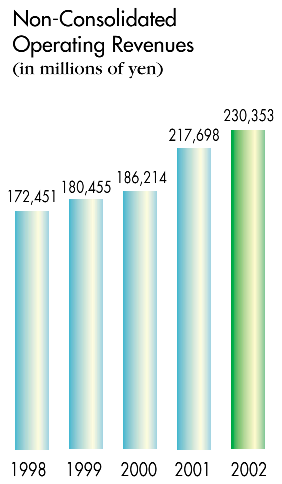
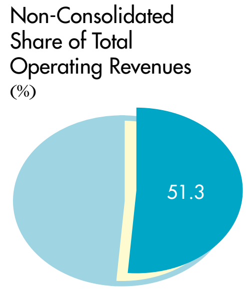
Marine Transportation

Containership Business





In Asia/North America trade, in addition to the depressed economy resulting from mainly a downturn in the IT industry, the September 11 terrorist attacks also hit the cargo movement to U.S. Eventually, cargo growth did not turn up as expected, while freight rates dropped steeply due to a widening gap between supply and demand.

As to Asia/Europe trade, cargo movement also stalled owing to the depressed U.S. economy and the IT recession. At the same time, numerous of new buildings have been introduced, and several new services have also started, exaggerating the imbalance between supply and demand. As a result, freight rates saw a significant fall. To cope with operating revenues on the decline, we carried out a number of counter measures for cost reductions, such as temporary capacity withdrawal during the winter slack period, further cutting of container-related costs and expenses over the world, and replacing chartered tonnage with most cost competitive new 5,500-teu containerships.

Cooperation has begun with Hanjin Shipping Co., Ltd., which joined our alliance with COSCO Container Lines Ltd. (COSCON) and Yang Ming Marine Transport Corp (YML). As the first step, from December 2001 slot exchange commenced in the Asia/North America service and reductions in operational costs will be achieved through rationalization of the ports of call.

On the other hand, in the India, Sri Lanka/Europe trade, where fierce competition intensified as a result of several new players in the service, we have decided to consolidate two services into one with larger capacity by merging two consortia (the one with “K” LINE, Evergreen Marine Corp. and Malaysia International Shipping Corp. and the other with YML, The Shipping Corporation of India Ltd and Zim Israel Navigation Co., Ltd). This new cooperation has brought a greater degree of rationalization.

In the Intra-Asia service, one of our Japan/Asia/Straits services was converted to a joint one together with Tokyo Senpaku in order to cope with changing market circumstances and enjoy benefits of rationalization. In the meanwhile, to cope with increasing demands in logistics with AFTA in sight, we started a new service linking Thailand, Indonesia and Malaysia centering on Singapore. Further, we merged two separate services of Asia/U.S. East Coast and U.S. East Coast/Mediterranean into one with a pendulum operation.

As a result, we are able to reduce deployment of a containership and cut operational costs.

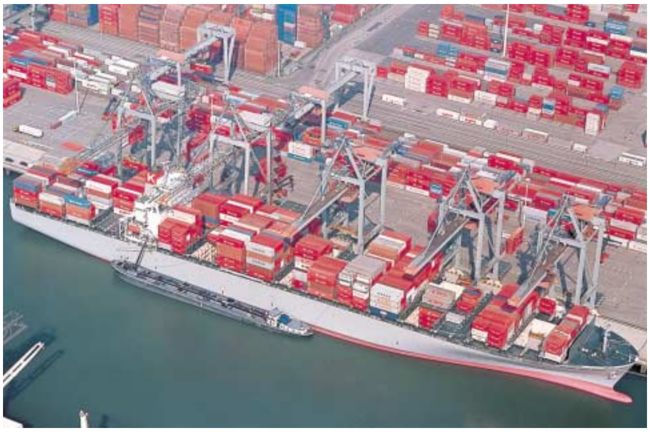
Despite those cost cutting operations and number of rationalization efforts, to our regret, such cost reductions could not fully compensate for the drop in freight levels, and we were not able to achieve the initial target.

With 13 of our new cost effective 5,500-teu containerships, "K" LINE has started new services with joint operation with YML from March 2002 in the Asia/North America and Asia/Europe trades. These joint services are aimed in essence to provide the most competitive service in terms of both service quality and cost by making best use of both parties' 5,500-teu containerships which total 20. Efforts have been made to increase direct calls at Chinese ports and to develop our own services for the rapidly developing Chinese market. Simultaneously, through further cooperation with COSCON and Hanjin Shipping, we have enhanced our service network so as to better meet various customer needs while achieving cost reductions.

With our alliance partners, COSCON, YML and Hanjin Shipping, we continue to seek for further rationalization in all possible service routes including the east/west service routes as our on-going efforts to pursue improvement in our service network and cost reductions.

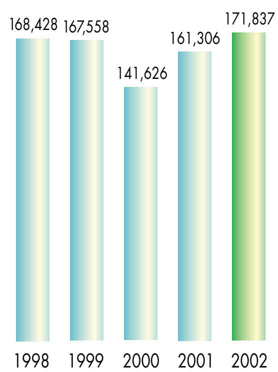
Taking over the *"KZ" campaign, we have set a new target to cut down our costs by one million U.S. Dollars in the Containerships Business Group. In addition to our relentless efforts to materialize maximum rationalization of services, we continue to promote a cost-curtailment campaign on a global basis making the best of the experiences and skills we have acquired through "KZ" in addition to rationalization efforts.

*KZ stands for KAIZEN, meaning improvement in Japanese. It was a cost reduction campaign of our containership business.

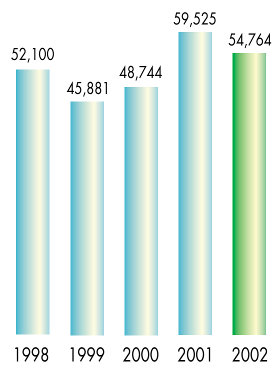


Bulk Carrier and Car Carrier Services

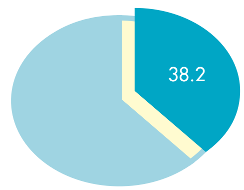
Non-Consolidated Operating Revenues
(in millions of yen)



Dry-Bulk Cargo Tonnage Carried by "K" LINE
(in 1,000 kilotons)

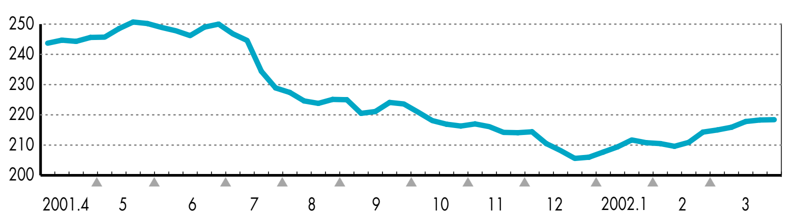


Non-Consolidated Share of Total Operating Revenues
(%)



Weekly Freight Rate Index for Bulk Carriers
(1972 - average=100)

N.B. General Average
Source: Maritime Research



Bulk Carrier Services

Since June 2001, the tramp market saw a steep decline, especially for bigger size Cape size/Panamax size vessels, due to a reduction in demand for sea transport of iron ore and coal. More precisely, the depressed global economy caused a downturn in steel and energy production.

Against such a backdrop, the market remained at a low level until the end of 2001. Since the start of year 2002, however, the market has seen some slight recovery in the Cape size/Panamax size sector reacting to projected economic recovery in the U.S. and other key countries.

Despite the market being exposed to such an adverse environment last year, "K" LINE could achieve better results in Fiscal 2001 than in the previous year.

Continuous efforts focused on forging a more cost-competitive and serviceable fleet and on performing more efficient ship operations.

Our fleet numbers 99 vessels as of March 31, 2002 with 8,684,419 metric deadweight tons. We would stress that our service policy is accomplishment of 'customer satisfaction'. Under this policy, we deploy many types and sizes of bulk carriers that meet various service requirements of our customers.

The Cape size fleet is mainly engaged in carrying iron ore and coking coal. Our fleet plays an active part in the new type of sea trade for steel mills that has been created after some parts of Japanese mills started establishing overseas partnerships. In the Panamax and Handy size sectors, our fleet is globally carrying many kinds, types and sizes of cargo such as feed grain, foodstuff grain, steaming coal, bauxite, aluminum, gypsum, salt, silica sand, etc.

We furthermore have wood chip and pulp carriers carriage of to meet paper mills' needs as their long-term partner. We are also intensifying our service for carriage of steel products as well.

Simultaneously, we are also developing our business bases outside Japan, not only to strengthen our current business but to also expand the scope of our activities and have greater and more in-depth insight as to new potential customers through closer and/or more direct access to the market.

We have commissioned key bases such as "K" Line International (U.S.A.) Inc., New York, "K" Line Pte Ltd, Singapore and "K" Line (Europe) Ltd., London to perform within this same policy.

Car Carrier Services

With Japanese carmakers expanding production overseas, car exportation from Japan was on the decline. However, during 2001 we were able to maintain roughly the same level as in the previous year in the number of complete cars exported from Japan, owing to favorable car sales in the U.S. and steady exports to the Middle East. In the meantime, we were successful in increasing our share of transport of cars exported from Thailand to Europe, the Middle East and Australia, and also from Europe to the U.S. and Mexico.

The total number of transported cars attained some 1.6 million units, slightly better results than last year.

Regarding improvement in services, we are committed to focus diligent and patient endeavors on maintenance of service schedules, safety in navigation/cargo handling and our "Damage Prevention Campaign." At all times, we will continuously strive to better meet customer satisfaction.

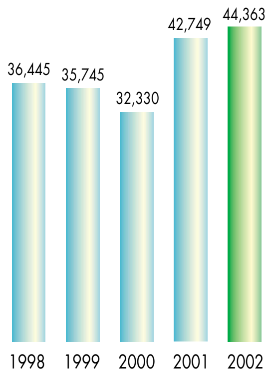
Assessing what we did during Fiscal 2001, Toyota Motor Company presented us an honorable "Award for Value Improvement Excellent in Logistics Sector." In the meantime, from General Motors, we were presented "Supplier of the Year Award." These two cases would strongly attest that our contributions to the car industry are being highly estimated.

Recognizing that exports from Japan are tending to go down, we are challenging the following assignments:

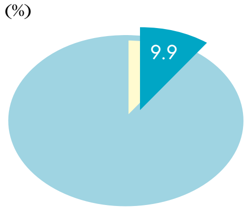
1. Expansion of market participation in the Atlantic service between Europe and U.S.A.
2. Strengthening of maritime transportation services within Intra-Asia and from Asia.
3. Exploration of new markets in the Indian Ocean Rim.
4. Securing stable profit through more efficient operations and cost reductions.

Energy Transportation and Tanker Services

Non-Consolidated
Operating Revenues
(in millions of yen)



Non-Consolidated
Share of Total
Operating Revenues
(%)



Monthly Freight Rate Index for Tankers
(VLCCs, Arabian Gulf / Japan in Worldscale)

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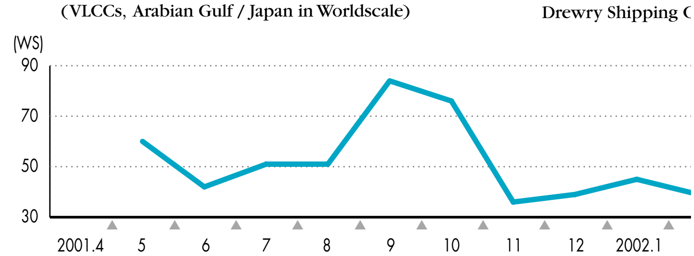

LNG Carrier Services

Our 22 LNG carriers served smoothly throughout Fiscal 2001. The Badak II Project accomplished its 1,100th voyage and the Arun II Project accomplished its 1,000th voyage in 2001. In 2002, the Qatargas Project will accomplish its 400th voyage.

In 2001, the Company together with other co-owners, placed an order for two new vessels intended for the India Petronet Project starting from 2003 and one new vessel for the Qatargas Project, which will enter the service from 2004.

The Company also entered into an agreement with Snøhvit Sellers, comprised of Statoil and other first class energy companies, for the long-term time charter of two new vessels. The Snøhvit Project involves three gas fields and a liquefaction plant to produce LNG (about 4.2 million tons p.a.) to be exported mainly to the USA and Europe. Those two vessels are to be built at Mitsui Engineering & Shipbuilding Co., Ltd. and Kawasaki Heavy Industries, Ltd. and are scheduled to be delivered in 2005 and 2006.

In line with the above, the Company will continue to eagerly expand its LNG business in the Atlantic basin by having its business unit in Europe to conduct marketing activities for LNG projects on top of its well-established services destined for the Far East, thus the Company is committed to respond to ever-increasing transportation needs worldwide.

Thermal Coal Carrier services

Reviewing the business activity during Fiscal 2001, the 10-ship fleet performed as expected, consisting of two dedicated ships, two Panamax type bulk carriers and six Corona series ships designed for transportation of thermal coal for power plants. In addition, one more dedicated ship for Chubu Electric Power Co., Inc. started functioning in the middle of the fiscal year. In the end, we carried some 9 million tons and could succeed in continuously enlarging our business scale.

The Corona series coal carriers, developed by "K" LINE on its own, are being highly estimated by cargo owners. The high-profile feature of a wider hull requiring a shallower draft is designed in consideration of berth conditions at power plants. With that feature, transportation of larger quantities of coal has been facilitated. Furthermore, it can realize higher efficiency in cargo operations with 5 holds/5 hatches. Eventually, our Corona series is developing into a standard for marine transportation of thermal coal bound for Japan.

In our aim to push annual thermal coal liftings up to 10 million tons in the near future, efforts for expansion of our fleet are continuous; one ship of 88,000 dwt over Panamax type for thermal coal is to be built every year between 2002 and 2004. In total, our fleet will include 14 thermal coal carriers, including two normal Panamax type bulk carriers.

Oil Tanker Services

Due to the OPEC oil production cut concurrent with depressed oil demand led by the slowing down of most major world economies, total oil transportation demand decreased in Fiscal 2001. On the carrier side, tanker tonnage supply was almost same as in Fiscal 2000.

Under the above circumstances, the tanker market gradually calmed down to the level WS31 during Fiscal 2001. In our tanker fleet, two new double-hulled VLCCs joined our fleet and contributed greatly to increase stability in our business activities together with fleet expansion in Aframax segment.

Although market forecast in Fiscal 2002 is not so positive in general, our term contracts will continue to generate stable operational income, while our efforts to improve fleet competitiveness will continue, including the new double-hulled Aframax tanker scheduled for delivery in September. Offering such high-quality services to customers is expected to sustain us in whatever the future circumstances are. At the beginning of 2003, "K" LINE Tokyo will transfer the Aframax business function to our subsidiary "K" Line Pte Ltd in Singapore in order to perform more market-oriented Aframax business activities.

As for the LPG carrier segment, one new VLGC is scheduled to be delivered in October 2002 from Kawasaki Heavy Industries. This new VLGC should generate additional stable operational income with its term contract.

Short Sea/Coastal Shipping Services (Kawasaki Kinkai Kisen Kaisha, Ltd.)

Short Sea Services

Tramp Business saw the input of a 15,000-dwt newbuilding into service for securing coal. In October 2001, the sector proceeded to charter in another newbuilding named "Tropical Breeze" to strengthen transport of woodchips.

When it comes to Liner Business, export of steel products declined due to the depressed economies in Southeast Asia. The bottom line stayed stable, however, due to our efforts for efficiency in ship operations and the prevailing tendency of cheaper Yen/U.S. Dollar exchange rate.

Coastal Services

Tramp Business was favored by a stable movement of limestone tonnage for steel mills although each high-furnace maker contracted production levels.

In the meantime, limestone for cement makers moving in specialized carriers was in a somewhat low-key condition. Liner Business experienced stable cargo tonnage in terms of specialized carriers for paper-in-rolls. In July 2001, a newbuilding named "Yuou Maru" was injected into service so that we could successfully accomplish a daily service between Hitachi-Naka and Tomakomai.

Preparations are being undertaken for a joint service with Kuribayashi Shosen in the Kushiro/Sendai/Tokyo/Nagoya/Osaka service route, and we are planning to introduce a newly-built vessel to be completed in September 2002 for this joint service. Adopting joint service systems, we are trying our best to achieve efficient ship operations and improved customer accessibility.

Ferry Business

In Ferry Business, we established an on-line ticket reservation system via the Internet to facilitate and increase passengers in the ferry service between Hachinohe and Tomakomai. However, the overall bottom line finally ended with great severity due to the general downturn in cargo movement.