance and retirement benefits:

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits based on the Company's estimated payment obligation at the term-end.

Any prior service cost is expensed by the fixed installment basis over a certain specific number of years (10 years) within the length of the average remaining period of service of the employees at the time of such accrual.

Any actuarial difference is expensed from the following term of such accrual on the pro-rata fixed installment basis over a certain specific number of years (10 years) within the length of the average remaining period of service of the employees at the time of accrual of such a difference.

c) Provision for loss on business of subsidiaries and associates:

In order to prepare against losses regarding subsidiaries and associates, the Company estimates required amounts in consideration of the financial conditions of subsidiaries and associates, their prospect of future recovery, etc.

(4) Appropriation standards applicable to revenue and expenses

The normal points in time for recognizing revenue and details regarding the fulfillment of major obligations in principal businesses are as follows:

i) Port and harbor transportation, road transportation, warehouse and factory cargo handling, international transportation

These main businesses of the Company are port and harbor transportation, which includes harbor cargo handling, container terminal operation, and shed services, road transportation business, which includes road transportation as well as consignment of and acting as an agency for road transportation, warehouse

and factory cargo handling, which includes transportation of cargo on the premises of factories, warehouses, etc., and international transportation business, which includes overseas and international multimodal transportation. We are mainly obliged to carry out the relevant business based on the contracts entered into with each customer.

As a general rule, performance obligations are fulfilled by providing the various services required in these businesses, and so the Company recognizes revenue when said performance obligations are fulfilled. However, for performance obligations that are fulfilled over a specific period of time, such as international maritime transportation, the progress of fulfilment is estimated and revenue is recognized across a fixed amount of time based on that progress, except in the case of transportation operations that are exceptionally short. Progress of the fulfilment of performance obligations is estimated by calculating the ratio between the number of days elapsed with the estimated total number of days for transportation (output method). The cost recovery method is applied to transport operations for which the rate of progress for the fulfillment of obligations cannot be reasonably estimated and the costs incurred in the fulfilling of said obligations are expected to be recovered.

ii) Warehousing

This main business of the Company is the storage of cargo and the loading/unloading of stored cargo. We are obliged to carry out the relevant business based on the contracts entered into with each customer.

With regard to cargo storage, since performance obligations are satisfied for specific periods of time, the Company recognizes revenue as the period elapses. For the loading/unloading of stored cargo, because performance obligations are satisfied through the loading of cargo into or unloading of cargo from the warehouse, revenue is recognized when the relevant obligations are fulfilled.

iii) Heavy cargo transportation and mechanical construction work

These main businesses of the Company are the transportation of large and heavy cargo, design, construction, and dismantling/removal of factories, warehouses, etc., and transportation and installation work associated with the manufacture of various industrial facilities and equipment. We are obliged to carry out the relevant business based on the contract entered into with the customer.

For performance obligations related to contracts regarding construction work that are fulfilled over a specific period of time, with exception to work that is exceptionally short, the Company estimates the progress of the fulfillment of said obligations and recognizes revenue for a specific period of time based on that progress. If there is only one point for the fulfillment of performance obligations, revenue is recognized when the construction is completed. The method for estimating the progress of fulfillment of obligations is calculated using the ratio of incurred costs to the estimated total costs (input method). The cost recovery method is applied to work for which the rate of progress for the fulfillment of obligations cannot be reasonably estimated and the costs incurred in the fulfilling of said obligations are expected to be recovered.

If the Company is involved in the provision of services as an agent, revenue is recognized in net terms. Additionally, revenue is measured by deducting the compensation paid to the customer from the compensation promised in the contract with the customer.

Compensation for performance obligations is received within approximately one year after fulfillment of the obligations, in accordance with the terms of payment specified separately, and does not include any significant financial factors.

(5) Other fundamental items in preparation of the non-consolidated financial statements

Accounting treatment for employees' severance and retirement benefits

The accounting treatment method for unsettled amounts of unrecognized actuarial gains and losses related to employees' severance and retirement benefits is different from the accounting treatment method for the consolidated financial statements.

2. Notes on Accounting Estimates

Valuation of affiliate stocks and affiliate investments

(1) Amounts recorded in the financial statement for the current fiscal term

	As of the end of the current fiscal term
Shares of subsidiaries and associates	¥51,808 million
Investments in capital of subsidiaries and associates	¥1,028 million
Provision for loss on business of subsidiaries and associates	¥267 million

(2) Information on details of important accounting estimates for identified items

Subsidiary/associate stocks and subsidiary/associate capital held by the Company are stocks and capital that do not have a market value, and if the real value of equity in net assets decreases significantly compared to the acquisition price, a judgment is made regarding the possibility of recovery and a decision is made as to whether loss is necessary. For stocks, etc., acquired in consideration of excess earning power and management rights for the investee, the discounted present value of the investee's future cash flow is set as the real value, and if the real value becomes significantly lower than the acquisition price, an impairment loss is recognized.

For impairment losses judged to be necessary for a subsidiary/associate in insolvency, of the insolvency amount, the amount expected to be borne as a loss is recorded as a provision for loss on business of subsidiaries and associates, in addition to recognizing impairment loss on stocks, etc.

If the financial condition and operating results deteriorate the following fiscal term, or if the assumptions for estimates such as the budget change, summing up additional losses for the subsidiary/associate's stock and capital may be required, and additional provision or reversal may be required for the provision for loss on business of subsidiaries and associates.

3. Notes on Non-Consolidated Balance Sheet, etc.

(1) Accumulated depreciation on tangible fixed assets: ¥297,069 million

(2) Debt guarantee:

We guarantee the borrowing by the following companies from financial institutions, etc.

Kobe Mega Container Terminal Co., Ltd.	¥855 million
<u>Others</u>	<u>¥765 million</u>
Total	¥1,620 million

(3) Monetary claims and obligations to subsidiaries and affiliates

i) Short-term monetary claims	¥1,491 million
ii) Long-term monetary claims	¥10,100 million
iii) Short-term monetary obligations	¥2,561 million

(4) Promissory notes due on balance sheet date

Notes regarding promissory notes due on balance sheet date are settled on the date of exchange of notes, etc.

As the end of the current fiscal term fell on a holiday of financial institutions, the following promissory notes due on balance sheet date are included in the balance at end of the term.

Notes receivable	¥50 million
Electronically recorded monetary claims-operating	¥20 million

4. Notes to Non-Consolidated Statement of Income

Volume of transactions with subsidiaries and affiliates

i) Net sales	¥2,277 million
ii) Cost of sales, selling, general and administrative expenses	¥20,325 million
iii) Volume of transactions other than operating transactions	¥953 million

5. Notes on Non-Consolidated Statements of Changes in Net Assets

Items on the number of treasury stocks

Type of share	Number of shares as of the beginning of the 85 th fiscal term	Number of increased shares during the 85 th fiscal term	Number of decreased shares during the 85 th fiscal term	Number of shares as of the end of the 85 th fiscal term
Common share	6,307 thousand Shares	3,637 thousand Shares	4,322 thousand Shares	5,621 thousand Shares

- Notes: 1. The increase in the number of treasury stocks of common shares (3,637 thousand shares) is caused by the increase due to the acquisition of treasury stocks in accordance with the resolution of the Board of Directors (3,637 thousand shares), free acquisition due to the expiration of rights from the restricted stock compensation system (0 thousand shares), and the increase due to the purchase of fractions (0 thousand shares).
2. The decrease in the number of treasury stocks of common shares (4,322 thousand shares) is caused by the disposal of treasury stocks for restricted stock remuneration (22 thousand shares) and the cancellation of treasury stocks in accordance with the resolution of the Board of Directors (4,300 thousand shares).

6. Notes on Tax Effect Accounting

(1) Breakdown of deferred tax assets and deferred tax liabilities by principal cause

Deferred tax assets

Allowance for employees' severance and retirement benefits	¥5,726 million
Accrued bonuses	¥666 million
Loss on valuation of investment securities	¥308 million
Enterprise taxes payable, etc.	¥325 million
Allowance for doubtful accounts	¥113 million
Loss on valuation of golf club membership	¥51 million
Loss on valuation of shares of subsidiaries and associates	¥224 million
Others	¥572 million
<u>Subtotal deferred tax assets</u>	<u>¥7,989 million</u>
Valuation allowance	(¥745 million)
Total deferred tax assets	¥7,243 million

Deferred tax liabilities

Differences in valuation of available-for-sale securities	(¥8,066 million)
Reserve for advanced depreciation of fixed assets	(¥1,082 million)
Others	(¥28 million)
<u>Total deferred tax liabilities</u>	<u>(¥9,176 million)</u>
Net amount of deferred tax liabilities	(¥1,932 million)

(2) Breakdown by major items that become the cause of the significant differences between the statutory tax rate and the effective tax rate after the application of tax effect accounting

Statutory tax rate	30.58%
(Adjustments)	
Inhabitant tax on per capita basis	0.33%
Entertainment expenses and other items not permanently deductible	0.14%
Dividend income and other items not permanently includable	(1.74)%
Tax deduction, etc.	(0.50)%
Others	(0.18)%
<u>Effective tax rate after the application of tax effect accounting</u>	<u>28.63%</u>

7. Notes on Transactions with Relevant Parties

(1) Subsidiaries and affiliates, etc.

Item	Name	Ratio of possessing (possessed) voting right, etc. (%)	Relation with the parties interested	Details of transactions	Amount of transactions (Million yen)	Item	Balance at the end of the term (Million yen)
Subsidiary	Japan Port Industry Co., Ltd.	Directly (possessing) 70.0	Warehouse cargo handling Financial assistance Concurrent officers	Repayment of fund	455	Short-term loan receivable	455
						Long-term loan receivable	9,982
				Receipt of interest	85	–	–

Conditions of transaction or policy for deciding conditions of transaction

We made loans at the interest rate based on the market interest rate

(2) Officers and principal individual shareholders, etc.

Item	Name	Location	Capital or contribution (Million yen)	Business details or occupation	Ratio of possessing (possessed) voting right, etc. (%)	Relation with the parties interested	Details of transactions	Amount of transactions (Million yen)	Item	Balance at the end of the term (Million yen)
Officer	Masami Kubo	–	–	Director, the Company	Directly (possessed) 0.0	–	Transactions with World Cargo Distribution Center Co., Ltd.	–	Short-term loan receivable	3,242
				Chairman & Representative Director, World Cargo Distribution Center Co., Ltd.					Receipt of interest	24

Conditions of transaction or policy for deciding conditions of transaction

- (a) The transaction with World Cargo Distribution Center Co., Ltd. is so-called transactions for the benefit of third parties.
- (b) We made loans at the interest rate based on the market interest rate.
- (c) Mr. Masami Kubo retired as Director of the Company on June 29, 2023, and is no longer a relevant party. The amount of transactions represents the amounts during the period when Mr. Kubo was a relevant party, and the business details or occupation, ratio of possessing (possessed) voting right, etc., and balance at the end of the term represent the balance at the time when Mr. Kubo ceased to be a relevant party.

8. Notes on Recognition of Revenue

For the information acting as the basis for understanding the revenue generated from contracts with customers is as described in “1. Notes on Items of Important Accounting Policy (4) Appropriation standards applicable to revenue and expenses” and so notes have been omitted.

9. Notes on Information per Share

- | | |
|------------------------------|-----------|
| (1) Net assets per share | ¥3,510.44 |
| (2) Basic earnings per share | ¥228.84 |