

Financial Section

Financial Analysis

Outline

Business circumstances surrounding the shipping industry during Fiscal 2003, owing to remarkable expansion of imports and exports and both the European and the U.S. economies being stable, were characterized by global cargo movements that displayed briskness in both materials and products. Consequently, against the backdrop of such strong cargo movement, freight markets could be improved across all business sectors.

Under such circumstances, the "K" LINE Group exercised positive business activities and continued with cost curtailment according to the "KV-Plan." Consequently, consolidated operating revenues were ¥724.7 billion, a 14.5% increase compared to last year's ¥632.7 billion, and consolidated operating income of ¥70.5 billion, a 140.9% increase compared to last year's ¥29.3 billion. After adjustment of other income (expenses) and income taxes, etc., consolidated net income reached ¥33.2 billion, 220% increase compared to last year's ¥10.4 billion.

Operating Revenues

Consolidated operating revenues amounted to ¥724.7 billion, a 14.5% increase compared to last year. Domestic operating revenues amounted to ¥135.1 billion, about equivalent to last year (0.7% increase) whereas overseas operating revenues amounted to ¥589.5 billion, 18.2% increase over last year.

When it comes to comparison according to segment, Marine

Transportation increased 17.3% to ¥622.1 billion compared to last year. This resulted from 1) freight markets improving across all business sectors and 2) expansion of business scale for both containership and bulk carrier segments.

In terms of Services Incidental to Transportation, an increase of operating revenues could be seen in overseas subsidiaries due to expansion of scale in containership business. On an entire group basis, consolidated operating revenues amounted to ¥89.9 billion (1.3% increase over last year).

Regarding Others (Business), land transport and businesses other than those above-mentioned had operating revenues of ¥12.6 billion (7.7% decrease compared to last year) owing to reduced operating revenues in overseas companies due to appreciation of Japanese Yen, etc.

Costs and Expenses; Selling, General and Administrative Expenses

Costs and expenses increased ¥49.6 billion to ¥601.6 billion compared to ¥552.0 billion last year due to increased operating revenues. However, the ratio of costs and expenses over operating revenues fell 4.3 points to 83.0%. In Containership Business, effects of cost curtailment and increased operating revenues attributable to normalization of freight rates could offset negative factors that pushed costs up, and eventually profit ratio improved.

Selling, general and administrative expenses increased ¥1.1 billion for a 2.2% increase to ¥52.6 billion compared with last year.

Operating Income

Consolidated operating income amounted to ¥70.5 billion, a 140.9% increase compared to last year's ¥29.3 billion due to an increase of operating revenues and an improvement in gross margin ratio. Operating income of Marine Transportation amounted to ¥61.3 billion compared to ¥22.4 billion last year. The increase is attributed to improved freight markets of all business sectors, expansion of business scale of containership bulk carriers businesses and continual efforts for cost curtailment.

Consolidated operating income of Services Incidental to Transportation increased ¥3.3 billion to ¥8.1 billion compared to ¥4.8 billion last year. This was attributed mainly to an increase of operating revenues of overseas subsidiaries related to containership business and to improved yield incurred by favorable results of cost reductions by subsidiaries.

Other Income (Expenses)

Total other expenses amounted to ¥15.5 billion versus ¥10.6 billion last year.

The net financial expenses subtracting interest expenses from interest and dividend income were reduced to ¥3.5 billion compared to ¥5.2 billion last year, attributed to curtailed liabilities bearing interest and lower interest rates, etc. However, exchange loss equivalent to ¥5.6 billion was incurred owing to minus factors such as steep appreciation of the Yen seen from the 2nd half of September 2003, etc.

Extraordinary losses such as sales of vessels, property and equipment as well as sales of investments in securities were posted. However, positive business activities and continual efforts for cost reductions encouraged income before income taxes to increase 194.6 % to ¥55.0 billion from last year's ¥18.7 billion.

Income Taxes

Income taxes increased ¥13.2 billion to ¥21.0 billion from last year's ¥7.8 billion. Effective income tax rate dropped to 38.1 % from last year's 41.7% reflecting various changes in taxable income, ratio of taxation and tax credit.

Minority Interests

Minority Interests mainly consists of income vesting in minority shareholders of Kawasaki Kinkai Kisen Kaisha, Ltd. and K Line (Thailand) Ltd. This amounted to ¥0.9 billion versus last year's ¥0.5 billion.

Net Income

Net income amounted to ¥33.2 billion, an increase that tripled last year's ¥10.4 billion. Net income per share rose to ¥55.71 from ¥17.24 for last year.

Cash Flows

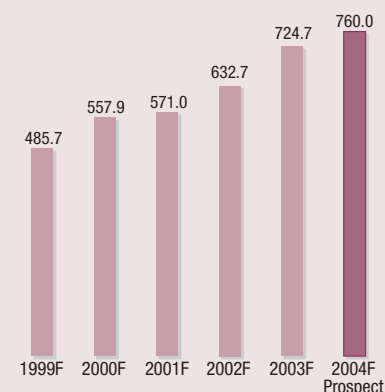
Cash and cash equivalents amounted to ¥23.1 billion at the close of Fiscal 2003 accounting, showing a ¥4.3 billion increase over last year.

Individual cash flows follow: Cash flows from operating activities resulted in plus ¥78.6 billion due to the increase in income before income taxes and decreases in depreciation and amortization.

Cash flows from investing activities ended with minus ¥51.8 billion due to purchases of vessels, etc.

Cash flows from financial activities amounted to minus ¥21.6 billion due to repayment of loans and obligations, etc.

Operating Revenues
(in billions of yen)



Operating Income
(in billions of yen)



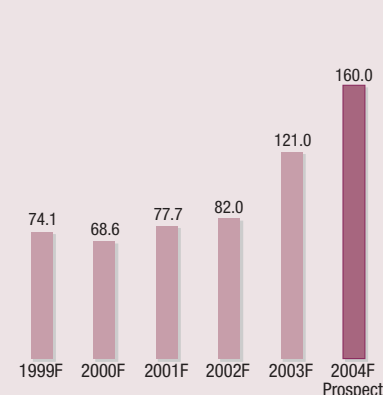
Net Income
(in billions of yen)



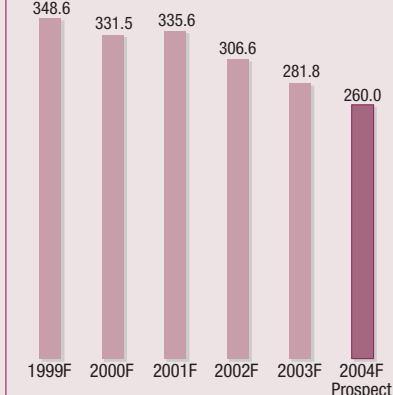
Total Assets
(in billions of yen)



Shareholders' Equity
(in billions of yen)



Liabilities Bearing Interest
(in billions of yen)



Selected Financial Data

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31

CONSOLIDATED	Millions of yen					
	2004	2003	2002	2001	2000	1999
Operating revenues	¥724,667	¥632,725	¥571,014	¥557,869	¥485,693	¥513,100
Operating income	70,534	29,282	19,049	36,009	26,817	21,508
As a % of operating revenues	9.7%	4.6%	3.3%	6.5%	5.5%	4.2%
Net income	33,196	10,373	4,768	1,948	6,843	1,596
Total assets	559,135	515,825	533,295	513,797	514,802	522,499
Shareholders' equity	121,006	82,040	77,716	68,647	74,132	68,607
As a % of total assets	21.6%	15.9%	14.6%	13.4%	14.4%	13.1%
Liabilities bearing interest	281,811	306,575	335,622	331,484	348,602	367,352
As a % of total assets	50.4%	59.4%	62.9%	64.5%	67.7%	70.3%
Debt to equity ratio	2.33	3.74	4.32	4.83	4.70	5.35
Return on equity	32.7%	13.0%	6.5%	2.7%	9.6%	2.3%
Interest coverage ratio	14.32	4.99	3.31	3.66	3.79	1.56
Balance of financial income and expense	(3,546)	(5,155)	(8,014)	(10,248)	(9,492)	(12,971)
Depreciation and amortization	25,558	29,511	33,274	33,550	31,085	30,859

Notes: (1) 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.

(2) 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 (¥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 (¥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 and consolidated retained earnings by ¥361 million 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 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, 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 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.

(5) During the year ended March 31, 2002, the Company and certain group companies revalued land used in their business in accordance with the Land Revaluation Law (Law No. 34, March 31, 1999) and the Law to Partially Revise the Land Revaluation Law (Law No. 19, March 31, 2001). The effect of this revaluation was to increase shareholders' equity by ¥4,811 million. This amount has been reflected as "revaluation reserve for land" as a component of shareholders' equity.

(6) Consolidated interest coverage ratio is calculated as following methods:

(A) On the year ended March 31, 2004, 2003, 2002, 2001 and 2000: dividing net cash provided by operation activities by total amount of interest paid, in accordance with guideline of Tokyo Stock Market

(B) On the year ended March 31, 1999: dividing sum of operating income and interest and dividends income by total amount of interest paid

Interest coverage ratios on the way of (B) are calculated as 13.29, 4.72, 2.16, 3.10 and 2.49 for the year ended March 31, 2004, 2003, 2002, 2001 and 2000, respectively.

NON-CONSOLIDATED	Millions of yen					
	2004	2003	2002	2001	2000	1999
Operating revenues	¥584,958	¥499,792	¥449,153	¥424,021	¥362,030	¥385,482
Operating income	55,068	19,843	8,299	24,444	16,810	12,767
As a % of operating revenues	9.4%	4.0%	1.8%	5.7%	4.6%	3.3%
Net income	24,452	6,536	2,787	4,532	4,043	3,016
Total assets	329,965	269,140	259,200	241,295	242,278	241,433
Shareholders' equity	96,839	65,872	64,409	62,619	58,975	57,757
As a % of total assets	29.3%	24.5%	24.8%	26.0%	24.3%	23.9%
Liabilities bearing interest	126,834	126,856	127,368	120,150	135,304	143,216
As a % of total assets	38.4%	47.1%	49.1%	49.8%	55.9%	59.3%
Debt to equity ratio	1.31	1.93	1.98	1.92	2.29	2.48
Return on equity	30.1%	10.0%	4.4%	7.5%	6.9%	5.3%
Interest coverage ratio	17.49	2.07	2.92	5.81	4.46	3.27
Balance of financial income and expense	(859)	(1,934)	(630)	(2,599)	(1,632)	(1,602)
Depreciation and amortization	6,358	7,005	7,344	7,731	7,477	7,310

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 (¥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 and consolidated retained earnings by ¥1,520 million 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, which was presented as unrealized holding gains on investment securities as a component of shareholders' equity.

(5) During the year ended March 31, 2002, the Company revalued land used in their business in accordance with the Land Revaluation Law (Law No. 34, March 31, 1999) and the Law to Partially Revise the Land Revaluation Law (Law No. 19, March 31, 2001). The effect of this revaluation was to increase shareholders' equity by ¥2,973 million. This amount has been reflected as "revaluation reserve for land" as a component of shareholders' equity.

(6) Non-consolidated interest coverage ratio is calculated as following methods:

(A) On the year ended March 31, 2004 and 2003: dividing net cash provided by operation activities by total amount of interest paid, in accordance with guideline of Tokyo Stock Market

(B) On the year ended March 31, 2002, 2001, 2000 and 1999: dividing sum of operating income and interest and dividends income by total amount of interest paid

Consolidated Balance Sheets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and time deposits (Note 2).....	¥ 23,370	¥ 18,988	\$ 221,119
Marketable securities (Note 3).....	54	73	512
Accounts and notes receivable — trade	82,423	74,843	779,858
Allowance for doubtful receivables	(1,046)	(663)	(9,901)
Inventories.....	9,303	10,662	88,023
Prepaid expenses and deferred charges.....	21,508	18,223	203,494
Deferred income taxes (Note 5).....	3,439	2,667	32,543
Other current assets	17,593	11,717	166,459
Total current assets	<u>156,644</u>	<u>136,510</u>	<u>1,482,107</u>
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates	25,978	14,375	245,794
Investments in securities (Notes 3 and 4).....	65,499	44,982	619,731
Long-term loans receivable	4,716	3,050	44,618
Deferred income taxes (Note 5).....	3,715	9,476	35,150
Other assets	16,119	16,363	152,512
Allowance for doubtful receivables	(424)	(622)	(4,008)
Total investments and other assets	<u>115,603</u>	<u>87,624</u>	<u>1,093,797</u>
Vessels, property and equipment (Note 4):			
Vessels	389,553	433,723	3,685,809
Buildings and equipment	97,422	99,635	921,767
Accumulated depreciation	(275,771)	(293,172)	(2,609,243)
	<u>211,204</u>	<u>240,186</u>	<u>1,998,333</u>
Land (Note 10)	35,446	36,013	335,380
Construction in progress.....	34,323	9,681	324,751
Vessels, property and equipment, net	<u>280,973</u>	<u>285,880</u>	<u>2,658,464</u>
Intangible assets	<u>5,915</u>	<u>5,811</u>	<u>55,965</u>
Total assets.....	<u>¥559,135</u>	<u>¥515,825</u>	<u>\$5,290,333</u>

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Short-term loans (Note 4)	¥ 26,199	¥ 35,194	\$ 247,884
Current portion of long-term debt (Note 4)	45,570	44,863	431,167
Accounts and notes payable — trade	64,862	60,004	613,702
Deferred income	12,528	11,696	118,535
Current portion of obligations under finance leases	1,457	1,393	13,783
Other current liabilities	27,470	13,611	259,916
Total current liabilities	<u>178,086</u>	<u>166,761</u>	<u>1,684,987</u>
Long-term liabilities:			
Long-term debt, less current portion (Note 4)	197,483	215,644	1,868,512
Allowance for employees' retirement benefits (Note 7)	13,063	14,551	123,599
Allowance for directors' and statutory auditors' retirement benefits	2,135	2,044	20,202
Accrued expenses for overhaul of vessels.....	9,681	7,530	91,593
Obligations under finance leases	11,102	9,481	105,047
Deferred income taxes (Note 5).....	5,381	1,033	50,917
Other long-term liabilities	13,241	9,496	125,276
Total long-term liabilities	<u>252,086</u>	<u>259,779</u>	<u>2,385,146</u>
Minority interests in consolidated subsidiaries	<u>7,957</u>	<u>7,245</u>	<u>75,283</u>
Commitments and contingent liabilities (Note 11)			
Shareholders' equity (Note 8):			
Common stock:			
Authorized — 1,080,000,000 shares			
Issued — 593,796,875 shares	29,690	29,690	280,914
Additional paid-in capital	14,535	14,535	137,529
Retained earnings.....	66,965	39,694	633,595
Revaluation reserve for land (Note 10).....	5,093	4,848	48,191
Unrealized holding gain (loss) on investments in securities	11,801	(2,530)	111,661
Translation adjustments	(6,310)	(3,912)	(59,710)
	<u>121,774</u>	<u>82,325</u>	<u>1,152,180</u>
Treasury stock, at cost	(768)	(285)	(7,263)
Total shareholders' equity	<u>121,006</u>	<u>82,040</u>	<u>1,144,917</u>
Total liabilities and shareholders' equity	<u>¥559,135</u>	<u>¥515,825</u>	<u>\$5,290,333</u>

Consolidated Statements of Income and Retained Earnings

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Operating revenues (Note 13).....	¥724,667	¥632,725	\$6,856,532
Operating expenses:			
Costs and expenses.....	601,553	552,006	5,691,673
Selling, general and administrative expenses	52,580	51,437	497,488
Total operating expenses	654,133	603,443	6,189,161
Operating income (Note 13).....	70,534	29,282	667,371
Other income (expenses):			
Interest and dividend income	1,905	1,333	18,026
Interest expense	(5,451)	(6,488)	(51,578)
Exchange loss, net	(5,644)	(1,343)	(53,398)
(Loss) gain on sales of vessels, property and equipment.....	(4,037)	2,324	(38,203)
Loss on sales of investments in securities	(1,502)	(3,263)	(14,212)
Loss on devaluation of investments in securities	(37)	(3,211)	(346)
Other, net	(741)	46	(7,015)
Other income (expenses), net.....	(15,507)	(10,602)	(146,726)
Income before income taxes	55,027	18,680	520,645
Income taxes (Note 5):			
Current	20,104	8,662	190,212
Deferred	857	(873)	8,110
Total income taxes	20,961	7,789	198,322
Minority interests	870	518	8,234
Net income	33,196	10,373	314,089
Retained earnings at beginning of year	39,694	31,200	375,570
Adjustments for inclusion in or exclusion from consolidation of subsidiaries and other	154	26	1,457
As adjusted	39,848	31,226	377,027
Cash dividends	(5,926)	(1,781)	(56,072)
Bonuses to directors and statutory auditors	(153)	(124)	(1,449)
Retained earnings at end of year	¥ 66,965	¥ 39,694	\$ 633,595

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes	¥55,027	¥18,680	\$520,645
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	25,558	29,511	241,825
Reversal of employees' retirement benefits	(1,487)	(1,543)	(14,074)
Accrued expenses for overhaul of vessels	2,274	3,129	21,513
Provision for (reversal of) directors' and statutory auditors' retirement benefits	91	(48)	859
Interest and dividend income	(1,905)	(1,333)	(18,026)
Interest expense	5,451	6,488	51,578
Increase in short-term assets	(3,100)	(2,423)	(29,336)
Loss on devaluation of investments in securities	37	3,211	346
Loss on sales of marketable securities and investments in securities	1,502	3,289	14,208
Gain on sales of vessels, property and equipment	(937)	(3,630)	(8,863)
Loss on sales of vessels, property and equipment	4,974	1,306	47,066
Changes in operating assets and liabilities:			
Increase in accounts and notes receivable — trade	(7,400)	(12,497)	(70,012)
Increase in accounts and notes payable — trade	3,431	2,793	32,465
Decrease (increase) in inventories	1,321	(3,456)	12,496
Other, net	6,498	(1,636)	61,493
Subtotal	91,335	41,841	864,183
Interest and dividends received	1,905	1,603	18,025
Interest paid	(5,485)	(6,600)	(51,902)
Income taxes paid	(9,204)	(3,908)	(87,088)
Net cash provided by operating activities	78,551	32,936	743,218
Cash flows from investing activities:			
Purchases of marketable securities and investments in securities	(13,426)	(8,395)	(127,034)
Proceeds from sales of marketable securities and investments in securities	13,332	3,835	126,146
Purchases of vessels, property and equipment	(57,705)	(69,938)	(545,985)
Proceeds from sales of vessels, property and equipment	26,743	57,806	253,036
Increase in intangible assets	(1,320)	(1,527)	(12,489)
Increase in long-term loans receivable	(12,702)	(818)	(120,185)
Collection of long-term loans receivable	1,251	783	11,836
Other, net	(7,948)	(5,478)	(75,205)
Net cash used in investing activities	(51,775)	(23,732)	(489,880)
Cash flows from financing activities:			
Decrease in short-term loans, net	(7,233)	(5,512)	(68,429)
Proceeds from long-term debt	31,254	55,890	295,722
Repayment of long-term debt and obligations under finance leases	(61,589)	(55,403)	(582,733)
Proceeds from issuance of bonds	29,936	9,938	283,241
Repayment of bonds	(7,500)	(13,500)	(70,962)
Cash dividends paid	(5,908)	(1,783)	(55,904)
Cash dividends paid to minority shareholders	(93)	(94)	(885)
Other, net	(470)	(192)	(4,446)
Net cash used in financing activities	(21,603)	(10,656)	(204,396)
Effect of exchange rate changes on cash and cash equivalents	(1,225)	(553)	(11,585)
Net increase (decrease) in cash and cash equivalents	3,948	(2,005)	37,357
Cash and cash equivalents at beginning of year	18,780	20,682	177,693
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	399	103	3,772
Cash and cash equivalents at end of year (Note 2)	¥23,127	¥18,780	\$218,822

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2004

1. Summary of Significant Accounting Policies

(a) Basis of preparation

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 foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan, which is different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present the accompanying consolidated financial statements in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change its financial position or the results of its operations presented in the original consolidated financial statements.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2003 to the 2004 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

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 ¥105.69 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2004 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 177 and 142 subsidiaries for the years ended March 31, 2004 and 2003, respectively. 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

method.

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

(c) Accounting period

Most of the consolidated subsidiaries have a December 31 year end which does not accord with that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these subsidiaries and the year end of the Company. During the year ended March 31, 2004, Shinto Rikuun Kaisha, Ltd. changed its year-end closing date from March 31 to December 31, and its 9-month results have been included in the accompanying consolidated accounts. During the year ended March 31, 2003, "K" Line Systems, Ltd. changed its year-end closing date from March 31 to December 31, and its 9-month results have been included in the accompanying 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 to income.

(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 on the translation are presented as translation adjustments in the accompanying consolidated financial statements.

(f) Revenues and related costs

Revenues of the Company and consolidated subsidiaries 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 consolidated subsidiaries substantially consider all highly liquid investments with a maturity of three months or less from the respective purchase dates to be cash equivalents.

(h) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Securities held by the Company and its consolidated subsidiaries are all classified as "other securities" and have been accounted for as outlined above.

(i) Inventories

Inventories consist of fuel and supplies which 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.

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, is capitalized and included in the costs of the assets if the construction period is substantially long and the amount of interest incurred during the period is significantly high.

(l) Accrued expenses for overhaul of vessels

Vessels of the Company and its consolidated 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 which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(o) Retirement benefits

The Company and the domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. Certain foreign consolidated subsidiaries also have defined benefit plans.

The employees' retirement benefit plans provide for a lump-sum payment determined by reference to the current rate of pay, length of service and conditions under which the termination occurs.

Actuarial differences are amortized in the year following the year in which the differences are recognized principally by the straight-line method over a certain period (principally nine years) which falls within the average remaining years of service of the eligible employees.

The Company and certain consolidated subsidiaries also provide 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) Financial instruments

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability.

(q) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 14).

2. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2003 are reconciled to cash and time deposits reflected in the consolidated balance sheets at March 31, 2004 and 2003 as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥23,370	¥18,988	\$221,119
Time deposits with a maturity of more than three months after the purchase date	(243)	(208)	(2,300)
Highly liquid marketable securities with low risk	0	0	3
Cash and cash equivalents	¥23,127	¥18,780	\$218,822

3. Marketable Securities and Investments in Securities

At March 31, 2004 and 2003, marketable securities and investments in securities with quoted market prices which are classified as other securities are summarized as follows:

	Millions of yen					
	2004			2003		
	Acquisition costs	As reflected in the balance sheet	Difference	Acquisition costs	As reflected in the balance sheet	Difference
Securities whose market value reflected in the balance sheet exceeds their acquisition costs:						
Equity securities	¥33,299	¥52,531	¥19,232	¥ 7,058	¥10,257	¥ 3,199
Debt securities.....	78	86	8	85	94	9
Subtotal.....	33,377	52,617	19,240	7,143	10,351	3,208
Securities whose market value reflected in the balance sheet does not exceed their acquisition costs:						
Equity securities	598	509	(89)	29,549	22,475	(7,074)
Debt securities.....	26	26	(0)	40	40	(0)
Other.....	560	537	(23)	572	461	(111)
Subtotal.....	1,184	1,072	(112)	30,161	22,976	(7,185)
Total.....	¥34,561	¥53,689	¥19,128	¥37,304	¥33,327	¥(3,977)

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	As reflected in the balance sheet	Difference
Securities whose market value reflected in the balance sheet exceeds their acquisition costs:			
Equity securities	\$315,063	\$497,029	\$181,966
Debt securities.....	743	817	74
Subtotal.....	315,806	497,846	182,040
Securities whose market value reflected in the balance sheet does not exceed their acquisition costs:			
Equity securities	5,655	4,817	(838)
Debt securities.....	246	246	(0)
Other.....	5,301	5,079	(222)
Subtotal.....	11,202	10,142	(1,060)
Total.....	\$327,008	\$507,988	\$180,980

At March 31, 2004 and 2003, securities without quoted market prices are summarized as follows:

	As reflected in the balance sheet		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in securities:			
Unlisted equity securities other than those traded on the over-the-counter market.....	¥11,666	¥11,531	\$110,383

4. Short-Term Loans and Long-Term Debt

Short-term loans from banks and insurance companies had average interest rates of 0.36% and 0.50% per annum at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Loans from banks and insurance companies payable in installments at average interest rates of 2.31% and 3.90% per annum at March 31, 2004 and 2003, respectively, for fixed-rate loans, and at variable rates for floating-rate loans	¥192,053	¥232,007	\$1,817,136
1.12% notes in Japanese yen, due April 11, 2003	—	5,000	—
3.37% notes in Japanese yen, due February 24, 2004	—	2,500	—
2.04% notes in Japanese yen, due March 18, 2005	5,000	5,000	47,308
1.83% notes in Japanese yen, due October 19, 2005	3,000	3,000	28,385
2.12% notes in Japanese yen, due October 19, 2006	3,000	3,000	28,385
1.00% notes in Japanese yen, due March 25, 2008	10,000	10,000	94,616
Zero coupon convertible bonds (with stock acquisition rights) in Japanese yen, due March 22, 2011	30,000	—	283,849
Total	243,053	260,507	2,299,679
Less: Current portion	(45,570)	(44,863)	(431,167)
	¥197,483	¥215,644	\$1,868,512

The zero coupon convertible bonds (with stock acquisition rights) due 2011 are convertible at ¥700 per share subject to adjustment in specific circumstances.

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 45,570	\$ 431,167
2006	33,584	317,760
2007	29,350	277,698
2008	36,036	340,955
2009 and thereafter	98,513	932,099
	<u>¥243,053</u>	<u>\$2,299,679</u>

A summary of assets pledged as collateral for long-term debt and short-term loans at March 31, 2004 is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels and property, at net book value ...	¥152,974	\$1,447,385
Investments in securities	5,665	53,601
Other	10	95

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 deposits 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.

5. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, resulted in statutory tax rates of approximately 37.6% and 38.1% in the period ended March 31, 2004 and 2003, respectively.

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, 2003 was summarized as follows:

Statutory income tax rate	38.1%
Taxes at different rates for overseas subsidiaries	(1.3)
Equity in earnings of affiliates	(0.4)
Non-deductible expenses for income tax purposes	1.8
Other	3.5
Effective income tax rate	<u>41.7%</u>

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, 2004 has been omitted as the difference is immaterial.

The net tax effect of temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2004 and 2003 are analyzed as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Deferred tax assets:			
Allowance for employees' retirement benefits	¥ 4,663	¥ 4,973	\$ 44,122
Elimination of intercompany profit	1,477	1,305	13,980
Non-deductible allowances	2,241	4,092	21,204
Unrealized holding loss on investments in securities	—	1,603	—
Accounts and notes payable — trade	2,008	—	18,997
Other	5,087	5,051	48,128
Subtotal — deferred tax assets	15,476	17,024	146,431
Valuation allowance	(471)	(337)	(4,462)
Total deferred tax assets	15,005	16,687	141,969
Deferred tax liabilities:			
Reserve for special depreciation	(1,800)	(1,860)	(17,029)
Deferred gain for tax purposes	(2,074)	(2,086)	(19,622)
Unrealized holding gain on investments in securities	(7,150)	—	(67,654)
Other	(2,209)	(1,631)	(20,900)
Total deferred tax liabilities	(13,233)	(5,577)	(125,205)
Net deferred tax assets	¥ 1,772	¥11,110	\$ 16,764

6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

At March 31,	Millions of yen					
	2004			2003		
	Equipment	Other	Total	Equipment	Other	Total
Acquisition costs	¥35,809	¥3,053	¥38,862	¥25,061	¥3,140	¥28,201
Accumulated depreciation	10,634	1,505	12,139	6,769	1,383	8,152
Net book value	¥25,175	¥1,548	¥26,723	¥18,292	¥1,757	¥20,049

At March 31,	Thousands of U.S. dollars		
	2004		
	Equipment	Other	Total
Acquisition costs	\$338,807	\$28,889	\$367,696
Accumulated depreciation	100,609	14,247	114,856
Net book value	\$238,198	\$14,642	\$252,840

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expense, which have not been reflected in the consolidated statements of income and retained earnings for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥5,053	¥4,266	\$47,810
Depreciation	4,448	3,385	42,082
Interest expense	1,311	1,237	12,408

Future minimum lease payments subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 3,756	\$ 35,542
2006 and thereafter	22,394	211,886

Future minimum lease payments subsequent to March 31, 2004 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥14,622	\$138,346
2006 and thereafter	83,431	789,389

7. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation*	¥(31,621)	¥(32,536)	\$(299,184)
Fair value of pension plan assets	15,594	14,082	147,540
Net unfunded benefit obligation	(16,027)	(18,454)	(151,644)
Unrecognized actuarial differences	2,964	3,903	28,045
Allowance for employees' retirement benefits	¥(13,063)	¥(14,551)	\$(123,599)

* Certain domestic subsidiaries have calculated their retirement benefit obligation based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost*	¥1,680	¥1,865	\$15,898
Interest cost	516	559	4,887
Expected return on pension plan assets	(108)	(226)	(1,030)
Amortization of actuarial differences	511	381	4,831
Retirement benefit expenses	<u>¥2,599</u>	<u>¥2,579</u>	<u>\$24,586</u>

* Retirement benefit expenses for certain domestic subsidiaries whose benefit obligation is calculated based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily have been fully included in service cost.

The assumptions used in accounting for the above plans for the years ended March 31, 2004 and 2003 are as follows:

	2004	2003
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rates of return on plan assets	Mainly 0%	Mainly 1.25%

8. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the Code. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The legal reserve of the Company included in retained earnings at March 31, 2004 and 2003 amounted to ¥17,076 million (\$161,564 thousand) and ¥17,075 million, respectively.

In accordance with the Code, a stock option plan for directors, certain employees of the Company and directors of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 27, 2002. Under the terms of this plan, 428,000 shares of common stock were granted at an exercise price of ¥156 per share, subject to adjustment for certain events including stock splits. The options become exercisable on June 28, 2004 and are scheduled to expire on June 27, 2007.

In accordance with the Code, a stock option plan for directors, certain employees of the Company and directors of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 27, 2003. Under the terms of this

plan, 1,929,000 shares of common stock were granted at an exercise price of ¥278 per share, subject to adjustment for certain events including stock splits. The options become exercisable on June 28, 2005 and are scheduled to expire on June 27, 2008.

In accordance with the Code, an additional stock option plan for directors, certain employees of the Company and directors of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 29, 2004. Under the terms of this plan, the issuance of up to 700,000 shares of common stock has been authorized. The eligible participants may purchase these stock options at an exercise price calculated as the average of the closing market price of the Company's shares on the Tokyo Stock Exchange for all trading for the month immediately preceding the month of the date of the grant; however, if the exercise price referred to above is less than the closing market price of the Company's shares on the Tokyo Stock Exchange on the day on which the rights are granted, the closing market price is to be the exercise price. The exercise price is subject to adjustment for certain events including stock splits. The options become exercisable on June 30, 2006 and are scheduled to expire on June 29, 2009.

9. Amounts per Share

The amounts per share of net income for the years ended March 31, 2004 and 2003 and net assets per share at March 31, 2004 and 2003 are summarized as follows:

	Yen		U.S. dollars
	2004	2003	2004
Net income:			
Basic	¥ 55.71	¥ 17.24	\$0.53
Diluted.....	55.53	17.24	0.53
Net assets.....	204.37	138.29	1.93
Cash dividends applicable to the year.....	¥ 10.00	¥ 5.00	\$0.09

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has been computed based on the amount of net income attributable to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the exercise of stock options. The amount per share of net assets has been computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

10. Land Revaluation

The Company and certain consolidated subsidiaries revalued the land used in their business in accordance with the Land Revaluation Law (Law No. 34, March 31, 1998) and the Law to Partially Revise the Land Revaluation Law (Law No. 19, March 31, 2001).

The effect of this revaluation has been calculated as revaluation reserve for land in shareholders' equity excluding deferred income taxes for land revaluation.

Certain affiliates accounted for by the equity method also revalued their land used in their business in accordance with the Land Revaluation Law (Law No. 34, March 31, 1998) and the Law to Partially Revise the Land Revaluation Law (Law No. 19, March 31, 2001).

At March 31, 2004, the fair value of the land was lower than its carrying value after revaluation by ¥1,873 million (US\$17,719 thousand).

11. Commitments and Contingent Liabilities

At March 31, 2004, commitments made by the Company and consolidated subsidiaries for the construction of vessels amounted to ¥156,993 million (\$1,485,409 thousand).

Contingent liabilities for notes receivable discounted and endorsed, loans guaranteed, and joint indebtedness at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted and endorsed...	¥ 5	\$ 47
Loans guaranteed.....	6,805	64,390
Joint indebtedness	<u>81,479</u>	<u>770,921</u>
Total	<u>¥88,289</u>	<u>\$835,358</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 fluctuation in foreign exchange rates related to their receivables and payables denominated in foreign currencies. The Group has also entered into interest-rate agreements and currency swaps and currency options positions to minimize the impact of fluctuation in foreign exchange rates and interest rates related to their outstanding debt. In addition, the Group has entered into bunker swaps and freight futures in order to minimize the impact of market movements.

The Group utilizes forward foreign exchange contracts in order to hedge against the related market risks. The purpose of the interest-rate and currency swaps and currency options is to effectively modify the characteristics of the principal and interest on their outstanding debt. In addition, the Group utilizes bunker swaps and freight futures to modify the related market risk.

The Group is exposed to certain market risk arising from its forward foreign exchange contracts, and swaps and options positions. 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 as well as to certain market risk arising from the bunker swaps and freight futures. However, the Group does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings. Deferred gains and losses have been recognized, at fair market value, for all derivatives, which are subject to hedge accounting.

13. Segment Information

(a) Business segment information

The consolidated results have been divided into three segments; marine transportation, services incidental to transportation and other.

Millions of yen						
Year ended March 31, 2004						
	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	¥622,119	¥ 89,886	¥12,662	¥724,667	¥ —	¥724,667
(2) Intra-group sales and transfers	3,093	52,408	9,050	64,551	(64,551)	—
Total revenues	625,212	142,294	21,712	789,218	(64,551)	724,667
2. Operating expenses						
Operating expenses	563,945	134,231	20,443	718,619	(64,486)	654,133
Operating income	¥ 61,267	¥ 8,063	¥ 1,269	¥ 70,599	¥ (65)	¥ 70,534
3. Assets, depreciation and capital expenditures:						
(1) Total assets	¥473,070	¥106,966	¥44,283	¥624,319	¥(65,184)	¥559,135
(2) Depreciation	¥ 20,287	¥ 4,217	¥ 1,054	¥ 25,558	¥ —	¥ 25,558
(3) Capital expenditures	¥ 52,594	¥ 5,963	¥ 836	¥ 59,393	¥ —	¥ 59,393

Millions of yen						
Year ended March 31, 2003						
	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	¥530,228	¥ 88,774	¥13,723	¥632,725	¥ —	¥632,725
(2) Intra-group sales and transfers	2,853	48,983	8,777	60,613	(60,613)	—
Total revenues	533,081	137,757	22,500	693,338	(60,613)	632,725
2. Operating expenses						
Operating expenses	510,697	132,956	20,413	664,066	(60,623)	603,443
Operating income	¥ 22,384	¥ 4,801	¥ 2,087	¥ 29,272	¥ 10	¥ 29,282
3. Assets, depreciation and capital expenditures:						
(1) Total assets	¥430,006	¥104,951	¥49,167	¥584,124	¥(68,299)	¥515,825
(2) Depreciation	¥ 23,820	¥ 4,283	¥ 1,408	¥ 29,511	¥ —	¥ 29,511
(3) Capital expenditures	¥ 64,235	¥ 6,631	¥ 802	¥ 71,668	¥ —	¥ 71,668

Thousands of U.S. dollars						
Year ended March 31, 2004						
	Marine transportation	Services incidental to transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues	\$5,886,261	\$ 850,466	\$119,805	\$6,856,532	\$ —	\$6,856,532
(2) Intra-group sales and transfers	29,268	495,863	85,627	610,758	(610,758)	—
Total revenues	5,915,529	1,346,329	205,432	7,467,290	(610,758)	6,856,532
2. Operating expenses						
Operating expenses	5,335,841	1,270,042	193,421	6,799,304	(610,143)	6,189,161
Operating income	\$ 579,688	\$ 76,287	\$ 12,011	\$ 667,986	\$ (615)	\$ 667,371
3. Assets, depreciation and capital expenditures:						
(1) Total assets	\$4,476,014	\$1,012,072	\$418,993	\$5,907,079	\$(616,746)	\$5,290,333
(2) Depreciation	\$ 191,955	\$ 39,901	\$ 9,969	\$ 241,825	\$ —	\$ 241,825
(3) Capital expenditures	\$ 497,624	\$ 56,418	\$ 7,909	\$ 561,951	\$ —	\$ 561,951

(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, Thailand, Indonesia, Korea and Malaysia

Other: Australia

Millions of yen								
Year ended March 31, 2004								
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues.....	¥687,840	¥13,929	¥ 6,938	¥15,906	¥ 54	¥724,667	¥ —	¥724,667
(2) Intra-group sales and transfers	7,281	19,587	4,864	10,933	793	43,458	(43,458)	—
Total revenues	695,121	33,516	11,802	26,839	847	768,125	(43,458)	724,667
2. Operating expenses	631,153	33,035	11,545	21,256	729	697,718	(43,585)	654,133
Operating income	¥ 63,968	¥ 481	¥ 257	¥ 5,583	¥ 118	¥ 70,407	¥ 127	¥ 70,534
3. Total assets	¥524,991	¥23,047	¥29,296	¥30,203	¥2,089	¥609,626	¥(50,491)	¥559,135

Millions of yen								
Year ended March 31, 2003								
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues.....	¥605,153	¥14,755	¥ 4,216	¥ 8,560	¥ 41	¥632,725	¥ —	¥632,725
(2) Intra-group sales and transfers	3,280	20,216	4,596	7,149	646	35,887	(35,887)	—
Total revenues	608,433	34,971	8,812	15,709	687	668,612	(35,887)	632,725
2. Operating expenses	582,674	33,308	8,975	13,730	652	639,339	(35,896)	603,443
Operating income (loss)	¥ 25,759	¥ 1,663	¥ (163)	¥ 1,979	¥ 35	¥ 29,273	¥ 9	¥ 29,282
3. Total assets	¥489,410	¥23,264	¥27,725	¥22,758	¥1,696	¥564,853	¥(49,028)	¥515,825

Thousands of U.S. dollars								
Year ended March 31, 2004								
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues	\$6,508,088	\$131,789	\$ 65,648	\$150,497	\$ 510	\$6,856,532	\$ —	\$6,856,532
(2) Intra-group sales and transfers	68,890	185,329	46,014	103,446	7,506	411,185	(411,185)	—
Total revenues	6,576,978	317,118	111,662	253,943	8,016	7,267,717	(411,185)	6,856,532
2. Operating expenses	5,971,740	312,565	109,237	201,111	6,897	6,601,550	(412,389)	6,189,161
Operating income	\$ 605,238	\$ 4,553	\$ 2,425	\$ 52,832	\$ 1,119	\$ 666,167	\$ 1,204	\$ 667,371
3. Total assets	\$4,967,270	\$218,064	\$277,184	\$285,774	\$19,767	\$5,768,059	\$(477,726)	\$5,290,333

(c) International business information

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

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

Australia: Australia

Other: Central and South America and Africa

Millions of yen

Year ended March 31, 2004						
	North America	Europe	Asia	Australia	Other	Total
1. International revenues	¥196,892	¥139,696	¥113,963	¥76,255	¥62,719	¥589,525
2. Consolidated revenues						724,667
International revenues as a percentage of consolidated revenues.....	27.2%	19.3%	15.7%	10.5%	8.7%	81.4%

Millions of yen

Year ended March 31, 2003					
	North America	Europe	Asia	Other	Total
1. International revenues	¥176,531	¥111,586	¥94,358	¥116,095	¥498,570
2. Consolidated revenues					632,725
International revenues as a percentage of consolidated revenues.....	27.9%	17.6%	14.9%	18.4%	78.8%

For the year ended March 31, 2004, international revenues of ¥62,747 million for Australia, which were presented under “other” for the year ended March 31, 2003, has been presented separately due to their increasing materiality.

Thousands of U.S. dollars

Year ended March 31, 2004						
	North America	Europe	Asia	Australia	Other	Total
1. International revenues	\$1,862,918	\$1,321,757	\$1,078,280	\$721,494	\$593,420	\$5,577,869
2. Consolidated revenues						6,856,532
International revenues as a percentage of consolidated revenues.....	27.2%	19.3%	15.7%	10.5%	8.7%	81.4%

14. Subsequent Event

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2004, was approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 = U.S.\$0.05 per share)	¥2,958	\$27,985
Bonuses to directors.....	¥ 140	\$ 1,325

Report of Independent Auditors

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

We have audited the accompanying consolidated balance sheets of Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit 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.

Shin Nihon & Co.

Tokyo, Japan
June 29, 2004