



Financial Section

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Financial Review

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries

Selected Financial Data

Years ended March 31

CONSOLIDATED	Millions of yen					
	2001	2000	1999	1998	1997	1996
Operating revenues	¥557,869	¥485,693	¥513,100	¥517,755	¥482,621	¥450,095
Operating income	36,009	26,817	21,508	26,922	23,599	24,067
As a % of operating revenues	6.5%	5.5%	4.2%	5.2%	4.9%	5.3%
Net income	1,948	6,843	1,596	1,668	6,303	2,835
Total assets	513,797	514,802	522,499	576,109	557,892	522,836
Shareholders' equity	68,647	74,132	68,607	68,436	66,773	60,235
As a % of total assets	13.4%	14.4%	13.1%	11.9%	12.0%	11.5%
Liabilities bearing interest	331,484	348,602	367,352	404,633	394,619	373,559
As a % of total assets	64.5%	67.7%	70.3%	70.2%	70.7%	71.5%
Debt to equity ratio	4.83	4.70	5.35	5.91	5.91	6.20
Return on equity	2.7%	9.6%	2.3%	2.5%	9.9%	4.8%
Interest coverage ratio	3.10	2.49	1.56	1.84	1.62	1.45
Balance of financial income and expense	(10,248)	(9,492)	(12,971)	(13,810)	(13,855)	(16,019)
Depreciation and amortization	33,550	31,085	30,859	36,260	35,997	32,645

Notes:(1) Finance leases on vessels which transfer ownership to the lessee after the lease term have been capitalized, and the related obligation has been recorded in the consolidated balance sheets since 1996 pursuant to the adoption of a revised standard of accounting for lease transactions. In this connection, depreciation of vessels and the related interest expense have been accounted for in the statements of income since 1996, replacing lease expenses on vessels paid to the lessors in previous years.

(2) Operating income for the year ended March 31, 1999, increased by ¥523 million over that recorded in previous years because enterprise tax, which was formerly included in general and administrative expenses, has been reclassified to income taxes as a result of a revision to the Securities and Exchange Law of Japan.

(3) Effective the year ended March 31, 2000, the Company and its consolidated subsidiaries fully adopted tax-effect accounting in accordance with a recent revision to the regulations governing reporting for consolidated financial statements. The effect of this change on deferred income tax assets amounted to ¥5,003 million (US\$47,130 thousand; ¥579 million as current assets and ¥4,424 million as non-current assets) and the effect on deferred income tax liabilities amounted to ¥6,051 million (US\$57,004 thousand; ¥278 million as current liabilities and ¥5,773 million as non-current liabilities) as of March 31, 2000. The effect of this change was to increase net income by ¥1,222 million (US\$11,514 thousand) and consolidated retained earnings by ¥361 million (US\$3,397 thousand) from the amounts which would have been recorded under the method followed in the previous year.

(4) Effective the year ended March 31, 2000, the computation of ROE was changed based on a percentage of net income divided by the average of the net assets at beginning and at end of the fiscal year. It was formerly computed based solely on the net assets at end of each year. ROE for the years prior to fiscal 2000 were restated retroactively to conform to the method of computation applied in fiscal 2000.

(5) Effective the year ended March 31, 2001, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting for Financial Instruments," which requires that marketable investment securities and others be valued based on their fair market value. The effect of this change was to increase shareholders' equity by ¥1,158 million (US\$9,347 thousand), which was presented as unrealized holding gains on investment securities as a component of shareholders' equity. In addition, translation adjustments have been reclassified to shareholders' equity from non-current assets and amounted to ¥6,275 million (US\$50,646 thousand) due to a recent revision to the regulations governing reporting for consolidated financial statements. The effect of this change was to decrease shareholders' equity by the same amount.

NON-CONSOLIDATED	Millions of yen					
	2001	2000	1999	1998	1997	1996
Operating revenues	¥424,021	¥362,030	¥385,482	¥379,602	¥348,613	¥328,123
Operating income	24,444	16,810	12,767	17,171	12,281	12,788
As a % of operating revenues	5.7%	4.6%	3.3%	4.5%	3.5%	3.9%
Net income	4,532	4,043	3,016	2,245	1,812	1,594
Total assets	241,295	242,278	241,433	258,367	255,032	245,897
Shareholders' equity	62,619	58,975	57,757	56,498	54,253	52,170
As a % of total assets	26.0%	24.3%	23.9%	21.9%	21.3%	21.2%
Liabilities bearing interest	120,150	135,304	143,216	144,055	150,212	146,811
As a % of total assets	49.8%	55.9%	59.3%	55.8%	58.9%	59.7%
Debt to equity ratio	1.92	2.29	2.48	2.55	2.77	2.81
Return on equity	7.5%	6.9%	5.3%	4.1%	3.4%	3.1%
Interest coverage ratio	5.81	4.46	3.27	3.64	2.50	2.10
Balance of financial income and expense	(2,599)	(1,632)	(1,602)	(3,737)	(4,304)	(5,570)
Depreciation and amortization	7,731	7,477	7,310	9,258	10,569	10,650

Notes: (1) Operating income for the year ended March 31, 1999, increased by ¥192 million over that recorded in previous years because enterprise tax, which was formerly included in general and administrative expenses, has been reclassified to income taxes as a result of a revision to the Securities and Exchange Law of Japan.

(2) Effective the year ended March 31, 2000, the Company fully adopted tax-effect accounting in accordance with a recent revision to the regulations governing reporting for financial statements. The effect of this change on deferred income tax liabilities amounted to ¥1,815 million (US\$17,095 thousand; ¥92 million as current liabilities and ¥1,723 million as non-current liabilities) as of March 31, 2000. In addition, the effect of this change was to increase net income by ¥409 million (US\$3,857 thousand) and consolidated retained earnings by ¥1,520 million (US\$14,323 thousand) from the amounts which would have been recorded under the method followed in the previous year.

(3) Effective the year ended March 31, 2000, the computation of ROE was changed based on a percentage of net income divided by the average of the net assets at beginning and at end of the fiscal year. It was formerly computed based solely on the net assets at end of each year. ROE for the years prior to fiscal 2000 were restated retroactively to conform to the method of computation applied in fiscal 2000.

(4) Effective the year ended March 31, 2001, the Company has adopted a new accounting standard, "Accounting for Financial instruments," which requires that marketable investment securities and others be valued based on their fair market value. The effect of this change was to increase shareholders' equity by ¥1,546 million (US\$12,482 thousand), which was presented as unrealized holding gains on investment securities as a component of shareholders' equity.

Consolidated Balance Sheets

March 31, 2001 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current assets:			
Cash and time deposits	¥ 20,003	¥ 25,698	\$ 161,441
Marketable securities (Note 4)	822	46,399	6,635
Accounts and notes receivable — trade	58,649	47,808	473,362
Allowance for doubtful receivables	(473)	(917)	(3,819)
Fuel and supplies	7,169	6,479	57,857
Prepaid expenses and deferred charges	14,688	13,534	118,547
Deferred income taxes (Note 6)	1,721	579	13,889
Other current assets	14,954	8,501	120,697
Total current assets	<u>117,533</u>	<u>148,081</u>	<u>948,609</u>
Investments and long-term receivables:			
Investments in and advances to unconsolidated subsidiaries and affiliates	8,414	7,634	67,911
Investments in other securities (Note 4)	58,820	17,782	474,736
Long-term loans receivable	2,715	5,680	21,910
Other investments	15,680	12,040	126,556
Deferred income taxes (Note 6)	6,400	4,424	51,656
Allowance for doubtful receivables	(486)	(164)	(3,923)
Total investments and long-term receivables	<u>91,543</u>	<u>47,396</u>	<u>738,846</u>
Vessels, property and equipment:			
Vessels	447,932	434,337	3,615,271
Buildings and equipment	92,845	89,036	749,355
Accumulated depreciation	(277,711)	(259,293)	(2,241,411)
	<u>263,066</u>	<u>264,080</u>	<u>2,123,215</u>
Land	30,948	31,160	249,782
Construction in progress	6,964	12,103	56,208
Vessels, property and equipment, net	<u>300,978</u>	<u>307,343</u>	<u>2,429,205</u>
Other assets	3,743	4,231	30,210
Translation adjustments	—	7,751	—
Total assets	<u>¥513,797</u>	<u>¥514,802</u>	<u>\$4,146,870</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current liabilities:			
Short-term loans (Note 5)	¥42,005	¥ 58,405	\$ 339,026
Current portion of long-term debt (Note 5)	41,116	43,042	331,852
Accounts and notes payable — trade	47,351	42,097	382,172
Deferred income	12,479	12,741	100,714
Current portion of obligations under finance leases	6,287	4,162	50,739
Other current liabilities (Note 6)	16,532	11,091	133,431
Total current liabilities	<u>165,770</u>	<u>171,538</u>	<u>1,337,934</u>
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	221,854	206,116	1,790,589
Allowance for employees' retirement benefits (Note 8)	18,434	9,280	148,783
Allowance for directors' and statutory auditors' retirement benefits	2,194	—	17,710
Accrued expenses for overhaul of vessels	3,502	2,099	28,263
Obligations under finance leases	20,222	36,876	163,211
Deferred income taxes (Note 6)	890	5,773	7,187
Other long-term liabilities	5,772	1,983	46,583
Total long-term liabilities	<u>272,868</u>	<u>262,127</u>	<u>2,202,326</u>
Minority interests in consolidated subsidiaries	<u>6,512</u>	<u>7,005</u>	<u>52,558</u>
Commitments and contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized — 1,080,000,000 shares			
Issued — 593,796,875 shares	29,690	29,690	239,628
Capital surplus	14,535	14,535	117,310
Retained earnings (Note 9)	29,539	30,085	238,416
Unrealized holding gains on investment securities	1,158	—	9,347
Translation adjustments	(6,275)	—	(50,646)
	<u>68,647</u>	<u>74,310</u>	<u>554,055</u>
Treasury stock, at cost	0	(178)	(3)
Total shareholders' equity	<u>68,647</u>	<u>74,132</u>	<u>554,052</u>
Total liabilities and shareholders' equity	<u>¥513,797</u>	<u>¥514,802</u>	<u>\$4,146,870</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Retained Earnings

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Operating revenues:			
Freight and charter of vessels	¥464,342	¥398,602	\$3,747,716
Operating revenues other than shipping	93,527	87,091	754,866
Total operating revenues	557,869	485,693	4,502,582
Operating expenses:			
Expenses, other than depreciation, for vessels	342,189	301,294	2,761,818
Depreciation of vessels	27,825	22,608	224,574
Cost of operating revenues	103,351	87,840	834,154
Selling, general and administrative expenses	48,495	47,134	391,404
Total operating expenses	521,860	458,876	4,211,950
Operating income	36,009	26,817	290,632
Other income (expense):			
Interest and dividend income	1,992	2,100	16,082
Interest expense	(12,240)	(11,591)	(98,795)
Others, net	(23,154)	(6,634)	(186,879)
Total other income (expense)	(33,402)	(16,125)	(269,592)
Income before income taxes	2,607	10,692	21,040
Income taxes (Note 6):			
Current	8,626	4,855	69,625
Deferred	(8,348)	(1,199)	(67,379)
Total income taxes	278	3,656	2,246
Minority interest	381	193	3,072
Net income	1,948	6,843	15,722
Retained earnings at beginning of the year	30,085	25,588	242,818
Adjustments for inclusion in or exclusion from consolidation or equity method of accounting for subsidiaries and affiliates	5	380	40
Cumulative effect of a change in accounting principle with respect to tax-effect accounting	—	(862)	—
As adjusted	30,090	25,106	242,858
Cash dividends	(2,372)	(1,754)	(19,145)
Bonuses to directors and statutory auditors	(127)	(110)	(1,019)
Retained earnings at end of the year	¥ 29,539	¥ 30,085	\$ 238,416

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes	¥ 2,607	¥10,692	\$ 21,040
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	33,550	31,085	270,786
Provision for employees' retirement benefits	9,154	887	73,886
Accrued expenses for overhaul of vessels	1,378	(412)	11,118
Provision for directors' and statutory auditors' retirement benefits....	2,194	—	17,710
Interest and dividend income	(1,992)	(2,100)	(16,082)
Interest expenses	12,240	11,591	98,795
Loss on sale of marketable and investment securities	2,033	2,159	16,407
Gain on sale of vessels, property and equipment	(677)	(3,177)	(5,467)
Loss on sale of vessels, property and equipment.....	4,712	687	38,035
Net loss on foreign exchange	574	2,521	4,637
Changes in operating assets and liabilities:			
(Increase) decrease in accounts and notes receivable — trade....	(9,907)	4,013	(79,963)
Increase in accounts and notes payable — trade	4,024	3,108	32,480
Increase in inventories	(658)	(2,534)	(5,310)
Others, net	1,245	1,240	10,043
Subtotal	60,477	59,760	488,115
Interest and dividends received	2,119	1,280	17,103
Interest paid	(12,218)	(11,760)	(98,615)
Income taxes paid	(5,684)	(4,665)	(45,872)
Net cash provided by operating activities	44,694	44,615	360,731
Cash flows from investing activities:			
Purchases of securities and other investments	(11,890)	(18,298)	(95,963)
Gain on sale of marketable and investment securities	14,016	17,078	113,120
Profit on sale of investment in a subsidiary	—	79	—
Purchases of vessels, property and equipment	(40,395)	(39,937)	(326,026)
Proceeds from sale of vessels, property and equipment	32,472	5,024	262,080
Other, net	915	(1,530)	7,383
Net cash used in investing activities	(4,882)	(37,584)	(39,406)
Cash flows from financing activities:			
Proceeds from loans	77,872	67,082	628,508
Repayment of loans and obligations under finance leases	(118,381)	(87,753)	(955,458)
Proceeds from issuance of bonds	10,928	10,922	88,201
Repayment of bonds.....	(15,000)	—	(121,065)
Cash dividends paid.....	(2,357)	(1,741)	(19,026)
Cash dividends paid by subsidiaries to minority shareholders	(89)	(82)	(718)
Other, net	159	78	1,280
Net cash used in financing activities	(46,868)	(11,494)	(378,278)
Effect of exchange rate changes on cash and cash equivalents	1,254	(1,403)	10,125
Net decrease in cash and cash equivalents	(5,802)	(5,866)	(46,828)
Cash and cash equivalents at beginning of year	25,968	31,371	209,585
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	301	463	2,433
Cash and cash equivalents at end of year (Note 3).....	¥ 20,467	¥25,968	\$165,190

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

March 31, 2001

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Kawasaki Kisen Kaisha, Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the consolidated financial position, results of operations and cash flows presented in the accompanying consolidated financial statements may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdiction other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations presented in the original financial statements.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥123.90=U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2001 on the Tokyo Foreign Exchange Market. Furthermore, the translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and 93 subsidiaries for the year ended March 31, 2001. The principle of consolidation is to include subsidiaries whose voting interests are owned more than 40% by a consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways have

been accounted for by the equity methods.

For the purpose of consolidation, all significant intercompany transactions, account balances and unrealized profit among the consolidated group companies have been eliminated. The significant difference between the cost and the underlying net equity in the consolidated subsidiaries at their respective dates of acquisition is, as a rule, amortized over a period of five years.

(c) Accounting period

The Company's fiscal year ends on March 31. The fiscal year of 74 of the consolidated subsidiaries ends on December 31 and, in addition, 4 subsidiaries' balance sheet dates fall within 3 months of March 31. All significant adjustments considered necessary during the periods from the consolidated fiscal year end to the different year ends have been made on consolidation. During the year ended March 31, 2001, "K" Line Engineering Co., Ltd., "K" Line Logistics Hokkaido, Co., Ltd., Kobe Pier Co., Ltd., and Hokkai Unyu Co., Ltd. changed their closing date from March 31 to December 31, and their 9-month results have been included in the consolidated accounts.

(d) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies other than those hedged by forward foreign exchange contracts are translated into yen at the rates of exchange in effect on the balance sheet date. Gains and losses resulting from the settlement of these items are credited or charged currently to operations. Effective the year ended March 31, 2001, in accordance with a revision to the regulations concerning the translation of foreign currencies, the Company and its domestic consolidated subsidiaries changed their method of translation to applying the rates of exchange in effect at balance sheet date from the method applying the rates of exchange in effect on the dates of the respective transactions. The Company and its domestic subsidiaries adopted a new accounting standard for derivative instruments, including accounts hedged by forward foreign exchange contracts to which deferred hedge accounting may be applied under certain conditions. The effect on deferred gains and losses on hedging instruments is recognized as assets or liabilities after being valued at fair market value. This change increased income before income taxes by ¥570 million (US\$4,603 thousand) from the amount which would have been recorded under the method applied in previous years.

(e) Translation of accounts of foreign consolidated subsidiaries

The accounts of the foreign consolidated subsidiaries, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments in the accompanying consolidated financial statements.

Effective the year ended March 31, 2001, translation adjustments have been reclassified to shareholders' equity from non-current assets. These amounted to ¥6,275 million (US\$50,646 thousand) due to a recent revision of the regulations governing reporting for consolidated financial statements. The effect of this change was to decrease shareholders' equity by the same amount.

(f) Revenues and related costs

Revenues of the Company from cargo freight and the related costs and expenses, except for those from container vessels, are recorded in full as of the date on which the vessels complete their voyages. Revenues from container vessels are recorded in full as of the date on which a vessel embarks from the port where the cargo was loaded, and no year-end adjustments are made for any portions of uncompleted voyages. The related costs and expenses are charged to income as incurred. Revenues and costs with respect to charter services are accounted for on an accrual basis.

(g) Cash and cash equivalents

The Company and its subsidiaries substantially consider all highly liquid investments with a maturity of three months or less from the purchase date, as cash equivalents.

(h) Investments

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with a market value are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized holding gains and losses, is recognized as a component of net assets and presented as "Net unrealized holding gains on securities." The cost of other securities sold is computed based on the moving average method. Other securities without a market value are stated at cost based on the moving average method.

Effective the year ended March 31, 2001, the Company adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council (the "BADC") on January 22, 1999). The effect of this change was to decrease income before income taxes by ¥819 million (US\$6,613 thousand) from the amount which would have been recorded by the method applied in the previous year.

This accounting standard for financial instruments requires the Company and its subsidiaries to classify its securities into one of the following three categories: trading, held-to-maturity or other. At the beginning of the year, the Company and its subsidiaries reviewed the classification of all their securities. Based on this classification, any held-to-maturity securities with a maturity of less than one year have been included in current assets. All other securities have been included in investment securities as non-current assets. As a result, securities in current assets decreased by ¥44,173 million (US\$356,518 thousand) and investment securities increased by the same amount at March 31, 2001.

(i) Fuel and supplies

Fuel and supplies are stated at cost determined by the moving average method.

(j) Vessels, property and equipment and depreciation

Vessels, property and equipment are stated at cost, except that the cost of certain property and equipment has been reduced by capital gains resulting from the disposal of certain vessels, property and equipment as permitted under the Corporation Tax Law of Japan.

The depreciation of property and equipment is computed principally by the declining-balance method over the estimated useful lives of the respective assets which differ according to general category, type of construction and use. The depreciation of vessels is computed by the straight-line or the declining-balance method over the estimated useful lives of the respective vessels.

Maintenance, repairs and minor improvements are charged to income as incurred. Major improvements are capitalized.

(k) Capitalization of interest expense

Interest expense is generally charged to income as incurred. However, interest expense incurred in the construction of certain assets, vessels in particular, are capitalized and included in the costs of the assets when the construction period is substantially long and the amount of interest incurred during the period is significantly large.

(l) Accrued expenses for overhaul of vessels

Vessels of the Company and its subsidiaries are subject to periodic overhaul. An accrual is provided for the current portion of the estimated total expenses for overhauling the vessels.

(m) Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(n) Income taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates that are expected to apply to the period when the asset or liability is realized, based on the tax rates which have been enacted or are subsequently enacted at the balance sheet date.

(o) Employees' retirement benefits

The Company has a funded non-contributory pension plan covering certain employees who meet specific eligibility requirements as to age and length of service.

The Company also has a lump-sum severance benefits plan for its maritime employees in accordance with the terms of an optional retirement plan.

Effective the year ended March 31, 2001, the Company and its domestic subsidiaries adopted a new accounting standard for retirement benefits ("Opinion Concerning the Establishment of an Accounting Standard for Retirement Benefits" issued by the BADC on June 16, 1998).

In accordance with this standard, employees' retirement benefits have been provided based on estimates of the retirement benefit obligation and the pension fund assets. In prior years, retirement allowances had been provided at 100% of the retirement benefits payable at the year end assuming that the employees who terminated their services voluntarily.

The transition difference of ¥14,579 million (US\$117,666 thousand) arising from initial adoption of the new accounting standard has been charged to income as other expenses for the year ended March 31, 2001.

The Company also provides for retirement benefits to directors and statutory auditors based on the Company's internal rules at the amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date.

(p) Reclassifications

In accordance with a recent revision to regulations relating to the Securities and Exchange Law of Japan, certain reclassifications have been made to conform the prior-year presentation to the fiscal 2001 presentation.

2. Change in Method of Accounting

Effective the year ended March 31, 2001, the Company changed its method of accounting for retirement benefits to directors and statutory auditors from a cash basis to an accrual basis in order to reflect periodic income and expenses more appropriately. At March 31, 2001, the Company provided a reserve for its liability for such retirement allowances at the amount which would be required to be paid if all directors and statutory auditors resigned from their positions as of the balance sheet date. These changes increased other expense by ¥1,075 million (US\$8,674 thousand) and decreased income before income taxes by ¥1,054 million (US\$8,504 thousand) from the amounts which would have been recorded under the method applied in previous years.

3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2001 was reconciled to cash and time deposits stated on balance sheet at March 31, 2001 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥20,003	\$161,441
Time deposits with a maturity of more than 3 months after March 31, 2001	(263)	(2,118)
Highly liquid marketable securities with low risks	727	5,867
Cash and Cash equivalents	<u>¥20,467</u>	<u>\$165,190</u>

4. Marketable and Investment Securities

At March 31, 2001, marketable securities and investments in other securities with quoted market prices, which are classified as other securities under the new accounting standard for financial instruments, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	As reflected in the balance sheet	Difference	Acquisition costs	As reflected in the balance sheet	Difference
Other securities whose market value reflected in the balance sheet exceed their acquisition costs:						
Equity securities	¥11,742	¥25,888	¥14,146	\$ 94,773	\$208,949	\$114,176
Debt securities.....	45	48	3	359	384	25
Other.....	326	383	57	2,629	3,092	463
Subtotal.....	12,113	26,319	14,206	97,761	212,425	114,664
Other securities whose market value reflected in the balance sheet do not exceed their acquisition costs:						
Equity securities	33,760	21,572	(12,188)	272,474	174,108	(98,366)
Debt securities.....	647	647	(0)	5,222	5,218	(4)
Other.....	604	581	(23)	4,876	4,691	(185)
Subtotal.....	35,011	22,800	(12,211)	282,572	184,017	(98,555)
Total.....	¥47,124	¥49,119	¥ 1,995	\$380,333	\$396,442	\$ 16,109

At March 31, 2001, other securities without quoted market prices are summarized as follows:

	As reflected in the balance sheet	
	Millions of yen	Thousands of U.S. dollars
Investments in other securities:		
Unlisted equity securities other than those traded on the over-the-counter market.....	¥6,544	\$52,816

5. Short-Term Loans and Long-Term Debt

(a) Short-term loans from banks and insurance companies at an average interest rate of 2.12% per annum amounted to ¥42,005 million (US\$339,026 thousand) at March 31, 2001.

(b) Long-term debt at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and insurance companies payable in installments at an average interest rate of 3.90% per annum for fixed-rate loans and at variable rates for floating-rate loans	¥223,970	\$1,807,671
3.10% notes in Japanese yen, due May 30, 2002	5,000	40,355
2.15% notes in Japanese yen, due December 10, 2001	7,000	56,497
2.45% notes in Japanese yen, due December 12, 2002	2,500	20,178
3.37% notes in Japanese yen, due February 24, 2004	2,500	20,178
1.30% notes in Japanese yen, due June 13, 2002	3,000	24,213
1.43% notes in Japanese yen, due July 29, 2002	3,000	24,213
2.04% notes in Japanese yen, due March 18, 2005	5,000	40,355
1.12% notes in Japanese yen, due April 11, 2003	5,000	40,355
1.83% notes in Japanese yen, due October 19, 2005	3,000	24,213
2.12% notes in Japanese yen, due October 19, 2006	3,000	24,213
Total	262,970	2,122,441
Less: Current portion of long-term loans... Current portion of long-term notes	34,116	275,355
	7,000	56,497
	<u>¥221,854</u>	<u>\$1,790,589</u>

(c) The aggregate annual maturities of long-term loans from banks and insurance companies subsequent to March 31, 2001 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 34,116	\$ 275,355
2003	34,184	275,902
2004	23,909	192,971
2005	23,963	193,407
2006 and thereafter	107,798	870,036
	<u>¥223,970</u>	<u>\$1,807,671</u>

(d) A summary of assets pledged as collateral for long-term debt at March 31, 2001 is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels and property, at net book value ...	¥212,685	\$1,716,585
Investments in securities	9,003	72,666
Other	697	5,626

As is customary in Japan, short-term notes are generally issued to banks under uniform standard agreements which provide that additional collateral (including cash on deposit with such banks) will be furnished at the banks' request, and that any collateral so furnished will be applicable to all indebtedness to such banks. Certain of the collateralized loan agreements contain provisions which permit the lenders to require additional collateral.

6. Income Taxes

The Company and its subsidiaries are subject to a number of taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 38.1%.

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended March 31, 2001 is summarized as follows:

Statutory income tax rate	38.1%
Taxes at different rates for foreign subsidiaries.....	(24.2)
Non-taxable income for income tax purposes.....	(12.7)
Equity in earnings of affiliates	(4.6)
Non-deductible expenses for income tax purposes	13.4
Other	0.7
Effective income tax rate	<u>10.7%</u>

The net tax effect of temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities as of March 31, 2001 is analyzed as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Allowance for employees' retirement benefits	¥ 6,218	\$ 50,185
Elimination of intercompany profit/loss	1,624	13,108
Non-deductible allowances.....	2,429	19,601
Other	4,498	36,307
Total deferred tax assets	14,769	119,201
Deferred tax liabilities:		
Reserve for special depreciation	(2,915)	(23,528)
Deferred gain for tax purposes	(1,475)	(11,904)
Unrealized holding gains on investment securities.....	(829)	(6,687)
Other	(2,751)	(22,207)
Total deferred tax liabilities	(7,970)	(64,326)
Net deferred tax liabilities	<u>¥ 6,799</u>	<u>\$ 54,875</u>

Other current liabilities include deferred income taxes of ¥432 million (US\$3,484 thousand) for 2001 and ¥278 million for 2000.

7. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2001 and the related depreciation and interest expense for the year ended March 31, 2001, which would have been reflected in the consolidated balance sheet and the related consolidated statement of income if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
	Equipment	Other	Total
Acquisition costs	¥18,208	¥4,317	¥22,525
Accumulated depreciation.....	4,819	2,469	7,288
Net book value	<u>¥13,389</u>	<u>¥1,848</u>	<u>¥15,237</u>

	Thousands of U.S. dollars		
	Equipment	Other	Total
Acquisition costs	\$146,954	\$34,844	\$181,798
Accumulated depreciation.....	38,897	19,927	58,824
Net book value	<u>\$108,057</u>	<u>\$14,917</u>	<u>\$122,974</u>

	Millions of yen	Thousands of U.S. dollars
Depreciation	<u>¥2,135</u>	<u>\$17,231</u>
Interest expense.....	<u>¥ 697</u>	<u>\$ 5,630</u>

Lease expenses relating to finance leases accounted for as operating leases amounted to ¥2,692 million (US\$21,728 thousand) and ¥1,271 million, and finance lease revenues amounted to ¥7 million (US\$53 thousand) and ¥24 million for the years ended March 31, 2001 and 2000, respectively.

Future minimum lease payments and revenues subsequent to March 31, 2001 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Payments	
	Millions of yen	Thousands of U.S. dollars
2002.....	¥ 2,486	\$ 20,065
2003 and thereafter.....	13,463	108,660

Year ending March 31,	Revenues	
	Millions of yen	Thousands of U.S. dollars
2002.....	¥1	\$5
2003 and thereafter.....	—	—

Future minimum lease payments subsequent to March 31, 2001 for operating leases are summarized as follows:

Year ending March 31,	Payments	
	Millions of yen	Thousands of U.S. dollars
2002.....	¥ 5,107	\$ 41,221
2003 and thereafter.....	28,009	226,063

8. Retirement Benefits

Effective the year ended March 31, 2001, the Company and its domestic consolidated subsidiaries in Japan adopted a new accounting standard for retirement benefits provided based on estimates of the retirement benefit obligation and the pension fund assets. The following information sets forth retirement benefit obligation, retirement benefit expenses and the assumptions used in accounting for the pension plan.

(a) Retirement benefit obligation at March 31, 2001

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation at March 31, 2001*.....	¥32,837	\$265,025
Fair value of pension plan assets.....	13,316	107,473
Net unfunded benefit obligation.....	19,521	157,552
Unrecognized actuarial difference.....	1,087	8,769
Allowance for employees' retirement benefits...	18,434	148,783

* Certain domestic subsidiaries have calculated their retirement benefit obligation based on the amount payable at the year end for employees who terminated their services voluntarily.

(b) Retirement benefit expenses for the year ended March 31, 2001

	Millions of yen	Thousands of U.S. dollars
Service cost *.....	¥2,102	\$16,969
Interest cost.....	618	4,984
Expected return on pension plan assets...	(133)	(1,076)
Retirement benefit expenses.....	<u>2,587</u>	<u>20,877</u>

* Retirement benefit expenses for subsidiaries whose benefit obligation is calculated based on the amount payable at the year end for employees who terminated their services voluntarily have been fully included in service cost.

(c) Weighted average assumptions

- Discount rate on obligation: 3.0 %
- Expected return on pension plan assets: 1.0~2.0 %
- The actuarial differences will be amortized mainly by the straight-line method over a certain period within the average remaining period of service of the eligible employees.

The transition difference of ¥14,579 million (US\$117,666 thousand) arising from initial adoption of the new accounting standard has been charged to income as other expense for the year ended March 31, 2001.

9. Legal Reserve

The Company has provided a legal reserve in accordance with the Commercial Code of Japan, which requires that an amount equal to at least 10% of cash dividends and directors' and statutory auditors' bonuses in respect of each fiscal period be appropriated to the legal reserve until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce or eliminate a deficit or may be transferred to stated capital by resolution of the shareholders. The legal reserve of the Company at March 31, 2001 amounted to ¥2,236 million (US\$18,050 thousand).

10. Amounts per Share

The amounts per share of net income and net assets reflected in the consolidated financial statements, as presented below, are based on the average number of shares of common stock of the Company outstanding during each year and the number of shares outstanding at each balance sheet date, respectively:

	Yen		U.S. dollars
	2001	2000	2001
Net income	¥ 3.28	¥ 11.68	\$0.026
Net assets.....	115.61	125.01	0.933

Diluted net income per share is not presented because the Company has issued no common stock equivalents such as bonds with warrants or convertible bonds.

11. Commitments and Contingent Liabilities

As of March 31, 2001, commitments made by the Company and consolidated subsidiaries amounted to ¥54,745 million (US\$441,848 thousand) for the construction of vessels.

Contingent liabilities for notes receivable discounted and endorsed, loans guaranteed, and joint indebtedness as of March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted and endorsed...	¥ 54	\$ 435
Loans guaranteed	9,633	77,745
Joint indebtedness	136,149	1,098,866
Total	<u>¥145,836</u>	<u>\$1,177,046</u>

12. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries (the "Group") have entered into forward foreign exchange contracts to reduce their exposure to adverse fluctuations in foreign exchange rates related to their receivables and payables denominated in foreign currencies. The Group has also entered into interest rate and currency swap agreements and currency option agreements to minimize the impact of foreign exchange and interest rate movements related to their outstanding debt.

The Group hedges with forward exchange contracts in order to protect the Group from the related market risks. In addition, the purpose of the interest rate and currency swap agreements and currency option agreements is to effectively modify the characteristics of the principal and interest on their outstanding debt.

The Group is exposed to certain market risks arising from its forward foreign exchange contracts, swap agreements and option agreements. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency and interest rate derivatives; however, the Group does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings.

Effective the year ended March 31, 2001, deferred gains and losses have been recognized for derivatives, at their fair market value, which were subject to hedge accounting.

13. Segment Information

(a) Business segment information

For the years ended March 31, 2001 and 2000, the consolidated results have been divided into three segments; marine transportation, services incidental to transportation and other.

Year ended March 31, 2001	Millions of yen					
	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	¥455,385	¥ 89,527	¥12,957	¥557,869	¥ —	¥557,869
(2) Intra-group sales and transfers	3,138	41,696	7,119	51,953	(51,953)	—
Total revenues	458,523	131,223	20,076	609,822	(51,953)	557,869
2. Operating expenses	428,576	126,338	18,991	573,905	(52,045)	521,860
Operating income	¥ 29,947	¥ 4,885	¥ 1,085	¥ 35,917	¥ 92	¥ 36,009
3. Assets, depreciation and capital expenditures:						
(1) Total assets	¥427,063	¥ 89,259	¥68,974	¥585,296	¥(71,499)	¥513,797
(2) Depreciation	¥ 28,931	¥ 3,788	¥ 831	¥ 33,550	¥ —	¥ 33,550
(3) Capital expenditures	¥ 37,476	¥ 2,568	¥ 919	¥ 40,963	¥ —	¥ 40,963

Year ended March 31, 2000	Millions of yen					
	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	¥390,430	¥ 83,408	¥11,855	¥485,693	¥ —	¥485,693
(2) Intra-group sales and transfers	1,789	35,741	5,676	43,206	(43,206)	—
Total revenues	392,219	119,149	17,531	528,899	(43,206)	485,693
2. Operating expenses	370,083	115,256	16,702	502,041	(43,165)	458,876
Operating income	¥ 22,136	¥ 3,893	¥ 829	¥ 26,858	¥ (41)	¥ 26,817
3. Assets, depreciation and capital expenditures:						
(1) Total assets	¥426,806	¥ 92,149	¥52,121	¥571,076	¥(56,274)	¥514,802
(2) Depreciation	¥ 25,965	¥ 4,043	¥ 1,077	¥ 31,085	¥ —	¥ 31,085
(3) Capital expenditures	¥ 37,743	¥ 2,679	¥ 330	¥ 40,752	¥ —	¥ 40,752

Thousands of U.S. dollars

Year ended March 31, 2001	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	\$3,675,429	\$ 722,579	\$104,574	\$4,502,582	\$ —	\$4,502,582
(2) Intra-group sales and transfers	25,327	336,525	57,460	419,312	(419,312)	—
Total revenues	3,700,756	1,059,104	162,034	4,921,894	(419,312)	4,502,582
2. Operating expenses						
Operating income	\$ 241,706	\$ 39,428	\$ 8,756	\$ 289,890	\$ 742	\$ 290,632
3. Assets, depreciation and capital expenditures:						
(1) Total assets	\$3,446,839	\$ 720,413	\$556,691	\$4,723,943	\$(577,073)	\$4,146,870
(2) Depreciation	\$ 233,506	\$ 30,575	\$ 6,705	\$ 270,786	\$ —	\$ 270,786
(3) Capital expenditures	\$ 302,469	\$ 20,732	\$ 7,415	\$ 330,616	\$ —	\$ 330,616

*As described in Note 2, the change of accounting method for retirement benefits to directors and statutory auditors was to decrease operating expenses of the marine transportation segment by ¥21 million (US\$171 thousand) and to increase operating income by the same amount from the amount which would have been recorded under the method followed in the previous years.

As described in Note 1, effective the year ended March 31, 2001, the Company and its consolidated subsidiaries (the "Group") adopted a new accounting standard for employees' retirement benefits. The effect of this change was to increase operating expenses in the marine transportation and the services incidental to transportation segments by ¥405 million (US\$3,269 thousand) and ¥116 million (US\$935 thousand), respectively. The effect of this change was to decrease operating income in these two segments by the above amounts, and to decrease operating expenses in the other segment by ¥179 million (US\$1,447 thousand) as well as to increase operating income in the other segment by the same amount.

As described in Note 1, effective the year ended March 31, 2001, the Group adopted a new accounting standard for financial instruments. The effect of this change was to increase total assets in the marine transportation and the services incidental to transportation segments by ¥8,823 million (US\$71,214 thousand) and ¥29 million (US\$232 thousand) respectively, and to decrease total assets in the other segment by ¥5 million (US\$39 thousand).

In addition, as described in Note 1, effective the year ended March 31, 2001, the Group adopted a new accounting standard for foreign currency transactions. The effect of this change was to increase total assets in the marine transportation segment by ¥1,184 million (US\$9,555 thousand), and to decrease the services incidental to transportation and the other segments by ¥1,718 million (US\$13,869 thousand), and ¥3,415 million (US\$27,564 thousand), respectively.

(b) Geographical segment information

Each segment principally covers the following countries or regions:

North America: U.S.A. and Canada

Europe: U.K., Germany, the Netherlands and France

Asia: Hong Kong, Singapore and Thailand

Other: Australia

Year ended March 31, 2001	Millions of yen							Eliminations	Consolidated
	Japan	North America	Europe	Asia	Other	Total			
1. Revenues:									
(1) Operating revenues.....	¥534,065	¥15,293	¥ 3,880	¥ 4,507	¥ 124	¥557,869	¥ —	¥557,869	
(2) Intra-group sales and transfers	139	17,722	3,385	4,360	493	26,099	(26,099)	—	
Total revenues	534,204	33,015	7,265	8,867	617	583,968	(26,099)	557,869	
2. Operating expenses	501,144	32,074	7,054	7,146	635	548,053	(26,193)	521,860	
Operating income (loss)	¥ 33,060	¥ 941	¥ 211	¥ 1,721	¥ (18)	¥ 35,915	¥ 94	¥ 36,009	
3. Assets	¥494,287	¥22,294	¥30,325	¥10,963	¥1,495	¥559,364	¥(45,567)	¥513,797	

Year ended March 31, 2000	Millions of yen							Eliminations	Consolidated
	Japan	North America	Europe	Asia	Other	Total			
1. Revenues:									
(1) Operating revenues.....	¥468,675	¥ 9,580	¥ 3,280	¥ 4,051	¥ 107	¥485,693	¥ —	¥485,693	
(2) Intra-group sales and transfers	278	16,181	2,972	5,090	425	24,946	(24,946)	—	
Total revenues	468,953	25,761	6,252	9,141	532	510,639	(24,946)	485,693	
2. Operating expenses	444,012	24,854	5,981	8,431	530	483,808	(24,932)	458,876	
Operating income	¥ 24,941	¥ 907	¥ 271	¥ 710	¥ 2	¥ 26,831	¥ (14)	¥ 26,817	
3. Assets	¥494,950	¥23,528	¥25,142	¥10,113	¥1,557	¥555,290	¥(40,488)	¥514,802	

Year ended March 31, 2001	Thousands of U.S. dollars							Eliminations	Consolidated
	Japan	North America	Europe	Asia	Other	Total			
1. Revenues:									
(1) Operating revenues	\$4,310,453	\$123,435	\$ 31,313	\$36,378	\$ 1,003	\$4,502,582	\$ —	\$4,502,582	
(2) Intra-group sales and transfers	1,121	143,032	27,319	35,191	3,977	210,640	(210,640)	—	
Total revenues	4,311,574	266,467	58,632	71,569	4,980	4,713,222	(210,640)	4,502,582	
2. Operating expenses	4,044,743	258,873	56,926	57,679	5,128	4,423,349	(211,399)	4,211,950	
Operating income (loss)	\$ 266,831	\$ 7,594	\$ 1,706	\$13,890	\$ (148)	\$ 289,873	\$ 759	\$ 290,632	
3. Assets	\$3,989,400	\$179,936	\$244,752	\$88,487	\$12,068	\$4,514,643	\$(367,773)	\$4,146,870	

*As described in Note 2, the change of accounting method for retirement benefits to directors and statutory auditors was to decrease operating expenses in the Japan segment by ¥21 million (US\$171 thousand) and to increase operating income by the same amount from the amount which would have been recorded under the method followed in the previous years.

As described in Note 1, effective the year ended March 31, 2001, the Group adopted a new accounting standard for employees' retirement benefits. The effect of this change was to increase operating expenses in the Japan segment by ¥342 million (US\$2,757 thousand) and to decrease operating income in the Japan segment by the same amount.

As described in Note 1, effective the year ended March 31, 2001, the Group adopted a new accounting standard for

financial instruments. The effect of this change was to increase total assets in the Japan and the North America segments by ¥8,786 million (US\$70,916 thousand) and ¥63 million (US\$507 thousand), respectively, and to decrease total assets in the Asia segment by ¥2 million (US\$16 thousand).

In addition, as described in Note 1, effective the year ended March 31, 2001, the Group adopted a new accounting standard for foreign currency transactions. The effect of this change was to increase total assets in the Japan segment by ¥1,184 million (US\$9,555 thousand), and to decrease total assets in the North America, Europe, Asia and Other segments by ¥881 million (US\$7,116 thousand), ¥3,166 million (US\$25,551 thousand), ¥696 million (US\$5,619 thousand) and ¥390 million (US\$3,147 thousand), respectively.

(c) International business information

These international revenues consist mainly of revenues from the marine transportation business earned outside Japan.

Each segment principally covers following countries or regions:

North America: U.S.A. and Canada

Europe: U.K., Germany, the Netherlands and France

Asia: South-East Asia, The Middle East, the People's Republic of China and India

Other: Central and South America, Africa, and Australia

Year ended March 31, 2001	Millions of yen				
	North America	Europe	Asia	Other	Total
1. International revenues.....	¥155,216	¥91,821	¥74,063	¥100,215	¥421,315
2. Consolidated revenues.....					557,869
International revenue as a percentage of consolidated revenues	27.8%	16.4%	13.3%	18.0%	75.5%

Year ended March 31, 2000	Millions of yen				
	North America	Europe	Asia	Other	Total
1. International revenues.....	¥138,639	¥81,629	¥58,755	¥79,672	¥358,695
2. Consolidated revenues.....					485,693
International revenue as a percentage of consolidated revenues	28.5%	16.8%	12.1%	16.5%	73.9%

Year ended March 31, 2001	Thousands of U.S. dollars				
	North America	Europe	Asia	Other	Total
1. International revenues.....	\$1,252,750	\$741,093	\$597,761	\$808,837	\$3,400,441
2. Consolidated revenues.....					4,502,582
International revenue as a percentage of consolidated revenues	27.8%	16.4%	13.3%	18.0%	75.5%

14. Subsequent Events

On June 28, 2001, the shareholders of the Company approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥(2,969)	\$(23,963)
Directors' bonuses.....	¥ (70)	\$ (565)

In Japan, cash dividends proposed by the Board of Directors and appropriated from retained earnings accumulated as of the end of the year are subject to approval at a general meeting of the shareholders held in the following year. In the accompanying consolidated financial statements, cash dividends are presented as a deduction from consolidated retained earnings in the year in which they are approved and paid. Accordingly, such appropriations have not been reflected in the current year's financial statements.

On June 5, 2001, a single-hulled tanker named "Isuzugawa Maru" owned by the Company was sold for US\$28,500 thousand and the Company replaced it with a new double-hulled tanker as an environmental precaution.

Century Ota Showa & Co.

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The Board of Directors and Shareholders
Kawasaki Kisen Kaisha, Ltd.

We have examined the accompanying consolidated balance sheets of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the consolidated financial position of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan, consistently applied during the period except for the change described in Note 2, with which we concur, in the method of accounting for retirement benefits to directors and statutory auditors.

As described in Note 1, Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits, financial instruments, and foreign currency translations effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Tokyo, Japan
June 28, 2001

Century Ota Showa & Co.

See Note 1 which explains the basis of preparation of the consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.