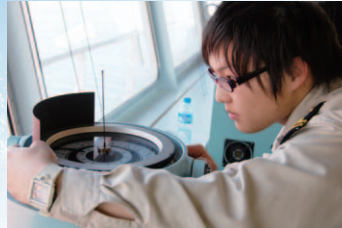


"K" Line Group

Social and Environmental Report




2013



*Toward Synergy for All
and Sustainable Growth*



Contents

1	Editorial Policies	16	Ship Dismantling and Recycling
2	Toward Sustainable Growth of Society and the “K” Line Group		
3	Message from the President		
5	“K” Line Group’s CSR Initiatives		
<hr/>			
7	CSR Initiatives Based on Business Characteristics		
			
9	Construction	11	Ship Operation
 			
		17	Key Issue 1 Safety
		19	Key Issue 2 Environmental Preservation
		23	Key Issue 3 Human Resources Development
		25	Key Issue 4 Dialogue with Stakeholders
		29	Management
		33	Data
		38	Third-party Opinion


Editorial policies

This report is intended to clearly describe to our stakeholders the approaches and initiatives of the “K” Line Group for discharging its social responsibility based on our corporate philosophy. The “K” Line Group first published its Environmental Report in 2002, and expanded its scope in 2004 to a Social and Environmental Report. Since then, we have continued each year to further enhance the contents of the report. The Social and Environmental Report 2013 was edited with a focus on:

- **CSR initiatives and 4 key issues based on business characteristics**

The first half introduces initiatives in the stages of the ship’s life cycle, from ship construction to dismantling and recycling, under “CSR initiatives based on business characteristics.” The second half introduces initiatives that focus on the 4 key issues of the “K” Line Group (safe navigation and cargo operations, environmental preservation, human resource development, and dialogue with stakeholders), interspersed with columns from internal and outside stakeholders.

- **Information disclosure on our website**

Information that we were unable to cover in this report because of the page limit is marked with a  to show its location on our website.

Period covered

Fiscal Year 2012 (April 1, 2012 to March 31, 2013)
The report also outlines some activities undertaken after the above period. Data in the environmental report is based on calendar year.

Scope of report

In principle, this report covers the activities and data of Kawasaki Kisen Kaisha, Ltd. and all of its affiliates in the “K” Line Group, unless otherwise noted.

Reference guidelines

- GRI Sustainability Reporting Guidelines Version 3.1
- ISO 26000
(GRI Guidelines and ISO 26000 comparison tables are shown on our website.)
- Environmental Reporting Guidelines 2012 and Environmental Accounting Guidelines 2005, The Ministry of the Environment of Japan

Date of issue

August 2013 (The previous report was issued in August 2012, and the next report is tentatively scheduled to be issued in August 2014).



Toward Sustainable Growth of Society and the “K” Line Group

The ocean transport business is a key industry that supports comfortable lifestyles around the world and has an extensive worldwide market ranging from advanced countries to emerging economies. This means that our business is strongly affected by changes in political, economic and social situations in countries and regions worldwide, not to mention natural disasters. At the same time, it also means our business activities have an impact on large numbers of people throughout the world.

The “K” Line Group will stay attuned to situations in every country and region throughout the world to respond promptly to market trends, and will maintain dialogue with business partners and other stakeholders to accurately assess their needs. By doing so, we will meet our stakeholders’ expectations and contribute to the sustainable progress of regional and international society as a good corporate citizen.



Aspiring to Be a Socially Trusted Global Transportation Company Group That Contributes to Sustainable Social Development

Q1 What is CSR for the “K” Line Group?

A1 The “K” Line Group’s business activities involve safely and reliably delivering all types of cargo, with due consideration to the environment, to people around the world through the global logistics network centered around our marine transportation services. Foreign trade is a major power driving growth of the global economy. Through free worldwide trade, goods and people are moved across borders and new wealth and value are generated, enriching the global economy. Our Group supports the international logistics infrastructure that links countries around the world and enables transportation of goods among them. To provide transportation services through this logistics infrastructure in a manner that is stable over the long-term and minimizes both environmental impact and cost — this is the role expected of our Group for contributing to the sustainable growth of global society. Fulfilling this role is the corporate social responsibility of the “K” Line Group.

Q2 How do you feel the “K” Line Group must interact with communities in order to become trusted, relied on and needed by society?

A2 If we wish to prosper together with society, we must recognize the social issues through dialogue with our stakeholders. To achieve this, each and every executive and employee must always be conscious of how our business shall contribute to society. By carefully contemplating what we can do to resolve the issues we have recognized, our group will naturally develop into one with high existence value that can provide more socially needed services.

Q3 Please explain the three important elements of the “K” Line Group social mission: safe navigation and cargo operations, environmental preservation, and human resource development.

A3 It is the core and fundamental value of transportation companies to deliver cargo safely. Our business materializes only when we have safely navigated our ships to deliver our customer’s cargo. Causing even a

single marine accident not only endangers the cargo we have been entrusted by our customers and the lives of the crew, but may also inflict significant damage on the marine environment. If we hope to respond appropriately to an unexpected marine accident, we must continuously acquire necessary skills and knowledge and accumulate sufficient experience in ordinary times, enabling us to exert our strengths in times of need. We recognize that safety is ensured by adequately training and drilling the crew that navigates our ships. Through continuous human resource development and investment, for example at our training facilities in the Philippines, India and other countries where instructors and young officer candidates are trained, we ensure a stable supply of highly qualified crew.

Talking about environments, global warming has been serious issue in these days. Our industry must rely on fossil fuel as a power source for our ships, like other means of transportation such as automobiles and railways. While actual numbers vary with the statistical interpretation, carbon dioxide (CO₂) emissions from the marine transportation industry are said to comprise roughly 3% of the world’s total CO₂ emissions. We must recognize the burden our industrial activities have on the environment and consider measures to reduce that burden. Various technologies are available to minimize fuel consumption and increase energy efficiency. The most effective method is to optimize fuel consumption and ship speed to carry the most cargo with the least fuel. Reducing the amount of fuel consumed per transportation distance unit cuts down the amount of CO₂ emitted. By incorporating various technologies, we aim to achieve CO₂ emissions reduction targets per ton-mile basis (weight of cargo being transported x transportation distance) of a 10% reduction from 2011 levels by 2019, and are further strengthening our initiatives to reduce the burden to the environment. Cutting fuel consumption is also effective from an economic perspective. Fuel prices remain high, and fuel costs are becoming the largest expense for ship navigation. Thus, cutting fuel consumption by even 5% vastly improves operating profits. Fuel consumption reduction is a critical business challenge that addresses both environmental and economic issues at once. Lastly, we must remember that it is our human resources that drive these corporate activities. Our business has expanded on an international scale. Consequently, we must develop a workforce that can play an active role in the global field. We are committed to providing thorough training programs and systems to develop personnel who possess specialized

knowledge and a broad perspective that are well-suited to international business and who are able to resolve problems and address challenges.

Q4 What is the current status of initiatives to strengthen governance and ensure thorough compliance that form the foundation of business and CSR initiatives?

A4 Both strong corporate governance and across-the-board compliance are indispensable to any company that hopes to be trusted by and grow together with society. The “K” Line Group strives to practice highly sound and transparent management and strengthen its compliance so that it continues to be trusted by its stakeholders and play a necessary role in society.

Despite our efforts, we received an on-site inspection in September 2012 by the Fair Trade Commission on suspicion of violating antitrust laws, to our great regret. We take the reality that we required such an inspection very seriously, and are resolved to take a tough posture of zero tolerance to violations of the law, by reconsidering our compliance education practices and building a flawless system for the entire group.

Q5 Lastly, do you have a message for your stakeholders?

A5 Our company was founded in 1919 when we received a contribution in kind of 11 cargo ships from Kawasaki Dockyard Co., Ltd. In the century that followed, we have been continuously supported through waves of good times and bad times by our stakeholders, enabling us to overcome many crises and develop into a world-leading total maritime transportation company.

We will continue navigating the seas while maintaining dialogue with our stakeholders to grasp changes in global society and meet its expectations, thus becoming a trusted global carrier company group to our communities.

We look forward to your continued support.

May 2013

Jiro Asakura
President and CEO

"K" Line Group's CSR Initiatives

Corporate Principles of the "K" Line Group

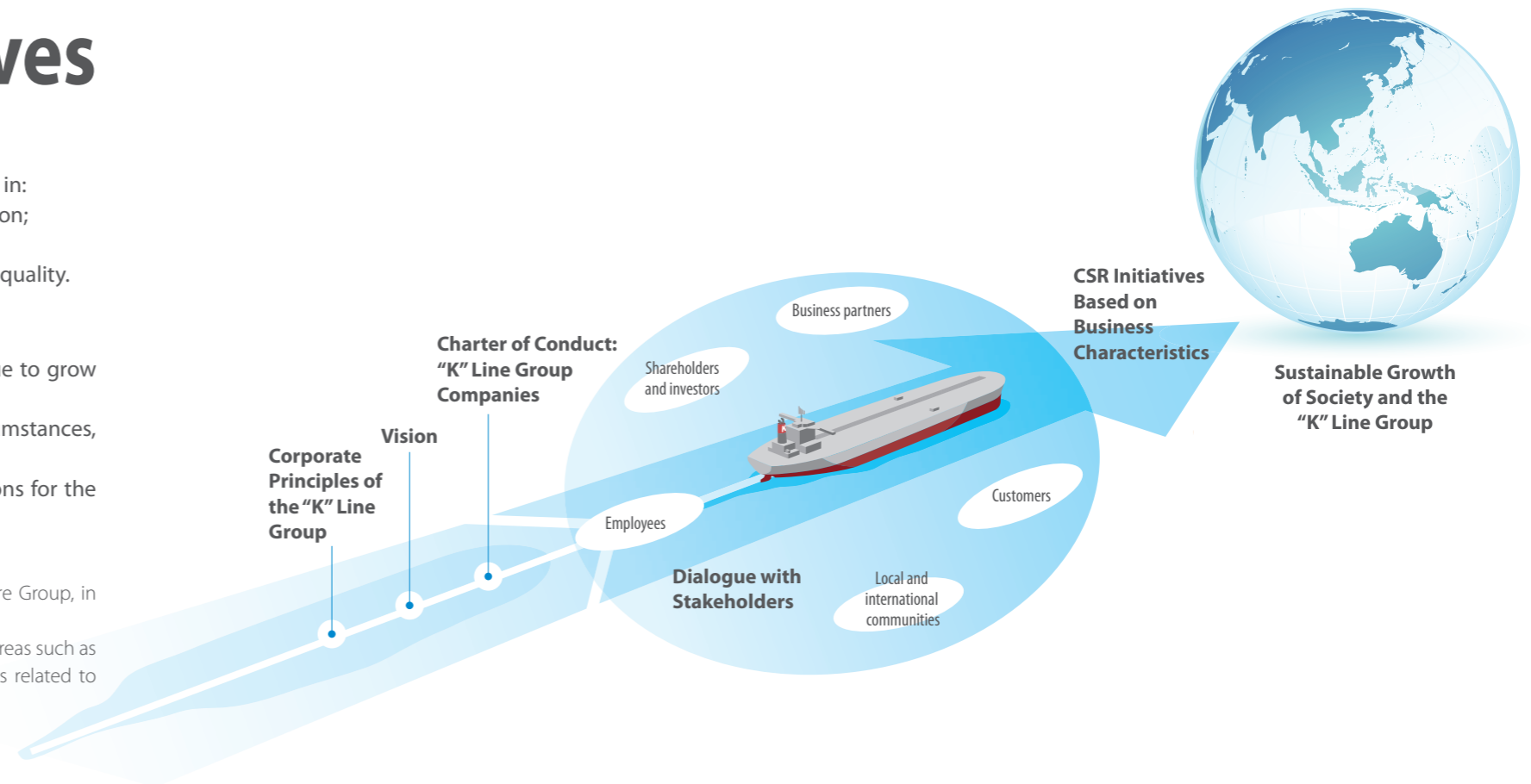
The basic principles of the "K" Line Group as a shipping business organization centering on shipping lie in:

- Diligent efforts for safety in navigation and cargo operation as well as for environmental preservation;
- Sincere response to customer needs by making every possible effort; and
- Contributing to the world's economic growth and stability through continual upgrading of service quality.

Vision

- To be trusted and supported by customers in all corners of the world while being able to continue to grow globally with sustainability.
- To build a business base that will be capable of responding to any and all changes in business circumstances, and to continually pursue and practice innovation for survival in the global market.
- To create and provide a workplace where each and every employee can have hopes and aspirations for the future, and can express creativity and display a challenging spirit.

The "K" Line Group revised the "K" Line Group Charter of Conduct, which outlines standards of behavior for the entire Group, in August 2012 in light of increasing demand from society concerning the Company's corporate social responsibility. In the revision, we request that the executives and employees of the "K" Line Group take a more proactive approach in areas such as contribution to sustainable social development, compliance with corporate ethics, including social norms, initiatives related to environmental issues and response to antisocial forces.



Charter of Conduct: "K" Line Group Companies

Kawasaki Kisen Kaisha, Ltd. and its group companies (hereinafter "K" Line Group) reemphasize that due respect for human rights and compliance with applicable laws, ordinances, rules are the fundamental foundations for corporate activities and that group companies' growth must be in harmony with society and therefore, in order to contribute toward sustainable development of society, we herein declare to abide by "Charter of Conduct" spelled out below:

1. Human rights

The "K" Line Group will consistently respect human rights and well consider personality, individuality and diversity of its corporate members and improve work safety and conditions to offer them comfort and affluence.

2. Compliance

The "K" Line Group promises to comply with applicable laws, ordinances, rules and other norms of behavior both in the domestic and international community and conduct its corporate activities through fair, transparent and free competition.

3. Trustworthy company group

The "K" Line Group continues to pay special attention to safety in navigation, achieving customer satisfaction and garnering trust from the community by providing safe and beneficial services.

4. Proactive environmental efforts

The "K" Line Group recognizes that global environmental efforts are a key issue for all of humanity and that they are essential both in business activities and existence of the company and therefore we are committed to a voluntary and proactive approach to such issues to protect and preserve the environment.

5. Protection, proper management and disclosure of information and communication with society

The "K" Line Group will protect personal and customer data, properly manage corporate information through timely and appropriate disclosure, widely promoting bi-directional communication with society including shareholders.

6. Contribution to society

The "K" Line Group as a Good Corporate Citizen will make ongoing efforts to contribute to social development and improvement and support employees' voluntary participation in such activities.

7. Harmony in the international society

The "K" Line Group will contribute to the development of international society in pursuance of its business pertaining to international logistics and related businesses, respecting each country's culture and customs.

8. No relations with anti-social forces

The "K" Line Group will resolutely confront any anti-social force or organization which may threaten social order and public safety and never have any relationship with them.

The management of each "K" Line Group Company recognizes that it is its role to realize the spirit of the Charter and takes the lead in an exemplary manner to implement the Charter while setting up effective mechanics throughout the company. The management also seeks cooperation from its business counterparts. The management, from the viewpoint of risk management, sets up an internal system to prevent incidents in breach of this Charter and should such an event occur, the management of respective "K" Line Group member companies will demonstrate decisiveness to resolve the problem, conduct a thorough investigation to determine the cause and take preventative measures. Additionally, such management will expeditiously and accurately release information and fulfill its accountability to society.

Adopted December, 2006 Revised August, 2012

The implementation guideline for the "K" Line Group Charter of Conduct is disclosed on its website.
[CSR >>> "K" Line Group's CSR Activities >>> Charter of Conduct](#)

Objective and mission of our CSR initiatives

The "K" Line Group aims to discharge its social responsibility by contributing to the sustainable progress of regional and international societies through logistics services centered on marine transportation, while taking into full account the impact of our business activities on society and the environment.

CSR promotion system

The "K" Line Group strives to promote CSR under the command of the CSR & Environmental Committee, which is chaired by the company president, with two sub-committees, namely: the CSR Sub-Committee, which is responsible for advancing initiatives from a social perspective, such as governance, human rights and compliance, and is headed by the executive officer in charge of CSR and compliance; and the Environmental Sub-Committee, which has operational responsibility for the Environmental Management System that forms the foundation of the Group's eco-conscious business activities, and is headed by the executive officer in charge of environmental issues.

In addition, the "K" Line Group has organized a group-wide CSR promotion network, comprising of CSR managers who have been appointed from 25 domestic Group companies and 32 overseas Group companies with the aims of promoting CSR at each company as well as exchanging information within the Group and promoting awareness-raising activities in a structured manner.

In FY2012, "K" Line implemented an e-learning course titled "Basic Knowledge on CSR" that was taken by 1,384 employees from the Group in Japan. In FY2013, it will roll this course out to Group employees overseas as well.



CSR Initiatives Based on Business Characteristics

The "K" Line Group contributes to the sustainable development of regional and global societies through its businesses.

In addition to safe transportation of cargo entrusted by customers, responsible marine transportation services are provided throughout all stages of the ship's life cycle, from ship construction to dismantling, and are fundamentally centered on four key issues: safe navigation and cargo operations, environmental preservation, human resource development, and dialogue with stakeholders.

Construction

"K" Line incorporates its own unique "K" Line Standard Specifications (see also p. 9) for construction specifications. In addition to conforming to conventions and regulations, expertise developed based on past findings and feedback on performance is reflected in the specifications of new ships, enabling ship construction that is safer and greener. During actual construction, our well-experienced technical staffs with a wealth of knowledge are sent to the construction site to ensure that responsible shipbuilding takes place and that expertise is incorporated.

Ship operation

Maintaining absolute safety in navigation and cargo operations is essential for providing high quality marine transportation services that meet customers' transportation needs. "K" Line has built a system for a rigorous operational safety program that includes training personnel involved in such operations, implementing a management system for establishing safety, and procuring all equipment needed to maintain quality in ships. "K" Line also recognizes the various risks associated with its

businesses, including those to the environment, and is well-prepared to deal with unforeseen circumstances. Expertise gained through performance testing of navigation and cargo operations and an accumulation of experience is applied to such operations and is supplied as feedback for the next generation of ships under construction in an aim to further improve the quality of services.

Ship dismantling and recycling

Ships play an important role in transporting cargo around the world, but there inevitably comes a time when they have fulfilled their mission and must be dismantled. "K" Line sets its own unique selection criteria for selecting ship recycling yards used for dismantling ships, and pursues responsible approaches that consider occupational health and safety as well as the environment. Materials collected from dismantled ships are recycled into a variety of new products and services for that region.



Key Issues

Safety in navigation and cargo operation

Establishing and maintaining operational safety are immutable missions in operating a shipping business. Safe navigation and cargo operations are the foundation of our business as an international logistics infrastructure that supports the economic activities and lives of people around the world. In order to establish and maintain this foundation, we are building, implementing, and maintaining a rigorous operational safety program.

➔ p. 17

Environmental preservation

We recognize that our business activities have an impact on the environment and pursue various initiatives aimed at minimizing that impact. We implement environmentally friendly equipment and facilities and adopt structures that help prevent environmental pollution even if an accident should occur. We plan and order highly energy-efficient ships and build and maintain an earth-conscious logistics infrastructure.

➔ p. 19

Human resource development

We develop a workforce of people that can play an active role in the global field while fulfilling the transportation needs of customers in each country. In addition to passing on to the next generation the technologies and knowledge amassed over the many years since "K" Line's founding in 1919, various forms of education and training that respect human diversity are provided to allow each and every employee to take full advantage of their abilities.

➔ p. 23

Dialogue with stakeholders

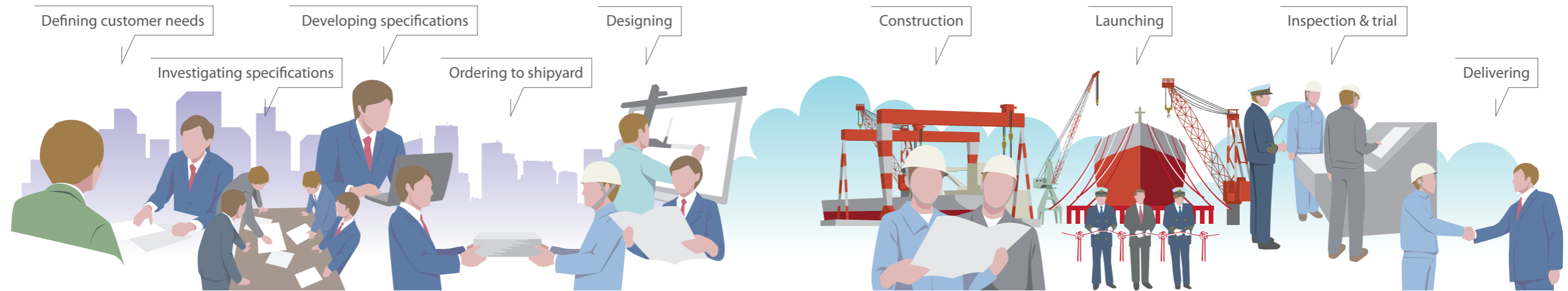
The businesses of the "K" Line Group operate globally and are based on relationships with an array of people, including shareholders, customers, suppliers, and people in local communities. We strive to increase our corporate value through marine transportation services, our core business, so that we meet the expectations of all of our stakeholders.

➔ p. 25

Initiatives throughout the ship's life cycle

1 Construction

The "K" Line Group approaches ship planning and ordering in a safe and eco-conscious manner that meets customers' transportation needs. We build and upgrade high quality fleets while working together with all sorts of stakeholders, especially shipbuilders, on every stage from ship construction to delivery.



Specifications focused on safety and the environment

"K" Line Standard Specifications
 Planning and ordering high quality ships requires not only compliance with international conventions and local regulations, but also application of previously developed ship planning, navigation, and cargo operation expertise to the new ships. We incorporate devices and systems proven by experience to be useful, even if they are not compulsory under regulations or rules, in our "K" Line Standard Specifications and reflect them in our ships of new order.
 Based on these specifications and on repeated consultations with shipyard personnel and other stakeholders, we carry out ship planning and ordering in a manner that does not compromise on issues of safety and the environment.

Ensuring quality during construction
 Most new shipbuilding projects are conducted through cooperation between the shipyard and "K" Line's Technical Group. Since acquiring certification for its quality control management system (ISO 9001*) for building new ships in 2007, the Technical Group has employed organized management methods that standardize the series of steps from planning to construction. Quality assurance policies have been established in line with the "K" Line management policy, and concrete action plans are formulated. Working-level quality control procedures are clearly defined, and efforts are undertaken to maintain and increase that level.

*ISO 9001: An International Organization for Standardization (ISO) standard for achieving an increase in customer satisfaction and ongoing improvement in quality control management systems through quality assurance of products and services.



Tomoyasu Yoshikawa
 Manager
 Ship Sales Department 1
 Marketing & Sales
 Division
 Ship & Offshore Structure
 Company
 Kawasaki Heavy
 Industries, Ltd.

Working together as pioneers of the times
 We share our origin with "K" Line, and we have an excellent relationship. We have worked as a cooperating shipyard with "K" Line on pioneering new ships that paved the way for a new era, such as the Bishu Maru that was the first Japanese-owned LNG carrier and the Toyota Maru No. 10 that was the first Japanese-owned pure car carrier.
 In response to the need for reducing CO₂ emissions, we recently took part in development of a concept design for a pure car carrier that runs on LNG (liquefied natural gas).
 As "K" Line strives to fulfill its social commitments as a corporation, we will continue devising ways to cooperate as a shipyard and make advances together.

Supervision of construction

Essential communication with shipyards
 When placing an order for a new ship, we must verify that the specifications are in line with the ship's intended use, that there are no problems with operational performance or loading capacity, that the specifications comply with conventions and regulations, that the specifications reflect the content of our unique "K" Line Standard Specifications for safety and environmental standards, and that there are no issues with safety or quality at the shipyard. As communication with the shipyard is imperative for verifying these points, our construction supervisors are dispatched to the construction site to check various aspects of quality on a daily basis and ensure that the ship delivered meets the performance criteria requested.

Feedback of knowledge and experience
 "K" Line's construction supervisors are highly knowledgeable and experienced maritime and onshore technical personnel. The findings and issues discovered by the construction supervisor dispatched to the construction site are relayed to Headquarters as feedback. Our technical staffs then examine this information closely, discuss methods for improvement and possible revisions in the "K" Line Standard Specifications, and immediately make remedies. Through good communication between the construction site and Headquarters and dialogue with stakeholders, we make sincere efforts to further improve the physical elements that form the foundation for safe navigation and cargo operations and environmental preservation.



Toyohisa Nakano
 General Manager
 Technical Group

Aiming for increased quality in marine transportation services that are required by society
 In the "K" Line Technical Group, in addition to reflecting our long-developed expertise in shipbuilding, we also listen closely to our customers, suppliers, employees, and other stakeholders to ensure that we minimize the environmental load that arises during a ship's life cycle. For example, we have further increased the quality of our marine transportation services by actively using electronically controlled engines that effectively reduce the environmental impact and by co-developing gas-fueled ships that lead next-generation technology. By doing so, we work towards the construction of a framework for ongoing advancement of society and corporations.

CSR Initiatives Based on Business Characteristics
 Key Issues
 Management
 Data

2 Ship operation

The "K" Line Group is building a framework to ensure unflinching safety in ship operation and management to support the foundation of its shipping business.

We take on initiatives to further increase the quality of services by thoroughly training seafarers, onshore workers, and other personnel involved in the operation of safe and ecologically sound ships, and by creating a good workplace environment.

Achieving safe navigation and cargo operations

(1) Professional organization to support safe navigation and cargo operations

"K" Line's Marine Safety Administration Group is comprised mostly of maritime technical personnel who collect, review and disseminate all sorts of information related to safety in navigation and cargo operation, such as the movement of all ships in operation, information about marine technology and about weather and hydrographic conditions, information about international conventions and relevant laws and regulations, and information about accidents in order to support the operations of all ships. The Group is currently preparing for impermissible contingencies, for example by collecting information on piracy activities, establishing no-navigation areas in case of a missile launch from a certain country, and issuing alerts when ships are navigating nearby (see also p.18). Maritime technical personnel at "K" Line who know the seas inside and out are also involved in a wide variety of onshore activities, such as human resource development, ship management, and business support.



Establishing no-navigation areas

(2) Joint activity with affiliated ship management companies and collaboration with owners of chartered ships

The "K" Line Group has three ship management companies that each specializes in different types of ships being managed. We work together with these ship management companies to maintain ship quality, ensure that navigation and cargo operations are free of marine accidents and loss of time, and attain goals for thorough cost management that incorporates cost-effectiveness. "K" Line holds regular meetings with these ship management companies and major owners of chartered ships where knowledge and information are shared through dialogue.

(3) Securing shipyards for maintaining ship quality

Shipyards with excellent maintenance technology are required to maintain ship quality for safe navigation and

cargo operations. "K" Line secures docks by investing in shipyards that can handle large ships and incorporates suggestions from ship management companies and maritime technical personnel to raise the level of shipyards' maintenance technology.



Shipyards

(4) Ship inspection (establishment and maintenance of KL-Quality)

KL-Quality (quality control of ships in operation)

KL-Quality is our original guideline for quality control based on international conventions ISO 9001 (quality control standards) and ISO 14001 (environmental management standards). These guidelines are applied to all ships operated by "K" Line, including ships of outside ship owners and management companies with whom we have signed a charter-party (ship chartering agreement) or ship management contract.

Ship inspection

To reliably ensure safety in navigation and cargo operation of all ships, ship inspections are carried out regularly based on the KL-Quality guidelines. Using a checklist that covers about 160 items, ship inspection supervisors inspect each ship to confirm implementation of the SMS* by ship management companies and ships and the state of compliance, maintenance and management conditions, progress of environmental preservation initiatives, and other points. The results of these inspections are reported to relevant departments in the company. If there are any issues or concerns, corrective measures are recommended to the owner of the chartered ship or the ship management company and progress toward improvement is monitored, thus maintaining and raising the quality standard for ensuring safe navigation and cargo operations.

*SMS: Safety Management System



(5) Training and career path of maritime technical personnel

In an effort to secure and develop a workforce that can be active in the global field "K" Line trains marine professionals based on exhaustive training programs and career path plans.

1. Employment

We hold special selection examinations in each country and employ only the top students. After they are hired, they participate in a unique "K" Line cadet training program that includes pre-boarding education and onboard education. After disembarking, they participate in a review training course.

2. Development

The cadet and junior officer term is considered a training period. At this stage, they receive onboard on-the-job training from senior officers and train at onshore training facilities with various types of simulators and actual diesel engines. After completing their education, they advance to the level of senior officer.



Employment

Development

Career advancement

Onboard and onshore development

3. Career advancement

We encourage staff to advance from junior to senior officer. They further increase their knowledge and skills as junior officers and participate in self-development training to acquire leadership and stress management techniques required for a ship manager.

4. Onboard and onshore development

Maritime technical personnel with vast knowledge and experience are provided with wide fields of activities both on board and on shore.

- Captains, chief engineers / • Technical personnel for marine safety administration / • Construction supervisors of new ships /
- Superintendents of ship management companies / • Instructors /
- Ship inspectors, sales support maritime technical personnel, crew managers, port captains for each port, etc.

Link between fulfilling onboard lives and operational safety

To crew members, ships are both a workplace and a place to rest and relax. Operational safety can only be achieved and maintained when crew are healthy in mind and body. A fulfilling ship environment is thus essential in motivating a desire to work. Crew members from various

countries coexist on the ship for a long period, and must respect each other's cultures and practices. Through support from personnel on shore and a good living environment enable the crew on ships to perform their various daily duties perfectly.



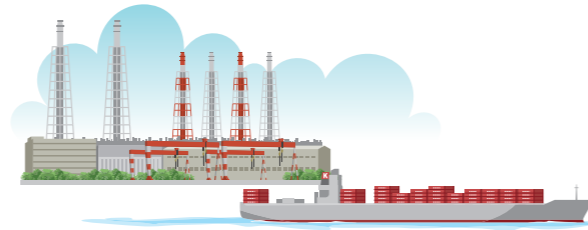
Yasuteru Shigeta

Captain of ZECREET LNG Carrier

The first step toward achieving and maintaining safety

The crew members that breathe life into their ships floating on the open waters live on the ships 24 hours a day. The first step to ensuring operational safety is for crew members to maintain a healthy body and mind. Galley cooks who are educated in food preparation and sanitation through training programs on shore prepare healthy, well-balanced and delicious meals that inspire conversations at the table and soothe the hearts of the crew. Before boarding, crew members participate in training in mental health care and coaching. They then apply that knowledge on board to maintain good communication between bosses and subordinates and maintain a sense of harmony on the ship. Ship's crew are comforted through communication with distant family and friends by satellite phone, e-mail, and Internet via a satellite connection that is always being upgraded. Such communication helps improve their psychological health.

2 Ship operation



Measures to minimize environmental impact

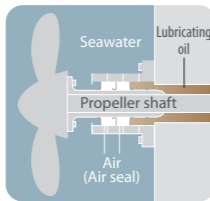
The "K" Line Group recognizes that its business activities have an impact on the environment and pursues various measures aimed at minimizing the negative influence. We prioritize safety in navigation and cargo operations and environmental preservation, for example by implementing

eco-friendly equipment and facilities and adopting hull structures that help prevent environmental pollution even if an accident should occur. We maintain a highly energy-efficient and earth-conscious logistics infrastructure.

point
Preventing marine pollution

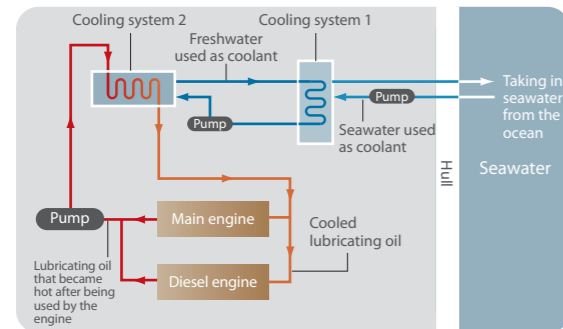
Stern tube air seals

These seals prevent leakage of lubricating oil and stop seawater from getting into the ship through the space where the propeller shaft penetrates out of the ship. Compressed air is continuously sent into this space to create a seal that blocks the passage of oil and seawater.



Indirect cooling system (central cooling system)

This cooling system performs indirect heat exchange between seawater and coolant and lubricating oil in the engine. As there is no direct heat exchange between the lubricating oil and the seawater, there is a lower risk of lubricating oil spilling from the ship in the event of the cooling system failure.



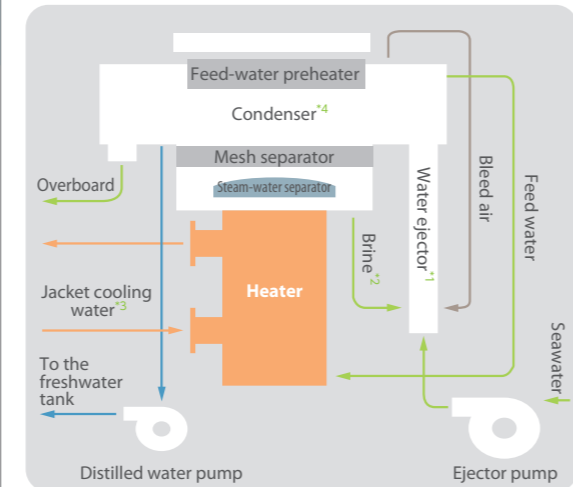
Use of electric powered deck equipment

Changing from hydraulic powered to electric powered deck equipment reduces the risk of hydraulic oil used in hydraulic equipment leaking from the ship.

point
Preserving water resources

Reducing risks to water

Most of the water used for daily living on ships is seawater that has been purified using 80°C jacket cooling water that was used to cool the engine during a voyage. The interior of the freshwater generator is maintained as a vacuum to lower the boiling point of the water so that seawater fed to the device is vaporized by the heat of the jacket cooling water. It is then condensed by the condenser to make distilled water that is used for various purposes on board.

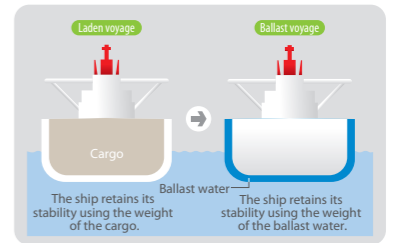


- *1 Water ejector: Maintains a vacuum in and ejects brine out of the device.
- *2 Brine: Concentrated seawater left over after distillation of seawater.
- *3 Jacket cooling water: Water to cool the engine. (approx. 80°C)
- *4 Condenser: Cools the generated steam and condenses it into distilled water.

point
Preserving biodiversity

Proper management of ballast water

Ballast water that maintains stability of the ship contains microscopic marine organisms that cannot be seen by the naked eye. To confront the concern that these organisms can affect the ecosystems in the areas where ballast water is released, we exchange ballast water in open water with minimal marine life. Other measures are also taken, such as using ships that require minimal ballast water and running demonstration experiments on technologies such as a ballast water treatment system prior to adoption of the International Convention for the Control and Management of Ship's Ballast Water and Sediments*.



* Not in effect as of June 2013

Eco-friendly paints for the ship's bottom

Innocuous eco-friendly paints are used for the ship's bottom.

point
Preventing air pollution

Slow steaming

Exhaust gas emissions from the ships are cut by voluntarily reducing the sailing speed to reduce fuel consumption.

Paints on the ship's bottom that reduce frictional resistance

Paints that reduce the amount of frictional resistance that develops between the hull and the water during navigation are used on the bottom of the ship to reduce fuel consumption.

Cleaning of the propeller and ship's bottom

Underwater cleaning reduces increases in frictional resistance caused by organisms adhering to the hull and prevents unexpected reductions in propulsion efficiency.

Energy-saving automatic steering device

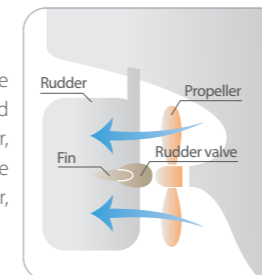
This device minimizes unnecessary steering due to disturbances in the wind, waves, tides, and other elements to reduce fuel consumption by approximately 1% compared to conventional units.

Running demonstration experiments on an optimized navigation system

We are implementing and running demonstration experiments on a system that selects the optimal navigation route for minimizing fuel consumption and route distance based on marine meteorological and tidal forecast data in an effort to conserve energy.

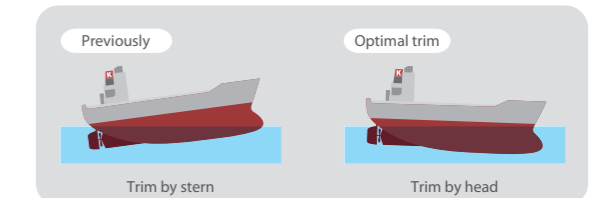
Utilization of water stream energy

By installing a streamline rotating body (rudder valve) and fin directly behind the propeller, water stream energy can be changed to propulsive power, reducing fuel consumption.



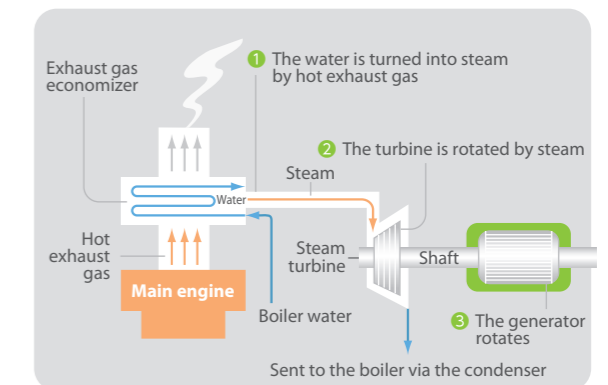
Trim optimization

The ship's balance is optimized during navigation to reduce fuel consumption.



Electricity generation utilizing waste heat energy of exhaust gas

Waste energy released to the atmosphere as gas emissions is collected and used efficiently to reduce the fuel consumption for generating power.

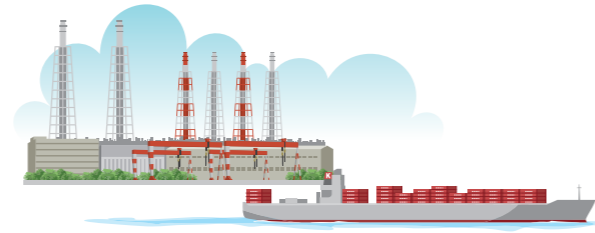


Electronically controlled engines

Adoption of engines that electronically control the timing of fuel injection and the opening and closing of exhaust valves reduces fuel consumption as well as the environmental impact.

More initiatives are listed on our website.
CSR >>> Environmental Management

2 Ship operation



Initiatives to increase the quality of transportation services



Developing employees with a broad perspective through job rotation

The most important mission of marine transportation business is to deliver entrusted cargo to its destination safely and quickly. To fulfill this mission, we must develop a workforce that can assess our customers' transportation needs and improve services while taking safety and the environment into account. We therefore offer exhaustive educational programs such as group training to improve business skills, company language classes, study abroad language classes, and distance learning. Job rotation allows younger employees to experience a variety of departments during their first ten years or so and acquire wide-ranging knowledge and expertise, so that they develop into employees who can approach matters from several perspectives.

New recruits are not placed in specialized departments. For example, a new employee who majored in naval architecture gains experience not only in the technical department, but also in the business department and the management department.

Younger employees also participate in onboard training to improve their on-site capabilities. We aim for all onshore employees up until their tenth year to experience a 10-day to 2-week long voyage so that, regardless of what department they eventually join, they always consider conditions on the ships as a seafarer.



Job rotation



Yasuo Miida
Technical Development Team
Technical Group

Gaining a diversity of experience through job rotation

When I first joined the company I was placed in the Technical Group where I gained various types of on-site experience, such as planning and drafting specifications for new ships, approval drawing work, onboard training, and construction supervision. I then moved to the LNG Group that is the business department, where I was involved in discussions and negotiations with the owners of chartered ships and managed the profit and loss of ships in operation. Now I am back in the Technical Group and am primarily in charge of developing new technologies, but the experiences I gained in the business department, such as directly communicating with customers and learning about the profitability of ships, are significant assets, allowing me to consider customer needs and costs while carrying out my work.

3 Ship dismantling and recycling

In the ship dismantling and recycling stage, the "K" Line Group conducts responsible dismantling and recycling of resources.

In the ship recycling yard, ships are dismantled in a way that considers Health, Safety and Environment (HSE), and environmental impact assessment is carried out using "K" Line's unique checklist.

Efficient use of resources



Ship dismantling and recycling with HSE considerations

It is difficult to mechanize or automate processes when dismantling ships of various shapes, types, and sizes, and most of these processes require manual labor. We inspect ship recycling yards and use our unique "K" Line checklist to carry out environmental impact assessment to check that the work is being carried out safely, that substances that affect the human body or the environment are being properly collected, that the dismantling process does not have an impact on the surrounding environment, and other points.

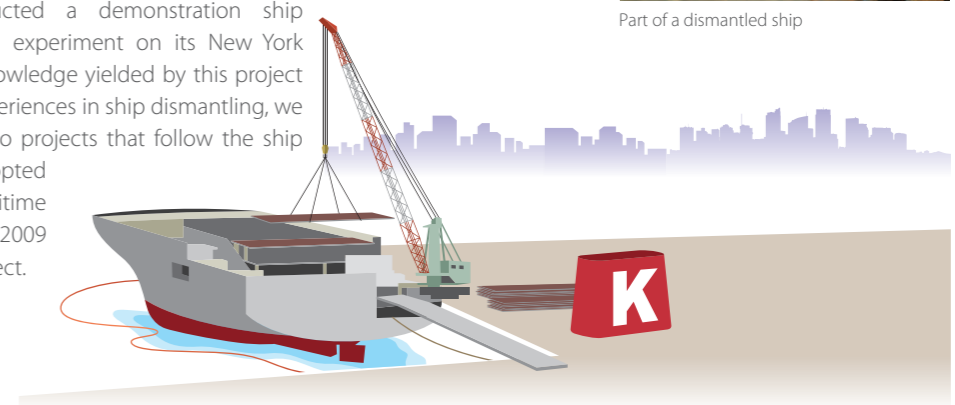
A pilot model project to build so-called "advanced country-model" ship recycling system (the Muroran Project) was launched under the initiative of Japan's Ministry of Land, Infrastructure, Transport and Tourism. This ship recycling system is safe, efficient and eco-friendly and can be materialized by taking advantage of skills and techniques in advanced countries. In 2010, "K" Line joined the project and conducted a demonstration ship dismantling and recycling experiment on its New York Highway. Based on the knowledge yielded by this project and on numerous past experiences in ship dismantling, we are also putting efforts into projects that follow the ship recycling convention adopted by the International Maritime Organization (IMO) in 2009 ahead of it coming into effect.

Recycling of resources

Iron and various other types of metals are used in ships. The metals collected after dismantling a ship are valuable resources and can be recycled into new products and used for new services to support the growth of local lives and employment. Moreover, re-use of iron scraps in steel manufacturing is considered friendly to the global environment. Scraps are mostly re-melted in electric furnaces. In addition to effective use of resources, such recycling activities can also help prevent global warming.



Part of a dismantled ship



Seiji Inoue
Environment Management Division

Selection of ship recycling yards with HSE considerations

When selecting a ship recycling yard, we conduct a fair and equitable evaluation of both the facilities and management. It goes without saying that it must be equipped with the proper dismantling, recycling, and hazardous substance collection equipment and must be ISO certified. However, the most important thing is the philosophy the yard's managers and workers have towards the task. We send "K" Line staff without fail to ship recycling yards in order to interview relevant individuals face-to-face so that we can find out their philosophy, policies and initiatives towards ship recycling. Through dialogue with the ship recycling yard staff and on-site inspections, we continue to carry out ship dismantling and recycling with care for occupational health and safety and environment considerations.

Operational Safety Management

Management system for safety in navigation and cargo operation

Importance of safety in the marine transportation business

Safe navigation and cargo operations uphold the foundation of the marine transportation business. Environmental preservation and the safety of ship's crew, ships and cargo at sea are ensured by maintaining thorough safety and enhancing the risk management system to prepare for the possibility of an accident.

Building a rigorous operational safety program requires various measures, such as increasing the knowledge, experience and capabilities of onboard and onshore staff concerning ship operation, equipping ships with all the necessary facilities, monitoring weather and hydrographic conditions, and complying with international conventions and regulations of each country. In addition to these measures, "K" Line employees acquire the ability to respond appropriately to situations such as marine accidents or trouble occurring during cargo handling, and to carry out measures to prevent such emergencies from happening in the first place.

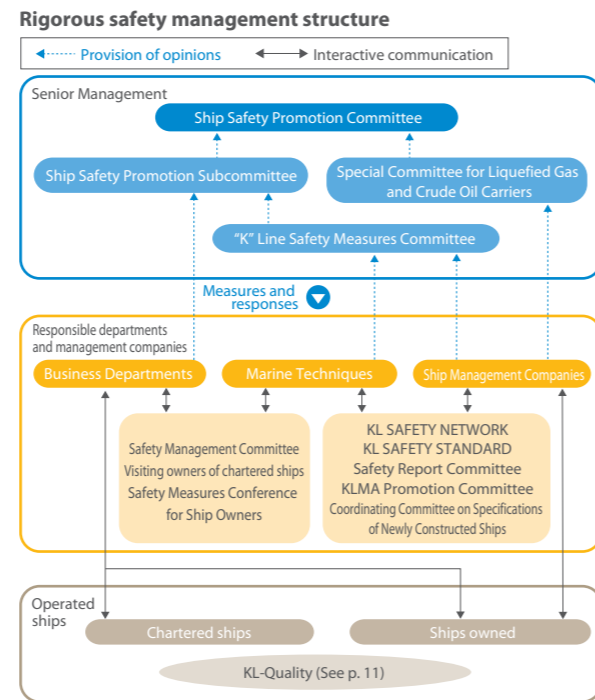
Appropriate implementation of the SMS (Safety Management System) to ensure safe navigation and cargo operations

Development, documentation, implementation and maintenance of an SMS is required by the ISM Code^{*1}. The objectives of the Code are to ensure safety of ship's crew, ships and cargo at sea, as well as to avoid damage to the marine environment. The SMS outlines important matters and procedures required for ensuring safety in navigation and cargo operation, such as compliance with international conventions and regulations of each country, "K" Line's original safety initiatives, and safety drills for each type of ship. "K" Line carries out various initiatives required for safety based on a common understanding of the SMS.

*1 ISM Code: International Safety Management Code

Rigorous safety management structure

The Ship Safety Promotion Committee is chaired by the President and consists of the Executive Officers of each business department and marine department, and of the ship management companies. The Committee meets at least every quarter and in case of need to share Group information and discuss and implement measures from every possible viewpoint concerning all matters related to safety at sea, such as analysis of information concerning problems occurring during navigation or cargo handling, formulation of measures for preventing their recurrence, compliance with international conventions and relevant laws and regulations that will be newly introduced or amended, and anti-piracy measures.



Safety and risk management

Establishing an emergency response capability

Onboard drills to prepare for an emergency

In the event of an emergency on board, ship's crew must take it upon themselves to swiftly and appropriately provide the first response until help arrives from shore. We routinely carry out drills required by the SOLAS Convention^{*2} and drills independently devised by the ship management companies to ensure that ship's crew can calmly and appropriately respond to any type of accident that may occur on board.

The drills cover a wide range of activities, such as measures to respond to fires on board, evacuation by lifeboat,

measures to take in the event of flooding due to collision or grounding, measures to take if a ship's crew falls overboard, and anti-terrorism and anti-piracy measures.

*2 SOLAS: International Convention for the Safety of Life at Sea established by the International Maritime Organization

Improving risk management capabilities through emergency response drills

Every year we conduct drills on responding to a large-scale disaster as part of our emergency response drills to prepare for the possibility of a marine accident. In March 2013, we conducted the drill assuming a scenario in which our large

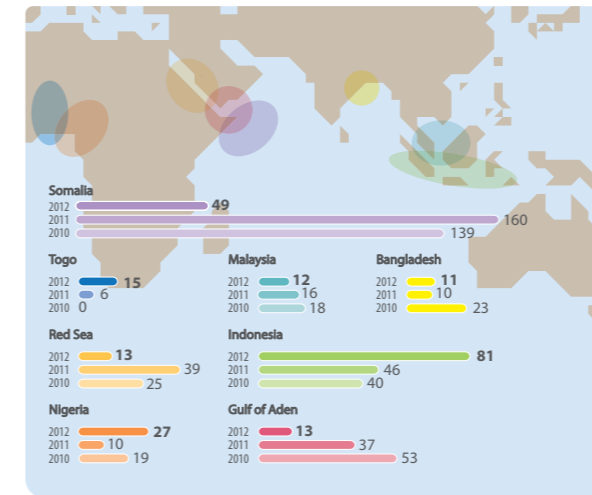
crude oil tanker collided with a fishing boat wherein the bottom of the ship made contact, resulting in an oil spill. In the drill, based on the Emergency Response Manual, the President and relevant individuals set up an emergency response headquarters and measures were devised based on information received there. Appropriate measures were taken, responses were given to questions from outside the company, and a simulated press conference was held, after which comments were received from insurance companies, lawyers, consulting firms, and other experts.

An accident like the one in this case study must never take place, but by performing repeated drills to prepare for the possibility of an accident and evaluating our response, all employees become even more safety conscience, we increase our risk management capabilities, and we further improve the Emergency Response Manual.



Emergency response drills

Major piracy-prone areas and number of incidents (2010-2012)



Source: ICC-IMB Piracy and Armed Robbery Against Ships - 2012 Annual Report

Current state of piracy problems and "K" Line's response

Piracy, which once caused great damage in the Straits of Malacca and Singapore, is becoming more frequent off the coast of Somalia, in the Gulf of Aden, and in West Africa, and is a major threat to commercial ships navigating nearby waters.

Our ships that are particularly vulnerable to hijacking (low-speed ships and low freeboard ships^{*3}) are accompanied by naval escort ships dispatched by Japan, South Korea, China, India, Russia, Turkey, Thailand, and other cooperating countries that protect the ships when passing through the Gulf of Aden. We implement the following anti-piracy measures that follow the anti-piracy guide, Best Management Practices (BMP).



Anti-piracy lookouts

- Allocation of dedicated anti-piracy lookouts
- Use of searchlights at night for early detection of pirates
- Crew on the bridge for navigational watch and anti-piracy lookouts wear bulletproof vests and helmets as a safety precaution.
- Installation of razor wires around the perimeter of the deck and of nozzles for high-pressure water hoses capable of sustained discharge around the hull periphery to prevent pirates from coming on board

In February 2013, "K" Line, along with oil majors and other major shipping companies, helped raise a total of 1 million US dollars for a project to create job opportunities and develop vocational skills in Somalia, run by the United Nations Development Programme (UNDP). Such support helps stabilize conditions in Somalia and reduces the risk of piracy in the Indian Ocean. This project provides career alternatives for future generations in Somalia so that the path of piracy is not taken.

*3 Low freeboard ship: A ship whose upper deck is low-lying above the water level.

Voice

Nipping minor problems in the bud to prevent accidents

Aya Sakabe

Third Engineer
Car carrier
ADRIATIC HIGHWAY

When I encounter minor problems or mistakes on board, I make it a habit to complete a safety report and consider latent risks, contributing factors, and measures for response.

I heard that the establishment of the safety report system for "K" Line Group seafarers and commendations to encourage employees to submit reports resulted in 1,914 reports being submitted in 2012 (increase of 71% over the previous year). It is said that all accidents start with minor mistakes. Before doing a certain task, we can look through all these past cases for ones that are similar to the task at hand and hold a meeting before starting to share information among colleagues. Doing so increases safety consciousness and helps prevent unexpected problems.



Environmental Preservation Initiatives

Structure of environmental management

Message

Review of the Environmental Policy to reflect our commitment to environmental preservation

Osamu Saegusa

General Manager
Environment Management Division

The "K" Line Group Environmental Policy established in May 2001 is at the heart of our Environmental Management System (EMS) that is based on ISO 14001^{*1} and is the guideline for environmental preservation activities in the "K" Line Group. Since the Policy was established over a decade ago, we reviewed and revised the Policy in August 2012 to align our policy with the needs of all our stakeholders that continue changing with the times.

As an international logistics business conglomerate setting ocean transportation as a core business, we recognize that our business activities impose a burden on the global environment, and have expressed our determination to minimize our environmental impact in our Environmental Policy. Each and every executive officer and employee working within the "K" Line Group will strive to preserve the irreplaceable global environment according to the guidelines stated in our Environmental Policy, and will continue pursuing various environmental preservation activities to contribute to the sustainable progress of regional and international society.



^{*1} ISO14001 is an international EMS standard set by the International Organization for Standardization (ISO) that stipulates requirements for the EMS.

"K" Line Group Environmental Policy

Core Concept

The "K" LINE Group is aware and recognizes that addressing environmental concerns is an issue shared by all mankind. Therefore, the "K" LINE Group is taking proactive measures as an essential condition for its existence and conducting a business enterprise, striving to reduce the environmental impact of its business activities, and seeking to contribute to the development of a sustainable society.

Conduct Guidelines

1. We are setting objectives and targets for environmental preservation and making improvements on an ongoing basis to reduce the impact on the environment from our business activities. Furthermore, we are complying with all environmental treaties, laws and regulations as well as policies and voluntary standards to which the "K" LINE Group has consented.
2. We are striving to protect the global and marine environment through fleet-wide implementation of safe operation practices and are establishing the organizations and structures necessary for such implementation.
3. We are promoting research, development and introduction of ship facilities and equipment to improve ship energy efficiency and operating efficiency, which results in reduction of greenhouse gas emissions and the prevention of atmospheric pollution.
4. In consideration of biodiversity, we are maintaining an awareness of the impact that the transport of ballast water and living organisms that attach to ship hulls have on ecosystems and working to protect those ecosystems.
5. We are contributing to establish a recycle-based society by promoting the 3Rs (reduce, reuse and recycle) and promoting the effective re-use of resources, including ship recycling.
6. The entire "K" LINE Group is and will continue to support and participate in social contribution activities intended to protect the environment.
7. We are conducting education and training to elevate awareness and understanding of environmental preservation issues among each member of the entire "K" LINE Group.

Revised in August 2012

Using EMS for environmental preservation

We have established and operate an EMS based on ISO 14001 in order to build a system for identifying the impact of our business activities on the global environment, minimizing negative influences, and making ongoing improvements. In February 2002, we obtained certification for our EMS from a third-party organization and began its implementation. Since then, we have received audits every year from internal auditors and from third-party organizations to verify that our activities follow the PDCA cycle, which involves planning various measures under the Environmental Policy (Plan), appropriately administering those measures (Do), evaluating the results (Check), and revising the measures or developing new ones (Act). This enables us to make ongoing improvements to our environmental preservation activities as we proceed.

(For more information on some examples of application of the EMS, see pages 35 and 36, "Results of Our Environmental Activities in 2012 and Targets for 2013")



Audit by internal auditor

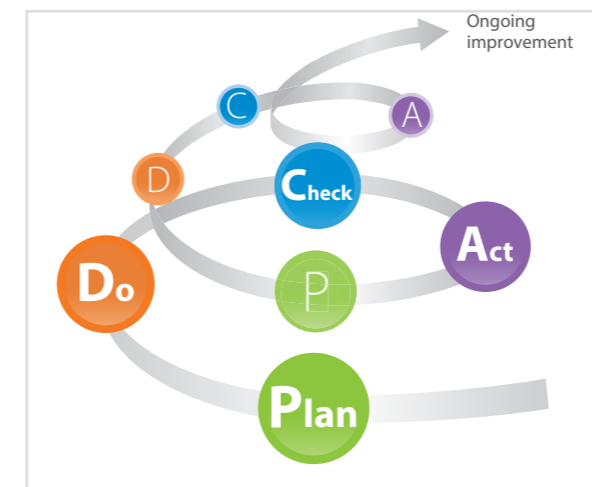
Environmental Sub-Committee

A place for confirming the PDCA cycle

The Environmental Sub-Committee is comprised of an Executive Officer in charge of Environmental affairs who has been appointed EMS superintendent, and environmental managers from each department and from group companies. These members meet twice a year to draft basic plans and set goals for environmental preservation matters for the "K" Line Group, monitor progress towards the goals, evaluate the results, and reconfirm or review the goals.

The Environmental Sub-Committee is also incorporated in our corporate governance structure. Matters determined in the Sub-Committee and its activities are undertaken and utilized for business conduct within the company.

PDCA cycle



Positioning of the EMS in our management plan Initiatives for environmental preservation as a fundamental of management

In our medium-term management plan ("K" LINE Vision 100: Bridge to the Future), preserving the environment is positioned as a key issue along with safety in navigation and cargo operation. In order for "K" Line to continue growing together with society, we must identify the environmental risks and opportunities underlying our business activities, and incorporate appropriate measures and policies to respond to those risks and opportunities into our management activities. We recognize that success and failure in this area affects our management.

Environmental education and environmental awareness

Increasing environmental knowledge and awareness

Our internal portal site contains all sorts of information, including the "K" Line Group Environmental Policy, manuals on environmental management, and a list of environmental managers as well as environmental activity reports and materials used in environmental seminars. We strive to make the site and its information easy to use and understand so that each and every "K" Line employee can increase their knowledge and awareness of the environmental management system and environmental issues.

The Environment Management Division holds environmental seminars each year for employees in each department of "K" Line and in some of our Group companies. In 2012, we started a new initiative by holding an English seminar for foreign employees. In 2012, 12 seminars were attended by 216 employees who talked mostly about CO₂ issues, exhaust gas emission standards, ship recycling, the environmental management system, and other topics.

2012 Environment seminar questionnaire



● Good comprehension 29%
● Moderate comprehension 57%
● Understood about half 14%
● Poor comprehension 0%



● "K" Line 33%
● Group companies 53%
● Group companies (foreign employees) 14%

Environmental Preservation Initiatives

Promotion of next-generation technologies to minimize environmental impact

Development of universal maritime rules and "K" Line initiatives

International conventions and regulations that must be observed by all ships navigating the world's oceans are determined by the IMO^{*1}. The IMO is a dedicated organization within the United Nations in which representatives from each member country gather together and discuss various issues concerning maritime topics such as safety in navigation and preservation of the ocean environment from an international perspective. It then develops universal rules for marine navigation.

The chart below outlines recently established environmental regulations to control the amount of CO₂, SOx, and NOx emissions from ships and the status of "K" Line's response measures.

*1 IMO: International Maritime Organization

Development of gas-fueled ships

LNG (liquefied natural gas) has gained attention as a clean energy that produces minimal CO₂ emissions, and it is an effective means of reducing air pollutants in exhaust gas. However, many technical development challenges must be resolved in order to provide LNG at approximately -160 degrees as a fuel to the ship, to store it in a tank on board, and to combust it in a gas engine. Until very recently, LNG had rarely been used as fuel for any type of ship other than LNG carriers.

After launching a project team responsible for developing gas-fueled ships in 2010, "K" Line began collaborating on this project with Kawasaki Heavy Industries, Ltd., which developed construction technologies for LNG carriers and created the "green gas engine" fueled by natural gas for generating electricity, and with a pioneer of gas-fueled ship technology, Det Norske Veritas (DNV), the Norwegian Classification Society, which owns the pre-existing technology. We are applying the concept of commercial

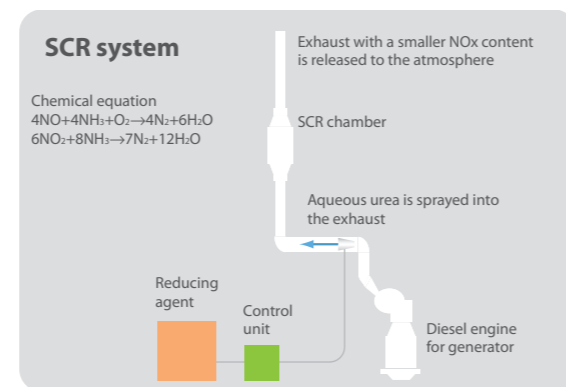
navigation of car carriers powered by LNG to develop technologies for reducing ship navigation CO₂ emissions by approximately 40%, sulfur oxides (SOx) and particulate matter (PM) by approximately 100%, and nitrogen oxides (NOx) by 80% to 90%.

Development of next-generation technology for NOx Tier III regulations

Under collaboration with Japan Marine United Corporation and Daihatsu Diesel Mfg. Co., Ltd. "K" Line has begun actual ship onboard testing of a Selective Catalytic Reduction System (SCR system) for a diesel generator to comply with NOx Tier III regulations.

An SCR system sprays aqueous urea used as a reducing agent on exhaust gas. Ammonia (NH₃) that is hydrolyzed by the heat of the gas bonds to the NOx which is converted to nitrogen gas (N₂) and water (H₂O).

We mounted the SCR system to the diesel generator engine of a large container vessel that was launched in March 2013. We will measure the performance of the SCR system in roughly 18 months of operation and continue working to actively develop next-generation technologies to minimize environmental impact.



	Controlled ships	Measures	Example of "K" Line initiatives
CO ₂	Ships to be built according to a building contract on or after January 1, 2013	<ul style="list-style-type: none"> Standardize the volume of CO₂ emissions per ton-mile^{*2} in the designs of new ships and plan and order highly energy efficient ships 	Construction of the latest energy-saving ships
SOx	Ships that navigate general ocean areas (all areas except for special areas)	<ul style="list-style-type: none"> Mandate use of fuel with a sulfur content of 3.5% or less Forecast the possibility of lowering to 0.5% by either 2020 or 2025 depending on the review planned for 2018 	Use of low-sulfur fuel oil
NOx	Ships navigating special areas (Baltic Sea, the North Sea, 200 nautical miles along the coast of North America, the US Caribbean Sea)	<ul style="list-style-type: none"> Mandate use of fuel with a sulfur content of 1.0% or less (regulations for the US Caribbean Sea will begin on July 1, 2014) Plan to decrease the regulated content to 0.1% from January 1, 2015 	Verification test of the SCR system
	Diesel engines with a power of 130 kW or higher mounted on ships built on or after January 1, 2000 (excluding emergency engines)	<ul style="list-style-type: none"> The NOx emission limit value is determined according to the construction date and rated speed of the engine Regulated content values will be gradually lowered, and an 80% reduction in Tier I values will be mandated in Tier III regulations from January 1, 2016^{*3} 	

*2 Ton-mile: Transporting 1 ton of cargo over 1 nautical mile (1,852 m).
 *3 The IMO is considering extending the starting year to 2021.

Onshore initiatives

Initiatives at container terminals

Electricity supply with no exhaust gas
 At "K" Line's own container terminal in Long Beach in the U.S., electricity is supplied from shore facilities to ships at berth. As there is no need to run diesel generators on the ships while they are berthed, exhaust gas is not emitted, improving the air quality in surrounding areas.



Shore electricity power being supplied to a containership

Introduction of energy-saving transfer cranes

"K" Line has introduced energy-saving hybrid transfer cranes^{*4} at its own container terminals in Japan. These cranes, which are used at terminals to sort containers by destination, convert the energy generated when hoisted containers are set down in a preset location into electricity that is then reused as electric power. This cuts fuel consumption by about 40-50% compared to conventional cranes and greatly reduces noise.



Hybrid transfer crane

*4 Transfer crane: A self-propelled crane used for moving containers at a container terminal

Number of hybrid transfer cranes in use in Japan (as of March 2013)

Container terminal	Total	Hybrids	Proportion that are hybrids
Oi, Tokyo	19	7	37%
Honmoku, Yokohama	7	4	57%
Nanko, Osaka	6	3	50%
Rokko, Kobe	9	3	33%

Measures at offices

Striving to save electricity

Although there were no predictions for large-scale power outages in the Tokyo metropolitan area for the summer of 2012, we voluntarily took measures to save electricity, such as increasing air conditioning temperature set-points, reducing lighting strength, and using only partial lighting. Through these efforts, we were able to cut electricity consumption by about 27% from July to September 2012 compared to the previous year.

Promoting waste minimization and recycling

Through measures such as use of iPads and better printer settings (double-sided printing and printing two pages per each side of paper), we were able to reduce our use of office paper by about 32% in 2012 over the previous year. We also separate office waste into 12 different types and try to recycle it into resources whenever possible.

Promoting green procurement

We employ a system for office purchases whereby priority is given to purchasing products that comply with the Act on Promoting Green Purchasing or are EcoMark-certified. We summarize the amount of expenses for purchasing goods and the ratio of green purchases each month and distribute the results widely throughout the company in order to further increase consciousness about reducing costs and green procurement. As a result of this initiative, the proportion of green procurement among purchases in 2012 was about 54%, which is roughly the same as the proportion in 2011, but overall purchasing costs were reduced by about 35%.

Voice

We are purchasing renewable energy

Christian P. von Kannewurff
 Senior Vice President
 "K" Line America, Inc.

"K" Line America, Inc. (KAM) has purchased "Renewable Energy" from Renewable Choice Energy, Inc. continuously since 2008. By offsetting the Wind Power Energy Credit purchased from the said corporation against the CO₂ volume emitted by office electricity consumption, KAM achieved CO₂ reduction of approximately 702 tons in 2012. KAM works on various environmental conservation activity including the purchase of the renewable energy sequentially.



Developing Seafarers and Onshore Workers for Greater Corporate Value

Development of seafarers

Developing maritime technical personnel to support safety

The "K" Line Maritime Academy (KLMA) was established in order to secure and train excellent maritime technical personnel who can undertake ship navigation and cargo operations. KLMA is an aggregation of educational programs such as those to establish a career path for maritime technical personnel and training institutions in each country. Based on the KLMA Master Plan that is the basic guideline for passing down the technological capabilities developed by the "K" Line Group over many years to the next generation, various initiatives are pursued to foster consciousness about operational safety and environmental preservation and to pass down and improve our technological capabilities. All maritime technical personnel working for the "K" Line Group take training courses based on these development programs, in which they acquire the skills and knowledge needed to advance their careers. The culture and customs of each country are valued to offer a curriculum that suits the country's circumstances, thereby creating an environment where all maritime technical personnel can work with hope and pride.

Stable procurement of outstanding, reliable maritime technical personnel

We strive to contribute to local areas and procure a stable supply of personnel by training maritime technical personnel with excellent credentials, through the development of scholarship programs for merchant marine academies in the Philippines, the world's leading country for seafarers, and bridge programs (course for engineering graduates to obtain a seamen's competency certificate), and by offering the merchant marine Crystal e-College, among other initiatives.

Outstanding maritime technical personnel produced by educational institutions in countries around the world develop into marine professionals who can play an active role in the global field through training at "K" Line's onshore training facilities available in 5 countries and on-the-job training on training ships.



Training class in the Philippines

The Crystal e-College "K" Line Class holds screening examinations for prospective high school graduates. The best students are recruited to participate in three years of classes and one year of practical onboard experience. In addition to the College's curriculum, students also participate in "K" Line's own advanced classes so that we can train and procure a stable supply of outstanding maritime technical personnel.



Graduation ceremony for the second class of the Crystal e-College

	Enrollment year	Graduation year	Navigation officers	Engineers	Total	
1st class	2008	2012	0	23	23	Graduated
2nd class	2009	2013	22	22	44	Graduated
3rd class	2010	2014	20	19	39	In college
4th class	2011	2015	23	23	46	In college
5th class	2012	2016	20	19	39	In college
6th class	2013	2017	24	24	48	Planned enrollment*

* Enrollment is in June each year.

Practical experience on training ships

"K" Line owns five training ships used for training maritime technical personnel. Experienced captains and chief engineers stay on the ships as instructors and provide onboard education and training to provide students from educational institutions in Japan with onboard experience required for obtaining a seamen's competency certificate and to teach them what they need to know to become maritime technical personnel.



On a training ship

Development of onshore workers

On-the-job training and off-the-job training as building blocks of human resources development

Based on on-the-job training that involves daily tasks at the workplace as the foundation of human resources development, we offer thorough off-the-job training, including job class-specific training that enhances the growth achieved on the job and that raises awareness towards the work.

The trainer system is one feature of our on-the-job training. Each new employee is paired with a senior employee (trainer), who mentors the new employee for a year based on a development plan established at the start. The trainer and trainee teach and learn from each other — the trainee receives assistance to acquire technological capabilities quickly and steadily, while the trainer providing instruction learns how to foster the development of young employees.

Off-the-job training is given at our training center in Machida, Tokyo, where employees in their first through fifth years, eighth year and eleventh year attend residential job class-specific trainings. The first five years at the company are considered a time to build a strong foundation, and the focus is thus on refining mind and skills as a "K" Line member. From the eighth year onward, the training focus is on management. Trainees learn how to involve those around them and get an early start on establishing a management

style. This develops them into employees who can make full use of their abilities in any environment around the world.

Part of this training involves actively sending employees on temporary overseas assignments while they are still young.

There are also many programs for the management class, including group training for Group Managers and Team Leaders and voluntary training for employees of all career lengths (such as survival training for global staff and training for giving presentations).

Many other training opportunities are provided as well, such as onboard training, company language classes, study abroad language classes, and more.

International "K" Line University (KLU)

To foster a feeling of unity within the "K" Line Group and boost communication, national staff from nearly 20 countries around the world gather at offices in England (London), the United States (Richmond), and Japan (Tokyo) a few times a year for group training. Employees who usually only communicate with each other by e-mail and telephone come together to share their visions and learn about each other's cultures, strengthening their connections.

KLMA Structure

KLMA meeting

- A quarterly meeting of the Business Departments and Marine Department of the Head Office and ship management companies

Ship management companies

- Making requests for training and educational programs requested by ship management companies
- Creating the self-training matrix
- Evaluating the effects of education based on the seafarer evaluation sheets



KLMA (HQs)

- Determining KLMA policies by The Marine Department of the Head Office and affiliated ship management companies
- Creating the basic training matrix
- Developing new policies and setting budgets

Policy presentation/Instructions for training programs
Securing and developing instructors

"K" Line Maritime Academy

- Holding training courses in training facilities in each country
KLMA (Japan) KLMA (Philippines)
KLMA (India) KLMA (East Europe)
KLMA (North Europe)

Voice

Stimulating culture gap in an overseas assignment

I am in charge of a bulk carrier operation in Singapore.

The overseas assignment is interesting because it lets me learn about a different culture and different values from Japan while doing my job. I was not assigned as a manager, but rather as a clerk, and my boss and all the other team members are local staff. At first I was somewhat bewildered — what I thought natural in Japan was not accepted practice and ideas I thought were good and presented to boss were interpreted as exactly the opposite. Now I know that there are many different perspectives and am not fazed by a slight culture gap. I will continue introducing positive Japanese views and concepts to my team while respecting the Singapore way.



Machiko Kizaki

"K" Line Pte Ltd

Building Mutual Trust through Dialogue

Dialogue with customers


Objective

We strive to increase the quality of services through a process of ascertaining customer needs through dialogue, considering what is required to meet those needs, then suggesting and providing solutions.

Through logistics services with ocean transportation at the core, we are required to realize value for our customers. Value for the customer is only achieved when entrusted cargo is safely and securely shipped to its destination. It is thus essential to grasp the customers' needs through dialogue with them.

For example, in the car carrier field, regular Performance Review Meetings are held with customers during which opinions are actively exchanged on topics such as safety in navigation and cargo operation and cargo damage prevention, and the concepts are linked to service quality improvement.

In the total logistics services field, we have developed the Visibility Management System (VMS) that is a logistics management system to support management of customer supply chains. This system helps improve customer logistics through provision of information, such as on cargo movement.

 More details are listed on our website.
CSR>>>With Our Stakeholders>>>With Our Customers

Dialogue with shareholders and investors

Objective

We have adopted an IR policy designed to meet the expectations of our shareholders and investors. Under this policy, we strive to improve our corporate value further by properly disclosing corporate information on a timely basis and by communicating with our shareholders and investors at briefings and other events.

We have adopted a basic policy for IR activities of accurately, properly, fairly, and promptly disclosing corporate information to shareholders and investors in a timely and straightforward manner. Our aim is to build relationships of trust through accurate disclosure of information.

At shareholders' meetings, we listen carefully to the opinions of shareholders, respond to questions, and make every effort to sufficiently explain our ideas.

For institutional investors and financial analysts, results briefings are held each quarter and explanatory meetings are

held as needed, for example when new business plans are announced (in 2012, we met approx. 380 domestic investors and 70 foreign investors). In addition, we host facility tours as needed to help increase institutional investors' and financial analysts' understanding of our business.

In March 2013, we gave a tour of the LNG cargo handling simulator at our training center (in Machida, Tokyo).

It was well received, with participating analysts calling it a valuable opportunity to learn about the training system of a global maritime transportation company with a high awareness of safety in navigation and cargo operations. A facility tour was also held at the Ohi container terminal, Tokyo, in June 2012.



LNG cargo handling simulator tour

Voice

Active and continuous disclosure

Hajime Hitotsuyanagi

Senior Analyst
Corporate Investigation
Department
Daiwa Securities Co. Ltd.

As the importance of IR increases year by year, proactive and continuous disclosure is needed to achieve a proper evaluation in the capital market.

"K" Line ranked high in the financial analysts' Awards for Excellence in Corporate Disclosure for FY2012, at 6th of 16 major transportation companies.

This is likely a result of discussions between financial analysts and the management team/IR staff during briefings and press coverage, as well as facility tours held for better understandings of actual business. However, the IR stance is truly tested under severe business circumstances. More wide-ranging in-depth discussions are needed on capitalization strategies, governance and other issues to establish a fixed high rank, and, by extension, revitalization of the capital market.



Dialogue with business partners

Objective

Support and cooperation of our business partners are absolute requirements for providing reliable services to customers. We strive to build mutual trust with our business partners and coexist with them as indispensable partners for increasing customer satisfaction.

In order to build relationships of trust, we establish purchasing policies for the entire Group, and we use these policies as a foundation for improving the quality of services to customers through fair, impartial and highly transparent transactions.

Topics

Cooperating with business partners for economical and eco-friendly operation

We work with business partners in our containership services to reduce our customers' transportation costs and the environmental load.

For example, "K" Line began using the Ota International Cargo Terminal (OICT) facilities in Ota City, Gunma Prefecture in 2001 as an empty container storage site. This means that customers in the North Kanto region no longer have to go all the way to the Tokyo or Yokohama container storage sites to pick up or drop off empty containers. This not only greatly reduces the transport distance of empty containers (220-260 km round trip) and customers' logistics costs, but also helps cut CO₂ emissions.

OICT is a third sector jointly owned by the municipality (Ota City) and local companies. It was founded for customs clearance of imports and exports as well as packing and storing, and began operation in 2000. As the original facility was too small, a dedicated terminal for marine container cargo was opened in April 2013 in a nearby industrial complex, enabling handling of even more containers. This facility promises to further increase the convenience to customers in the North Kanto region and to contribute to local economic development.

Dialogue and cooperation with business partners such as the OICT is essential for providing efficient and eco-friendly logistics services to customers. We will continue striving to improve services through such initiatives.



New terminal that opened in April 2013

Comment

Working towards regional development and environmental preservation

Eiichi Hagiwara

Representative Chairman
Ota International Cargo Terminal

Our company was founded as a third sector of Ota City with the aim of speeding up customs clearance of imports and exports for Ota City and neighboring companies and supporting trade activities through cuts to logistics costs and other means, thus stimulating local economies. We handle both air and ocean cargo.

In fiscal 2011 we handled 35,281 TEU of marine container cargo imports and exports. We were able to reuse 6,377 TEU of empty containers returned after import as containers for export.

"K" Line began using our facility as a storage site for empty containers in the early days, and has thus contributed to increased convenience and reduced costs for logistics for local cargo owners. We look forward to continued support to revitalize the region and reduce the environmental load.



Building Mutual Trust through Dialogue

Dialogue with the local community and global society

Objective

As a shipping line conducting business globally, communication with local communities and global society is indispensable for contributing to the sustainable development of society. "K" Line Group companies respond to the needs of society through communication with local communities at each base, with the hope of earning the community's trust.

The "K" Line Group also pursues social contribution activities that utilize its business resources, including relief for natural disasters, cooperation in shipping, acceptance of internships to develop human resources who will lead the next generation, and volunteer activities.

Relief for natural disasters

We donate commodities in a timely manner to victims of natural disasters through a charitable foundation (ROFI) founded by the Rayomar Group, the local joint venture partner of "K" Line (Philippines) Inc. and Ventis Maritime Corporation, our affiliates in the Philippines. After the torrential rains in the Philippines (the suburbs of Manila) in early August 2012, executives and regular employees of Group companies collected clothing to send as relief to victims. About 800 pieces of clothing were donated to local disaster victims that include some of company ship's crew and their families.



Donated clothing

Support for local communities

Since 2010, "K" Line America, Inc. has participated in Angel Tree, a program to give Christmas gifts to people and children living in poverty, and has donated bicycles, toys and clothing to children in Virginia.

Cooperation in shipping

We have joined the mobile library project sponsored by SAPESI (South African Primary Education Support Initiative), an NPO that provides educational support to South African children, and began assisting in sending English children's books to local regions from March 2011. In FY2012, we shipped five 20-foot containers of books from Australia, Singapore, Malaysia, Hong Kong, the United States and Canada.

Volunteer activities

Making use of the volunteer leave system that was established in May 2011 for providing support to areas affected by large-scale natural disasters, employee volunteer activities were planned and executed to support reconstruction in areas devastated by the Great East Japan Earthquake. Three activities were carried out in FY2012, with a total of 38 employees participating from "K" Line and Group companies.

[More details and information on other initiatives are listed on our website.](#)
CSR >>> "K" Line Group's Social Contribution Activities

Topics

"K" Line's forest
"Sarumachizuka"
Satoyama
(woodland) project

"K" Line signed an agreement with NPO Chiba University Students Committee for Environmental Management System and Chiba Prefecture in order to join Chiba Prefecture's Satoyama preservation activities and conduct such activities in "K" Line-owned woodlands near Narita International Airport in Chiba Prefecture. Through this activity, "K" Line also received a Certificate of CO₂ Absorption by forest preservation from the Chiba prefectural government. (February 2013)

"K" Line and the Students Committee will contribute to preserving the Satoyama through volunteer activities with the goals of conserving biodiversity, improving the landscape and spreading environmental awareness.



"K" Line Group Satoyama preservation activities

Comment

Satoyama
regeneration and
environmental
education

The Satoyama project implemented through the agreement with "K" Line mainly involves woodland maintenance. Currently we are thinning and weeding to gradually restore the natural landscape. In addition to Satoyama maintenance activities, we also provide environmental education using the natural resources of the woodlands to generate more interest in the Satoyama. I hope that our efforts through this program to develop the woodlands in local communities create a place for relaxation that everyone can enjoy.

Department of Environmental Science
and Landscape Architecture,
Faculty of Horticulture, Chiba University

Tomohiro Kida



Dialogue with employees

Objective

We respect the basic human rights of our employees and develop training programs to maximize the ability of each person. We also strive to improve work environments to enable each employee to work vigorously and with a sense of safety.

We strive to build good relationships between management and staff with the aim of improving the work environment. Ideas generated from constructive dialogue are incorporated into systems to enhance support in work-life balance and other aspects of the work environment.

Comment

K-Life Balance Project

Building a work environment that is comfortable for all executives and employees in 10 years

An increasing number of employees have time limitations because of childcare or nursing care responsibilities and work styles are expected to become even more diversified. The K-Life Balance Project was launched as an initiative to revise traditional work styles for all employees and to change the work culture.



Manager, Human Resources Policy Team,
Human Resources Group

Yukihiro Itagaki

Creating comfortable workplaces

Respecting human rights and preventing harassment

Sharing the principle of respecting human rights among the Group companies

At the beginning of the Charter of Conduct for "K" Line Group Companies we specify respecting human rights. Each company in the Group shares that principle and strives to increase awareness of human rights in its work environment and business activities.

A dedicated consultation service has also been established to prevent harassment.

We have established a dedicated consultation service for sexual harassment, power harassment, and mental health issues, and have posted information on our internal portal site on how to use it. We have set up a system in which we can quickly solve problems while giving the maximum consideration to privacy by providing a female consultant and working with an industrial physician.

Promoting diversity

Employing a diverse workforce

"K" Line provides a work environment that respects the values of various types of people and enables them to maximize their abilities, regardless of gender, age, nationality, ethnicity, or disability.

We endeavor to position employees who can work in a global business environment. We also promote diversity in the workforce by stepping up recruitment of female staff and hiring employees of other nationalities and those with disabilities.

Work life balance

Promoting development of a work environment that is compatible with both work and private life

We recognize the importance of providing an environment and framework that is compatible with both work and private life. "K" Life thus implements initiatives to allow each and every employee to achieve a good work-life balance by supporting work styles that suit their personal needs. In the 2013 fiscal year, we plan on assigning dedicated officers for promoting work-life balance. (See also "Overview of systems that support a work-life balance" on p. 34.)

Safety and health considerations

Promoting good health of body and mind in employees

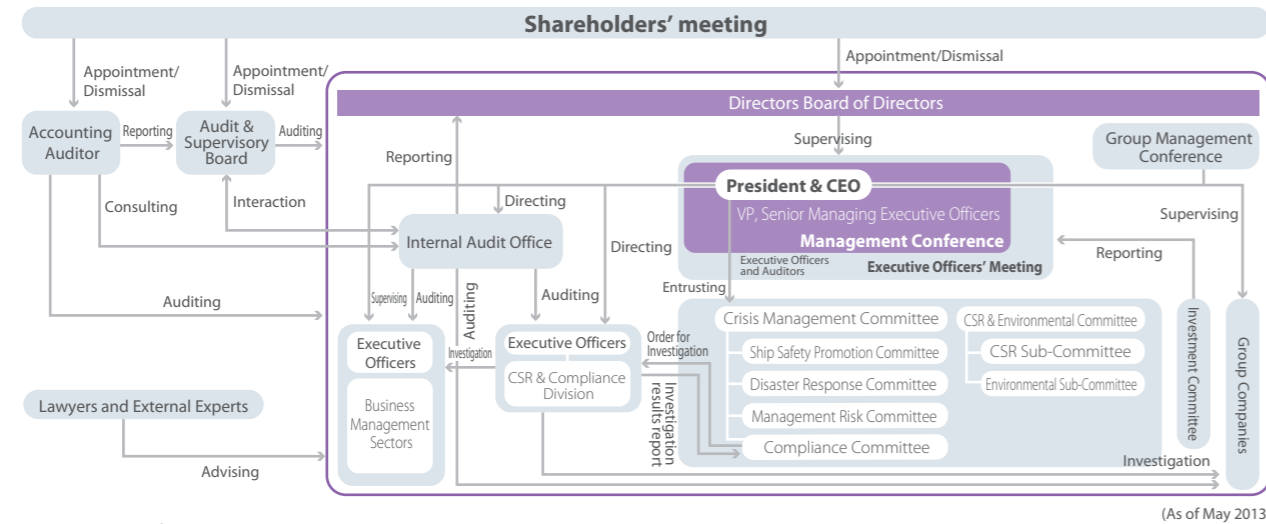
The Health Enhancement Committee works to improve the health status of employees in cooperation with industrial physicians, certified social insurance labor consultants, health insurance societies, and the labor union. It also strengthens efforts to prevent overwork by arranging opportunities to provide managerial employees with explanations on the relationship between overwork and health. In addition to requiring employees to receive a physical examination once a year, we also subsidize the cost for employees who desire a second examination and take other measures to proactively support our employees' health management.

In place of net-based mental health checks, we established an external consultation service in September 2012 and adopted a program that can be used by employees and their family members.

Corporate Governance

Corporate governance structure

Structure of our business execution, management monitoring, and internal control



Structure of business execution

"K" Line adopts an Executive Officer System and streamlines its management by delegating authority and expediting decision-making.

Overview of each meeting structure

System	Role	Members	Frequency () is actual frequency for FY2012
Board of Directors	<ul style="list-style-type: none"> Determines fundamental management policies, matters required by laws and regulations and other important management-related matters. Supervises business executions 	All 13 Directors*1 (of which 2 are Outside Directors as stipulated by the Companies Act of Japan)	Generally once a month (15 times)
Executive Officers' Meeting	<ul style="list-style-type: none"> Helps the President & CEO and its representatives make decisions through frank discussions between executives Shares information on important matters 	All 22 Executive Officers and 5 Auditors	Generally twice a month (32 times) (incl. e-mail meetings)
Audit & Supervisory Board	<ul style="list-style-type: none"> Formulates and implements audit policies and plans * Supervises operations of directors through attendance at board meetings and other important meetings and inspection of decision documents 	All 5 Auditors*2 (of which 3 are Outside Auditors as stipulated by the Companies Act of Japan)	Generally once a month (17 times)
Management Conference	<ul style="list-style-type: none"> Deliberates on policies and points of note before undertaking business execution concerning important management matters 	Chairman, President & CEO, Vice President, Senior Managing Executive Officers (5), Chairman of the Board, Corporate Planning Executive Officer, Finance Executive Officer, Accounting Executive Officer, and other officers and employees specified by the President & CEO for each discussion	Generally once a week (43 times)
Investment Committee	<ul style="list-style-type: none"> Maximizes the investment efficiency in "K" Line and its affiliates, examining their investment capacity * Discusses basic investment plans and cases based on those plans, as well as important cases for affiliates * Determines the effectiveness of investments made and discusses the need to suspend or abandon those investments 	Accounting Executive Officer, Finance Executive Officer, Head of each Group and Office	Generally twice a month (17 times)

*1 Limited term of one-year for increased transparency of management

*2 One dedicated employee for assistance for auditors

Internal control system

Ensuring effective internal controls

The Board of Directors is responsible for building the internal control system, evaluating its effectiveness, and ensuring that it functions properly. The Internal Audit Office assists Directors in performing their duties with respect to

the establishment and maintenance of internal controls by providing supervision and inspection in internal audits. Auditors oversee the processes by which Directors build an internal control structure and confirm that it is functioning effectively.

Details of the business execution structure are available on our website.
CSR >>> Management >>> Corporate Governance

Risk Management

Risk management system

Four Committees set up for four types of risks

We have established a system for managing crises and risks in order to recognize diverse management risks, prepare for them, and discharge our corporate social responsibility when the risks become actualized. Specifically, we have established four Committees for responding to four different types of risks: risks in ship operations, the risk of disasters, risks concerning compliance, and other risks related to management. We also established a Crisis Management Committee as an organization to unify the four Committees and to control and facilitate overall risk management.

Risk management system



Response to large-scale disasters

Business Continuity Plans (BCPs)

We have established BCPs for two different types of disasters: an inland earthquake in the Tokyo metropolitan area and a pandemic involving a highly virulent new influenza. Placing maximum priority on human life, we aim to continue business operations by transferring important functions to our domestic and overseas branches and subsidiaries or by shifting to telecommuting so that we keep discharging our responsibility as a part of social infrastructure. Also, to avoid electric data loss in a disaster, we have set up a system for remote storage of backup data.

The Disaster Response Committee devised strategies for improvement based on our experiences in the Great East Japan Earthquake and held disaster response drills in November 2012 premised on a major earthquake occurring in the Tokyo metropolitan area. After the drills, the Marunouchi Fire Department gave a course on how to perform cardiopulmonary resuscitation and how to use AEDs.

Other management risks

Risks are not limited to those concerning ship operations, major disasters, or compliance. There are many other risks, including terrorism, threats from antisocial forces, harmful rumors, fluctuations in exchange/interest rates, fluctuations in fuel oil prices, changes in the tax systems or economic policies of major trading nations (areas), including North America, Europe, and China, and the adoption of protectionist trade policies.

Risk of threats from anti-social forces and terrorism

We have established a dedicated consultation service for undue claims against "K" Line and Group companies and a system that allows the entire organization to respond in the event of concrete incidents in cooperation with the relevant authorities and our corporate lawyers. In addition, with the new enforcement of the Tokyo Metropolitan Ordinance for Eliminating the Organized Crime Groups in October 2011, we distributed an explanation of the article to employees at our company and Group companies in Japan and requested that a clause regarding the elimination of crime groups be added to contracts with business partners. To combat the risk of terrorism, we participate in the C-TPAT program*3, a U.S. Customs' program aimed at preventing terrorism. Under this program, we take measures that include strict identification of people who visit ships and offices, the appropriate installation of fences and lights at self-managed terminals, and measures for ensuring information security.

*3 C-TPAT (Customs Trade Partnership Against Terrorism): A customs-trade partnership program aimed at preventing terrorism and ensuring security. US Customs encourages parties involved in trade with the United States (shipping lines, port operators, inland transporters, manufacturers, cargo owners, warehousemen, and others) to participate.

Risk of economic changes

We monitor fluctuations in exchange rates, fuel prices, and interest rates and trends in public regulations and hedge against risks appropriately. Our Management Risk Committee takes preventive action if there is a threat that our operations will be affected by the risks and responds appropriately when an impact actually occurs.

Information security

We have established regulations for information management and information security in which we stipulate the basic principles for management and security of all information assets handled in our business activities. We enforce various policies, such as security log monitoring and anti-virus and anti-spam measures.

Compliance

Promotion of compliance

Group-wide efforts to develop a compliance system

Compliance forms the backbone for pursuing business activities in a way that gains trust from society.

We have installed a Compliance Committee (see also p. 32) chaired by the President that discusses strategies and countermeasures to ensure that compliance is maintained throughout the entire Group. Group companies report compliance-related issues to "K" Line, and the Compliance Committee handles all compliance issues for the entire Group and reports details of its activities to the Board of Directors on a quarterly basis.

"K" Line's dedicated division (CSR & Compliance Division) is responsible for investigating and reporting compliance issues for the entire Group as the compliance committee office and strives to enhance awareness of compliance among executives and employees of Group companies through seminars and other initiatives. A compliance officer is designated in 25 Group companies in Japan and 32 overseas to form a compliance network. Through this organization, we hold seminars and share relevant information to enhance compliance together as a group.

Compliance education and training

Compliance Month

To further ensure across-the-board compliance in our Group, we began designating a Compliance Month, starting in FY2011. During this month, we focus on carrying out various awareness-raising activities. During the FY2012 Compliance Month (November), we carried out the following measures.

FY2012 measures

1. Distributed a message from the President & CEO (discussing revisions of the Charter of Conduct for "K" Line Group Companies made in August, across-the-board compliance with the Competition Law, and enhancing anti-bribery actions)
2. Held a compliance seminar for the management teams of "K" Line and Group companies (hosted by outside specialists, 115 participants)
3. Conducted a survey on awareness of the whistle-blowing system

Striving for universal awareness of and compliance with the Competition Law and the Anti-bribery Act

As competition laws and regulations have become tougher and their application strengthened, we began giving classroom seminars by outside specialists in FY2009 for all executives and employees (in career-oriented positions). In FY2012, the 4th year, we held a seminar in September and one in October, with 104 attendees. Regarding anti-bribery related laws and regulations, following enforcement of the UK Bribery Act 2010 in FY2011, we outlined the details of the Act for all internal divisions once again in FY2012. In addition, we are preparing a Global Bribery Prevention Policy with the help of outside specialists with the aim of ensuring thorough anti-bribery compliance.



Compliance seminar for management teams of "K" Line and Group companies

Strengthening the compliance system

Function of the Compliance Committee

In the event of a compliance violation at "K" Line or at a Group company, the issue is referred to "K" Line's Compliance Committee. The Committee conducts an investigation according to the Detailed Rules for Responding to Compliance Matters that stipulates the procedures to follow for a compliance violation. The Committee then issues instructions to correct or cease the violation, in the name of the Chairman of the Committee, reports the matter to government authorities when necessary, and devises measures to prevent a recurrence. Under the Rules on Operation of the Compliance Committee, the Committee is obliged to keep strictly confidential the names of whistle-blowers and the details of deliberations. It does not disclose names, departments, or any other information that would permit identification of the people involved in the matter, and permits consultation with attorneys.

In FY2012, the Committee handled seven new compliance issues.

Whistle-blowing system

Toward total participation in stronger compliance

We have introduced a whistle-blowing system called the Hot Line System. We have established internal contacts and appointed attorneys as external contacts. All employees working at "K" Line or at a participating Group company can use the system, regardless of their position or type of employment. Starting in FY2011, we began conducting yearly surveys during Compliance Month on the whistle-blowing system at all participating companies, with the aim of increasing awareness of the system.

At present, the system encompasses 23 companies ("K" Line and 22 Group companies). In FY2012, one case was reported and handled.

A Flowchart of the Hot-Line System is available on our website.
CSR >>> Management >>> Compliance

Initiatives for protecting personal information

Privacy policies established

To comply with the Act on the Protection of Personal Information, we have formulated privacy policies and a personal information management code. Details of the privacy policies are disclosed on our website. We identify and classify information that is handled as personal information and undertake training and education to further refine our system for protecting personal information.

Our Privacy Policy is disclosed on our website.
Privacy Policy

Investigation by the Fair Trade Commission

"K" Line received an on-site inspection in September 2012 by Japan's Fair Trade Commission on suspicion of violating anti-trust laws concerning ocean transportation of automobiles, mobile construction machinery and other cargo. The investigation by the Fair Trade Commission is still ongoing, and investigations have also been launched by competition law authorities in Europe, the United States and other countries.

We take the fact that we required such an inspection very seriously. In addition to full cooperation with these investigations, we have installed a new Corporate Legal Risk Management Division and are working to strengthen our systems for complying with competition law and all other domestic and international laws and regulations.

Voice

Compliance initiatives

Masayuki Kagi

General Manager,
Legal Department,
"K" Line Logistics Co., Ltd.

We hold a compliance seminar every year. In FY2012, we provided training on compliance, subcontractor law, and the Anti-Monopoly Act for all general managers from July to September.

We increased their awareness of compliance initiatives by having them understand the fundamental meaning and importance of all aspects of compliance and internal control. Regarding subcontractor law, following explanatory meetings held at all offices in FY2011, we further pursued across-the-board awareness by showing detailed cases based on an internal survey on prohibitions and measures that must be complied with for conducting legitimate transactions with partner companies.

We also outlined details on regulated actions and penalties concerning the Anti-Monopoly Act.



Message

Management teams and employees working together to strengthen the compliance system

Tsuyoshi Yamauchi

Managing Executive Officer in Charge of
CSR & Compliance

In addition to complying with laws and regulations and adhering to social norms as a matter of course, responding to the expectations and demands of society by maintaining our corporate philosophy is a requirement of a company that wishes to gain the trust and respect of society. Our Group has formulated a Charter of Conduct and a Compliance Manual to ensure a universal scale for values to apply when dealing with issues in various business situations. We expect all employees to be highly conscious of compliance and act autonomously. In addition to spreading compliance awareness from the top management, for example via messages from the President & CEO, employees also raise issues from the bottom up through the whistle-blowing system and other means. In this manner, our management teams and employees come together to strengthen the compliance system.



Fiscal Year 2012 CSR Highlights and Fiscal Year 2013 Objectives

For information on our environmental targets, refer to the "Results of Our Environmental Activities in 2012 and Targets for 2013" on pages 35 and 36.

ISO 26000 Core subjects	"K" Line's initiatives	FY2012 objectives	Status of achievements at end-FY2012	FY2013 objectives
Organizational governance	Strengthening corporate governance	<ul style="list-style-type: none"> Formulating a Charter of Conduct befitting the needs of the times 	<ul style="list-style-type: none"> Revision of Charter of Conduct for "K" Line Group Companies (August 2012) 	<ul style="list-style-type: none"> Enhancing awareness of the revised Charter of Conduct
	Conducting CSR management	<ul style="list-style-type: none"> Providing education and training programs for executive officers and employees 	<ul style="list-style-type: none"> E-learning implementation related to basic CSR knowledge to executive officers and employees of "K" Line and its domestic Group companies (26 companies, 1,384 people) 	<ul style="list-style-type: none"> Deploying CSR education and training globally
	Holding dialogue with stakeholders	<ul style="list-style-type: none"> Further enhancing contents of the Social and Environmental Report by revising the makeup Enriching CSR-related information provided on the Company's website 	<ul style="list-style-type: none"> Emphasis on the importance of human resource development with a special feature at the top of the issue Creation of a web page to introduce the "K" Line Group's initiatives toward the Great East Japan Earthquake in detail 	<ul style="list-style-type: none"> Strengthening dialogue with stakeholders
Human rights and labor practices	Respecting human rights and prohibiting discrimination	<ul style="list-style-type: none"> Promoting employment of people with disabilities 	<ul style="list-style-type: none"> Number of new employees with disabilities: 3 	<ul style="list-style-type: none"> Providing fair employment opportunities and conditions
	Developing global human resources	<ul style="list-style-type: none"> Improving the capabilities of on-shore personnel mainly through off-the-job training and on-the-job training Providing training for maritime technical personnel and enhancing skills through "K" Line Maritime Academy (KLMA) and its unique system of human resource development 	<ul style="list-style-type: none"> Improvement of language skills through overseas education and other training with one in every five employees on average developing business overseas Delivery of drills and training at KLMA in each study base FY2012 course participants by region: Philippines: Approx. 8,200, India: Approx. 200, Japan: Approx. 1,100 Foundation of a training course for Management Level (navigation officers) in the Philippines 	<ul style="list-style-type: none"> Developing personnel who can work on a global basis Researching training needs of seafarers and review the KLMA system of nurturing seafarers Developing maritime technical personnel who can achieve safe navigation and cargo operations, and environmental preservation
	Promoting diversity	<ul style="list-style-type: none"> Utilizing a diverse array of human resources and providing equal opportunities for career path 	<ul style="list-style-type: none"> Recruitment without limit to nationality One in 10 female core employees working overseas 	<ul style="list-style-type: none"> Promoting diversity in human resources and realizing equal opportunities in career path in order to strengthen global competitiveness
	Supporting a variety of work styles	<ul style="list-style-type: none"> Promoting work-life balance 	<ul style="list-style-type: none"> Launch of K-Life balance project through labor-management collaboration 	<ul style="list-style-type: none"> Promoting work-life balance
	Ensuring the safety and health of employees	<ul style="list-style-type: none"> Continuing disaster drills in light of a reflection of the Great East Japan Earthquake Providing education and training on employee safety and health for middle management 	<ul style="list-style-type: none"> Disaster drills (December 2012) Lending PCs to core personnel for telecommuting in case of an emergency Legal seminars regarding labor laws (focus on occupational accidents) Seminars for newly appointed middle managers on depression and harassment Introduction of the EAP (Employee Assistant Program) as preventive measures against mental illness 	<ul style="list-style-type: none"> Improving disaster response and enhancing business continuity plans Improving health and safety environment both on vessels and at offices Supporting the safety and health of employees
Fair operating practices	Enhancing compliance	<ul style="list-style-type: none"> Promoting enlightenment and awareness-raising related to compliance risk 	<ul style="list-style-type: none"> Compliance seminars for management of "K" Line and its domestic group companies (November, 115 participants) A survey regarding awareness of the Hotline (whistleblowing) system among employees at "K" Line and domestic group companies (November, 22 companies, 2,372 people) Seminars related to timely disclosure and insider trading for "K" Line executive officers (December) 	<ul style="list-style-type: none"> Providing education on compliance on an ongoing basis
	Ensuring fair competition and trading	<ul style="list-style-type: none"> Complying with EU Competition Law and UK Bribery Act 	<ul style="list-style-type: none"> Seminars related to Competition Laws (104 participants) Internal announcement to formulate an anti-bribery policy with the aim of creating a framework for compliance with bribery-related legislation 	<ul style="list-style-type: none"> Improving employees' knowledge related to Competition Law Establishing a bribery prevention system
Response to customers (consumer issues)	Ensuring safe navigation and enhancing crisis management	<ul style="list-style-type: none"> Continuing drills as response to serious accidents Revising Business Continuity Plans (BCPs) for each business division 	<ul style="list-style-type: none"> Emergency drills in collaboration with ship management companies assuming an oil spill caused by a large tanker with her bottom in contact with the seafloor (March 2013) Revised edition of BCP for each business division (2012 version) 	<ul style="list-style-type: none"> Enhancing capability to cope with large accident Improving BCP (in response to earthquake and influenza)
	Reducing environmental impacts and improving transportation quality	<ul style="list-style-type: none"> Notifying suppliers of the Company's standard specifications and environmental specifications and promoting cooperation with them 	<ul style="list-style-type: none"> Application of the Company's safety standard specifications to all of the new buildings 	<ul style="list-style-type: none"> Developing new technology to contribute to a reduction in environmental burdens and improvement in transportation quality Reducing environmental impacts by promoting eco steaming
Community involvement and development	Supporting education and creating employment	<ul style="list-style-type: none"> Participating in educational organizations, scholarship contribution organizations and human resource taskforces Accepting students for internships Nurturing maritime technical personnel by developing practical training on the Company's ships 	<ul style="list-style-type: none"> Participation in human resource taskforces July 2012: Coalition for guidance on admission to technical college August 2012: Open campus for Faculty of Maritime Sciences, Kobe University and lecture presentations for first year students December 2012: Lecture presentations for first year students of Marine Systems Engineering, Tokyo University of Marine Science and Technology January 2013: Lecture presentations for second-year students of Marine Systems Engineering and Marine Electronics and Mechanical Engineering, Tokyo University of Marine Science and Technology and for second-year students of the Faculty of Maritime Sciences, Kobe University February 2013: Forum on technical college maritime education August 2012: Acceptance of 15 students a week for four-week internships (60 students in total) FY2012: Acceptance of nine students in total for six-month apprenticeships on the Company's ships 	<ul style="list-style-type: none"> Promoting support for maritime education
	Promoting social contribution activities	<ul style="list-style-type: none"> Continuing revival support to areas affected by the Great East Japan Earthquake (by promoting volunteer activities by employees, etc.) Continuing support for disaster-affected areas Continuously using green power Planning and implementing social contribution activities aimed at environmental preservation Promoting social contribution activities making use of business resources 	<ul style="list-style-type: none"> Volunteer activities for revival support following the Great East Japan Earthquake, by employees of both "K" Line and its domestic group companies (April, July and September; 38 participants) Donation of used clothes (October) and relief money (January) to victims of a typhoon in the Philippines Continuous use of green power*1 at "K" Line America, Inc. Woodland preservation activities in conjunction with an NPO in an area of Chiba Tree-planting volunteer activities known as Umi-no-Mori (Sea Forest) sponsored by Tokyo Metropolitan Government (October, 16 people) Free Transportation of an ambulance and fire engine to Peru (April) Free Transportation of children's books to South Africa (September to March) 	<ul style="list-style-type: none"> Supporting revival in disaster-affected areas Providing support to disaster-affected areas in timely manner Promoting the use of green power Planning and participating in social contribution activities aimed at environmental preservation Promoting social contribution activities making use of business resources

*1 Green power: "Green power" refers to power generated through renewable energy sources. Compared with fossil fuels and other sources, green power emits less carbon dioxide, thereby providing added environmental value. Certificates, known as Tradable Green Certificates, can be issued for that amount of added environmental value and traded on the market. Users who purchase Tradable Green Certificates are recognized as having used green power for that portion of their total electricity consumed.

System to Support a Comfortable Workplace

The following revisions were made to the personnel systems in FY2012 as a part of work-life balance support:

1. Establishment of volunteer leave for providing support after large-scale natural disasters
2. Provision of opportunities to make up for delays in promotions after returning to work from childcare leave

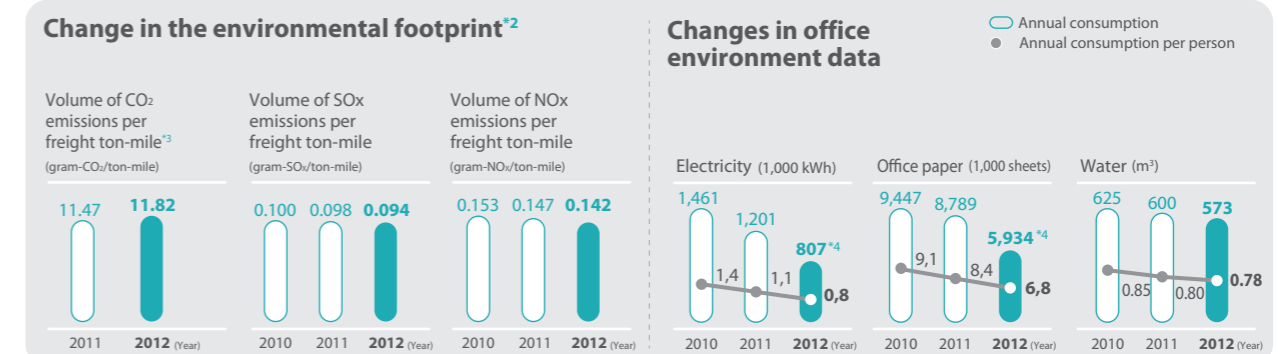
As we pursue the "K-Life Balance Project" in the new fiscal year (FY2013), we will further consider how we shall review the personnel systems to meet our goal.

Overview of systems that support a work-life balance

Principal systems	Outline of "K" Line's systems	Legal standards	Number of users in FY2012		
			males	females	total
Respectful maternity care	Shorter working hours during pregnancy	Same as at left			
	Hospital visits granted during work hours	Same as at left			
Maternity leave	Granted from 8 weeks prior to the expected date of birth	Granted from 6 weeks prior to the expected date of birth			
	Maternity allowance granted during the period of 8 to 6 weeks prior to birth	No established standards			
Childcare leave	Granted until the child turns 3	Granted until the child turns 1 year and 6 months old			
Leave for advanced infertility treatment	Granted for up to 18 months	No established standards			
Nursing care leave	Granted for up to 2 years	Granted for up to 93 days			
Support programs during childcare or nursing care	Loan program	Available for an employee who has a preschool child or a person requiring nursing care in his/her family.			
	Shorter working hours program	Granted until the child completes the 3rd grade of elementary school.			
Refreshment leave	Available in the 11th year at the company (7 consecutive days)	No established standards			
	Available in the 21st year at the company (10 consecutive days)	No established standards			

* Other efforts are also taken to create a safe and comfortable work environment, such as use of a flex-time system (with core work time from 10 a.m. to 4 p.m., adopted by each department).

Environmental Data



*2: Changes in CO₂ emissions are only shown for 2 years as the only years with company data available to calculate in actual cargo weight tonnage based on International Maritime Organization (IMO) guidelines (SO_x and NO_x are calculated in deadweight tonnage as before).

*3: 1 mile (nautical mile) = 1,852 m (1.852 km)

*4: After moving to a new office with more advanced environmentally friendly capabilities in October 2011, electricity consumption and use of office paper dropped dramatically.

Results of Our Environmental Activities in 2012 and Targets for 2013

Environmental Policy/direction	Environmental objectives	Environmental targets (medium-term)
Continuous improvements to reduce the environmental impacts, Compliance with treaties, laws and regulations, policies, and voluntary standards	Reducing consumption of natural resources	<ul style="list-style-type: none"> Reducing the use of office paper Reducing energy consumption in onshore offices Reducing the use of tap water in onshore offices Continuously reducing fuel and lubricating oil used for ships
	Preventing air pollution	<ul style="list-style-type: none"> Reducing CO₂ emissions (10% cut from the 2011 level on a per ton-mile basis to be achieved in 2019) Reducing SOx emissions Reducing NOx emissions Participating in voluntary activities Reducing air pollutants and greenhouse gases from berthed ships Encouraging the adoption of energy-saving cargo-handling devices
	Reducing noise	<ul style="list-style-type: none"> Reducing the noise generated by ships and terminal equipment
	Preserving the marine and global environment through safe navigation and cargo operations	<ul style="list-style-type: none"> Operating with no major incidents that cause marine pollution for the fifth consecutive year, which is to be achieved by exhaustively ensuring safe navigation and cargo operations Preventing leaks and spills from fuel tanks
Forming a recycling-oriented society by promoting the 3R's	Preventing pollution by drainage water	<ul style="list-style-type: none"> Properly managing drainage water at onshore offices
	Properly managing and reducing waste	<ul style="list-style-type: none"> Reducing waste at onshore offices Promoting green procurement Promoting the separation of waste materials generated on board and recycling them on land Reducing the use of packaging materials in deliveries to ships Preventing environmental pollution when dismantling ships
Conserving biodiversity	Preventing marine pollution	<ul style="list-style-type: none"> Continually practicing ballast water exchange in open waters Considering the introduction and development of technologies for making ballast water harmless and minimizing the quantity of ballast water on board Encouraging the use of more environmentally friendly paints
Supporting and participating in social contribution activities	Making a social contribution	<ul style="list-style-type: none"> Continuing marine surveys Participating in social contribution activities
Implementing education and training to deepen awareness and understanding of environmental preservation	Educating/training employees of the company and Group companies	<ul style="list-style-type: none"> Providing job class-specific training and education to employees
	Expanding the acquisition of environmental certifications	<ul style="list-style-type: none"> Having more Group companies, including overseas subsidiaries, acquire environmental certifications

Environmental targets for 2012	Results in 2012	Environmental targets for 2013
<ul style="list-style-type: none"> Reducing the use of office paper by 1% per employee from the previous year by promoting paperless initiatives Reducing electricity consumption per employee at onshore offices from the previous year Reducing the use of tap water per employee at onshore offices from the previous year Reducing fuel used for ships on a per ton-mile basis Reducing the quantity of lubricating oil used for ships on a per ton-mile basis Introducing the Fuel Additive Dosing System Promoting Eco Slow Steaming (sailing at reduced speed) 	<ul style="list-style-type: none"> Reduced by 18.3% Reduced by 29.4% Reduced by 2.5% Increased by 3.0% Reduced by 5.2% Introduced to 1 ship Super-slow steaming with 58 ships 	<ul style="list-style-type: none"> Reducing the use of office paper by 1% per employee from the previous year by promoting paperless initiatives Reducing electricity consumption per employee at onshore offices from the previous year Reducing the use of tap water per employee at onshore offices from the previous year Reducing fuel used for ships on a per ton-mile basis Reducing the quantity of lubricating oil used for ships on a per ton-mile basis Introducing the Fuel Additive Dosing System Promoting Eco Slow Steaming (sailing at reduced speed)
<ul style="list-style-type: none"> Reducing CO₂ emissions on a per ton-mile basis Reducing SOx emissions on a per ton-mile basis Reducing NOx emissions on a per ton-mile basis Reducing speed voluntarily in harbors and coastal areas Reducing emissions of black smoke, PM, CO₂, SOx, and NOx from berthed ships Controlling VOC^{*1} emissions from tankers Encouraging the adoption of energy-saving cargo-handling devices 	<ul style="list-style-type: none"> Increased by 3.1% Reduced by 4.1% Reduced by 3.4% Voluntary eco steaming 246 times in total when entering and sailing at the Port of Long Beach and Los Angeles in the U.S. Continuous supply of onshore electricity to ships at the Port of Long Beach (by "K" Line) at Japanese ports (by Kawasaki Kinkai Kisen) No VECS^{*2} newly installed due to no new buildings of tankers in 2012 Introduction of devices to container terminals in Japan and overseas Establishment of a standard of the noise level and a method for measuring it to enable us to confirm it is below the standard value at the time of construction 	<ul style="list-style-type: none"> Reducing CO₂ emissions on a per ton-mile basis Reducing SOx emissions on a per ton-mile basis Reducing NOx emissions on a per ton-mile basis Reducing speed voluntarily in harbors and coastal areas Reducing emissions of black smoke, PM, CO₂, SOx, and NOx from berthed ships Controlling VOC emissions from tankers Encouraging the adoption of energy-saving cargo-handling devices
<ul style="list-style-type: none"> Implementing Safety Management System (SMS) appropriately to eliminate oil leaks from ships Adopting overflow pipes to prevent oil spills from fuel tanks 	<ul style="list-style-type: none"> One minor oil spillage into the sea with minimized harm through appropriate actions. Establishment of preventive measures after thorough investigation of the cause. Incorporated in 5 newly built ships 	<ul style="list-style-type: none"> Implementing Safety Management System (SMS) appropriately to eliminate oil leaks from ships Adopting overflow pipes to prevent oil spills from fuel tanks
<ul style="list-style-type: none"> Properly managing drainage water at onshore offices Striving to reduce and recycle waste from onshore offices 	<ul style="list-style-type: none"> No remarks as a result of appropriate drainage water management Reduced waste by 58.0% 	<ul style="list-style-type: none"> Properly managing drainage water at onshore offices Striving to reduce and recycle waste from onshore offices
<ul style="list-style-type: none"> Improving the ratio of green procurement Promoting the decrease and recycling (landed, etc.) of waste materials generated on board Continuing to encourage manufacturers and suppliers to reduce packaging materials Monitoring changes over time as the Ship Recycling Convention goes into effect and handling them appropriately 	<ul style="list-style-type: none"> The ratio for FY2012 was 54.0% Decreased administration costs and reduced ratio of green procurement by 1.4% Decrease of the amount landed by 0.4% through efforts to reduce waste generated on board Encouragement of the use of non-plastic cushioning materials as well as the takeaway of packaging materials by suppliers Evaluation and selection of a good ship dismantling yard according to "K" Line standards 	<ul style="list-style-type: none"> Improving the ratio of green procurement Promoting the decrease and recycling (landed, etc.) of waste materials generated on board Continuing to encourage manufacturers and suppliers to reduce packaging materials Monitoring changes over time as the Ship Recycling Convention goes into effect and handling them appropriately
<ul style="list-style-type: none"> Undertaking ballast water exchanges in open waters Considering the installation of ballast water treatment systems to prepare for the enactment of the Ballast Water Management Convention Expanding the adoption of new types of paints 	<ul style="list-style-type: none"> Implementation in accordance with ballast water management plan Study for each type of ship together with shipyards Adoption of non-metal paints for 12 ships 	<ul style="list-style-type: none"> Undertaking ballast water exchanges in open waters Considering the installation of ballast water treatment systems to prepare for the introduction of the Ballast Water Management Convention Expanding the adoption of new types of paints
<ul style="list-style-type: none"> Continuing marine surveys Participating in at least three activities for social contributions in the year 	<ul style="list-style-type: none"> Now underway with our bulk coal carrier, the Chubu Maru Participation in 3 activities 	<ul style="list-style-type: none"> Continuing marine surveys Participating in at least three activities for social contributions in the year
<ul style="list-style-type: none"> Providing environmental seminars and education to employees Providing training and education to crew members Continuing to request and encourage companies to obtain Certifications 	<ul style="list-style-type: none"> Environmental seminars for 216 employees, and environmental management training for 13 employees Training and education to 101 crew members No new acquisition of certifications 	<ul style="list-style-type: none"> Providing environmental seminars and education Providing training and education to crew members Continuing to request and encourage companies to obtain Certifications

*1 VOC: VOC stands for volatile organic compounds, which are regulated as air pollutants by law.
 *2 VECS: Vapor Emission Control System (VECS) is a device that collects the gas generated in a tank when the cargo oil is loaded on the ship and transfers the collected gas to an onshore facility. The transferred gas is collected as crude oil or otherwise treated appropriately.

CSR Initiatives Based on Business Characteristics

Key Issues

Management

Data

Human Resources Data/Primary Financial Data (Consolidated)/Business Description

Human resources data

* This data applies to Kawasaki Kisen Kaisha, Ltd. and its employees.

		FY2010		FY2011		FY2012	
		Onshore	Seafarer	Onshore	Seafarer	Onshore	Seafarer
Number of employees (As of the end of each fiscal year)	Male	323	181	340	171	337	174
	Female	114	5	146	7	144	4
	Total	437	186	486	178	481	178
Number of new employees (including mid-career employees)	Male	20	14	14	14	7	14
	Female	11	2	8	2	4	2
	Total	31	16	22	16	11	16
Average length of service (As of the end of each fiscal year) (Years)	Comprehensive work onshore	13.5		13.4		13.7	
	Clerical work onshore	19.4		19.3		19.11	
	Seafarers	11.9		10.5		10.8	
Turnover rate of employees 30 years old or younger ^{*1} (%)	Onshore	1.53	3.3	1.33	1.0	0.0	3.8
	Seafarer						
Percentage of people taking paid leave ^{*2} (%)		40		44		39	
Percentage of eligible female employees taking childcare leave ^{*3} (%)		100	-	100	-	100	-
Number of employees taking nursing care leave	Male	0	0	0	0	0	1
	Female	0	0	0	0	0	0
Percentage of employees with disabilities ^{*4} (As of the end of each fiscal year) (%)		1.6		1.6		1.9	
Number of retired employees reemployed by the company (As of the end of each fiscal year)		17		3		2	
Number of working mothers ^{*5}		16		13		24	
Number of industrial accidents ^{*6}	Onshore	0	0	0	0	0	0
	Seafarer						

- *1 Turnover rate of employees 30 years old or younger = Number of employees departing the company at 30 or younger ÷ Number of employees 30 or younger engaged in comprehensive or clerical work
- *2 Including summer vacation. Excluding seafarers on duty at sea.
- *3 Percentage = Number of female employees taking childcare leave ÷ Number of female employees giving birth
- *4 Employment rate of employees with disabilities complies with the provisions of the Act on Employment Promotion etc. of Persons with Disabilities. According to those stipulations, a 90% exclusion rate is applied in the calculation for crew members (excluding those working onshore).
- *5 Mothers with children who have not completed compulsory education (excluding those on childcare leave)
- *6 Excluding commuting accidents

Third-party Opinion



Yoshinao Kozuma
Professor, Faculty of Economics,
Sophia University, Japan

I do, however, recommend providing additional information on dialogue with stakeholders so that it leads to increase stakeholders' understanding. Such information should include which channels have been ensured as platforms for dialogue, how the effectiveness of the dialogue is evaluated, what opinions have been gathered from stakeholders during dialogues and how the company has responded to these opinions.

3. Regulatory risks to ships

This year, "K" Line included a detailed explanation of regulatory risks related to a shipping business, which has not been particularly touched on in the past. Generally regulations on CO₂, NO_x, and SO_x emissions from ships are expected to become progressively tougher over the next decade, and how such risks are to be managed will be key information in predicting medium and/or long-term growth of a shipping company. This explanation tells us that "K" Line plans to build modern energy-saving ships in response to the regulation on energy efficiency in new ships, to use low-sulfur fuel oil in response to the regulation on sulfur content of oil and to develop an SCR system in response to the NO_x Tier III regulations. In addition, it is evident that "K" Line is pushing ahead with the development of gas-fueled ships that could clear all these regulatory hurdles. In this context, the medium and long-term regulatory response strategy adopted by the "K" Line Group is being informed in a timely manner.

1. Charter of Conduct for Group Companies

Subsequently to building a network for promoting CSR last year, "K" Line revised the Charter of Conduct for Group Companies this year, which must be a sort of the fundamental principles for CSR management. The essential revised point is that the Charter specifies contribution to the sustainable development of society which includes both international and regional communities. Thus it has made the Charter suitable for a global shipping company. As a result, social rules to be observed from the corporate ethics viewpoint were redefined as domestic and international laws/regulations and social norms instead of international rules alone. It has clarified and extended the scope of the social rules. This direction of revision should be appreciated because it indicates the "K" Line Group's strong will to promote CSR management on an international level.

In order to expand business activities on a global scale, it might be necessary to incorporate anti-corruption policies into the Charter which was not the case in this revision. As "K" Line actually has guidelines for implementing the Charter that include anti-corruption policies, it is strongly recommended to raise it to a part of the Charter.

4. Work-life balance policies

"K" Line has been focusing on measures to promote work-life balance among employees for some time now and have established two new systems this year: 1) a volunteer leave system for providing support to areas affected by large-scale natural disasters; and 2) the opportunities to make up for delays in promotions after returning to work from childcare leave. In addition, it seems that the "K-Life Balance Project" will start in fiscal 2013, which will serve to enrich "K" Line's work-life balance policies.

However, little progress seems to have been made on providing employee data on a Group basis, and this remains an ongoing issue. It would be a good idea to consider adding information that is being more and more commonly disclosed by global corporations, such as the number of male and female employees on a Group basis, in the next report.

2. Four material challenges

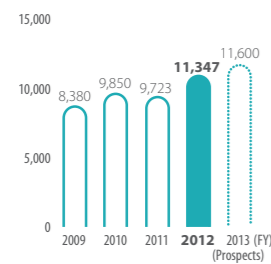
So far material challenges to fulfill "K" Line Group's social mission has been referred to as safety in navigation and cargo operation, environmental protection and human resource development. A fourth new challenge, dialogue with stakeholders, was identified this year. Such an identification of material challenges is a basic premise to implement CSR management in a right way.

These challenges are explained along the life cycle of a ship. It is so creative that readers can easily understand characteristics and a value chain of the shipping company.

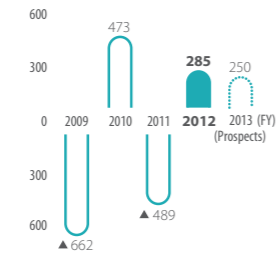
Primary financial data (consolidated)/business description

* Rounded down to the nearest 100 million yen.

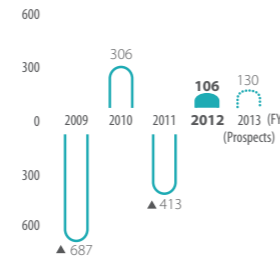
Operating revenues (100 million yen)



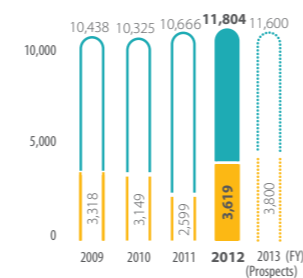
Ordinary income/loss (100 million yen)



Net income/loss (100 million yen)



Total assets/net assets (100 million yen)



The above outlook is based on estimated values as of April 30, 2013, assuming an exchange rate at 95 Japanese yen to the US dollar and a fuel oil price of US\$620/MT.

Business description

Segment breakdown of operating revenues	Percentage	Revenue (billion yen)	Business Description
Containership services	48.7%	552.8	We offer a transport service for cargo in containers. Cargo includes electronic devices, electric appliances, furniture, and clothes, as well as frozen foods, beverages, hops, consumer products, parts, and raw materials.
Total logistics services			We provide total logistics services, including airfreighting, buyer's consolidation, warehousing and trucking.
Dry bulk carrier services			We offer a bulk carrier transport service for raw materials, including coal, iron ore, grains (wheat, soy, corn, etc.), and paper-making materials.
Car carrier services			We offer transport services for passenger cars, trucks, etc. as a pioneer in car carrier services.
Energy transportation and tanker services	44.3%	502.6	We provide transportation services for such items as liquefied gas for industrial use, crude oil, petroleum products and city gas and gasoline that are directly related to people's lives.
Coastal shipping and ferry services			The ships we operate in domestic waters include cargo-passenger ships, high-speed roll-on/roll-off ships, and specialized limestone carriers for steel and cement production. We operate liners and trampers that transport raw materials and processed goods across the waters between Japan and other Asian countries.
Energy development business and offshore support vessel services	3.1%	35.7	We provide services for the offshore support vessel and drill-ship sectors that support the development of oceanic energy, a growing field.
Heavy lifter services			We offer a heavy transport service that primarily transports large cargo related to energy industries and infrastructure.
Others	3.9%	43.7	In addition to those businesses mentioned above, we operate a ship management business and a real estate leasing and management business.

More details introducing our businesses are listed on our website. Services

Reply to the third-party opinion

Thank you for your valuable opinions.

To keep pace with the changing times, last year we revised the Charter of Conduct for "K" Line Group Companies and the Group Environmental Policy, and clarified the Direction for all employees in the "K" Line Group to pursue when undertaking their work activities. In addition, we actively disclosed information on the various latent risks and opportunities in our business activities. The high praise we received for these efforts is very encouraging.

Regarding the suggestion on anti-corruption policies, we have begun work to establish Global Bribery Prevention Policies in order to clarify "K" Line Group's stance as a group determined to combat this problem. To add increased transparency to our corporate activities, we will consider disclosing information on how suggestions obtained through dialogues with stakeholders are reflected in our business activities, as well as more detailed information about our employees and other points on a Group base, including in our overseas affiliates.

To ensure that our business activities continue to contribute to the sustainable progress of society and that we remain a company that our stakeholders see as desirable, we will further enhance our initiatives to increase the ability of each and every employee to think and act independently based on our corporate principles.



Shunichi Arisaka
Director, Managing Executive Officer in Charge of Technical & Environment Affairs

Profile of the "K" Line (As of March 31, 2013)

Name:	Kawasaki Kisen Kaisha, Ltd.
Established:	April 5, 1919
Head Office:	Iino Building, 1-1, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo 100-8540, Japan
Paid-in Capital:	75,458 million Japanese yen
Shares Outstanding:	939,382,298 shares of common stock including treasury stock
Employees:	Non-consolidated: 659 (511 males and 148 females) Consolidated subsidiaries: 3,350 (Japan), 4,317 (Overseas)
Workforce Breakdown by Region (Group):	Japan: 38.2%, Asia: 43.0%, North America: 6.8%, Europe: 9.8%, Others: 2.2%
Offices:	Head Office (Tokyo), Registered Office (Kobe), Branches (Nagoya and Kansai)
Overseas Representative Offices:	Manila

• Overseas Subsidiaries:

South Korea, Hong Kong, China, Taiwan, Thailand, Philippines, Singapore, Malaysia, Indonesia, Vietnam, India, Australia, U.K., Germany, France, Netherlands, Belgium, Italy, Finland, Denmark, Norway, Sweden, Spain, Portugal, Turkey, Canada, U.S.A., Mexico, Chile, Peru, Brazil, South Africa

• Consolidated Subsidiaries:

Japan: 25, Overseas: 263, Equity Method Affiliates: 27 (Japan: 4, Overseas: 23)

• Fleet: 542 ships (39.87 million DWT)

- Containerships (Owned 10/Chartered 65) • Bulk Carriers (Owned 108/Chartered 239)
- Energy Transportation and Tankers (Owned 29/Chartered 15)
- Heavy Lifters (Owned 16/Chartered 0) • Offshore vessels (Owned 7/Chartered 0)
- Other (Owned 25/Chartered 28) • Owned 195/Chartered 347 Total 542

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We also provide extensive information on our website:

<http://www.kline.co.jp/en>

In addition to this Report, we regularly publish the following materials:

- Corporate Profile (Japanese/English)
- Annual Review (Japanese)/Annual Report (English), published annually
- Company Newsletters (Japanese/English), published quarterly (bimonthly in English)
- Shareholders' Newsletter (Japanese; issued in November)

In consideration of the environment


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