"K" LINE
KAWASAKI KISEN KAISHA, LTD.

"K" LINE REPORT 2014

Sustainable Growth as a Global Carrier

Over its long history, “K” Line has worked as a world-class integrated shipping company to increase its corporate value through tireless efforts to enhance safety in navigation and cargo operation, while promoting the development of new fields, in order to remain trusted, relied on and necessary to society. “K” Line aims for synergy and sustainable growth with society by continually pioneering initiatives to succeed in an ever-changing world.

Synergy for All Sustainable

Corporate Principles

The basic principles of the “K” LINE Group as a shipping business organization centering on shipping lie in:

a. Diligent efforts for safety in navigation and cargo operations as well as for environmental preservation;

b. Sincere response to customer needs by making every possible effort; and

c. Contributing to the world’s economic growth and stability through continual upgrading of service quality.

Vision

1. To be trusted and supported by customers as a globally developing group
2. 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
3. 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

and

Growth

Editorial Policy

Until 2013, "K" Line's *Annual Report* and *Social and Environmental Report* were published separately, according to their respective editorial policies. Beginning in 2014, the Group is integrating both aspects into *"K" Line Report 2014*, with the goal of helping all stakeholders better understand "K" Line's corporate activities and the Company's perspective for the medium- and long-term. The theme of this report is "sustainable growth as a global carrier", under which we explain our medium- to long-term vision and the factors supporting the "K" Line Group's sustainable growth, along with our initiatives in safety in navigation and cargo operation, environmental preservation, and human resource development aimed at being a trusted, valuable corporate entity.

The "K" Line Group utilizes print publications and its website together for efficient disclosure. Information about the Group's website is printed on the final page of this report for your convenience.

"K" Line's website: http://www.kline.co.jp/en/

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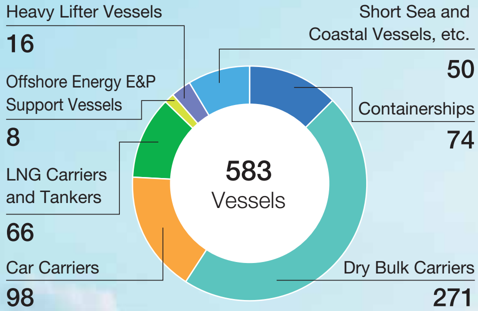
At a Glance: The year ended March 31, 2014 (fiscal 2013)

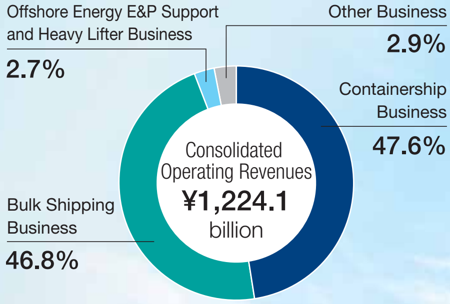
"K" Line Group Vessels in Operation

(As of March 31, 2014)

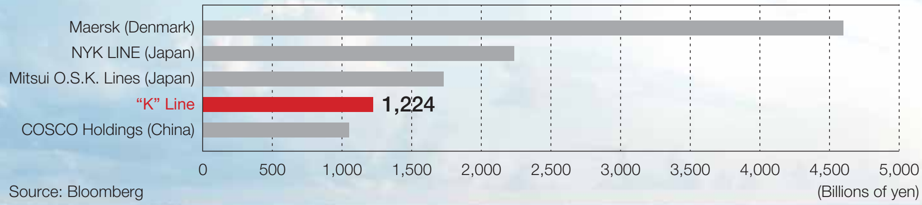


Operating Revenues by Segment

(Fiscal 2013)



Top-five Listed Marine Transport Companies by Sales (2013)



Source: Bloomberg

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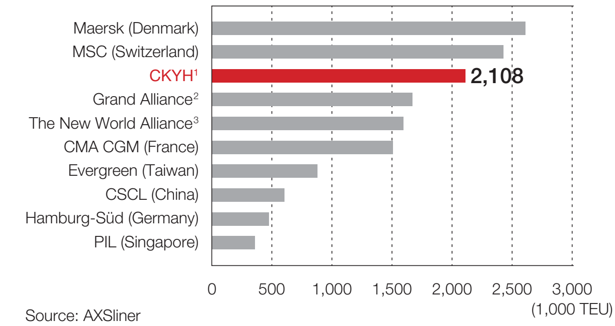
Containerships Business Segment

Containership Business

We operate a global service network centered on east-west trunk routes linking Asia/North America, Asia/Europe and Europe/North America through an alliance with prominent shipping companies in China, Taiwan and South Korea. Our net work extends to north-south routes linking Asia/South America and Asia/Middle East-Africa as well as intra-Asia routes. We transport broad spectrum of cargo—electronic equipment, electrical products, furniture, clothing, food and beverages, hops and so on—by container.

Comparison of Operating Capacity by Alliance (As of April 2014)



Source: AXSliner

1. CKYH: COSCON, "K" Line, Yang Ming, Hanjin
2. Grand Alliance: Hapag-Lloyd, NYK LINE, OOCL
3. The New World Alliance: APL, Hyundai, Mitsui O.S.K. Lines

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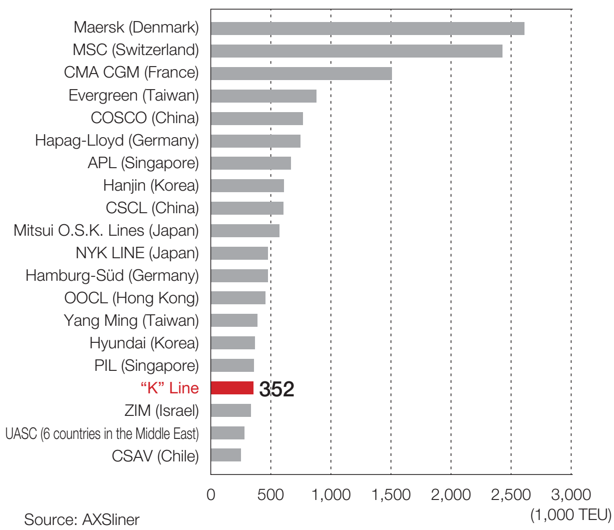
Logistics Business

By combining the expertise and service networks of the whole "K" Line Group, we provide comprehensive logistics services that are closely connected to local areas to meet customer needs, with services not only for ocean cargo freight, but also air and ocean freight forwarding, land transportation, warehousing and buyer's consolidation businesses.

Container Carriers Ranked by Operating Capacity (As of April 2014)



Source: AXSliner

Bulk Shipping Business Segment

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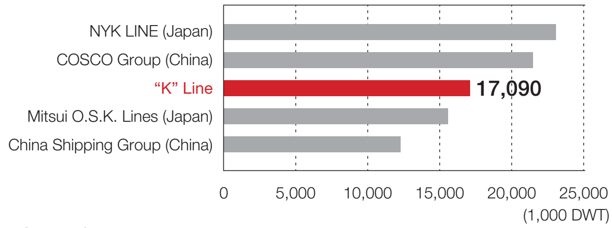
Dry Bulk Business

We offer transport services for raw materials such as coal, iron ore, grain, woodchips. Recently, in addition to cargo bound for Japan, we actively transport cargo bound for China, India and other developing economies, and engage in trilateral transport in the Atlantic region.

Top-five Carriers Ranked by Owned Tonnage of Dry Bulkers (As of March 2014)



Source: Clarkson

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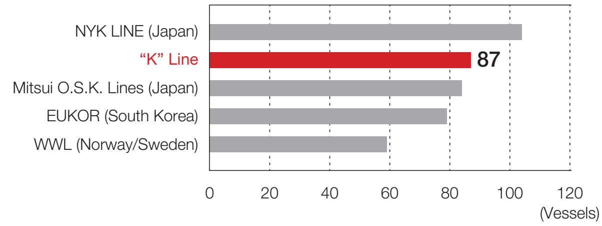
Car Carrier Business

Since 1970, when "K" Line deployed Japan's first PCC (pure car carrier), we have been recognized as a pioneer in safe and prompt transportation of passenger cars, trucks and other vehicles. We are actively upgrading the fleet and working to improve transportation quality and reinforce RORO cargo transport.

Top-five Carriers by Number of Operating Car Carriers (As of July 2013)



Source: Fearnresearch

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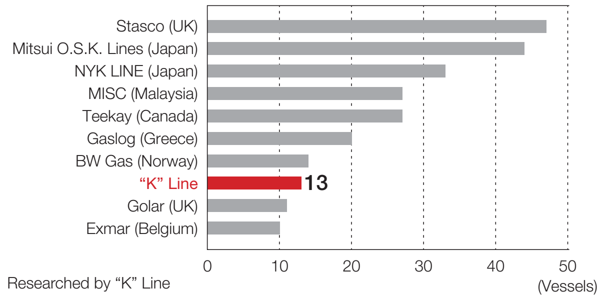
LNG Carrier Business and Tanker Business

We transport liquefied gas using LNG and LPG carriers and crude oil and oil products by tanker. In addition to industrial energy sources, we provide global transport service for gasoline and other energy resources used directly by consumers.

Number of Managed LNG Carriers (As of March 2014)



Researched by "K" Line

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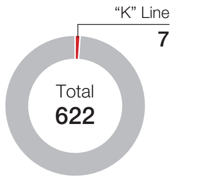
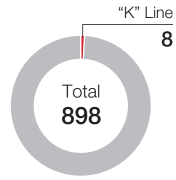
Short Sea and Coastal Business

Kawasaki Kinkai Kisen Kaisha, Ltd. provides domestic coastal freight transportation and ferry services. It operates passenger and truck ferries, express RORO cargo ships, dedicated carriers for limestone used in steel and cement production, dedicated thermal coal carriers for electric power production and general cargo carriers. It also operates general cargo carriers and bulk carriers for cargo to and from destinations in Asia.

Number of VLCCs[1] in Operation (As of March 2014)



Number of Mid-sized Tankers[2] in Operation (As of March 2014)



Source: Clarkson

1. VLCC: Very Large Crude Carrier; 200,000-300,000 DWT tankers
2. Tankers ranging from 80,000 to 120,000 DWT

Offshore Energy E&P Support and Heavy Lifter Business Segment

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Offshore Energy E&P Support Business

K Line Offshore AS, located in Norway, provides offshore support vessel services with seven state-of-the-art vessels consisting of two large anchor handling tug supply vessels (AHTSs) and five platform supply vessels (PSVs). In addition, "K" Line participates in an ownership consortium of a drillship which is engaged in oilfield drilling operations under long-term charter to semi-public Brazilian energy company Petrobras.

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Heavy Lifter Business

The SAL Group of Germany transports mainly large-scale cargo related to energy and infrastructure development. State-of-the-art vessels equipped with a dynamic positioning system (DPS) also meet needs for the transport of oil and gas development facilities and offshore-related facilities, which require advanced technology.

Other

The "K" Line group also operates businesses engaging in ship management services, travel agency services and real estate rental and administration services.

Financial and ESG Highlights

Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries
Years ended March 31

The Evolution of Medium-Term Management Plans	"K" LINE Vision 2008	"K" LINE Vision 2008 +
	Sustained Growth and Establishing a Stable Profitability Structure	
	The main theme of this management plan, formulated ahead of the Group's 90th anniversary in 2009, was to realize sustained growth and establish a stable profitability structure.	Amid changing market conditions, such as historically high fuel oil prices, "K" Line established a new plan, including a vision extending into the mid-2010s.

		FY2004	FY2005	FY2006	FY2007
Operating Results (For the Year)	Operating revenues	¥828,444	¥940,819	¥1,085,539	¥1,331,048
	Operating income	108,054	87,976	61,357	129,649
	Ordinary income[4]	107,235	88,573	63,928	125,868
	Net income	59,853	62,424	51,514	83,012
Financial Position (At Year-End)	Total assets	605,331	757,040	900,439	968,630
	Net assets[5]	181,276	257,810	357,625	376,277
	Equity capital[6]	181,276	257,810	344,476	355,763
	Interest-bearing liabilities	239,249	278,234	326,187	329,716
	Depreciation and amortization	24,634	28,623	32,294	36,362
	Cash flows from operating activities	89,443	72,338	66,483	141,238
	Cash flows from investing activities	(34,402)	(83,342)	(102,853)	(145,541)
	Free cash flows	55,041	(11,004)	(36,370)	(4,303)
Per Share Data	Net income (¥/US$)	100.70	104.89	86.67	131.36
	Net assets (¥/US$)	306.06	435.19	556.55	558.46
	Cash dividends applicable to the year (¥/US$)	16.50	18.00	18.00	26.00
	Dividend payout ratio (%)	16.4	17.2	20.8	19.8
Management Index	ROE[7] (%)	39.6	28.4	17.1	23.7
	ROA[8] (%)	18.4	13.0	7.7	13.5
	DER[9] (Times)	1.32	1.08	0.95	0.93
	Equity ratio (%)	29.9	34.1	38.3	36.7
Average During the Period	Exchange rate (¥/US$)	107	113	117	115
	Fuel oil price (US$/MT)	192	286	319	407
Consolidated Human Resource Data	Consolidated employees	6,226	6,827	7,041	7,615
Unconsolidated Human Resource Data[10]	Unconsolidated employees	545	560	570	600
	Shore-based	370	399	413	432
	Sea-based	175	161	157	168
	Women (%)	15.0	18.0	19.3	19.5
	Persons with disabilities (%)	—	2.23	2.69	2.56
	Industrial accidents[11] At sea	1	1	1	0
	Industrial accidents[11] On shore	0	0	0	1
Management	Directors	22	25	13	12
	Outside Directors	0	0	0	0
	Audit & Supervisory Board Members	4	4	4	4
	Outside Audit & Supervisory Board Members	2	2	2	2
Environmental Data[12]	Fuel oil (thousands of tons)	3,686	3,867	4,257	4,550
	CO_2 emissions (thousands of tons)	11,463	12,028	13,239	14,150
	SOx emissions (thousands of tons)	218	229	243	255
	NOx emissions (thousands of tons)	332	348	381	405

Notes: 1. Rounded to millions of yen.
2. The U.S. dollar amounts are converted from the yen amounts at ¥102.92 = US$1, the exchange rate prevailing on March 31, 2014.
3. As of April 30, 2014.
4. Ordinary income consists of operating income and nonoperating income/expenses.
5. Until fiscal 2005, amounts posted under "shareholders' equity" (calculated using the previous accounting standards) are employed for "net assets."
6. Equity Capital: Total net assets – Stock acquisition rights – Minority interests in consolidated subsidiaries

"K" LINE Vision 100 "Synergy for All and Sustainable Growth"

"K" LINE Vision 100	"KV 2010"	"New Challenges"	Bridge to the Future
Against the backdrop of growing shipping demand accompanying global economic growth, this plan focused on the mid 2010s and looked ahead to 2019, the Group's 100th anniversary.	"K" Line formulated emergency countermeasures to address the sluggish global economy following the financial crisis and revised the management plan in light of the rapidly changing business environment.	"K" Line revised its plan in light of structural market changes, aiming for expansion of its stable earnings base and sustainable growth.	In response to market changes and uncertainty reflecting the glut of newbuildings, rising fuel prices, the strong yen and the impact of the Great East Japan Earthquake, "K" Line revised the plan to build a stable earnings structure and create a corporate framework that will prove resilient to market fluctuations through structural reforms.

FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013	FY2014 Forecast[3]
					(Millions of yen)[1]	(Thousands of U.S. dollars)[2]	(Millions of yen)
¥1,244,317	¥838,033	¥985,085	¥972,311	¥1,134,772	¥1,224,126	$11,893,956	¥1,230,000
71,604	(52,075)	58,610	(40,563)	14,887	28,854	280,353	36,000
60,011	(66,272)	47,350	(48,956)	28,589	32,455	315,338	34,000
32,421	(68,721)	30,603	(41,351)	10,669	16,642	161,698	18,000
971,603	1,043,885	1,032,505	1,066,649	1,180,434	1,254,742	12,191,431	
356,153	331,865	314,986	259,935	361,975	410,690	3,990,381	
334,773	308,122	291,669	242,573	340,571	388,837	3,778,051	404,000
439,622	516,001	483,363	592,523	629,864	643,795	6,255,295	547,000
39,427	45,281	44,722	50,044	59,668	52,244	507,618	
77,614	(23,941)	84,902	(2,909)	59,756	88,228	857,248	68,000
(148,304)	(63,737)	(54,117)	(83,233)	(27,212)	(5,113)	(49,679)	(50,000)
(70,690)	(87,678)	30,785	(86,142)	32,544	83,115	807,569	18,000
50.89	(106.24)	40.08	(54.14)	12.07	17.75	0.17	19.20
525.43	403.53	381.87	317.59	363.18	414.66	4.03	
13.50	—	9.50	—	2.50	4.50	0.04	5.00
26.5	—	23.7	—	20.7	25.4		26.0
9.4	(21.4)	10.2	(15.5)	3.7	4.6		4.5
6.2	(6.6)	4.6	(4.7)	2.5	2.7		2.8
1.31	1.67	1.66	2.44	1.85	1.66		1.36
34.5	29.5	28.2	22.7	28.9	31.0		34.3
101	93	86	79	82	100		100
504	407	489	672	671	626		621

7,706	7,740	7,895	7,703	7,667	7,703
602	623	623	664	659	652
417	433	437	486	481	478
185	190	186	178	178	174
18.6	18.5	18.9	22.9	22.8	24.4
2.05	2.12	1.60	1.60	1.90	1.93
2	1	0	0	1	3
0	0	0	0	0	0
12	15	14	13	13	13
0	2	2	2	2	2
4	5	5	5	5	4
2	3	3	3	3	3
4,392	3,563	3,802	3,949	3,966	3,651
13,677	11,096	11,838	12,298	12,352	11,377
240	197	208	214	209	190
410	303	308	323	319	292

7. Return on Equity: Net income/Equity capital
8. Return on Assets: Ordinary income/Total assets
9. Debt Equity Ratio: Interest-bearing liabilities/Equity capital
10. For Kawasaki Kisen Kaisha, Ltd. and its employees.
11. The data published in the Social and Environmental Report from fiscal 2010 to 2013 contained partial errors. We apologize and offer the above corrections.
12. Calculated based on fuel supplied to vessels by "K" Line. Rounded to thousands of tons. Figures for 2008 onward are calculated by calendar year.

Establishing a stable earnings structure while advancing in new business areas

Q1 **Fiscal 2014 marks the third and final year of the "K" LINE Vision 100: Bridge to the Future medium-term management plan. What is your assessment of the progress made over the previous two years?**

A To first provide some context, "K" Line posted substantial losses in fiscal 2009 and 2011, particularly in the containership business. We took enormous hits from the financial crisis in 2009 and the Great East Japan Earthquake in 2011, both of which caused cargo movements to drop and market conditions to slump. We decided on a route to get out of the resulting management crisis, and that route is embodied in "K" LINE Vision 100: Bridge to the Future. For the three years of the plan, we fully committed to preventing further losses and to building a stable earnings structure while dramatically improving our financial standing. I'm pleased to say that the results of the first two years have been commensurate with these targets.

When we launched the plan, management and employees throughout the Group shared a strong sense of urgency. We knew that the future of the Company depended on taking drastic measures across the board. We rationalized unprofitable services and vessels and reviewed charter-party contracts. Thanks to the effects of these efforts, as well as improvement in economic conditions and the weakening of the very strong yen, we returned to profitability in fiscal 2012. In fiscal 2013, although market conditions in the containership business took a sharp turn for the worse, we implemented further measures to reduce costs, streamline and improve profitability. We maintained profitability in the containership business at a break-even level, and consequently posted overall Group results that exceeded those of fiscal 2012. Fiscal 2014 is the final year of the plan. We are doing our utmost to meet the expectations of our investors and other stakeholders by wrapping up the final year with the best results yet.

Q2 From your comments in early 2014, it sounds like you will use fiscal 2014 to shift management from the largely defensive stance of the last few years toward growth. Could you tell us more about the tasks currently facing management?

A Shipping is a highly volatile industry, and reading market conditions is always a major issue. In the early 2000s, shipping benefitted from the effects of the rapidly growing Chinese economy, but such favorable conditions are not likely to return soon. Indeed, we really have to operate under the premise that the strength of market will generally remain moderate or weaker. Under such conditions, over-dependence on markets that are greatly influenced by the supply and demand of shipping space will not make sense for the management of shipping businesses in the coming years. We know we can't rely on that kind of strategy. Of course, correctly reading the shrinkage in the market is also a matter of professional competence. For "K" Line, however, the more important management issue is building a more stable earnings structure that is resilient to market fluctuations.

Q3 What concrete steps are you taking to establish a stable earnings structure?

A Stable earnings are generated by businesses in which we can expect a certain level of earnings for a certain period. Our initiatives are based mainly on concentrating management resources in such businesses. For example with LNG carriers, where business negotiations are brisk at the moment, the periods of contracts for a single project can be extremely long, offering a stable source of earnings. In such businesses as the transport of iron ore and coal for electric power companies, too, many customers prefer long-term contracts at fixed freight rates, and we are working to reinforce these businesses. Globally, we are advancing this business model, focused on long-term relationship with customers. Going forward, we will place even greater emphasis on it.

Target Financial Indices

Medium-term management plan targets (set April 2012)	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2012 result	Fiscal 2013 result	Fiscal 2014 prospect
Operating revenues (Billion yen)	1,120.0	1,070.0	1,110.0	1,134.8	1,224.1	1,230.0
Ordinary income (Billion yen)	12.0	39.0	60.0	28.6	32.5	34.0
Net income (Billion yen)	11.0	25.0	42.0	10.7	16.6	18.0
EBITDA (Billion yen)	100.0	110.0	135.0	104.8	90.5	89.0
Equity capital (Billion yen)	260.0	280.0	330.0	340.6	388.8	404.0
Interest-bearing debt (Billion yen)	580.0	540.0	490.0	629.9	643.8	547.0
Operating cash flow (Billion yen)	67.0	90.0	113.0	59.8	88.2	68.0
Investment cash flow (Billion yen)	(50.0)	(50.0)	(50.0)	(27.2)	(5.1)	(50.0)
DER (%)	223	193	148	185	166	136
Net DER (%)	186	158	119	137	105	97
ROA (%)	1	4	6	3	3	3
Equity ratio (%)	23	26	30	29	31	34
Interest-bearing debt / Operating cash flow (Times)	9	6	4	11	7	8

Q4 Does that mean reinforcing efforts to become a global shipping company?

A In the first place, "K" Line is not confined to somehow being a specifically "Japanese" shipping company, nor should it be. Looking at the Group's global sales, we're among the top five integrated shipping companies in the world. The world knows the brand of "K" Line more than Kawasaki Kisen, and it is vital that we establish the "K" Line brand even more firmly.

Q5 What business areas will you be strengthening to reinforce the global "K" Line brand?

A In terms of businesses that contribute to a more stable earnings structure, "K" Line has particular strength in dry bulk carriers, car carriers and LNG carriers. We hope to make these particular areas even stronger.

I also think that there is still plenty of room for development in the offshore energy E&P support business, which grew out of these existing businesses. Since entering this business with offshore support vessels in 2007, we have built up a track record and accumulated expertise in vessel operations and technology, and I'd like to see these strengths evolve further. The Group's fleet of offshore support vessels is currently engaged mainly in support operations for oil rigs in the North Sea. As offshore oil fields under development move further north, the specifications demanded of support vessels are growing more advanced, and we must respond by increasing our navigational and technological capabilities. We are also considering branching out from support vessels over the medium- to long-term, including full-fledged entry into core offshore-development areas, such as floating production, storage and offloading units (FPSOs) and drillships. One example of these considerations is our research on subsea construction vessels (SCVs), used to move and install rigs. Recognition of our support vessel company is growing in the market, which presents an opportunity to use the strength of our brand to move into more high-tech areas. I think that areas like these, which require specialized technology, will form a part of our stable earnings structure in the future.

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Q6 As "K" Line gains greater global recognition, the Group's stakeholders grow more diverse, which creates greater needs and expectations in terms of "K" Line's corporate social responsibility. Could you tell us your thoughts on CSR?

A The world economy continues to globalize, and international trade is growing year by year. Today, some nine billion metric tons of cargo and products cross international borders each year, most of which is shipped by sea. Shipping being such an important aspect of the infrastructure supporting the global economy, I think "K" Line's social responsibility revolves around providing safe, stable shipping services at a minimum of environmental burden and cost. I also think that taking pride in our work plays a role in fulfilling our social responsibility.

Q7 "K" Line has specified safety in navigation and cargo operation, environmental preservation and human resource development as key CSR issues. Could you first tell us your thoughts about safety in navigation and cargo operation?

A In terms of safety in navigation and cargo operation, a strong resolve and determination to never allow major accidents is essential. The "K" Line Group has not been responsible for a major accident in decades, and we take pride in this record of safety.

The foundation of safety is education. Most major accidents are caused by human error. We must strive to develop greater safety awareness and foster a corporate culture that makes safety its highest priority.

At the same time, it's vital that we deploy key human resources in a manner that fits the scale of the Group. According to Heinrich's Law, for every major accident there are some 29 minor accidents and 300 near misses and irregularities. When the scale of a company exceeds its own capacities, small irregularities tend to go unaddressed. The first, crucial step in preventing accidents is ensuring that each and every employee has strong safety awareness and deals appropriately with even the small irregularities.

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Q8 What kind of concrete initiatives are you taking with regard to environmental preservation?

A However important shipping may be as part of the world economic infrastructure, no company can fulfill its social responsibility if it neglects the effort to reduce environmental burden. Companies will not be able to exist if the global environment is not preserved, so we must work throughout the Company to conserve the environment as a matter of ensuring business continuity. Optimizing fuel consumption and efficiency while meeting customer needs is key. Coming technological advances may bring the full-fledged use of LNG-based fuel; we certainly want to take advantage of such technologies as soon as they emerge, but for now they seem to still be some ways off. The task for the meantime remains the optimization of conventional fuel consumption and efficiency. We've been seriously analyzing past operating data to calculate the most fuel-efficient routes and speeds for several years now, and we have accumulated significant knowhow and data. As a result, even though the number of ships in operation and distance travelled in fiscal 2013 were up, overall fuel consumption was down from fiscal 2012 by 170,000 tons, an average of 7% per vessel.

The culmination of our environmental preservation initiatives has been the launch of the DRIVE GREEN PROJECT. The aim of this project is to achieve world-leading environmental friendliness by incorporating the latest technologies from shipyards and manufacturers of equipment for ships throughout Japan into a pure car carrier scheduled for completion in fiscal 2015. We estimate that the new vessel will emit around 25% less CO_2 than its conventional carriers.

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Q9 Human resource development seems to play an essential role in both CSR-related initiatives, such as operational safety and environmental preservation, as well as in more business-related initiatives, like building a stable earnings structure. What do you think are the current challenges facing "K" Line in terms of human resource development?

A The number of employees involved in the shipping industry is small relative to the scale of business, so there's no need to hire very many, and the number of personnel is not much of an issue. In terms of quality, however, there are numerous issues that we must consider. Determining what kind of human resources we should assemble, what kind of people will be necessary for the Company's development, is of great importance. When it comes to developing our business more globally, diversity is also a key issue. To succeed among global competition, it takes the skills to conceptualize, plan, negotiate and lead with a global perspective, as well as personal strength. To ensure that our company has a wealth of personnel with these skills, flexible hiring, regardless of nationality and gender, is more important than ever. Among our younger employees, the number of women in career-track positions has increased, but there are still few in managerial and higher positions.

In addition, as business in the offshore energy E&P support and LNG-related fields grows, raising the level of expertise of our maritime technical personnel is also becoming a more pressing task. Many of "K" Line's maritime technical personnel have obtained their seaman's competency certificates from merchant marine schools and the like, but substantial training and education will be necessary after hiring to nurture the personnel needed to handle business in new areas. "K" Line has a positive tradition of generous investment in human resources, and we have maintained a steady policy toward education and training. I think that this has contributed to increasing the knowledge and expertise of our marine technical personnel, and we will maintain this policy in our initiatives going forward.

p20-21

Q10 Corporate governance lies at the heart of management. What are you doing to enhance governance and risk management?

A In order to maintain the trust of and grow together with society, the "K" Line Group is strengthening its corporate governance though management oversight and supervision functions, and undertaking thorough risk management.

We have also been reinforcing measures to assure compliance. However, in September 2012, the Fair Trade Commission of Japan (the "Japan FTC") began an investigation of the Group over the alleged formation of a cartel relating to the transportation of automobiles, automotive construction machinery and other exports. The Group also came under investigation by competition authorities in Europe, the United States and certain other countries. As part of these proceedings, in March 2014 the Japan FTC issued a cease and desist order and ordered the Group to pay a surcharge.

We offer our deepest apologies to stakeholders, and take these developments with the utmost seriousness. We are rebuilding our compliance training system across the Group as part of efforts to create a watertight compliance structure. We are committed to maintaining a firm stance that will not overlook any legal transgression.

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Q11 What is your policy on cash dividends, particularly as they relate to business results?

A Our basic policy remains unchanged. The Company considers it an important priority to maximize shareholder returns while giving due consideration to maintaining the necessary internal reserves to generate sustained corporate growth (a main priority of our management plan), and improve and strengthen the corporate structure. We plan to gradually increase the dividend payout ratio as a percentage of consolidated net income with the aim of achieving a payout ratio of 30% in the mid-2010s. The year-end dividend for fiscal 2013 (the year ended March 31, 2014) was ¥4.5 per share, reflecting annual consolidated net income of ¥16.6 billion. At present, we expect to pay an annual dividend of ¥5 per share in fiscal 2014 (the year ending March 31, 2015).

The "K" Line Group will continue rigorous streamlining and cost reduction, placing highest priority on the maintenance of financial soundness and striving to maximize shareholder returns.

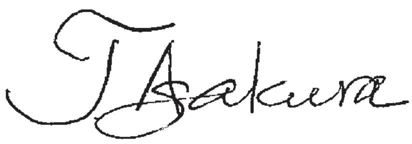
Q12 Lastly, is there anything else you'd like to say to stakeholders?

A Sensitivity to socioeconomic changes is important in the shipping industry. To that end, listening to customers and society and their needs is fundamental. The "K" Line Group's corporate culture excels in terms of the communication abilities needed to understand markets in these ways. We will carry on this tradition while rejuvenating the Group's collective consciousness to create a culture that incorporates new values and perspectives.

In 2019, Kawasaki Kisen Kaisha, Ltd. will mark its 100th Anniversary. To take stock of the Group's strengths and values and establish a corporate culture that will lead to continued success over the coming 100 years, we launched the "K" Line Improvement Project (the YORIYOKU Project—changing "K" Line for the better) in fiscal 2014. Implemented mainly by employees, this project is creating opportunities for employees and management to renew their shared understanding of the Group's social mission and role while thinking about how to best create sustained growth.

We continue to work in earnest to meet the expectations of our stakeholders and increase corporate value. Thank you for your continued support.

President and CEO
Jiro Asakura



A New Era for the Shipping Business

Under our medium-term management plan "K" Line Vision 100: Bridge to the Future, the "K" Line Group is replacing various types of vessels with state-of-the-art energy efficient vessels and optimizing ship operations. By doing so, we continue to increase fuel efficiency and thus reduce environmental impact and boost profitability.

We are also aggressively advancing initiatives to target new growth areas. In the Car Carrier Business, besides passenger cars, we are expanding transport of RORO cargo, including static cargo. We are also focusing on actively participating in new LNG transport projects and strengthening our network to promote logistics business expansion in Asia, while expanding our presence in offshore energy E&P. In addition, we decided in February 2014 upon the newbuilding of a flagship vessel to be designed with the most advanced energy saving and environmental preservation features.

"K" Line is building a business model for a new era, with an eye on megatrends in the business environment as a globally active integrated shipping company.

Building a Framework to Secure Consistent Profit

The shipping market fluctuates considerably, reflecting various global conditions. The “K” Line Group is building a revenue structure that can secure profit for the overall Group even when conditions for specific business segments deteriorate, allowing appropriate reinvestment for growth. In fiscal 2013, markets deteriorated considerably, but the Group secured a profit. We will continue initiatives to expand “K” Line’s stable earnings structure.

Expanding the Stable Earnings Structure

Structural Reform in the Containership Business to Bolster Cost Competitiveness

- Enhancing slow steaming to reduce fuel consumption.
- Five 8,600 TEU containerships entered service in 2012, and five state-of-the-art 14,000 TEU vessels with world-leading fuel efficiency are scheduled for delivery in 2015. The Group is reducing cost per TEU by using larger vessels on its various routes.
- Selection and concentration toward east-west routes that are under our network of affiliated shipping agents and container terminals, and rationalization of certain unprofitable service lanes.

Expanding Bulk Shipping Business to Generate Stable Earnings from Dry Bulk Business, Car Carrier Business and LNG Carrier, etc.

- Enhancing slow steaming to reduce fuel consumption.
- The Dry Bulk Business boasts highly-stable operations supported by long-term contracts built on relationships of trust with long-standing domestic customers, and has turned a profit for 35 consecutive years. We have established business bases in Singapore, India, the U.K. and elsewhere, and will continue to reinforce overseas expansion.
- Adopting energy efficient vessels to increase profitability and decrease environmental impact.
- Established “K” Line RORO Services Ltd. (October 2013) to enhance RORO cargo business other than passenger vehicles (construction machinery, heavy vehicles and other static cargo). We are planning to introduce 10 next-generation energy-efficient car carriers built for improved RORO cargo transport with a capacity of 7,500 units each (four to be completed in 2015, four in 2016, and two in 2017).
- In LNG Carrier Services, plans have been finalized to participate in multiple projects for Chubu Electric Power Co., Inc. and INPEX Corporation as well as the Ichthys LNG Project (four newbuildings ordered).

Expanding New Business to Generate Stable Earnings

- Signed long-term contracts for offshore support vessels with semi-public Brazilian energy company Petrobras and a U.K. subsidiary of American energy major ConocoPhillips.
- Established Offshore Japan Corporation to conduct offshore support vessel business in the waters surrounding Japan (October 2013).
- Launched milk-run services* for automobile parts in India (July 2013).
- Established a representative office in Myanmar to develop shipping and logistics businesses (January 2014).
- Expanded logistics business in Thailand with new large warehouses and chilled and refrigerated warehousing.

*Cyclical service that delivers parts to various manufacturers’ factories.

Enhancing Our Presence in Offshore Energy E&P Support

The “K” Line Group is nurturing the Offshore Energy E&P Support Business into one of its core businesses in the future. Through Norway-based K Line Offshore AS (KOAS), established in 2007, the Group has entered the offshore support vessel business as well as drillship operations with semi-public Brazilian energy company Petrobras, and is advancing initiatives to enter a wide range of upstream development sectors.

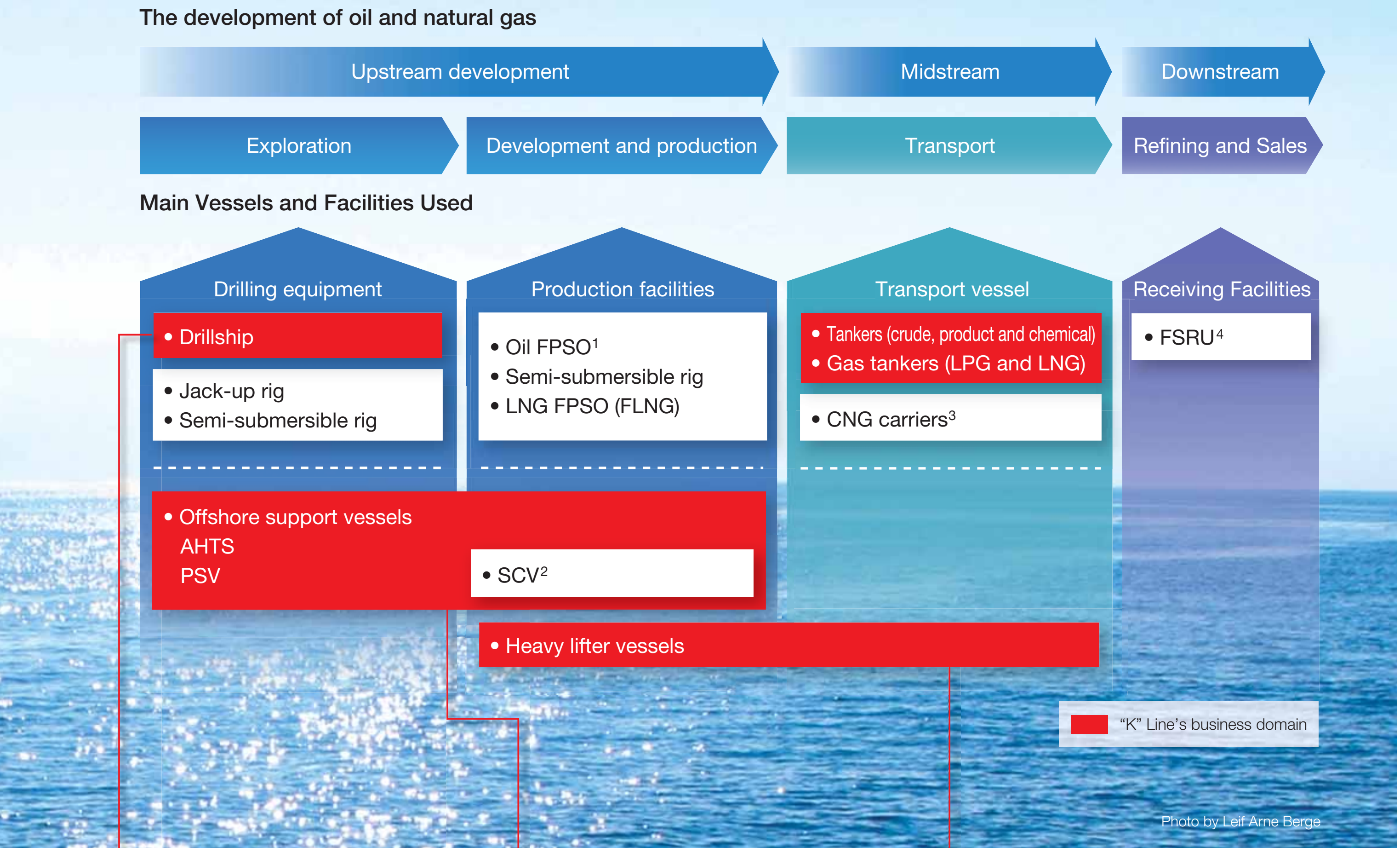
Going forward, we will actively move into such areas as FPSO[1] and SCV[2], where advanced technology and expertise is required, aiming to further expand our Offshore Energy E&P Support Business. By enhancing synergies with the conventional LNG Carrier Business, Tanker Business and the Heavy Lifter Business, we will further our efforts to construct a stable earnings structure.

Stabilizing the Offshore Support Vessel Business

KOAS operates a total of seven large, high-performance anchor handling tug supply vessels (AHTSs) and platform supply vessels (PSVs), of which four are under medium- or long-term service contracts, contributing to steady earnings. We are steadily solidifying our position as an operator in the North Sea, where sophisticated navigational technology and ship management are vital, based on our operational track record over the past seven years and development of human resources. Going forward, “K” Line will position KOAS as the core of its Offshore Energy E&P Support Business. We plan to reinforce this fleet to meet rising demand and transform this business into a powerhouse for the Group.

Furthermore, aiming to move into future resource development in the waters around Japan, in 2013, Group company Kawasaki Kinkai Kisen established Offshore Japan Corporation as a joint venture with Tokyo-based Offshore Operation Co., Ltd. In Japan, preparations for offshore energy E&P in the country’s exclusive economic zone (EEZ) are advancing under the government-led Plan for the Development of Marine Energy and Mineral Resources, which aims at securing a stable supply of energy and mineral resources. “K” Line is building a framework to be ready to provide powerful support for offshore energy E&P and renewable energy facilities as soon as this plan comes to fruition. Through these efforts, we hope to be the leader in the domestic offshore support vessel business.

The “K” Line Group’s Business Domain in Offshore Energy E&P



Drillship Business

“K” Line has been in this business since 2009. We have also invested in U.S.-based Etesco Drilling Services LLC, which provides charter services to Brazilian semi-public energy company Petrobras.

Offshore Support Vessel Business

K Line Offshore AS, established in 2007, provides offshore support vessel service to production and drilling facilities off the coast of Brazil and in the North Sea. Offshore Japan Corporation was established in 2013 to provide support for offshore energy E&P in the waters surrounding Japan. We have expanded the base of our offshore energy E&P support business.

Heavy Lifter Business

“K” Line entered the Heavy Lifter Business in 2007. Germany-based subsidiary SAL Heavy Lift GmbH and its subsidiaries use sophisticated loading knowhow to transport large cargos, mainly related to the energy industry and infrastructure. We position offshore cargo transport and installation related to offshore energy E&P support as a priority field.

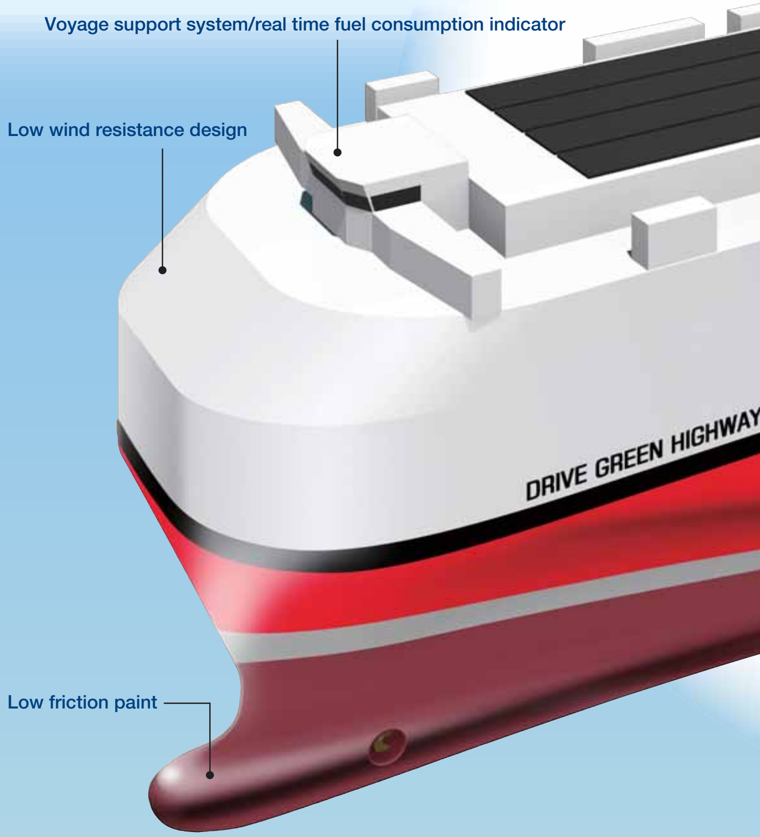
1. FPSO: Floating Production Storage and Offloading System for oil and gas
2. SCV: Subsea Construction Vessels (Vessels that conduct subsea installation work for rigs and other facilities on the seabed)
3. CNG: Compressed Natural Gas Tanker
4. FSRU: Floating Storage and Regasification Units for LNG

Creating Value by Reducing Energy Use

Responding to environmental issues is a major management priority for the "K" Line Group. To build a stable earnings structure and reduce environmental impact, we have advanced initiatives with emphasis on improving transport efficiency through the use of larger vessels, replacement of older vessels with state-of-the-art vessels featuring enhanced energy-saving capabilities, and energy efficient navigation.

Building on this track record, in February 2014, "K" Line announced the construction of the flagship of its environmental initiatives, a highly environment-friendly car carrier, under an initiative entitled the DRIVE GREEN PROJECT. In addition to energy saving equipment used on "K" Line's vessels in the past, the new car carrier will be larger, with a maximum capacity of 7,500 units, and will be equipped with a wide range of cutting-edge technologies, some of which will be world's first, anticipating future environmental regulations.

The "K" Line Group recognizes the environmental impact of its business activities. By building a highly energy-efficient logistics infrastructure, we are working to bolster corporate value in terms of both profitability and environmental friendliness.



Saving Energy to Enhance Profitability and Preserve the Environment

The "K" Line Group has for some time been working to reduce energy use and utilize larger ships. Mainly by replacing bulk carriers with newbuildings, we have been able to achieve reductions in fuel consumption and air pollutants. Now, in the containership business, we are using larger vessels and the latest energy-saving equipment. Thanks to these efforts, "K" Line's current largest containerships, with a capacity of 8,600 TEU, use 17% less fuel than the previous 5,500 TEU vessels, and we hope to use 30% less with the 14,000 TEU vessels scheduled for delivery in 2015. We are considering ways to apply this knowhow to all types of vessels. Furthermore, we are advancing fuel savings through operations control, including slow steaming and trim optimization (optimization of a ship's balance during navigation). The "K" Line Group is working to further enhance initiatives to reduce fuel consumption and costs through energy savings and reduce air pollutants to preserve the environment.

In 2010, we established a Gas-Fueled Ship Development Project team in anticipation of the future tightening of atmospheric pollution restrictions. This team is working to rapidly develop a car carrier fueled by LNG, a next-generation clean energy source, as part of "K" Line's preparations for the full-fledged use of LNG fuel.

Large, energy efficient 14,000 TEU containership scheduled for completion in 2015 (artist's rendering)

Please see "K" Line's website for details.

DRIVE GREEN PROJECT

SOLAR FRONTIER

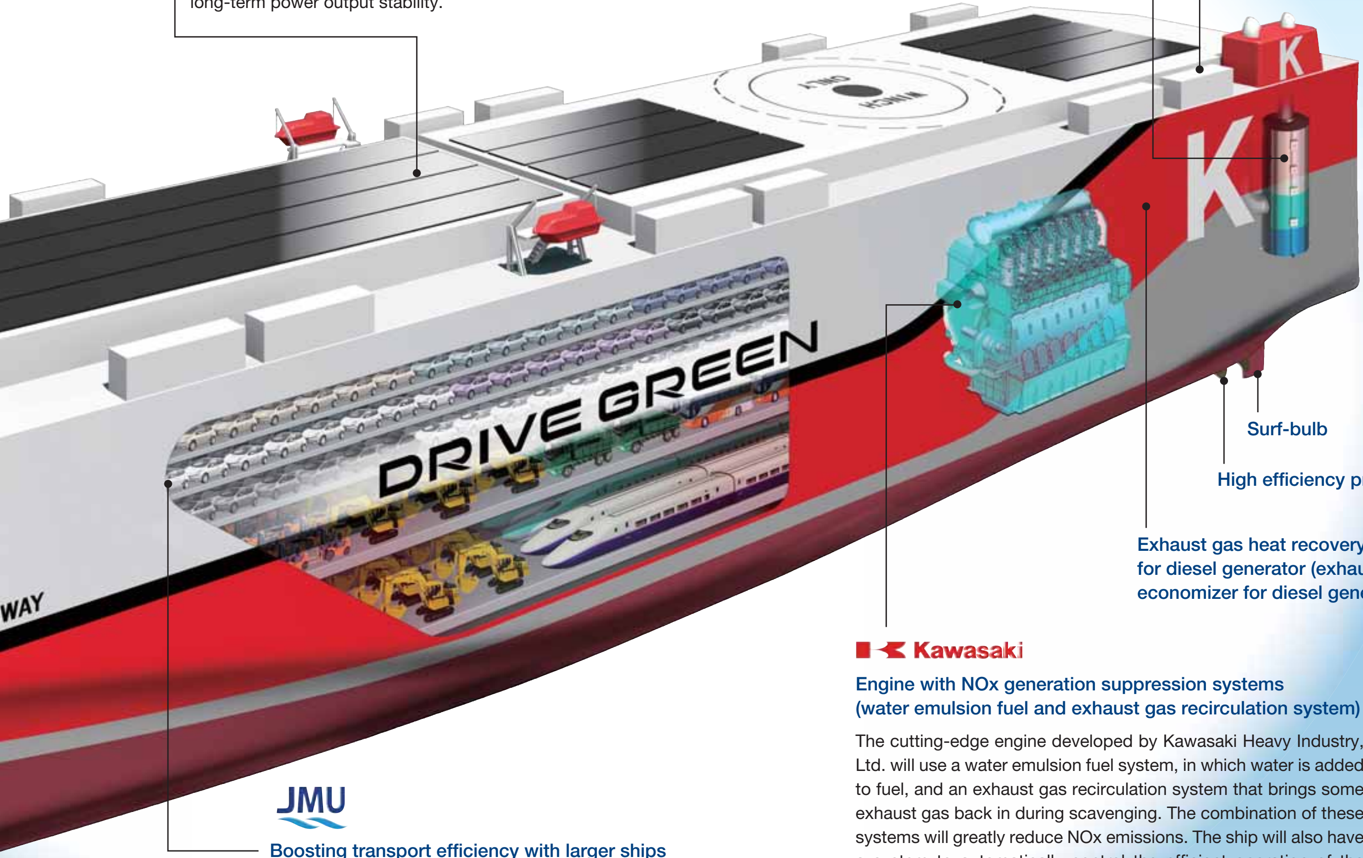
Solar power generation system

The electric power generated from solar energy will be put to effective use powering LED lighting in the cargo hold. The system's generating capacity will be one of the world's largest among ship-based solar power generation systems. The solar panels will be Solar Frontier K.K. products, which boast excellent long-term power output stability.

MITSUBISHI HEAVY INDUSTRIES, LTD.
MITSUBISHI KAKOKI KAISHA, LTD.

SOx scrubber (exhaust gas washing system)

The flue will be equipped with a large scrubber, employing seawater or freshwater, to remove sulfur oxide (SOx) from engine exhaust gas. This technology allows the continued use of ordinary fuel, rather than more expensive low-sulfur fuel, and is gaining attention as a way to both comply with stricter, upcoming SOx restrictions and maintain cost effectiveness. To quickly produce this system using only parts manufactured in Japan, "K" Line is working with Mitsubishi Heavy Industries, Ltd. and Mitsubishi Kakoki Kaisha, Ltd., and will use a system being developed jointly by the two companies.



Kawasaki

Engine with NOx generation suppression systems (water emulsion fuel and exhaust gas recirculation system)

The cutting-edge engine developed by Kawasaki Heavy Industry, Ltd. will use a water emulsion fuel system, in which water is added to fuel, and an exhaust gas recirculation system that brings some exhaust gas back in during scavenging. The combination of these systems will greatly reduce NOx emissions. The ship will also have a system to automatically control the efficient operation of the turbocharger according to engine output as part of comprehensive efforts to reduce NOx and CO_2 emissions.

JMU

Boosting transport efficiency with larger ships

The Japan Marine United Corporation boasts strong technical prowess, along with abundant design and construction knowhow built up through its long construction track record. The company aims to use this expertise to improve vessel design and thus achieve considerable increases in both car loading capacity and fuel efficiency over existing carriers.

The Culmination of Our Environmental Technology: The DRIVE GREEN PROJECT

"K" Line has finalized plans to make one of the 7,500-unit large car carriers ordered from Japan Marine United Corporation (scheduled for delivery in fiscal 2015) a flagship for its environmental initiatives featuring highly advanced energy-saving and environmental technologies, under the name DRIVE GREEN PROJECT.

In addition to cutting-edge energy-saving equipment, the flagship will be equipped with a scrubber that uses seawater or freshwater to remove sulfur oxide (SOx) from exhaust gas and an engine that reduces the generation of nitrogen oxide (NOx), bringing together the world's leading technologies to achieve the highest level of environment-friendliness in a car carrier. With this project, we aim to meet ahead of schedule the International Maritime Organization's air pollution standards, which are set to rise in stages. Ultimately, we seek to reduce the CO_2 emission rate by over 25% compared with conventional carriers.

The "K" Line Group is also considering ways to apply the knowhow gleaned from working in collaboration with various stakeholders holding advanced technologies to other types of vessels.

Identifying and Addressing Material Issues in CSR through Dialogue with Stakeholders

The "K" Line Group understands corporate social responsibility (CSR) as falling into two categories. One is to identify and manage the social and environmental impact of the Group's business activity, and the other is to create new value for society. Only by identifying and working to resolve issues in both of these areas can "K" Line contribute to the realization of a better society. In identifying these issues, the Group emphasizes interacting with and listening closely to various stakeholders, both internal and external.

Among material issues that have been uncovered through dialogue with stakeholders, the three areas of Safety in Navigation and Cargo Operation, Environmental Preservation, and Human Resource Development are key management issues under the medium-term management plan. We regard these issues as top priorities and are making ongoing efforts to address them. To that end, "K" Line sets medium- to long-term goals as well as more concrete yearly targets and is working toward these goals with a long-term perspective.

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Three Material Issues in CSR

Information about "K" Line's CSR initiatives is also available on "K" Line's website.

Human Resource Development to Strengthen Competitiveness

Securing human resources that can lead the next generation in the shipping industry is a major global task facing "K" Line.

In order to solve material issues and create new value, it is essential for "K" Line Group to develop highly capable personnel who can tackle them. Accordingly, "K" Line has set up a systematic training program, both on- and offshore, aimed at stably securing and steadily developing top-notch employees backed by high levels of technical expertise, experience and communication skills. For maritime technical personnel, we have created the "K" Line Maritime Academy (KLMA), the Group's own education system. To enhance the recruitment of students with high potential, we also offer scholarship programs to merchant marine academies in the Philippines and have set up courses for engineering graduates to obtain seamen's competency certificates and offer "K" Line classes through Crystal e-College, a merchant marine college associated with the Company. Through these efforts, "K" Line is developing maritime professionals who can succeed on the global stage. We are also implementing initiatives to develop global leaders among our shore-based personnel.

The Core of Our Maritime HR Development: The "K" Line Maritime Academy

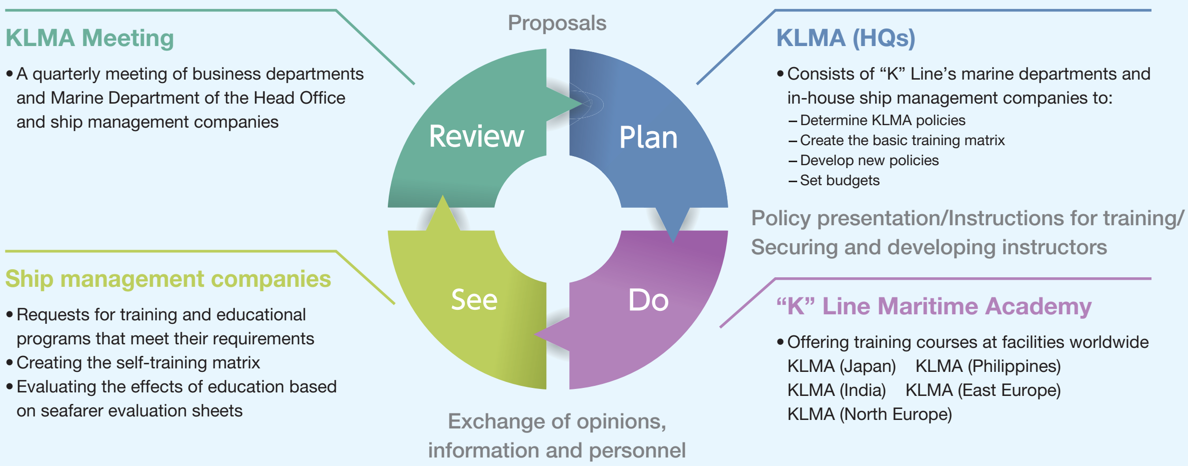
The "K" Line Maritime Academy (KLMA) is a collective body of training facilities in Japan, the Philippines, India, Eastern and Northern Europe as well as educational programs that include career path training for maritime technical personnel. Based on the KLMA Master Plan, the basic guidelines for developing maritime professionals, the Group conducts various initiatives through KLMA to ensure that the technical expertise accumulated over the years is handed down to the next generation. KLMA helps the Group's maritime technical personnel develop their awareness of safety in navigation and cargo operations as well as of environmental preservation. They can rapidly obtain the knowledge and skills necessary for career advancement. By offering training programs appropriately tailored to the culture, customs and circumstances of each country, "K" Line creates an environment in which maritime technical personnel can work with confidence and pride in a wide range of maritime and shore-based divisions, regardless of nationality.

Developing Shore-Based Global Leaders

On-the-job training (OJT) forms the basis of education for shore-based employees. To support each employee's growth, however, we are also reinforcing level-specific off-the-job training (Off-JT). Furthermore, the "K" Line University training program is held once a year to bring together employees from Group companies in various countries. This event helps employees improve communication, share a common vision and develop mutual understanding of cultural differences.

"K" Line's human resources system also employs a job rotation system to help employees understand the roles of a wide range of positions. Furthermore, we have adopted a new training program for new hires as of fiscal 2014. The training period has been extended to three months and includes practical classes on business, communication and finance, as well as on-site training at domestic and international business sites close to ports. The Group hopes to use this training to rapidly develop personnel with broad perspectives.

KLMA Structure



Building Corporate Culture that Encourages Assertiveness and Enterprise

The "K" Line Group will mark the 100th Anniversary of its founding in 2019. To maintain sustained growth in today's globally competitive environment, the "K" Line Group aims to treasure its strong corporate culture and traditions while reevaluating conventional modes of operation and raising Group-wide value creation capabilities to new levels. For that purpose, "K" Line has launched a new project to improve its corporate culture driven by its employees, who play the central role in creating corporate value.

Achieving Work-Life Balance with "The K-Life Balance Project"

More employees are working with time constraints related to childcare and nursing, and work styles are expected to grow only more diverse going forward. "K" Line has established "The K-Life Balance Project" in collaboration with its labor union to reexamine the conventional work styles of its employees and achieve a healthy work-life balance. This project is aimed not simply at reducing overtime worked, but at more comprehensively improving the quality and productivity of each individual's work to reduce the need for overtime and thus help employees balance work with their families and private lives.

Based on advice from outside consultants, in March 2013 we began an eight-month trial work style revision program with a number of teams. Under this program, all members of each team shared their various insights to review the ways they work, identify problem areas for the team and seek concrete solutions. By closely examining their own working styles and taking initiative to make improvements, one of the teams participating in the trial reduced the overtime work hours of its members by an average of 32%.

Going forward, "K" Line will expand this program across the entire Company, aiming to raise each individual's quality of work and productivity.

The "K" Line Improvement Project (The YORIYOKU Project)

The "K" Line Group will mark the 100th Anniversary of its founding in 2019. As we approach this milestone, we must once again review the Group's strengths and values to set a course for continued success over the coming 100 years. To do this, we launched the "K" Line Improvement Project (The YORIYOKU Project) in fiscal 2014. This project focuses on the Group's corporate culture as the basis of the mindset and actions essential to the Group's business. By reexamining the Group's unique strengths and asking what kind of thinking and action is necessary in employees to ensure future growth, the project aims to create mechanisms to develop this mindset and encourage the right actions. The defining characteristic of this project is that it is being largely implemented by a group of key stakeholders: our employees. As of July 2014, a team of 30 select personnel, comprising employees of various ages and ranks, ranging from junior to mid-level and management positions, has met nine times, engaging in lively exchange of opinions and developing ideas to improve the Company. A strong corporate culture is an important source of competitiveness. Through employee-driven corporate culture improvement, we hope to further enhance the Group's capacity to create value.

Management System to Ensure Safety in Navigation and Cargo Operations

As a shipping company, establishing and maintaining safety in navigation and cargo operations is one of “K” Line’s eternal duties.

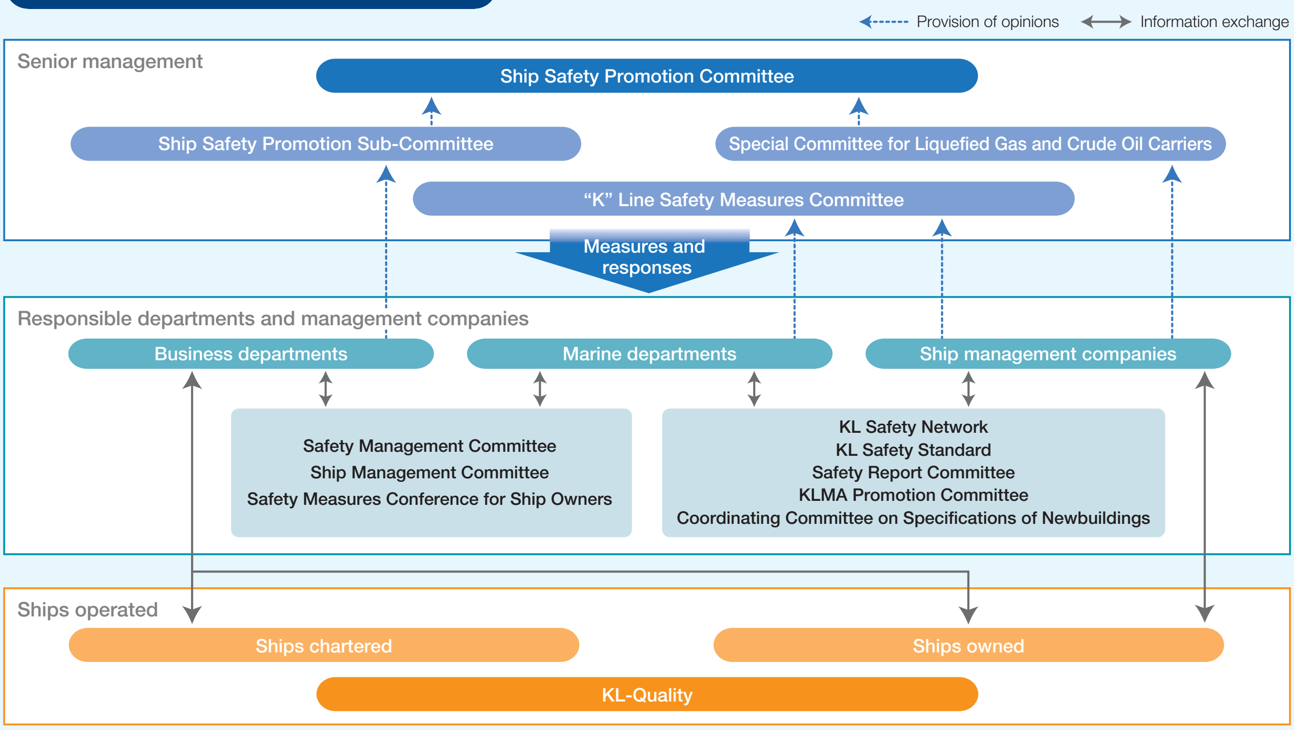
The “K” Line Group regards operational safety as the foundation of shipping and fundamental to fulfilling its role in supporting the economic activity and lives of people around the world as part of the international logistics infrastructure. As such, we have built and are always seeking to improve an operational safety framework and management system based on clear communication. In the current medium-term management plan, the Group has outlined its goals for establishing a strong operational safety structure under the three pillars of enhancing safety management systems, enhancing ship management structures, and securing and training maritime technical personnel on a global basis. In accordance with these goals, we are working to further reinforce related systems, quality management, risk management and human resource development. Through exhaustive operational safety, the Group is working to preserve global and marine environments and fulfill its responsibilities to earn the trust of society.

Group-Wide Operational Safety Management Structure

The Ship Safety Promotion Committee is chaired by the President and consists of the Executive Officers of each business department, marine department and ship management company. The Committee holds regular meetings to discuss and make decisions regarding accident prevention and safety measures. Led by the committee, “K” Line promotes the enhancement and appropriate operation of safety management systems, the reinforcement of shore-based shipping support, the sharing of information Group-wide, and improvement of the information network for ship owners and ships, using the “KL Safety Standard,” which combines global standards with the Group’s unique expertise.

In terms of managing ships owned by the Group, we work with in-house ship management companies (principally “K” Line Ship Management Co., Ltd., Taiyo Nippon Kisen Co., Ltd and Escobal Japan Ltd.) to maintain ship quality, prevent maritime accidents, minimize time loss, and exhaustively manage costs. These management companies each specialize in certain ship types and provide oversight throughout the entire lifespan of a ship, from the design of newbuildings to ongoing maintenance. Because these Group companies share a common philosophy, we are able to work closely and collaborate openly. This helps us better utilize accumulated management knowhow to maintain and improve safe, economical shipping.

Rigorous safety management structure



Ship Quality Management

With regard to newbuildings, the Technical Group acquired ISO 9001 certification for construction-related quality management in 2007. To maintain this certification, the Technical Group conducts organized quality management from planning to construction under a unified set of standards. We dispatch our highly knowledgeable and experienced engineers to construction yards to conduct rigorous and responsible quality management while collecting feedback and amassing further insight.

We have also established our own quality standards, “KL-Quality” for operating vessels. “K” Line’s ship inspection supervisors regularly visit and exhaustively inspect ships owned and chartered by the Group and provide guidance to maintain and improve operational safety. The Group also invests in shipyards to ensure excellent maintenance technology and works to further raise the level of such technology.

Ship inspection

Improving Risk Control and Emergency Response Capability

Based on the Emergency Response Manual, “K” Line conducts drills for large-scale disasters in which the President and other relevant individuals set up an emergency response headquarters, as well as various other drills that meet global standards based on the International Maritime Organization’s model courses and safety awareness building activities for all employees. Furthermore, the Group works to reinforce its operational safety management structure for dangerous waters through such measures as risk assessments and anti-piracy measures in line with Best Management Practices for Protection against Somalia Based Piracy. The Group also supports the UN’s initiatives to help stabilize the situation in Somalia.

The Group works to further develop the safety awareness and risk control capabilities of all employees through ongoing evaluations of countermeasures put in place against possible incidents.

Accident response drill

Building Relationships of Trust with Stakeholders

Worldwide trends in CSR have been on the brink of a new stage in recent years. Now, a long-term perspective in thinking about social responsibility and social mission is more important than ever.

The “K” Line Group works to create broad-ranging opportunities for communication with stakeholders to ensure that these changing social demands are reflected in management. The theme of our medium-term management plan is “Synergy for All and Sustainable Growth,” meaning management that is mutually beneficial for both stakeholders and the Company, and thus allows sustainable growth. Internally, we are also advancing deliberations on new directions for success over the coming 100 years and working to further enhance awareness of social responsibility.

As part of these efforts, in February 2014, we invited outside experts to a stakeholder dialogue. Our discussions with them focused on the major CSR issues of safety in navigation and cargo operation, environmental preservation, and human resource development. “K” Line prizes the opinions of these experts as a serious reflection of the expectations of society, and will utilize them in its future business activities.

Participants

From outside the Group	
Toshihiko Goto	Chief Executive Officer, Sustainability Forum Japan
Dr. Kenichi Takano	Professor, Graduate School of System Design and Management, Keio University
From “K” Line (positions as of the date of the dialogue)	
Eiji Kadono	Managing Executive Officer, Marine Sector (Operational Safety and Human Resources)
Shunichi Arisaka	Managing Executive Officer, Technical and Environmental Affairs
Tsuyoshi Yamauchi	Managing Executive Officer, Finance, General Affairs, CSR & Compliance
Yutaka Nakagawa	Executive Officer, Human Resources (On-shore Division), Business Promotion
Facilitator	
Ayako Sonoda	President, Cre-en Inc.

Expert Opinions

Overall CSR

Going forward, an essential aspect of CSR for any company will be determining material issues through communication with outside stakeholders. It is important to understand the various issues facing society through engagement with diverse stakeholders and to work to solve those problems through one’s business activities. Of course, longsighted, strategic consideration is crucial to identify initiatives that address such issues while simultaneously enhancing corporate value.

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Safety in Navigation and Cargo Operation

Shipping companies support the global logistics infrastructure. As such, sustainable growth based on operational safety underlies the social responsibility of shipping companies. Business execution at sea carries many risks, and high awareness on the part of employees is vital. For that reason, a firm philosophy with regard to operational safety that is shared organization-wide is necessary, and the corporate culture developed from this philosophy must permeate every employee involved in navigation worldwide, whether at sea or on shore. To maintain safety, exacting risk management from assessment to formulating action plans as well as effective communication are key factors.

The “K” Line Group regards the establishment and maintenance of a rigorous safety management structure as a major strategic priority, and is working to enhance related frameworks and systems, develop the skills of its engineers and raise awareness. With regard to risks, “K” Line analyzes accidents and uses the results to create a database in order to formulate more effective safety measures. This kind of constant consideration of new initiatives deserves praise. The group-wide pursuit of safety is, in effect, closely related to

Ayako Sonoda
Facilitator
President, Cre-en Inc.

Toshihiko Goto
Chief Executive Officer, Sustainability Forum Japan

Dr. Kenichi Takano
Professor, Graduate School of System Design and Management, Keio University

improving business results, and operational safety plays a key part in improving corporate value. We hope to see even more solid initiatives in this area in the future.

Environmental Preservation

When it comes to initiatives to address climate change and pollution, a clear corporate policy and long-term strategy, in addition to compliance with legal and other restrictions, are absolutely vital. Top-down goal setting provides corporate direction and helps to change awareness internally, while efforts taken to achieve those goals help to win the trust of society. Responding to environmental standards and fuel efficiency demanded by customers from a perspective of social responsibility throughout the value chain contributes to strengthening competitive advantages and economic streamlining, ultimately leading to corporate value creation. From this perspective, we hope to see CSR built into management strategy, and corporate policy and long-term goals are clearly established and disclosed.

Human Resource Development

It is obvious that the “K” Line Group positions human resource development as a major priority and regards its people as its greatest resource. It is also evident that, despite real efforts, “K” Line is finding it challenging to ensure that individual employees “take ownership,” fully understanding that the risks and issues they encounter in their daily work are their own responsibility. To create that kind of awareness, simulated experiences, such as role playing, can be effective. Simulations help employees absorb core values and share them within groups, in turn empowering them to take responsibility in unforeseen situations. In addition, building an external human network and actively maintaining contacts outside the corporate organization can facilitate taking responsibility for societal opinions and expectations and reflecting them in business. This contributes to innovation and thus boosts corporate value.

Kiyokazu Arai
Executive Officer, General Affairs, CSR & Compliance, General Manager of General Affairs Group

“K” Line’s Response

Your comments raised our awareness of the need to understand the objective opinions and suggestions of various stakeholders to supplement our own analysis when selecting material issues in CSR, as well as the importance of making the goals and related rationale clear. We also understand that there is a need for us to steadily address the issues brought up in these dialogues and regularly report on progress made.

In addition, we have also understood that a long-term perspective is essential in any type of CSR initiative, and that such initiatives must be coherent with corporate strategy aimed at increasing the value of the company. When formulating our next medium-term management plan, which we plan to do in fiscal 2014, we will build into it a long-term point of view.

Containership Business

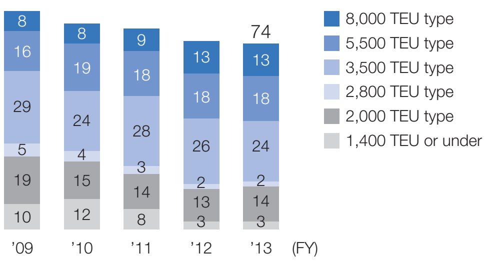
Port Business

Senior Managing Executive Officer **Toshiyuki Suzuki**

Full-fledged market recovery for the Containership Business is expected to take more time. Accordingly, “K” Line will maintain its current prudent management in fiscal 2014, continuing with the same cautious plan of minimizing the risk of losses and placing greatest emphasis on maximizing profits. In east-west trunk routes, we will further develop the existing CKYH Green Alliance* framework and expand partner companies on European routes to fully leverage the merits of this alliance. By doing so, we will continue to provide high quality service, covering a wide range of ports of call with higher-frequency, on-time service while continuing to promote slow steaming and other efforts to reduce costs.

*One of the largest shipping alliances in the world, named for the first letters of the names of its members, COSCON (China), “K” Line, Yang Ming (Taiwan) and Hanjin (South Korea).

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

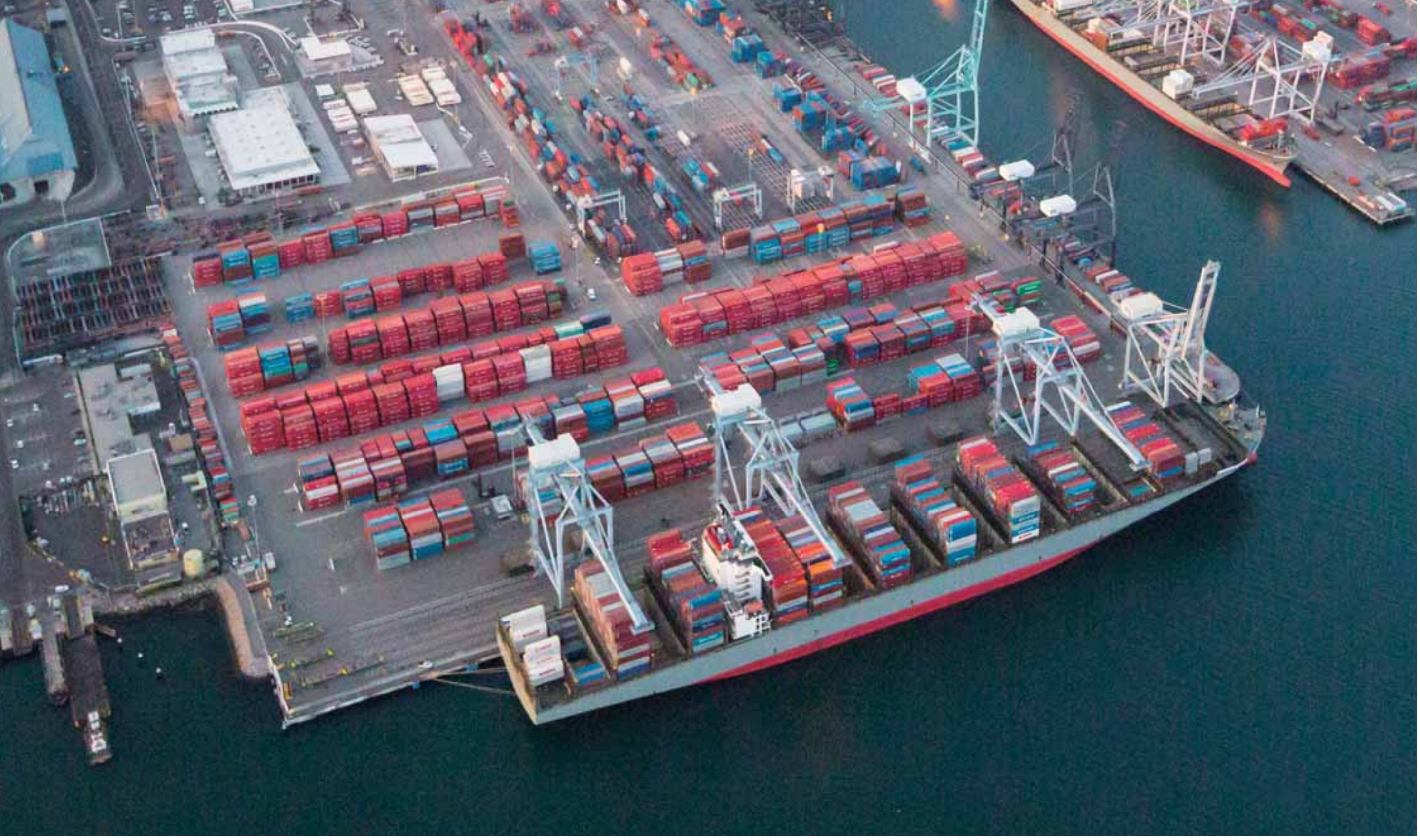
Container cargo movements saw solid year-on-year growth of 3-4% on North American and European routes, backed by gradual improvement in the U.S. economy and signs of recovery from the financial crisis in the European economy. However, deliveries of large newbuildings continued, improvement in the supply-demand balance of shipping space was sluggish, and freight rates were considerably below those of fiscal 2012. In this context, the “K” Line Group advanced operations placing even greater priority on profitability. Although we did not increase shipping space, we increased the volume of reefer and other highly-profitable cargo while reducing costs by streamlining ship allocation and further advancing slow steaming. As a result, income and expenses were nearly equal.

In the Port Business, “K” Line operates self-managed containership terminals at five ports in Japan (Tokyo, Yokohama, Kobe, Osaka and Nagoya) and three ports overseas (Long Beach, Tacoma and Antwerp). In the United States, we handled more cargo than in the previous fiscal year, contributing to the improvement of the bottom-line while providing competitive service both in terms of cost and quality. In fiscal 2013, our terminals handled 3,900,000 TEU around the world.

TOPICS

Expanding the Alliance

As of April 2014, the CKYH Green Alliance was joined by Taiwan-based Evergreen Line on Asia-Europe routes, becoming the CKYHE Alliance. Among the cooperative services offered by the five companies of the CKYHE Alliance, the four weekly Asia-Europe service loops provided by the previous four companies have been increased to six and ports of call have also been expanded, enabling higher customer satisfaction and superior service.



Fiscal 2014 Business Outlook

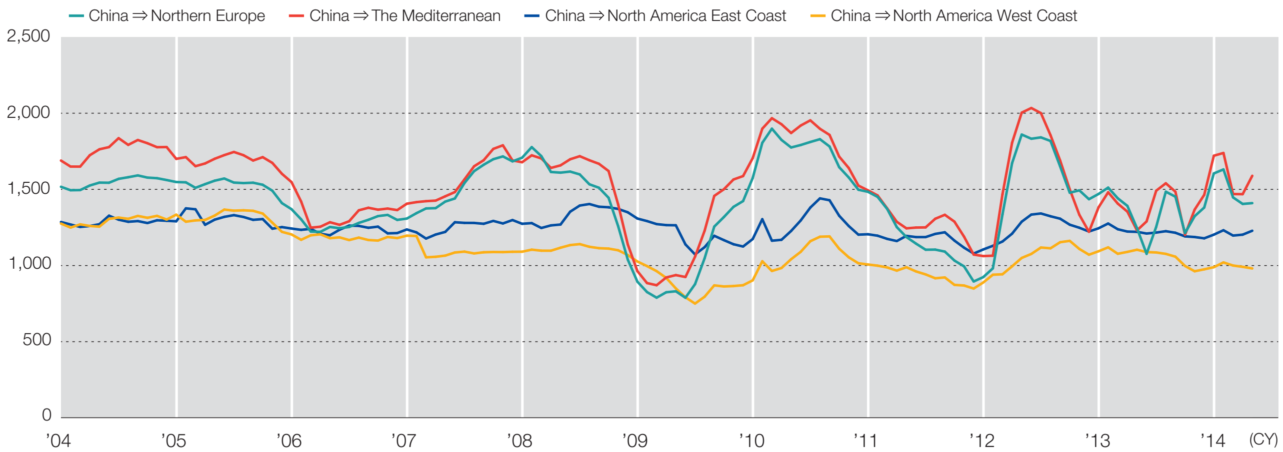
The economies of North America and Europe appear to be gradually recovering, and cargo movements on east-west trunk routes are expected to continue to grow steadily. Additionally, demand for shipping space in the Intra-Asia trade is expected to grow, due in part to increased cargo movements within Asia accompanying economic growth in Southeast Asia and other developing countries. Taking such cargo growth into consideration, we are not expecting a major collapse of the supply-demand balance, but the number of deliveries of newbuildings, particularly ultra-large containerships over 10,000 TEU, is expected to remain high. The "K" Line Group will use the Alliance to further increase sailing frequency and expand ports of call while working to enhance services, including expanding our network in Asia, where growth is expected.

In fiscal 2013, "K" Line finalized plans to construct five new 14,000 TEU ultra-large containerships, and deliveries of these ships will begin near the end of fiscal 2014. This new fleet will feature a new level of energy saving capabilities and economy. Upgrading our fleet, particularly with these new vessels, will help to strengthen the stable earnings structure of our containership business.

In the Port Business, we are expanding facilities to accommodate larger containerships, advancing the operation of high-quality, high-standard terminals that are easy for customers to use. At the Port of Long Beach in the United States, we are a pioneer in utilizing shoreside power, while in Japan we are steadily introducing hybrid cargo handling equipment. These measures to reduce CO_2 emissions are part of efforts to create more environment-friendly terminals. In addition to containership terminals, the Company is also developing a terminal for car carriers in Singapore.

Change in Freight Rates for Cargo Originating in China (January 1998=1,000)

Source: China Containerized Freight Index

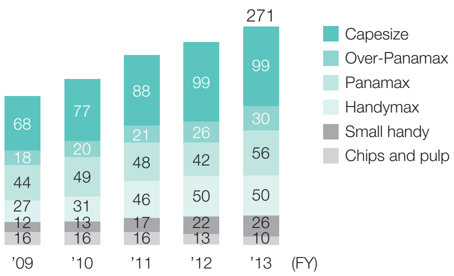


Dry Bulk Business

Senior Managing Executive Officer **Kazutaka Imaizumi**

The Dry Bulk Business has expanded sources of stable earnings and grown through medium- to long-term contracts with domestic and overseas customers, mainly for the shipping of iron ore, thermal coal, and grains. We will maintain this policy going forward, strengthening customer relationships to further stabilize our operating platform. Shipping volume is expected to increase over the medium- to long-term, particularly for developing countries. In response to this new demand, the "K" Line Group is using its network of overseas business locations to expand its business globally and cultivate new customers.

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

Looking at market conditions for large (Capesize) vessels, cargo movements of iron ore destined for China grew steadily from mid-2013 onward, and pressure from newbuildings on the supply side eased up, leading to the strongest demand in three years, with a firm market thereafter. Market conditions for small- and medium-size vessels, which had been sluggish, also picked up from mid-2013 onward, with rising demand, including brisk movements of grain in spring and autumn, coal and nickel.

In these circumstances, the "K" Line Group reduced operating costs throughout the year and worked to promote efficient ship allocation. As a result, both revenue and profit increased year on year.

TOPICS

Local Subsidiary in India Signs Consecutive Voyage Charter-Party Contract with JSW Steel Ltd.

In April 2103, "K" Line's local subsidiary "K" Line (India) Private Limited began domestic coastal shipping operations in India. The company quickly built a solid reputation, and in January 2014 secured an eight-year consecutive voyage coastal shipping charter-party contract. Shipping demand in India is on the rise as the country's economy further develops, and "K" Line will continue to work toward additional business expansion.

Fiscal 2014 Business Outlook

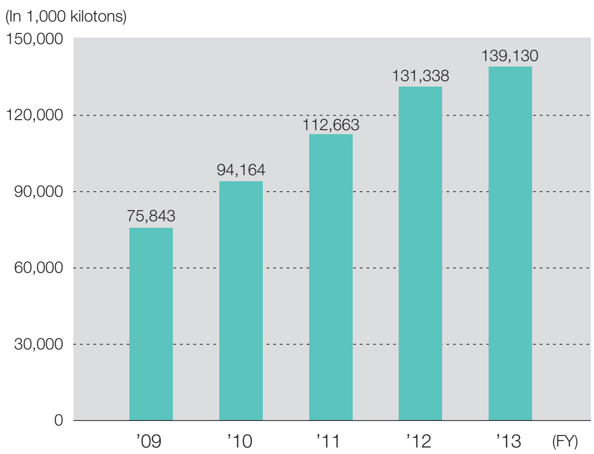
Continued market improvement is expected for Capesize vessels as the supply-demand gap narrows, reflecting reduced supply of newbuildings and increasing cargo movements due to increasing output by major suppliers. However, uncertainty in the world economy, including China, is expected to impact cargo movements, leading to larger market fluctuations in the short term. True market recovery for Panamax and small and medium-size vessels is expected to take more time, as deliveries of newbuildings continue, but this market is expected to remain stable, reflecting the improvement in the Capesize market.

In the Coal & Iron Ore Carrier Group, while aiming to maintain and expand business scale, we will work to further strengthen customer relationships and also try to expand our business in new trade areas, aiming to establish a stable earnings structure. We will furthermore increase the competitiveness of the fleet with advanced eco-conscious vessels and vessel space that best fit market needs.

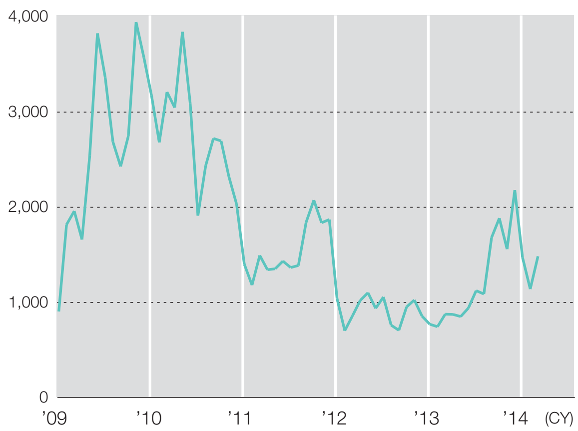
The Bulk Carrier Group will reduce fleet costs to ensure steady profit even in fluctuating markets. We will also further increase efficiency in ship allocation by cultivating new customers around the world to improve profitability.

The Thermal Coal, Woodchip and Pulp Group will further increase transport volumes of thermal coal. This will help to more firmly establish a stable earnings structure based around medium- and long-term service contracts with domestic electric power companies using wide-beam, shallow-draft 'Corona-series' vessels, which are well known as a high-quality brand in the shipping market. We also aim to secure transport contracts with overseas electric power companies. In the woodchip and pulp transport business, we have completed reorganization of our fleet that was previously undertaken, including disposal of charter free vessels in order to avoid exposure to market volatility, and have established a stable earnings structure based on medium- and long-term dedicated service contracts. We will firmly maintain this framework going forward, focusing on operational safety to live up to customer trust.

Cargo Tonnage Carried by Dry Bulk Carriers



Baltic Dry Index



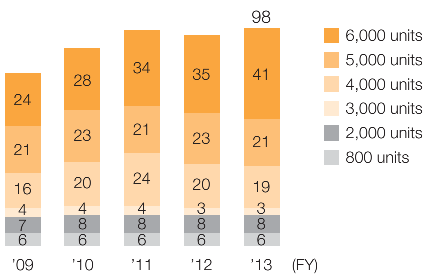
Freight rate index for ocean-going bulk carriers, as calculated by the Baltic Exchange in London. (January 1985=1,000)

Car Carrier Business

Senior Managing Executive Officer **Hiromichi Aoki**

Gradual expansion in global passenger car sales is expected to continue for some time, as the U.S. economy improves and the European economy shows signs of bottoming out. Seaborne movements of complete built-up cars are in the middle of a global paradigm shift, with further expansion in export trade from the United States, Mexico and Southeast Asia, as well as in trade between North America and Europe, two major regions of production and consumption. Growth is also expected in cargo movements of roll-on/roll-off (RORO) cargo, including construction machinery, heavy vehicles and other static cargo, alongside recovery in the world economy and the development of emerging economies. "K" Line's next generation large car carriers are scheduled for delivery in fiscal 2015 and beyond, and we are working to reinforce our business base to meet diversifying transport needs.

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

Cargo movements of complete built-up cars from North America and Europe to the Far East and within the Atlantic region were firm. Though exports from Japanese manufacturers were expected to pick up as the long-time strong yen corrected from the beginning of fiscal 2013 onward, shipments from Japan remained sluggish, except for those to North America and the Middle East. This resulted in overall exports being level with fiscal 2012. While the Group's total transport volume decreased by about 2% year-on-year to 3,280,000 vehicles, we worked to improve efficiency by revising transport contracts and service routes, secured steady profit on Middle Eastern and Latin American routes, and also achieved improved profitability on Atlantic routes. As a result, the Company recorded year-on-year increases in revenue and profit.

TOPICS

DRIVE GREEN PROJECT

Artist's rendering

Newbuildings of Vessels Featuring Cutting-Edge Environmental Performance

From fiscal 2015 to fiscal 2017, ten new 7,500-unit car carriers will be delivered, one of which is a state-of-the-art environment-friendly vessel, equipped with systems to reduce CO_2, NOx and SOx emissions, as well as solar power generation systems to supply the lighting in car decks with electric power from a renewable energy. Going forward, the "K" Line Group will continue to reduce the energy use of its vessels and the environmental burden they pose, as part of our dedicated efforts to protect the environment of the earth and ocean.

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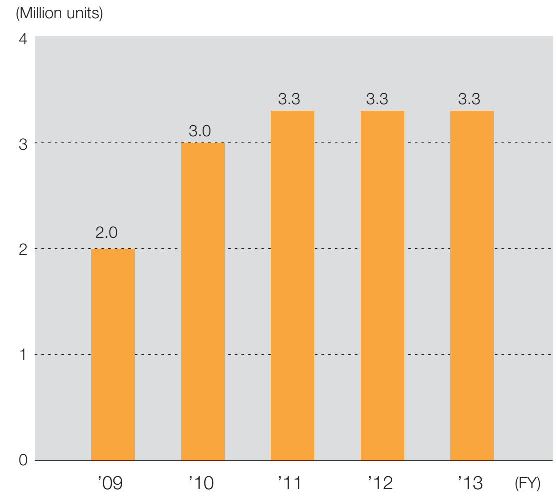
Fiscal 2014 Business Outlook

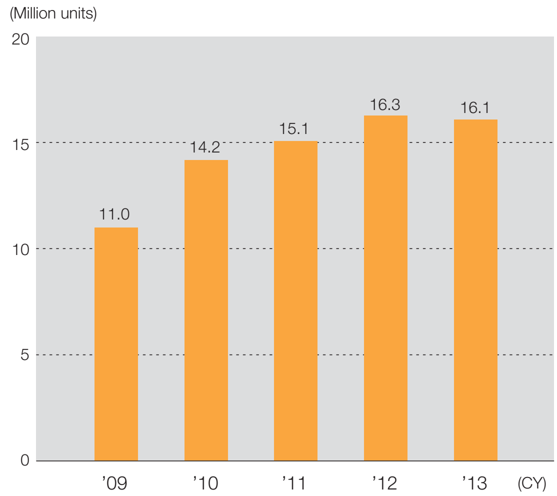
Although slowing growth in China, India, Russia and other developing economies remains a cause for concern, North America is expected to see continued gradual economic expansion, and there are signs of bottoming out in European markets. Accordingly, global seaborne demand for complete built-up cars is expected to be firm. While the yen appears to be settled at the current level of around ¥100/US$1, the shift of Japanese manufacturers' production facilities to overseas locations will continue. During fiscal 2014, as numerous new factories in Mexico and elsewhere come online, shipping volume of complete built-up cars from Japan, especially to Europe and North America, is expected to continue its gradual decline. On the other hand, shipments from Southeast Asia, China and India, and also exports from new manufacturing bases in the United States and Mexico to neighboring countries, are expected to continue to increase. In these circumstances, the "K" Line Group will work to precisely grasp diversifying shipping demand and enhance its existing service network, while flexibly reorganizing service routes in response to changing business conditions and trade patterns in order to further strengthen its trunk route network.

To establish the second pillar following the transport of complete built-up cars, the Group is advancing a strategy to significantly expand handling of RORO cargo, including construction machinery, heavy vehicles and other static cargo. In October 2013, the RORO cargo division was upgraded to an independent company, "K" Line RORO Services Ltd., reinforcing its structure to enable more organized and agile sales activities. Furthermore, the Group has finalized plans for newbuildings of next-generation large vessels featuring excellent fuel efficiency and heavy lift cargo carrying capacity. Four of these vessels are scheduled for delivery in fiscal 2015, four more in fiscal 2016, and two in fiscal 2017, and we aim to build a stronger and more stable business base.

Completed Built-up Cars Transported by Car Carriers



Worldwide Freight Movement of Completed Built-up Cars



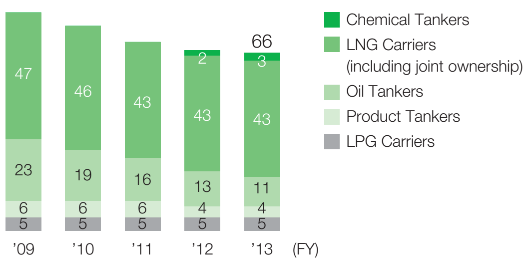
Excluding European short sea.
Source: "K" Line estimate based on multiple sources

LNG Carrier Business and Tanker Business

Executive Officer **Akira Misaki**

The “K” Line Group has developed and expanded its LNG Carrier Business and Tanker Business by providing stable and safe transportation of energy resources that are indispensable to people’s daily lives, gaining customer trust around the world. It is expected that demand for energy and related transportation may rise, particularly in developing countries, and trade patterns of crude oil and natural gas may continue to diversify, due in part to the shale gas revolution. Swiftly responding to changes in the business environment, the “K” Line Group strives to identify and fulfill customer needs.

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

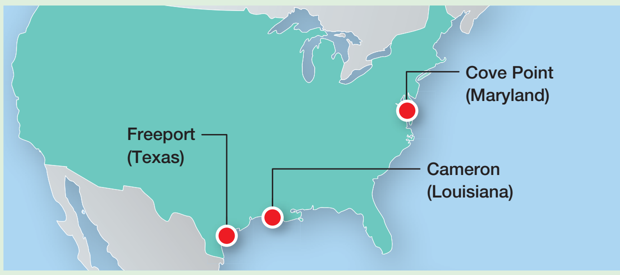
Oil Tanker Services

Large crude tankers (VLCCs) and liquefied petroleum gas (LPG) carriers performed satisfactorily under medium- to long-term charter agreements. “K” Line sold one VLCC as part of efforts to rationalize the fleet. With regard to medium-size crude oil tankers (Aframax) and product tankers (LR II), we rationalized the fleet size to some extent with re-delivery and sales of contractually uncommitted vessels by the end of fiscal 2012, but the market remained sluggish in fiscal 2013. As a result, overall oil tanker performance in fiscal 2013 was below that in fiscal 2012.

LNG Carrier Services

The liquefied natural gas (LNG) carrier fleet performed satisfactorily and continued to generate stable revenues under medium- and

TOPICS



Capturing New LNG Transport Demand (U.S. Shale Gas)

Forecasted commercial negotiations for LNG carrier newbuildings are mainly for projects for LNG destined for Japan, most of which are related to shale gas originating in the United States, including that from the Cameron project, Freeport project and Cove Point project, in which Japanese electric power, gas and trading companies take part. “K” Line is actively working to seize these business opportunities for LNG transport to Japan and other Asian nations, as well as to Europe.

long-term charter agreements. We also signed long-term time charter contracts for two newly-built LNG carriers with INPEX CORPORATION and a joint venture between INPEX and Total S.A. of France. The two vessels will be in operation from the end of 2016 for the Ichthys LNG Project, developed and operated mainly by INPEX, in Western Australia.

Fiscal 2014 Business Outlook

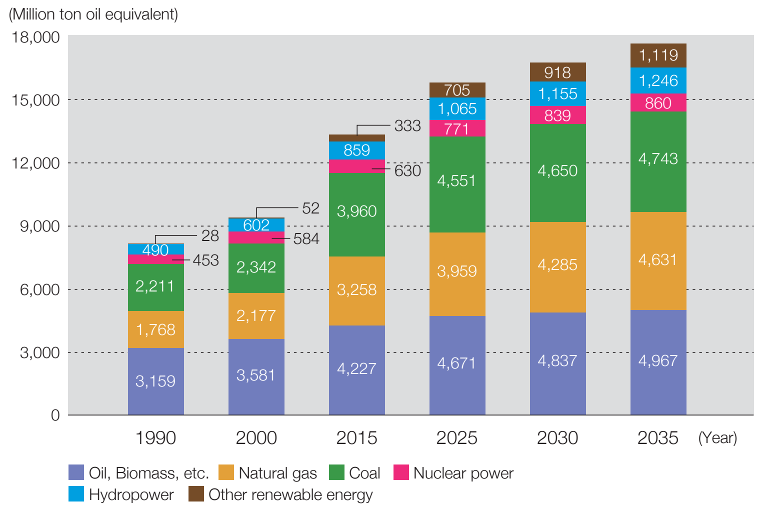
Oil Tanker Services

Due to changing patterns of cargo movement resulting from the shale gas revolution in the United States and concerns for the global environment, shipping demand for both crude oil and LPG is forecast to steadily grow. Given this business environment, we will maintain the current size of our fleet of VLCCs, while an LPG carrier newbuilding was completed in June 2014. In both these businesses, we will work to secure steady revenue through medium- and long-term time charter contracts. In Aframax tankers and product tankers, we have advanced efforts to limit the effect of market fluctuations by re-delivering and selling contractually uncommitted vessels, and will strive to further improve profitability through more efficient ship operation.

LNG Carrier Services

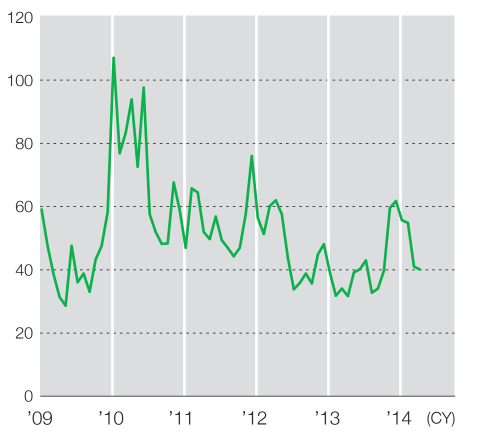
Natural gas has been garnering attention as a clean energy source, and demand is expected to remain firm, particularly in developing countries. As such, the fleet of LNG carriers that the Group owns and operates is also expected to continue to see solid performance. Furthermore, there are plans for numerous new projects. These include projects in Australia, East Africa and, especially, projects related to shale gas in the United States. We expect demand for LNG tonnage to grow accordingly. In this favorable environment, the "K" Line Group aims to expand long-term, stable revenues by aggressively capturing new business in addition to its business in existing long-term projects.

Worldwide Demand for Primary Energy



Source: BP Energy Outlook 2035

Index of VLCC* Freight Rates



(VLCCs, Arabian Gulf / Japan in Worldscale)
Source: Clarkson
*VLCC: Very Large Crude oil Carrier; 200,000~300,000 DWT tankers

Offshore Energy E&P Support Business

Executive Officer **Akira Misaki**

Leveraging the knowledge and skills developed through years of experience in energy transportation businesses, "K" Line is cultivating new demand in areas related to offshore energy resource development and production. Centered on the growth of Norway-based K Line Offshore AS, which has established a business foundation for offshore support vessels, we are considering entering the core area of the offshore energy E&P business.

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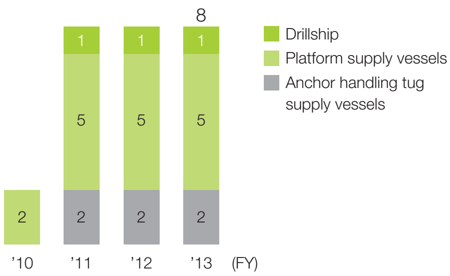
Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

In fiscal 2013, all of the offshore support vessels of K Line Offshore AS showed stable performance on medium- and long-term charter contracts to major E&P companies in the North Sea and off Brazil, or in spot service in the North Sea. These vessels comprise five large platform supply vessels (PSVs), specially designed to supply offshore drilling and production facilities, and two ultra large anchor handling tug supply vessels (AHTSs), which are involved in the anchoring and moving of floating drilling and production facilities.

"K" Line's drillship is engaged in drilling an ultra-deep water oil field 200 kilometers off the coast of Rio de Janeiro under a long-term charter contract with a maximum term of twenty years. Working in cooperation with our partner in Brazil and other shareholders, this drillship's stable operations have earned praise from the charterer and have contributed to profit gains.

Fiscal 2014 Business Outlook

Offshore support vessels operating under medium- and long-term service contracts with major E&P companies are expected to continue providing stable performance. The market rate for the vessels in the spot market is expected to exceed the prior-year level due to strong demand fueled by an increase in offshore resource development activity in North Sea waters.

The drillship business is expected to continue to provide stable revenue under the long-term charter contract.

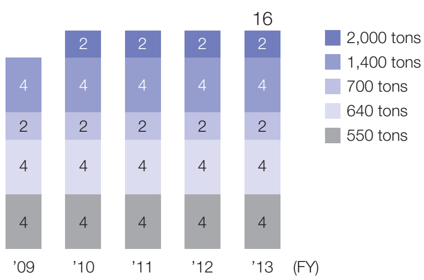
Heavy Lifter Business

Executive Officer **Yutaka Nakagawa**

As energy and infrastructure-related projects are predicted to increase, demand for related cargo and offshore business is also increasing. In addition to the SAL Group, which specializes in heavy lift shipping, we are combining this business with the logistics operations and new business of "K" Line's various Group companies to gather information on projects for heavy lifters and secure cargoes.

p14-15

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

Market conditions for heavy lifters were weak throughout the year. This resulted in a year-on-year decrease in revenue. The Group strove to improve profitability by promoting cost reductions, such as more efficient ship allocation and rigorous implementation of slow steaming.

Fiscal 2014 Business Outlook

Recovery in the market for medium- and small-sized vessels is expected to take some time. However, energy-related projects are expected to increase, and inquiries related to cargo for projects that use DPS* and/or large cranes, areas of strength for SAL, as well as those related to offshore business, are already increasing, and bookings for the remainder of 2014 have been confirmed. We will focus on securing orders for highly profitable transport and installation of whatever is required to handle such cargo as well as continuing our cost reduction efforts to improve profits.

In addition to infrastructure projects, demand growth is expected over the medium term in cargo transport for projects related to the construction of liquefaction plants accompanying the shale gas revolution. We will carefully observe the market to optimally allocate vessels and maximize profit.

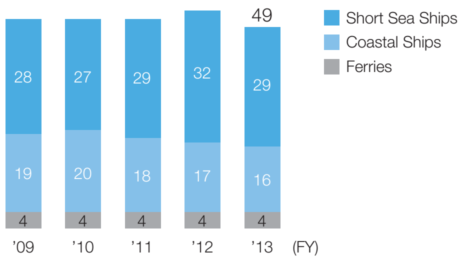
*Dynamic Positioning System: A system to automatically maintain the position of vessels in ultra deep water where anchoring is not possible, allowing loading and other operations.

Short Sea and Coastal Business

Executive Officer **Yutaka Nakagawa**

In the short sea business, Kawasaki Kinkai Kisen Kaisha, Ltd., one of the Group's core companies, is using its new representative office in India to expand business over a wider area while reducing costs through efficient ship allocation and slow steaming to increase profitability. In the coastal services business, we are improving our fleet in response to the domestic economic environment, aiming for stable, long-term business continuity on trunk routes that support people's everyday lives. Furthermore, in October 2013, we established Offshore Japan Corporation, entering the offshore support vessel business in the waters surrounding Japan.

Ships in Operation (As of March 31, 2014)



Overview of Fiscal 2013

In the short sea business, bulk transport volume increased, reflecting increased production by steel and cement manufacturers. The Group's market share in the shipping of wood products increased, but a shift in demand toward domestically produced wood led to a decrease in shipping volume. Transport volume of steel materials and general cargo fell due to reorganization of steelmakers' shipping routes.

Coastal service trampers enjoyed high utilization, reflecting recovery in the domestic economy. In liner and ferry services, ramping up of reconstruction demand related to the Great East Japan Earthquake and the surge in demand ahead of the consumption tax hike in April 2014 led to increased transport volume.

Fiscal 2014 Business Outlook

In short sea service, we expect that strong production, particularly by steel and cement manufacturers, will continue, and bulk transport, including that of coal, will be firm. In wood products, steel materials and general cargo, we will improve profitability by optimizing tonnage and further reducing operating costs.

In the coastal service business, although recoil following the consumption tax hike is expected to cause a temporary dip in demand, stable cargo movements are expected on routes for specialized vessels and domestic RORO vessels. In ferry services, we will continue to engage in active sales activities to increase transport of trucks, passenger cars and passengers. In the new offshore support vessel business, we will provide support for renewable energy, including offshore wind power generation, and offshore energy E&P.

Logistics Business

Executive Officer **Yutaka Nakagawa**

In addition to the existing businesses of air cargo, forwarding and related domestic companies, we are also continuing to promote new businesses in the logistics and shipping-related area, mainly in Asia. We aim to use the knowhow nurtured in Thailand and Indonesia, where we already operate broad logistics businesses, to provide high quality services in other countries, such as Vietnam, Myanmar and Bangladesh. We are also targeting further business expansion in India, where we began several businesses in fiscal 2013. Furthermore, we will launch initiatives in the Middle East, Africa, Turkey and other areas outside Asia. The "K" Line Group will use its comprehensive strength to meet customers' logistics requirements around the world.

Overview of Fiscal 2013

Results in international logistics business were firm, particularly in Asia, but airfreight export cargo from Japan was sluggish, despite a moderate recovery in the latter half of the year. Performance in domestic logistics was firm, reflecting improvement in the economy, leading to earnings that were on level with the previous fiscal year.

We launched new businesses in India, including coastal business and "milk run" services.

However the overall logistics business saw year-on-year decreases in revenue and profit.

Fiscal 2014 Business Outlook

Airfreight export cargo from Japan is recovering in fiscal 2014. While concerns remain over slowing growth in developing countries, logistics demand in the ASEAN region is expected to remain firm. With continuing economic recovery in Japan, solid performance is forecast for the Group's domestic and international logistics businesses.

In the medium- to long-term, we position logistics and new businesses in the shipping industry as stable profit sources, and will nurture this area into one of our core businesses. We will bring together the "K" Line Group's assets, capabilities and expertise to provide high quality service in order to satisfy customer requirements. We aim to increase our customer base as a result.

Management Structure Supporting Growth

Solid corporate governance is essential for a company to fulfill its social responsibility, respond to its mandate as bestowed by stakeholders and achieve sustained growth. The entire “K” Line Group continuously strives to act in total accordance with its corporate principles while implementing effective systems of corporate governance and a framework to handle various risks to increase corporate brand value.

Message from an Outside Director

Outside Director

Eiichiro Kinoshita

Mr. Kinoshita went to work at the Bank of Japan in 1964 and has served as Chairman of NTT System Technologies Inc. and President of Nagoya Railroad Co. He is currently an outside audit & supervisory board member at Tokai Tokyo Financial Holdings, Inc., and member of the Supervisory Committee at The Norinchukin Bank. He has been a “K” Line outside director since 2012 and also serves as a consultant to Nagoya Railroad Co.

My Third Year as an Outside Director

It has been two years since I retired from full-time management at Nagoya Railroad and took my post as outside director at “K” Line. Although the two companies both belong to the larger transport industry, “K” Line’s business was an entirely new area for me, and I found my previous knowledge insufficient. Since then, I’ve thought always about the unique contributions I can offer as an amateur in the shipping industry. I’d like to share a few of my thoughts about this.

First of all, I feel that, commensurate with the global scale of the shipping industry, the opportunities and risks are both far larger than those of the railroad industry. I imagine the ideal operating environment for the shipping industry as one in which the economies of the various countries of the world all grow steadily, trade and commerce between them goes smoothly, and there are no international conflicts. In that sense, there are surely few industries more oriented toward world peace than shipping. But the real world is far removed from this ideal, and as such the shipping industry is also exposed to various risks. I think the opinions of directors with varying backgrounds can be helpful in evaluating these risks.

Second, the railroad industry is so close at hand that even small children are familiar with it. Similarly, shipping is easy to imagine and understand for anyone from Japan, a nation surrounded by sea. But when one takes a look inside the actual industry, it becomes clear just how vast a distance, both physical and psychological, separates headquarters from operating and businesses locations scattered around the globe. This is very different from the railroad where I gained experience, in which the headquarters and the frontline workplaces are close to one another and most frontline employees are employed directly by the headquarters.

The roots of Japan’s strong shipping industry may lie in the fact that Japan has historically been a nation on the edge of the sea. Due to the rise of telecommunications, however, headquarters of shipping companies no longer need be located on the coast; indeed, one major global shipping company is headquartered in Switzerland.

No matter where the head office is, though, having in place a structure to appropriately manage the Group’s operating and business bases around the world under the unified direction of headquarters is utterly essential. Those functions are ordinarily handled almost entirely by executive management, while outside directors get involved only after some kind of issue has occurred at a frontline location.

Third, the shipping industry and the railroad industry are alike in that they both involve very large-scale real assets, the management and effective use of which is a crucial operating issue. Accurately making the necessary investments is always a difficult task. As an outside director I feel it my responsibility to formulate a clear opinion on each individual item. Happily, investment plans are always carefully explained at meetings of “K” Line’s Board of Directors, and the Chairman often asks for opinions. As an outside director, I hope to offer my frank thoughts from a unique perspective that differs from that of other directors and executives.

Corporate Governance

Structure of Business Execution

"K" Line adopts an executive officer system and streamlines its management by delegating authority and expediting decision making.

Board of Directors

The Board of Directors meets at least once a month to determine fundamental management policies, matters required by laws and regulations, and other important management-related matters, as well as to supervise business execution. Two of the ten Directors are Outside Directors. The Audit & Supervisory Board Members also attend the Board Meetings.

Executive Officers' Meeting

This meeting is held twice a month, in principle, and is attended by the Executive Officers and Audit & Supervisory Board Members to help the President & CEO and their representatives make decisions and share information on important matters through frank discussion.

Audit & Supervisory Board

The Audit & Supervisory Board meets at least once a month. Three of the four members of the board are outside members as stipulated by the Companies Act of Japan. The board formulates and implements audit policies and plans, and undertakes to conduct efficient, expeditious auditing. The members of the board supervise the business operations of directors through attendance at meetings of the Board of Directors and other important meetings and inspection of decision-making documents. "K" Line assigns a dedicated staff to assist the Audit & Supervisory Board Members.

Management Conference

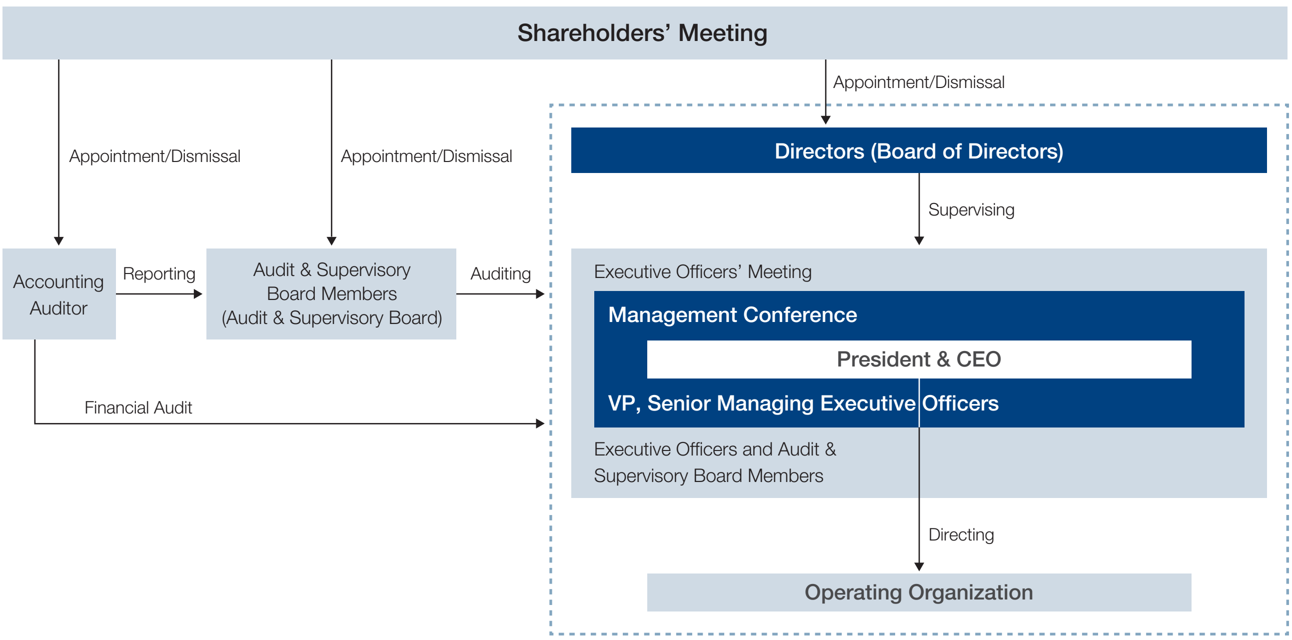
A Management Conference is held every week, in principle, to further enhance transparency and promptness in management decision making and direction setting. At the Management Conference, senior managing executive officers and higher level Executive Officers exchange opinions, and other involved parties attend discussions of specific agenda items.

Establishment and Maintenance of the Internal Control System

The Board of Directors is responsible for building the internal control system, evaluating its effectiveness, and ensuring that it functions properly. The Audit & Supervisory Board Members oversee the processes by which Directors build an internal control structure and confirm that it is functioning effectively.

Corporate Governance Structure

(As of July 1, 2014)



For more details about corporate governance, please visit "K" Line's website.

Risk Management

Risk Management System

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 such risks become actualized. Specifically, we have established four Committees for responding to four different types of risks: risks related to 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

Crisis Management Committee
Control and facilitate the management of all kinds of risks

- **Ship Safety Promotion Committee**
  Managing risks to safety in ship operations
- **Disaster Response Committee**
  Managing risk of disasters
- **Compliance Committee**
  Managing compliance risks
- **Management Risk Committee**
  Managing other risks in management

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.

With respect to antisocial forces, 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.

To combat the risk of terrorism, we participate in the C-TPAT program, a U.S. Customs program aimed at preventing terrorism. Under this program, we take measures that include strict identity verification of people who visit ships and offices, the appropriate installation of fences and lights at self-managed terminals, and measures for ensuring information security.

We monitor fluctuations in exchange rates, fuel prices, 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 significantly affected by the risks and responds appropriately when an impact actually occurs.

Response to Large-scale Disasters

We have established BCPs for two different types of disasters: an earthquake directly below the Tokyo metropolitan area and a pandemic involving a highly virulent new influenza. Placing highest 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 can continue to discharge our responsibility as a part of the social infrastructure. Also, to avoid electronic data loss in a disaster, we have set up a system for remote storage of backup data.

Promotion of Compliance

We have installed a Compliance Committee chaired by the President that discusses strategies and countermeasures to ensure that compliance is maintained throughout the Group. 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 (the 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 training and other initiatives.

To quickly identify and appropriately handle legal violations and other compliance issues, “K” Line has set up a Hotline System for internal reporting. In addition to the internal hotlines (to the President and head of the General Affairs Group), the Company has also designated a law firm to serve as an external reporting hotline.

Cease and Desist Order from Japan’s Fair Trade Commission

In March 2014 the Japan Fair Trade Commission (JFTC) issued a cease and desist order and surcharge payment order regarding the ocean shipment of automobiles on certain routes. “K” Line takes these developments very seriously and is working to quickly establish and put into action a structure to prevent the reoccurrence of such an incident. Measures to this end include the establishment of a new expert and permanent department within the Company, the establishment and implementation of Rules for Antimonopoly Act Compliance, and other efforts to promote exhaustive compliance throughout the Company’s business activities. Concrete initiatives include the issuance of a new guidebook in addition to the existing competition law compliance manual. The guidebook offers more concrete, easy to understand information that is highly relevant to “K” Line’s operations. Furthermore, with regard to contact with other companies in the same industry, depending on the nature of the contact, the Company has made mandatory prior notification and permission as well as reporting and record keeping of the content of the contact, and is strictly enforcing these rules.

Environmental Preservation Initiatives

The “K” Line Group’s determination to recognize and minimize the impact of its business activities on the global environment is expressed in the “K” Line Group Environmental Policy. Through the maintenance and conscientious operation of an environmental management system based on this determination, the Group undertakes concrete environmental preservation initiatives and sets numerical targets, against which it strives to improve performance. While placing highest priority on environmental preservation and safety in navigation and cargo operation, “K” Line contributes to the sustainable development of local and international communities by providing highly energy efficient, environment-friendly logistics services.

Detailed information on the results of environmental preservation initiatives, targets and environmental data is published on “K” Line’s website.

“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.

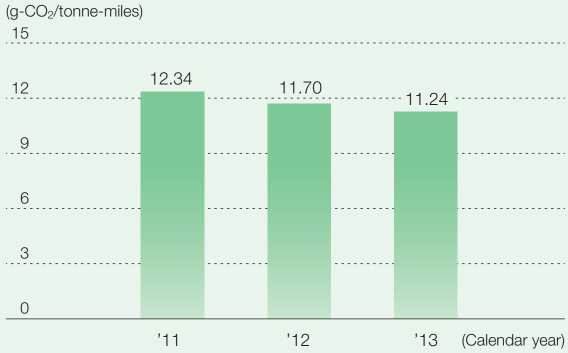
Revised in August 2012

A CO_2 Emissions Goal for 2019, the Group’s 100th Anniversary

Transport via shipping is well suited to large cargo volumes and boasts excellent energy efficiency compared with other transportation modes, making it effective for reducing CO_2 emissions from logistics. To ensure that this highly efficient mode of transport continues to contribute to sustainable global development, “K” Line has set the goal of reducing by 10% its energy efficiency operational indicator (EEOI)*, established by the International Maritime Organization (IMO), by 2019 compared with a 2011 baseline. To achieve this goal, the Group is enhancing energy saving among its fleet, the use of larger vessels, slow steaming and rigorously optimized operational management, aiming to further reduce CO_2 emissions.

*Grams of CO_2 emitted per tonne of cargo transported per mile (1,852 m).

Average EEOI of All Owned and Chartered Ships (Excluding LNG Carriers)



Third-Party Evaluation of Greenhouse Gas Emissions Data

The “K” Line Group has calculated its greenhouse gas (GHG) emissions in line with the Greenhouse Gas Protocol (GHG Protocol), an international standard for calculating and reporting greenhouse gas emissions, and received third-party evaluation and a Verification Statement for data on its 2013 GHG emissions from processes ranging from upstream to downstream.

Third-party institution DNV GL Group, the Classification Society, provides ship classification and certification services. DNV GL Group applied ISO 14064 (international standards related to GHG calculation, reporting and verification) to verify “K” Line’s data on GHG emissions and evaluate its validity, thus affirming the reliability of the data disclosed and improving transparency. “K” Line has built a system for quantifying GHG emissions, and every year applies the above standards to accurately calculate, understand and evaluate its emissions, thus aiming to continuously reduce them.

CSR Policy and Results

The “K” Line Group regards addressing material issues identified through dialogue with stakeholders as the bedrock of CSR. Setting clear medium- and long-term goals in the areas of these issues and steadily working each year to reach these goals is

Material Issues in CSR, Medium- and Long-Term Goals, and Results of Fiscal 2013 Initiatives

Main CSR Subjects		Core subjects	Stakeholder Expectations	Major Issues for “K” Line
Building a management structure that emphasizes social responsibility		Organizational governance	Ensuring management soundness and transparency Implementing CSR from a long-term perspective Improving corporate culture Permeation of the management philosophy	Establishing a management structure to address societal demands
		Stakeholder engagement	Identifying material issues through stakeholder engagement Setting boundaries Timely, appropriate disclosure to stakeholders	Promoting dialogue with stakeholders
	Managing the impact of business activities	Human rights	Eliminating discrimination in hiring Preventing discrimination in the workplace Preventing forced labor and child labor Preventing harassment	Preventing discrimination Respecting basic labor rights Preventing forced labor and child labor
		Labor practices	Improving occupational health and safety Preventing over-long working hours Improving operational procedures Enhancing the benefits systems Improving work environments	Preventing over-long working hours Improving occupational health and safety Promoting diverse work styles
		Fair operating practices	Fair management practices Legal compliance Preventing corruption Compliance with competition law Ensuring confidentiality	Preventing corruption Preventing anti-competitive behavior
		Safety in navigation and cargo operations	Risk management Preventing major accidents Preventing cargo-related accidents	Preventing major accidents
		The Environment*	Preventing air and marine pollution Reducing emissions of harmful substances and waste	Reinforcing environmental management Environment-friendly business activities
		Crisis management	Risk management Anti-piracy measures	Business continuity in times of major disaster Enhance response capabilities for major accidents Crisis and risk management system
	Creating new value	Human resource development	Use and development of human resources Promoting diversity Creating an organizational safety mindset Improving communication Enhancing educational systems	Improving corporate culture Developing global leaders Promoting diversity
		Innovation	Contributing to social development Long-term environmental policy Technical development and innovation Lowering costs	New value proposals through the decrease of environmental burden and improvement of service quality
		Community involvement and development	Contributing to social development External collaboration Assisting in disaster recovery/reconstruction Contributing to local communities	Assisting in recovery/ reconstruction from natural disasters
		Employment creation and skills development	Contributing to social development Employment creation Skills development	Support for education and employment creation

the "K" Line Group's basic approach to CSR initiatives. This table summarizes major material issues identified, medium- and long-term goals to address these issues, and the results of initiatives/activities undertaken in fiscal 2013. p18

"K" Line's Medium- and Long-Term Goals	Fiscal 2013 Results
● Build CSR into management decision making and business processes; establish a management system that enables the Company to grow together with society	● Conducted awareness raising for management and employees (distributed pocket guide, ran a series of special features on CSR in in-house magazine, etc.)
● Establish interactive communication with diverse stakeholders and reflect stakeholder opinions and wants in CSR initiatives/activities	● Held stakeholder dialogues, inviting outside experts p24-25
● Eliminate discrimination based on race, nationality, gender or disability at all levels of workforce management and ensure equal employment and promotion opportunity for all employees	● Hired one employee with a disability, offered a position to one more
● Establish employee-friendly working environments that promote physical and mental health, where all employees can make the most of their abilities	● Conducted a trial work style revision program in certain divisions as part of the K-Life Balance Project. Teams reduced their average overtime worked by as much as 32% year-on-year p21 ● Improved office regulations for employees working reduced hours
● All employees work with full understanding of the importance of fair business practices, including competition law and anti-corruption	● Enacted Internal Rules against Bribery and analyzed the Company's bribery-related risk ● Established a new expert and permanent department that specializes in ensuring compliance with competition law ● Established Internal Rules for Antimonopoly Act Compliance (effective April 1, 2014) ● Established Internal Rules Regarding Contacts with Other Companies in the Same Industry (effective April 1, 2014) ● Established the new Fair Competition Promotion Committee and Detailed Rules for the Committee's Operational Procedures (effective April 1, 2014) ● Conducted seminars on compliance for management/employees of group companies with outside instructors (450 total participants)
● Achieve zero major marine accidents	● Safety supervisors visited vessels ● Safety Supervisor Newsletter distributed to all vessels ● Held Safety Measures Conference for Ship Owners p43
● Environmental management system reaches the level of all individual employees; the environmental burden of business activities is continually reduced	● Received Environmental Excellence Award in the United States p42 ● Conducted woodland preservation activities at the "K" Line's Forest, "Sarumachizuka" p42
● Ensure business continuity plan (BCP) is firmly understood ● Achieve zero damage from pirate attacks ● Establish a system to rapidly respond to disasters and major accidents	● Updated BCP (earthquake and influenza countermeasures) ● Conducted large-scale disaster drills
● All employees share the mindset and standards of conduct necessary for the continued growth of the Company in the future ● Develop and utilize human resources who can borderlessly make the most of their abilities regardless of expertise (on shore or at sea), nationality or gender	● Dispatched a young employee to work overseas (one employee) ● Conducted training exchanges of employees of overseas subsidiaries and the head office ● Reinforced training system for maritime technical personnel
● Continuously keep tabs on general trends related to reducing environmental burden and customer wants related to improving transport quality, establish a framework to meet these needs with technical solutions	● Began joint R&D with manufacturers of new technologies that will help reduce environmental impact and improve transport quality
● Contribute to the development of local society using the Group's organizational resources	● Conducted a volunteer tour to Minamisanriku in Miyagi, Japan, an area heavily impacted by the Great East Japan Earthquake (April and September 2013) ● Provided support for earthquake and typhoon victims in the Philippines p43 ● Continued cooperation in free transportation of educational materials to South Africa p42
● Contribute to the shipping industry as a whole through marine technical personnel development support that contributes to the production of excellent seafarers ● Contribute to employment creation and skills development in regions where the Company operates	● Accepted merchant marine students as interns ● Participation in a UNDP job creation initiative in Somalia p43

*Goals and results of environmental activities are disclosed on "K" Line's website.

CSR Initiatives / Activities—Main Results of Fiscal 2013

Environmental Preservation

“K” Line Receives Environmental Excellence Award for the First Time

“K” Line received the Environmental Excellence Award from the Port Authority of Long Beach in the United States in 2013 in recognition of its initiatives under the port’s Green Flag Program and Green Ship Program to reduce environmental impact in the coastal waters.

The Green Flag Program is a program in which ships reduce speed to 12 knots or below in specified coastal waters, with the aim of reducing exhaust gas emissions. With 100% compliance, K” Line achieved the highest level of recognition among participating companies in the large 40 nautical mile zone covered by the program. The Green Ship Program is aimed at encouraging ship operators to assign ships that emit little NOx (nitrogen oxide) in their exhaust gas to the port. Four of “K” Line’s vessels that meet the program’s specifications were recognized for making a total of nine calls at the port.

Both of these programs seek voluntary cooperation to prevent air pollution in the coastal area. “K” Line has been recognized under the Green Flag Program for nine consecutive years, including 2013, and received recognition under the Green Ship Program and the Environmental Excellence Award for the first time in 2013.

The “K” Line Group proactively participates in environmental preservation initiatives at ports around the world to contribute to the preservation of the global marine environment.

Award ceremony

Forest Preservation Activities: “K” Line’s Forest “Sarumachizuka”

“K” Line signed an agreement with NPO Chiba University Students Committee for Environmental Management System to conduct forest preservation activities in “K” Line-owned woodlands near Narita International Airport in Chiba Prefecture. Through this activity, “K” Line also received a Certificate from the Chiba prefectural government for CO_2 absorption through forest preservation. “K” Line and the Students Committee will work together to continue restoring the woodland with the goals of conserving biodiversity, maintaining the beauty of the landscape and spreading environmental awareness.


May 2013 forest preservation activities

Community Involvement

Supporting Transport of Educational Materials to South Africa

“K” Line supports the activities of NPO South African Primary Education Support Initiative (SAPESI), aimed at raising the level of primary education in South Africa, and has been cooperating in providing free transportation of children’s books and educational materials to the country since 2011. In response to these efforts, “K” Line received a certificate of appreciation from the Embassy of the Republic of South Africa in Japan in November 2013. So far, “K” Line has helped transport around 70,000 children’s books printed in English for SAPESI’s Mobile Library Project from around the world, as well as mathematics sets for elementary schools and magnetic white boards for use in the classroom. Going forward, “K” Line will continue to actively cooperate in the area of shipping, in which, as a shipping company, it is uniquely able to contribute to society.

Community Involvement

Support for Victims of Typhoon Haiyan in the Philippines

On November 8, 2013, Typhoon Haiyan hit the central Philippines, causing enormous damage.

The “K” Line Group donated ¥5 million through the Rayomar Outreach Foundation, Inc. (ROFI)*, a charitable institution established by the Rayomar Group, “K” Line’s business partner in the Philippines, for relief to victims and the recovery and reconstruction of the affected area. “K” Line also provided additional support for Filipino seafarers, their families, and students of merchant marine academies who were impacted by the disaster.

In coordination with the Japanese Shipowners’ Association, “K” Line also provided transportation of emergency relief supplies by containership from Japan free of charge, and provided free transportation by car carrier for the Japan Ophthalmologists Association’s “Vision Van,” a clinic-on-wheels loaned to the affected area. Through these and other efforts, the Group worked to use its business resources to provide support.

The Philippines is the world’s greatest source of seafarers, and many Filipino seafarers serve on board vessels operated by “K” Line. The Group hopes that its efforts will be of assistance in helping the country recover and rebuild as quickly as possible.

*ROFI is an organization that provides support to the Philippine’s poor, providing clothing, food, medical care and support for education through fundraising and volunteer activities.

“Vision Van” ophthalmic clinic-on-wheels

Employment Creation / Skills Development

Support for UNDP Job Creation Initiative in Somalia

Along with the oil majors and other major shipping companies*, “K” Line has been participating in an industry-led initiative that provides funding of US$2.5 million in total for a United Nations Development Programme (UNDP) project to create job opportunities and develop vocational skills in Somalia since 2013. This initiative has been undertaken to reduce poverty affecting the people of Somalia, widely regarded as the root of the piracy problem. By creating long term job opportunities that provide youths with an alternative to piracy, the project aims to stabilize the situation in Somalia. By helping to provide a younger generation with a wider range of employment opportunities, the project seeks to reduce the risk of piracy in the Indian Ocean.

*Shell, BP, Maersk, Stena, NYK, MOL

Safety in Navigation and Cargo Operation

Reinforcing Safety Measures through Communication with Shipowners

“K” Line has been holding the Safety Measures Conference for Ship Owners since 2007. This is a large-scale conference attended by representatives of over 50 shipowners with whom “K” Line has long-term charter agreements as well as “K” Line’s president, who also chairs the Ship Safety Promotion Committee, and relevant directors. As the number of chartered vessels increases, coordination with shipowners is more important than ever to maintain safety in navigation and cargo operation. Accordingly, at the conference, we share information about “K” Line’s standards for safety in navigation and cargo operation, examples of problems, and the various measures we are taking in terms of both facilities and our organization. We furthermore use the conference to exchange opinions, including hearing shipowners’ requests with regard to safety in navigation and cargo operation and ship management. “K” Line is working to ensure thoroughgoing safety in navigation and cargo operation, risk management, and environmental preservation not only in its own vessels, but also in chartered vessels, through ongoing dialogue and information exchange with shipowners.

Safety Measures Conference for Ship Owners held in May 2014

Directors, Audit & Supervisory Board Members and Executive Officers

Representative Director
President & CEO

Jiro Asakura

Representative Director
Vice President
Executive Officer

Eizo Murakami

Representative Director
Senior Managing
Executive Officer

Takashi Torizumi

Senior Managing
Executive Officer

Kazutaka Imaizumi

Director
Senior Managing
Executive Officer

Toshiyuki Suzuki

Director
Senior Managing
Executive Officer

Hiromichi Aoki

Director
Senior Managing
Executive Officer

Tsuyoshi Yamauchi

(As of July 1, 2014)

Directors

Representative Director President & CEO	Jiro Asakura
Representative Director	Eizo Murakami
Representative Director	Takashi Torizumi
Director	Toshiyuki Suzuki
Director	Hiromichi Aoki
Director	Tsuyoshi Yamauchi
Director	Yukio Toriyama
Director	Yutaka Nakagawa
Director	Mitoji Yabunaka[1]
Director	Eiichiro Kinoshita[1]

Audit & Supervisory Board Members

Audit & Supervisory Board Member	Norio Tsutsumi
Audit & Supervisory Board Member	Fumio Watanabe[2]
Audit & Supervisory Board Member	Haruo Shigeta[2]
Audit & Supervisory Board Member	Jiro Noguchi[2]

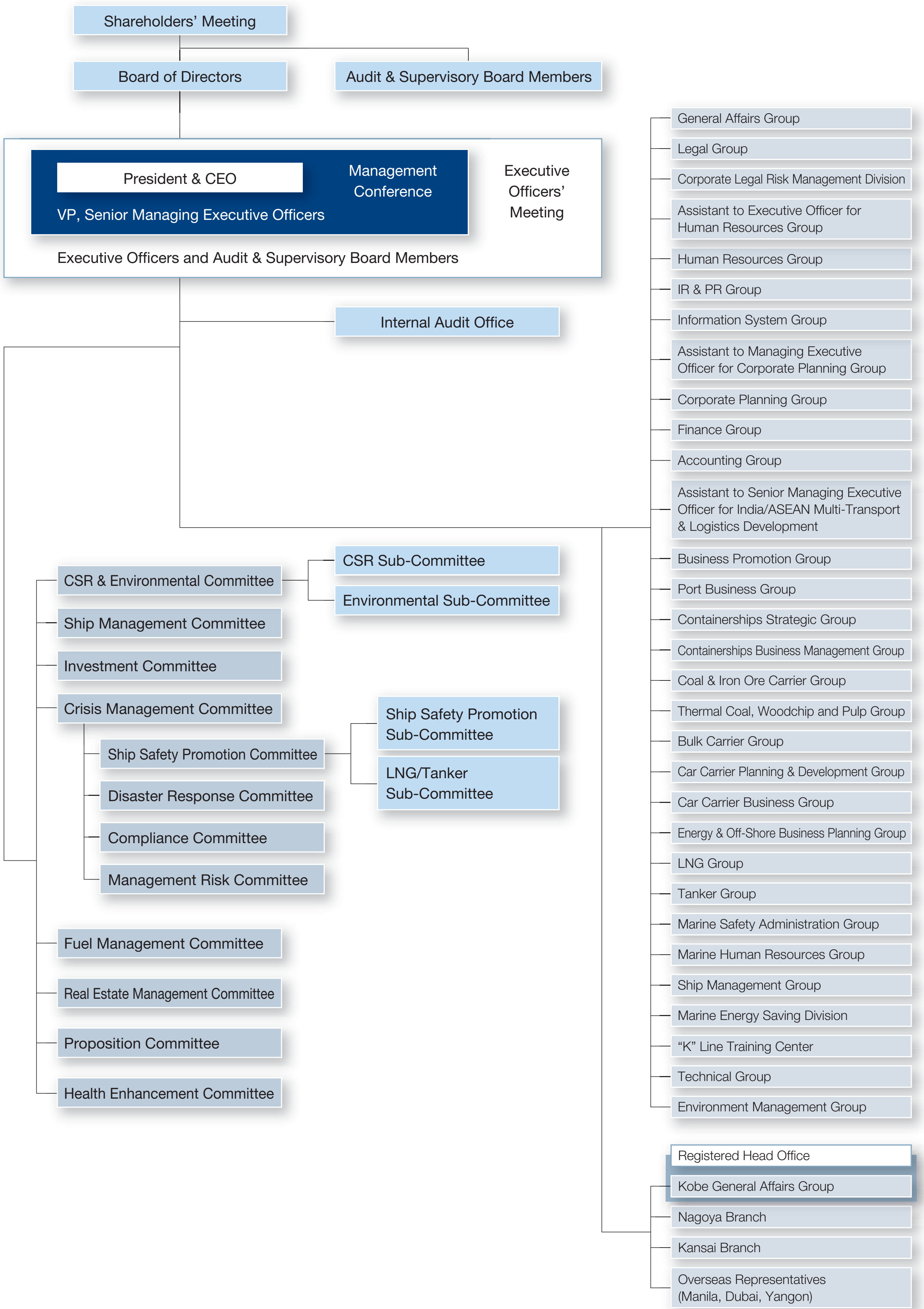
1. Outside Director
2. Outside Audit & Supervisory Board Member

Executive Officers

President & CEO	Jiro Asakura	
Vice President Executive Officer	Eizo Murakami	Assistant to CEO, Marine Sector, Technical and Environmental Affairs, Fuel Cost Control
Senior Managing Executive Officer	Takashi Torizumi	General Affairs, Legal, Human Resources, Accounting, CSR & Compliance
Senior Managing Executive Officer	Kazutaka Imaizumi	Drybulk Sector, India/ASEAN Multi-Transport & Logistics Development
Senior Managing Executive Officer	Toshiyuki Suzuki	Containerships Sector, Port Business, Information System
Senior Managing Executive Officer	Hiromichi Aoki	Energy Transportation Sector, Car Carrier Sector, IR & PR
Senior Managing Executive Officer	Tsuyoshi Yamauchi	Finance, Corporate Planning, Corporate Legal Risk Management, Logistics, Business Promotion
Managing Executive Officer	Eiji Kadono	Marine Sector, Fuel Cost Control, Environment
Managing Executive Officer	Kazuhiko Harigai	Bulk Carrier Business, Thermal Coal, Woodchip and Pulp Carrier Business
Managing Executive Officer	Shunichi Arisaka	Technical and Environmental Affairs, Fuel Cost Control
Managing Executive Officer	Atsuo Asano	Coal and Iron Ore Carrier Business, Drybulk Planning
Managing Executive Officer	Yukio Toriyama	Accounting, Finance, Internal Audit
Managing Executive Officer	Kenji Sakamoto	Executive Chairman of "K" LINE (INDIA) PRIVATE LIMITED
Managing Executive Officer	Kazuhiro Matsukawa	President of "K" LINE AMERICA, INC.
Executive Officer	Yukikazu Myochin	IR & PR, Corporate Planning, Research, Port Business
Executive Officer	Yasunari Sonobe	Car Carrier Business (Planning & Development)
Executive Officer	Yutaka Nakagawa	Human Resources, Logistics, Business Promotion
Executive Officer	Akira Misaki	Energy Transportation Business
Executive Officer	Makoto Arai	Legal, Corporate Legal Risk Management, General Manager of Legal Group
Executive Officer	Kiyokazu Arai	General Affairs, CSR & Compliance, General Manager of General Affairs Group
Executive Officer	Ako Hiraoka	Car Carrier Business (Sales & Marketing)
Executive Officer	Takafumi Kido	Containerships Business

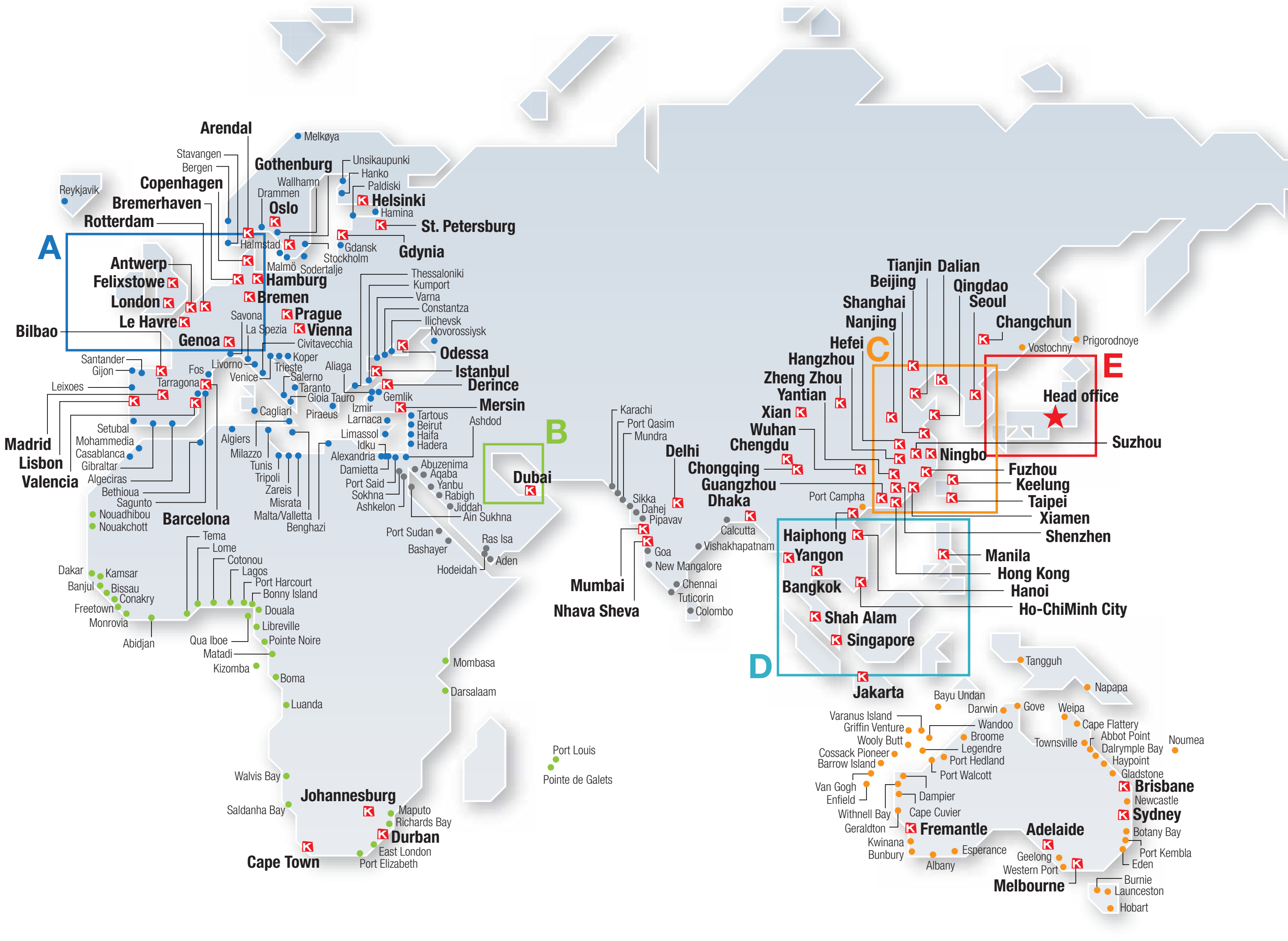
Organization

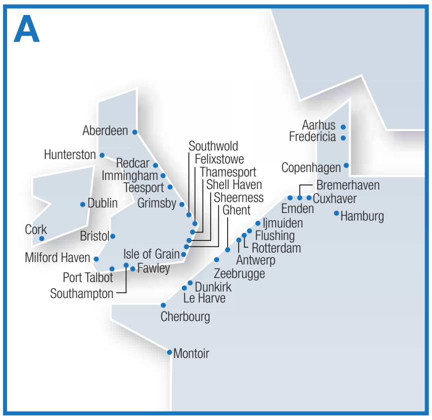
(As of July 1, 2014)

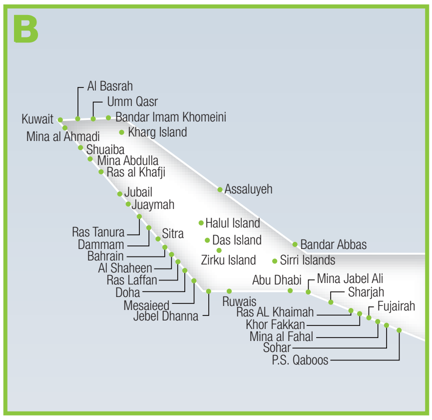


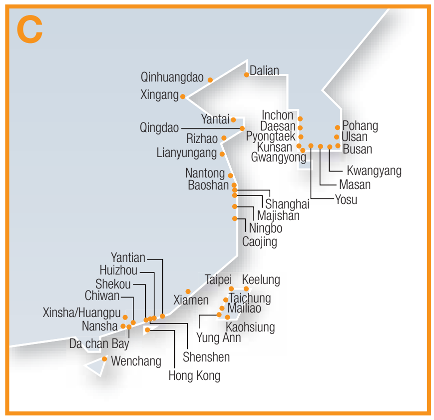
Global Service Network

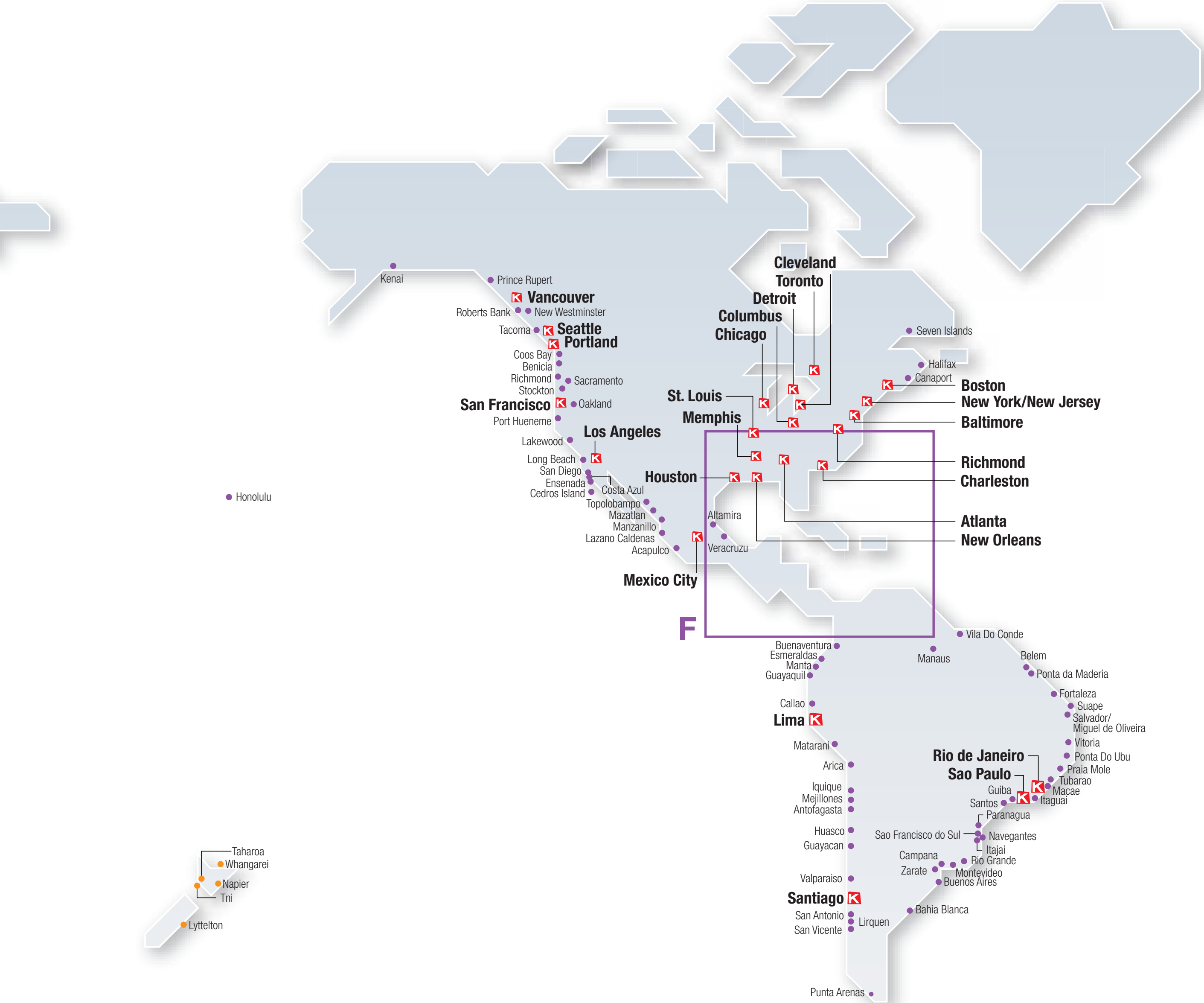
- "K" Line Overseas Major Affiliates and Representatives
- Ports of Call (Including Ports Covered by Feeder Services)
- "K" Line's World Headquarters







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Port Hueneme
Los Angeles
Lakewood
Long Beach
San Diego
Ensenada
Cedros Island
Costa Azul
Topolobampo
Mazatlan
Manzanillo
Lazano Caldenas
Acapulco
Honolulu
Cleveland
Toronto
Detroit
Columbus
Chicago
St. Louis
Memphis
Houston
Altamira
Veracruzu
Mexico City
Seven Islands
Halifax
Canaport
Boston
New York/New Jersey
Baltimore
Richmond
Charleston
Atlanta
New Orleans
F
Buenaventura
Esmeraldas
Manta
Guayaquil
Vila Do Conde
Manaus
Belem
Ponta da Maderia
Fortaleza
Suape
Salvador/
Miguel de Oliveira
Vitoria
Ponta Do Ubu
Callao
Lima
Matarani
Arica
Iquique
Mejillones
Antofagasta
Rio de Janeiro
Sao Paulo
Praia Mole
Tubarao
Macae
Guiba
Itaguai
Santos
Paranagua
Sao Francisco do Sul
Navegantes
Itajai
Huasco
Guayacan
Campana
Zarate
Rio Grande
Montevideo
Buenos Aires
Valparaiso
Santiago
San Antonio
San Vicente
Lirquen
Bahia Blanca
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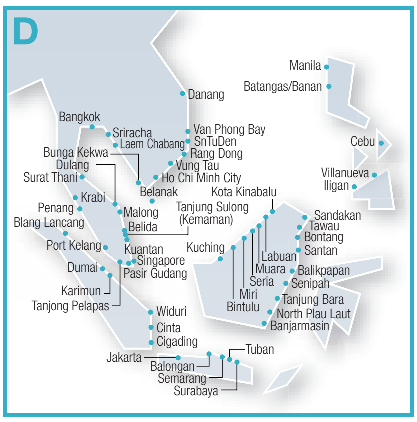
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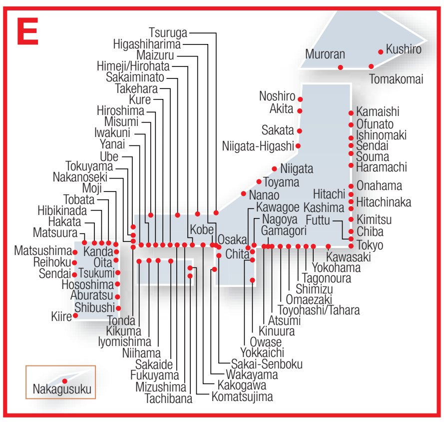
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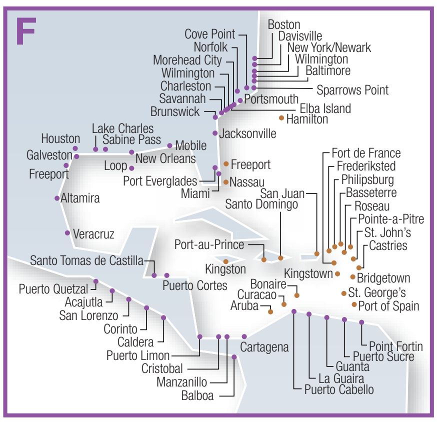
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Elba Island
Hamilton
Jacksonville
Houston
Lake Charles
Sabine Pass
Mobile
Galveston
New Orleans
Freeport
Loop
Freeport
Port Everglades
Nassau
Miami
Fort de France
Frederiksted
Philipsburg
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Roseau
San Juan
Santo Domingo
Pointe-a-Pitre
St. John’s
Castries
Altamira
Veracruz
Port-au-Prince
Santo Tomas de Castilla
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Bridgetown
Puerto Quetzal
Puerto Cortes
Bonaire
Curacao
St. George’s
Port of Spain
Acajutla
Aruba
San Lorenzo
Corinto
Caldera
Cartagena
Point Fortin
Puerto Limon
Puerto Sucre
Guanta
Cristobal
La Guaira
Manzanillo
Puerto Cabello
Balboa

Major Subsidiaries and Affiliates[1]

(As of March 31, 2014)

DOMESTIC		Company Name	"K" Line's Ownership (%)[2]	Paid-in Capital (millions)	Revenue (millions)
Marine Transportation		Kawasaki Kinkai Kisen Kaisha, Ltd.	51.0	¥2,368	¥45,368
		Asahi Kisen Kaisha, Ltd.	100.0	100	310
		Kobe Pier Co., Ltd.	100.0	100	61
	★	Shibaura Kaiun Co., Ltd.	100.0	20	610
Shipping Agency		"K" Line (Japan) Ltd.	100.0	150	2,217
	★	Shimizu Kawasaki Transportation Co., Ltd.	50.0	10	189
Ship Management		"K" Line Ship Management Co., Ltd.	100.0	75	8,641
		Taiyo Nippon Kisen Co., Ltd.	100.0	400	26,329
		Escobal Japan Ltd.	100.0	10	668
Harbor Transportation/ Warehousing		Daito Corporation	100.0	842	23,719
		Nitto Total Logistics Ltd.	100.0	1,596	12,659
		Hokkai Transportation Co., Ltd.	80.1	60	11,539
		Seagate Corporation	100.0	270	7,038
		Nitto Tugboat Co., Ltd.	100.0	150	4,263
		Tokyo Kokusai Koun Kaisha, Ltd.	70.0	75	2,021
	★	Rinko Corporation	25.1	1,950	15,219
	★	Kokusai Logistics Co., Ltd.	86.0	100	1,215
Logistics		"K" Line Logistics, Ltd.	91.9	600	16,486
Land Transportation		Japan Express Transportation Co., Ltd.	100.0	100	3,679
		Shinto Rikuun Kaisha, Ltd.	100.0	10	909
		Maizuru Kousoku Yusou Co., Ltd.	100.0	25	735
Container Repairing		Intermodal Engineering Co., Ltd.	100.0	40	799
Travel Business		"K" Line Travel, Ltd.	100.0	100	7,453
Other Business		"K" Line Engineering Co., Ltd.	100.0	50	1,599
		Shinki Corporation	100.0	80	2,226
		"K" Line Business Systems Co., Ltd.	100.0	40	1,165
		KMDS Co., Ltd.	100.0	40	1,232
		Kawaki Kosan Kaisha, Ltd.	100.0	30	522
		"K" Line Accounting and Finance Co., Ltd.	100.0	100	206

OVERSEAS		Company Name	"K" Line's Ownership (%)[2]	Paid-in Capital (millions)	Revenue (millions)
Marine Transportation		"K" Line Pte Ltd	100.0	US$41.1	US$360.2
		"K" Line Bulk Shipping (UK) Limited	100.0	US$33.9	US$239.4
		"K" Line LNG Shipping (UK) Limited	100.0	US$35.9	US$78.2
		SAL Heavy Lift GmbH	100.0	EUR155.4	EUR159.0
		"K" Line European Sea Highway Services GmbH	100.0	EUR5.3	EUR108.3
		K Line Offshore AS	100.0	NOK717.5	NOK600.6
	★	Northern LNG Transport Co., I Ltd.	49.0	US$39.6	US$15.1
	★	Northern LNG Transport Co., II Ltd.	36.0	US$42.3	US$15.5
Shipping Agency		"K" Line America, Inc.	100.0	US$15.5	US$60.9
		"K" Line (Australia) Pty Limited	100.0	A$0.0001	A$14.8
		"K" Line (Belgium) N.V.	51.0	EUR0.06	EUR3.4
		"K" Line Canada Ltd.	100.0	US$0.09	US$1.2
		K Line (China) Ltd.	100.0	US$2	RMB212.9
		"K" Line (Deutschland) GmbH	100.0	EUR0.1	EUR7.8
		"K" Line (Europe) Limited	100.0	£0.01	£16.7
		"K" Line (Finland) OY	51.0	EUR0.01	EUR0.9
		"K" Line (France) SAS	100.0	EUR0.5	EUR3.2
		"K" Line (Hong Kong) Limited	100.0	HK$15	HK$162.5
		"K" Line (Korea) Ltd.	100.0	KRW400	KRW8,786.7
		"K" Line Maritime (M) Sdn Bhd	57.5	MYR0.3	MYR8.8
		K Line Mexico SA de CV	100.0	US$0.005	US$0.3

OVERSEAS		Company Name	"K" Line's Ownership (%)[2]	Paid-in Capital (millions)	Revenue (millions)
		"K" Line (Nederland) B.V.	100.0	EUR0.1	EUR4.0
		K Line (Norway) AS	100.0	NOK0.1	NOK2.6
		"K" Line (Portugal)-Agentes de Navagação, S.A.	51.0	EUR0.2	EUR2.3
		"K" Line (Scandinavia) Holding A/S	51.0	DKK1	DKK12.9
		"K" Line Shipping (South Africa) Pty Ltd	51.0	ZAR0.0001	ZAR98.8
		"K" Line (Singapore) Pte Ltd	95.0	S$1.5	S$13.5
		K Line (Sweden) AB	100.0	SEK0.1	SEK13.6
		"K" Line (Taiwan) Ltd.	60.0	NT$60	NT$281.5
		K Line (Thailand) Ltd.	34.0	THB30	THB2,396.7
		"K" Line (Vietnam) Limited	51.0	US$0.5	VND90,229.5
		PT. K Line Indonesia	93.0	IDR463.6	IDR65,266.6
Ship Management		"K" Line Ship Management (Singapore) Pte. Ltd.	100.0	S$0.7	S$86.4
Terminal Operator		International Transportation Service, Inc.	100.0	US$33.8	US$223.2
		Husky Terminal & Stevedoring, Inc.	100.0	US$0.1	US$54.1
Freight Consolidation		Century Distribution Systems, Inc.	100.0	US$2.3	US$10.6
		Century Distribution Systems (Europe) B.V.	100.0	EUR0.02	EUR1.6
		Century Distribution Systems (Hong Kong) Limited	100.0	HK$0.08	HK$70.4
		Century Distribution Systems (Shenzhen) Limited	100.0	RMB5	RMB195.8
		Century Distribution Systems (International) Limited	100.0	HK$1.8	HK$110.3
		Century Distribution Systems (Shipping) Limited	100.0	HK$0.000001	HK$0.6
Warehousing		Universal Logistics System, Inc.	100.0	US$12.3	US$0.7
		Universal Warehouse Co.	100.0	US$0.05	US$4.8
Logistics		"K" Line Logistics (Hong Kong) Ltd.	100.0	HK$8	HK$148.9
		"K" Line Logistics (UK) Ltd.	100.0	£0.2	£4.3
		"K" Line Logistics (U.S.A.) Inc.	100.0	US$0.5	US$54.7
		"K" Line Logistics (Singapore) Pte. Ltd.	100.0	S$1.15	S$25.9
		K Line Logistics (Thailand) Ltd.	86.5	THB20	THB890.5
		K Line Logistics South East Asia Ltd.	95.0	THB73	THB0.0
Land Transportation		James Kemball Limited	100.0	£0.01	£19.0
		ULS Express, Inc.	100.0	US$0.05	US$5.6
		PMC Transportation Company, Inc.	100.0	US$0	US$1.6
Container Repairing	★	Multimodal Engineering Corporation	100.0	US$0.15	US$12.5
		Bridge Chassis Supply LLC.	100.0	US$0.01	US$31.2
Financing		"K" Line New York, Inc.	100.0	US$5.1	US$11.1
Holding Company		Kawasaki (Australia) Pty. Ltd.	100.0	A$4.8	A$0.5
		"K" Line Heavy Lift (UK) Limited	100.0	EUR43.2	EUR0.0
		"K" Line Holding (Europe) Limited	100.0	£84.8	£0.0
		"K" Line Heavy Lift (Germany) GmbH	100.0	EUR18	EUR0.0
		"K" Line Drilling/Offshore Holding, Inc.	100.0	US$0.001	US$0.0
Other Business		Connaught Freight Forwarders Limited	100.0	HK$0.01	HK$0.1
		Cygnus Insurance Company Limited	100.0	US$3	US$2.9
		"K" Line TRS S.A.	100.0	US$0.006	US$0.0
		Marinus Consulting, Inc.	100.0	US$0.5	US$0.0
	★	"K" Line Auto Logistics Pty Ltd.	50.0	A$27	A$0.1

1. Includes main consolidated subsidiaries, equity-method subsidiaries and equity-method affiliates.
2. Includes holdings of subsidiaries

★ Subsidiaries and affiliates accounted for with the equity method

¥: Japanese yen
£: Pounds sterling
A$: Australian dollars
RMB: Chinese renminbi
THB: Thai baht
IDR: Indonesian rupiah
S$: Singapore dollars
EUR: Euro
HK$: Hong Kong dollars
MYR: Malaysian ringgit
US$: United States dollars
NT$: New Taiwan dollars
KRW: Korean won
DKK: Danish krone
NOK: Norwegian krone
SEK: Swedish krone
VND: Vietnamese dong
ZAR: South African rand

Financial Analysis

Results of Operations

Operating Revenues

Consolidated operating revenues for the year ended March 31, 2014 (fiscal 2013) reached ¥1,224,126 million, an increase of 7.9% year on year.

By business segment, operating revenues from the containership business segment rose by 5.4% year-on-year to ¥582,398 million, due in part to the weakening of the strong yen.

Operating revenues from the bulk shipping business segment rose 14.0% year-on-year to ¥572,686 million. This was due in part to considerable improvement in market conditions for the dry bulk business, as well as steady cargo movements in the car carrier business—mainly from Europe and North America to the Far East—despite stagnant exports from Japan except to certain areas, such as North America and the Middle East.

Operating revenues from the offshore energy E&P support and heavy lifter business fell 8.1% year-on-year to ¥32,818 million. This decrease was in part due to a weak market in the heavy lifter business throughout the year, despite steady tonnage demand in the offshore support vessel business.

Operating revenues from other businesses fell 17.1% to ¥36,224 million.

Cost of Sales, Selling, General and Administrative Expenses

Cost of sales rose by ¥84,018 million, or 8.1%, from ¥1,039,219 million in the previous fiscal year to ¥1,123,237 million, as a result of the impact of higher operating costs due to an increase in the number of vessels in operation. The cost of sales ratio rose 0.2 points to 91.8%. Selling, general and administrative expenses dropped ¥8,631 million, or 10.7%, to ¥72,035 million due to cost savings.

Operating Income

Consolidated operating income increased 93.8% from ¥14,887 in fiscal 2012 to ¥28,854 million as a result of market improvement in the dry bulk business, weakening of the strong yen and cost reductions.

Other (Non-operating) Income (Expenses)

The net balance of interest and dividend income and interest expense was negative ¥7,480 million, a narrowing of the ¥7,749 million loss for this category in the previous fiscal year. This resulted from a decrease in interest paid. The "K" Line Group recorded an exchange gain of ¥6,347 million, compared with ¥18,644 million in the previous fiscal year, and equity in earnings of affiliates of ¥2,757 million, compared with ¥2,382 million in fiscal 2012. As a result of these and other factors, other (non-operating) income amounted to ¥3,600 million, down from ¥13,703 million in the previous fiscal year.

Income before Income Taxes and Minority Interests

Gains on sales of fixed assets and other extraordinary gains amounted to ¥8,329 million. Loss related to the Anti-Monopoly Act, impairment loss and other extraordinary losses amounted to ¥13,539 million. As a result of these gains and losses and the impact of ordinary income, income before income taxes and minority interests was ¥27,244 million, down from ¥32,867 million in fiscal 2012.

Income Taxes

Income taxes decreased by ¥10,910 million to ¥8,577 million, from ¥19,487 million in the previous fiscal year, as a result of the drop in income before income taxes and minority interests and decreased reversal of deferred tax assets at the filing Company.

Minority Interests

Minority interests stood at ¥2,025 million, versus ¥2,711 million for fiscal 2012. The decrease is partly attributable to a decrease in the minority interest in income of Kawasaki Kinkai Kisen Kaisha, Ltd.

Net Income

Consolidated net income was ¥16,642 million, an increase of 56.0% compared to ¥10,669 million for the previous fiscal year. Net income per share was ¥17.75, compared with ¥12.07 in fiscal 2012.

Analysis of Sources of Capital and Liquidity

Cash Flows

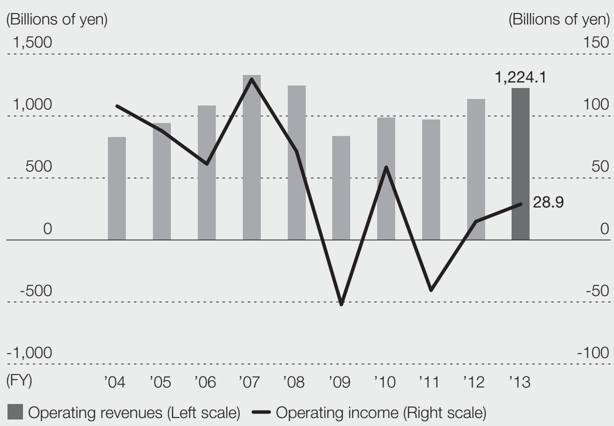
Cash and cash equivalents were ¥222,607 million at the end of fiscal 2013, an increase of ¥63,532 million from the previous fiscal year. The details of cash flows are as follows.

Net cash provided by operating activities was ¥88,228 million, an increase of ¥28,472 million over fiscal 2012. The increase is mainly due to income before income taxes and minority interests of ¥27,244 million.

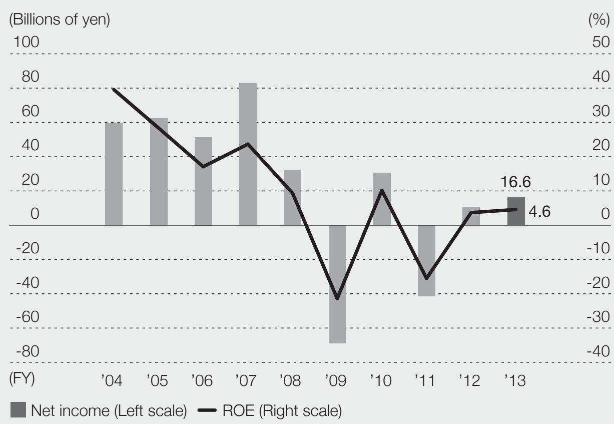
Net cash used in investing activities was ¥5,113 million, a decrease of ¥22,099 million from the previous fiscal year. The change is mainly due to purchases of vessels, property and equipment (principally vessels) of ¥92,317 million and proceeds from sales of vessels, property and equipment of ¥88,910 million.

Net cash used in financing activities totaled ¥26,634 million, a turnaround of ¥52,998 million from cash provided in the previous fiscal year. The decrease was mainly due to a net decrease of ¥44,057 million in long-term loans.

Operating Revenues / Operating Income



Net Income / ROE



Funding Requirements

The “K” Line Group’s major working capital requirement comes from shipping business expenses in connection with containership services and bulk shipping services. These expenses include operating costs such as port charges, cargo handling costs and fuel costs; vessel expenses such as crew expenses and repair expenses of vessels; and chartering expenses. Other expenses are costs of service operations such as labor cost in connection with the operation of the logistics/harbor transportation business and general administrative expenses for the Group’s business operations, such as personnel expenses, information processing costs and other non-personnel expenses. Capital requirements include investments in vessels, logistics facilities and terminal facilities. In fiscal 2013, the “K” Line Group made capital investments of ¥93,378 million.

Financial Policy

The “K” Line Group places importance on securing low-cost, stable funds to support the “K” Line Group’s business continuity and expansion. The Company meets long-term funding requirements mainly by means of long-term debt from financial institutions, supplemented by the issuance of bonds and issuance of new shares. The Company procures short-term operating funds by means of bank loans and the issuance of commercial paper and invests temporary surplus funds in highly stable and liquid financial assets. The Company employs a cash management system to effectively utilize surplus funds of Group companies in Japan and overseas.

The Company secures liquidity by preparing for any urgent capital requirements by means of a commercial paper issuance program of up to ¥60.0 billion, a ¥47.0 billion line of credit established under overdraft agreements with financial institutions, and the establishment of a ¥20.0 billion commitment line with financial institutions in Japan.

The Company has been rated by two Japanese and one overseas rating firm. As of June 25, 2014, the Company maintained a rating of BBB+ from Japan Credit Rating Agency, Ltd. (JCR), BBB- from Rating and Investment Information, Inc. (R&I) and Ba2 from Moody’s. The Company also has short-term credit ratings (commercial paper ratings) of J-2 from JCR and a-2 from R&I.

Financial Position

Total assets on March 31, 2014 were ¥1,254,742 million, an increase of ¥74,308 million from the end of the previous fiscal year. Current assets increased ¥93,360 million to ¥447,606 million, mainly due to an increase in marketable securities.

Fixed assets decreased ¥19,052 million from the previous fiscal year-end to ¥807,136 million. Vessels, property and equipment decreased ¥1,825 million to ¥661,226 million, mainly due to a decrease in construction in progress. Investments and other assets decreased ¥16,687 million to ¥140,551 million, mainly due to a decrease in derivative assets.

Total liabilities on March 31, 2014 were ¥844,052 million, an increase of ¥25,593 million from the previous year-end. Current liabilities increased ¥24,739 million to ¥286,312 million, mainly due to an increase in the current portion of bonds payable, despite a decrease in short-term loans. Long-term liabilities increased ¥854 million to ¥557,740 million, mainly due to an increase in obligations under finance leases, less current portion, despite a decrease in long-term loans and derivative liabilities.

Net assets on March 31, 2014 stood at ¥410,690 million, an increase of ¥48,715 million from the end of the previous fiscal year. Shareholders’ equity rose to ¥369,292 million, due mainly to a ¥11,143 million increase in retained earnings. Accumulated other comprehensive income increased ¥37,131 million from the end of the previous fiscal year to ¥19,546 million, mainly attributable to a ¥13,858 million turnaround in deferred gain on hedges and a ¥14,378 million increase in translation adjustments.

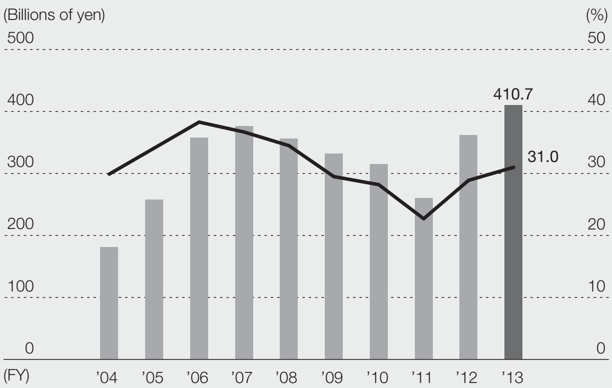
Dividend Policy

The Company considers it an important priority to maximize shareholder returns while giving due consideration to the main priority of the management plan, which is to maintain the internal reserves necessary to support capital investment for sustained growth and for creating a more robust corporate structure. Our policy is to gradually increase the dividend payout ratio as a percentage of consolidated net income with the aim of achieving a payout ratio of 30% in the mid-2010s.

The Company’s year-end dividend (March 31 record date) is subject to resolution by the Annual Shareholders’ Meeting. With regard to the interim dividend, as prescribed in the Articles of Incorporation, “by resolution of the Board of Directors, an interim dividend may be distributed by the Company as of the record date of September 30 of every year.”

In fiscal 2013, the “K” Line Group achieved consolidated net income of ¥16.6 billion. Accordingly, the Company has decided to pay a year-end dividend of ¥4.5 per share.

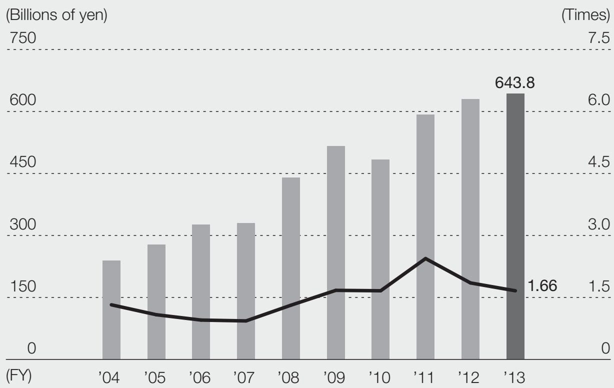
Net Assets / Equity Ratio



Net assets (Left scale) — Equity ratio (Right scale)

Equity ratio: Shareholders’ equity/Total assets
Shareholders’ equity: Net assets – (Minority interests + Share warrants)

Interest-bearing Liabilities / DER



Interest-bearing liabilities (Left scale) — DER (Debt Equity Ratio) (Right scale)

DER: Interest-bearing liabilities/Shareholders’ equity

Business Risks

The “K” Line Group is developing its business internationally. When unpredictable events occur, whether they are caused by socio-political or natural phenomena, they can have a negative impact on business in related areas and markets. Furthermore, in the Group’s main business field, marine transport, market conditions for cargo handling and marine transportation are heavily influenced by international factors such as economic trends in various countries, product market conditions, supply and demand balance for ships, as well as competitive relationships. Changes in any of those factors can have a negative impact on the “K” Line Group’s marketing activities and business results. In particular, a change in tax systems or economic policies, or an invocation of protective trade policies in Japan and major trading regions and countries like North America, Europe, China and so on can result in a decrease in shipping volume and worsen conditions for the freight market. This can have a serious impact on the Group’s financial situation and operating results.

Other major risks that can have a negative impact on the “K” Line Group’s business activities include the following:

1. Exchange Rate Fluctuations

A large percentage of the “K” Line Group’s business earnings comes in revenue denominated in U.S. dollars. The revenues as converted to Japanese yen can therefore be negatively affected by fluctuations in exchange rates. The Group works to minimize negative impacts from exchange rate fluctuations by incurring costs in dollars and contracting exchange rates, but a stronger yen against the U.S. dollar can still have a negative influence on the Group’s financial situation and operating results.

2. Fuel Oil Price Fluctuations

Fuel oil prices account for a major portion of the “K” Line Group’s ship operation costs. Fluctuations in fuel oil prices are influenced mainly by factors over which the Group has no influence, such as crude oil supply and demand balance, trends in OPEC and other oil-producing nations, and political conditions and fluctuations in oil production capacity in producing countries. Such factors are extremely difficult to predict. Although the Group utilizes futures contracts to mitigate the impact of unstable price fluctuations, significant and sustained rises in fuel oil prices can drive up the “K” Line Group’s business costs. This would have a negative impact on the Group’s financial situation and operating results.

3. Interest Rate Fluctuations

The “K” Line Group carries out ongoing capital investment in its shipbuildings and so on. The Group strives to reduce interest-bearing debt to the greatest extent possible by investing its own capital and engaging in off-balance sheet deals such as operating leases, but in a high percentage of cases, still must rely on borrowing from financial institutions. In addition, we are investing in the working capital needed to carry out our business operations. With regard to capital procurement, we are taking out loans above a certain scale at fixed interest rates and also using interest rate swap (swap into fixed rate) for capital investment in ships and equipment, but the rise in future interest rates has led to an increase in the cost of capital procurement, and this can have a negative impact on the “K” Line Group’s financial situation and operating results.

4. Public Regulations

Marine transportation business in general is influenced by international treaties on ship operations, registration and construction, as well as business licensing, taxes and other laws and regulations in various individual countries and territories. It is possible that in the future, new laws or regulations will be enacted that constrain the “K” Line Group’s business development or increase its business costs. This would result in a negative impact on the “K” Line Group’s financial situation and operating results.

Ships that the Group operates are managed and operated in compliance with existing laws and regulations, and they carry appropriate hull insurance. Nevertheless, relevant legal regulations could change, and compliance with new regulations could generate additional costs.

The Group is subject to the regulatory regimes of each country in which it operates, including scrutiny from government and other competition agencies under Japanese, European, U.S. and other foreign competition laws. If, despite the Group’s efforts to establish and continuously maintain its internal systems and procedures aimed at preventing breaches of competition regulations in line with regulatory or other developments, any failure to comply with applicable competition laws and regulations were to occur, it could result in investigations, disciplinary actions or prosecution being taken against the Group and/or its employees by the relevant authorities. Any finding of infringement could potentially result in significant monetary fines and could also lead to the Group being precluded from enforcing contractual or other rights and agreements of the Group being rendered void. Further, investigations of alleged anti-competitive behaviour or decisions of competition authorities regarding any alleged infringement of competition laws may lead to civil claims (including class actions in the case of jurisdictions such as the United States) being brought by parties that claim to have been affected by the conduct to which such alleged anti-competitive behaviour relates, alleging that they have suffered related or consequent damages. Any failure or alleged failure by the Group to comply with relevant competition laws and regulations could therefore materially adversely affect the Group’s business, reputation, results of operations and financial condition.

The Group has been investigated by the Fair Trade Commission of Japan (the “Japan FTC”) in relation to alleged anti-competitive behaviour (alleged formation of a cartel) relating to the transportation of automobiles, automotive construction machineries and other exports and the Japan FTC issued cease-and-desist orders and administrative surcharge payment orders (the amount of surcharge: approximately 5.698 billion yen) in connection with this in March 2014. In addition, the Group is currently subject to investigation by the competition authorities in Europe, the United States and certain other countries as well as class actions in North America on the same matter. The Group is currently unable to predict what the eventual outcome of these investigations or class actions will be (including whether or not it will be subject to any fines, penalties, damages or other liabilities) or when such investigations or class actions and the accompanying processes will be concluded. An adverse outcome of these investigations or class actions may materially adversely affect the Group’s business, financial condition and results of operations, as well as damage its reputation. There can also be no assurance that the current investigations or class actions or any future decisions by competition authorities or courts will not induce further private legal actions or other claims against the Group in the future. If the outcome of any such action is unfavourable to the Group, it could materially adversely affect the Group's financial condition and results of operations.

5. Serious Marine Incidents, Environmental Destruction, Conflicts, etc.

The "K" Line Group regards thoroughly safe ship operation and environmental preservation as its highest priorities as it maintains and improves its safe operation standards and crisis management system. If an accident, especially an accident involving an oil spill, should occur despite these efforts and causes ocean pollution, it could have a negative impact on the Group's financial situation and operating results. Furthermore, losses due to piracy, operation in areas of political instability or conflict and the increasing risk of terrorism directed at ships could cause major damage to "K" Line Group ships and place its crews in danger. These factors could have a negative impact on the Group's safe ship operations, voyage planning and management as well as marine transport business as a whole.

6. Competitive Environment, etc.

The "K" Line Group carries out business development in the international marine transportation market. In its competitive relationships with leading groups of marine transportation companies from Japan and abroad, the Group's industry position and operating results can be negatively impacted by the degree to which other companies allocate their management resources to each sector and by differences in competitiveness such as costs and technologies.

In the highly competitive environment of the containership sector, the Group is striving to maintain and improve the competitiveness of its services by participating in alliances with foreign marine transportation companies. However, factors over which the "K" Line Group has no control, such as other companies deciding on their own to end alliances, could have a negative impact on the Group's marketing activities, financial situation and operating results.

7. Natural Disasters

The "K" Line Group must be able to maintain business operations in the event of a natural disaster, as we provide a vital role for society, and because doing so is critical to the existence of our company. If a major earthquake were to occur at the heart of the Tokyo metropolitan area, the effect on buildings, transportation and other lifelines is expected to be immense. There are also concerns that if a highly-virulent new form of influenza emerged and spread globally (becoming a pandemic) it would have devastating effects, affecting the health of countless people. In addition, there are concerns regarding the spread of harmful rumors following a natural disaster or a secondary disaster. Although the Group has drawn up business continuity plans for these contingencies, and our goal is to maintain operations to the greatest degree possible, there is a possibility of considerable adverse effects to our overall business in the event that a natural disaster occurs.

8. Business Partners' Failure to Perform Contracts

When providing services or choosing business partners, wherever possible the "K" Line Group looks into the reliability of the other party. However, a full or partial breach of a contract can subsequently occur for reasons such as the worsening financial position of the business partner. As a result, the financial position and operating results of the "K" Line Group may be adversely affected.

9. Non-achievement of "K" LINE Medium-Term Management Plan

The "K" Line Group formulated a new medium-term management plan, "K" LINE Vision 100: Bridge to the Future, in April 2012. Going forward, the Group will make every effort to carry out the Medium-Term Management Plan. Nonetheless, it is possible that the measures for carrying out the Medium-Term Management Plan will be affected by the various external factors discussed above and the Group may not be able to achieve the goals of the plan.

10. Non-achievement of Investment Plans

The "K" Line Group is making plans for the investments necessary to upgrade its fleet. If, however, owing to future trends in shipping markets and official regulations, progress is not made in accordance with the projections in the plans, the "K" Line Group's financial position and operating results may be adversely affected by cancellation of construction contracts before delivery of new-buildings. Moreover, the Group's financial position and operating results may also be adversely affected if, at the time the newbuildings are delivered, the demand for cargo transport falls below projections.

11. Losses from Disposal of Vessels, etc.

The "K" Line Group endeavors to implement fleet upgrades that are flexible and appropriate to the market. There are times, however, when we dispose of our vessels because of a worsening in the supply-demand balance or obsolescence due to technological innovation, as well as the case where a charter contract for a chartered vessel is terminated early, and such cases may adversely affect the Group's financial position and operating results.

12. Fixed Asset Impairment Losses

With respect to fixed assets such as vessels owned by the "K" Line Group, recovery of the amount invested may not be possible due to a downturn in profitability. The Group's financial position and operating results may be adversely affected when such asset impairment losses are realized. In addition, with regard to valuation method for marketable securities, the "K" Line Group uses the market value method based on market prices on the last business day of the fiscal year for investments in securities with quoted market prices. As a result, stock market fluctuations may adversely affect the Group's financial position and operating results.

13. Reversal of Deferred Tax Assets

Based on estimated future taxable income, the "K" Line Group assesses the possibility of recognition of deferred tax assets. When a conclusion is reached that, due to a decline in earning capacity, it cannot be guaranteed that there will be sufficient taxable income in the future, deferred tax assets are reversed and a tax expense incurred. This may adversely affect the Group's financial position and operating results.

Note: Matters referring to the future are as judged by the "K" Line Group at the issue date of financial statements of June 25, 2014. In addition, the items discussed here do not necessarily represent every risk to the "K" Line Group.

Consolidated Financial Statements

Consolidated Balance Sheet

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2014

Assets	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1(a)) 2014
Current Assets:			
Cash and deposits (Notes 14 and 17)	¥ 186,394	¥ 162,127	$ 1,811,057
Marketable securities (Notes 3, 14 and 17)	49,998	1	485,795
Accounts and notes receivable—trade (Note 14)	94,346	86,884	916,693
Allowance for doubtful receivables	(657)	(963)	(6,384)
Inventories (Note 4)	49,150	42,773	477,555
Prepaid expenses and deferred charges	46,107	41,090	447,989
Deferred income taxes (Note 8)	2,073	3,068	20,142
Other current assets	20,195	19,266	196,220
Total current assets	447,606	354,246	4,349,067
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 14 and 19)	39,188	37,657	380,762
Investments in securities (Notes 3, 7 and 14)	60,141	61,108	584,347
Long-term loans receivable	8,220	8,025	79,868
Deferred income taxes (Note 8)	19,758	26,970	191,974
Asset for retirement benefits (Note 10)	1,168	—	11,349
Other assets	12,386	23,810	120,346
Allowance for doubtful receivables	(310)	(332)	(3,012)
Total investments and other assets	140,551	157,238	1,365,634
Vessels, property and equipment:			
Vessels (Notes 5 and 7)	867,159	833,255	8,425,564
Buildings, structures and equipment (Notes 5 and 7)	98,546	99,485	957,501
Accumulated depreciation	(366,435)	(337,183)	(3,560,387)
	599,270	595,557	5,822,678
Land (Notes 5, 7 and 12)	26,623	28,202	258,677
Construction in progress	35,333	39,292	343,305
Vessels, property and equipment, net (Note 19)	661,226	663,051	6,424,660
Intangible assets:			
Goodwill, net (Notes 5, 6 and 19)	508	675	4,936
Other intangible assets	4,851	5,224	47,134
Total intangible assets	5,359	5,899	52,070
Total assets (Note 19)	¥1,254,742	¥1,180,434	$12,191,431

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

Liabilities and net assets	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1(a)) 2014
Current liabilities:			
Short-term loans (Notes 7 and 14)	¥ 6,249	¥ 8,972	$ 60,717
Current portion of long-term debt (Notes 7 and 14)	116,220	113,480	1,129,227
Accounts and notes payable—trade (Note 14)	91,493	82,607	888,972
Advances received	27,774	22,991	269,860
Current portion of obligations under finance leases	10,205	6,652	99,155
Accrued income taxes (Note 8)	2,736	1,955	26,584
Deferred income taxes (Note 8)	10	4	97
Other current liabilities	31,625	24,912	307,277
Total current liabilities	286,312	261,573	2,781,889
Long-term liabilities:			
Long-term debt, less current portion (Notes 7 and 14)	472,255	477,569	4,588,564
Allowance for employees' retirement benefits (Note 10)	—	7,300	—
Allowance for directors' and corporate auditors' retirement benefits	1,541	1,578	14,973
Accrued expenses for overhaul of vessels	15,452	16,484	150,136
Obligations under finance leases, less current portion	38,866	23,191	377,633
Deferred income taxes (Note 8)	6,100	5,738	59,269
Deferred income taxes on land revaluation (Note 12)	2,097	2,591	20,375
Derivative liabilities (Note 15)	10,639	18,915	103,372
Liability for retirement benefits (Note 10)	7,978	—	77,517
Other long-term liabilities	2,812	3,520	27,322
Total long-term liabilities	557,740	556,886	5,419,161
Commitments and contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized — 2,000,000,000 shares in 2014 and 2013			
Issued — 939,382,298 shares in 2014 and 2013	75,458	75,458	733,171
Capital surplus	60,312	60,315	586,009
Retained earnings (Note 20)	234,430	223,287	2,277,789
Less treasury stock, at cost			
— 1,658,555 shares in 2014 and 1,628,245 shares in 2013	(908)	(904)	(8,822)
Total shareholders' equity	369,292	358,156	3,588,147
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on investments in securities (Note 3)	8,188	2,476	79,557
Deferred gain (loss) on hedges (Note 15)	5,754	(8,104)	55,908
Revaluation reserve for land (Note 12)	5,979	2,350	58,094
Translation adjustments	71	(14,307)	690
Retirement benefits liability adjustments (Note 10)	(446)	—	(4,333)
Total accumulated other comprehensive income (loss), net	19,546	(17,585)	189,916
Minority interests in consolidated subsidiaries	21,852	21,404	212,318
Total net assets	410,690	361,975	3,990,381
Total liabilities and net assets	¥1,254,742	¥1,180,434	$12,191,431

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

Consolidated Statement of Income

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2014	2013	2014
Marine transportation and other operating revenues (Note 19)	¥1,224,126	¥1,134,772	$11,893,956
Marine transportation and other operating costs and expenses	1,123,237	1,039,219	10,913,690
Gross operating income	100,889	95,553	980,266
Selling, general and administrative expenses	72,035	80,666	699,913
Operating income	28,854	14,887	280,353
Other income (expenses):			
Interest and dividend income (Note 19)	3,505	4,513	34,056
Interest expense (Note 19)	(10,985)	(12,262)	(106,733)
Equity in earnings of subsidiaries and affiliates (Note 19)	2,757	2,382	26,788
Exchange gain, net	6,347	18,644	61,669
Gain on sales of vessels, property and equipment, net	4,958	13,648	48,173
Loss on impairment of fixed assets (Notes 5 and 19)	(3,959)	(2,565)	(38,467)
Gain on sales of marketable securities and investments in securities, net	1,222	268	11,873
Loss on devaluation of investments in securities	(1,608)	(7,249)	(15,624)
Loss related to Anti-Monopoly Act	(5,698)	—	(55,363)
Other, net	1,851	601	17,985
	(1,610)	17,980	(15,643)
Income before income taxes and minority interests	27,244	32,867	264,710
Income taxes (Note 8):			
Current	7,244	7,585	70,385
Deferred	1,333	11,902	12,951
Total income taxes	8,577	19,487	83,336
Income before minority interests	18,667	13,380	181,374
Minority interests	2,025	2,711	19,676
Net income	¥ 16,642	¥ 10,669	$ 161,698

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

Consolidated Statement of Comprehensive Income

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2014	2013	2014
Income before minority interests	¥18,667	¥13,380	$181,374
Other comprehensive income (Note 16):			
Net unrealized holding gain on investments in securities	5,717	8,498	55,548
Deferred gain on hedges	13,054	33,642	126,836
Revaluation reserve for land	272	—	2,643
Translation adjustments	13,662	25,955	132,744
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	1,711	485	16,625
Total other comprehensive income	34,416	68,580	334,396
Comprehensive income	¥53,083	¥81,960	$515,770
(Breakdown)			
Comprehensive income attributable to:			
Shareholders of Kawasaki Kisen Kaisha, Ltd.	¥50,730	¥77,381	$492,907
Minority interests	2,353	4,579	22,863

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

Consolidated Statement of Changes in Net Assets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

(Millions of yen)

	Number of shares in issue (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on investments in securities	Deferred gain (loss) on hedges	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2012	765,382	¥65,032	¥49,893	¥212,850	¥(905)	¥326,870	¥(6,037)	¥(41,596)	¥2,298	¥(38,962)	¥—	¥(84,297)	¥17,362	¥259,935
Change in items during the year:														
Issuance of new shares	174,000	10,426	10,426	—	—	20,852	—	—	—	—	—	—	—	20,852
Cash dividends	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	10,669	—	10,669	—	—	—	—	—	—	—	10,669
Purchases of treasury stock	—	—	—	—	(4)	(4)	—	—	—	—	—	—	—	(4)
Disposal of treasury stock	—	—	(4)	—	5	1	—	—	—	—	—	—	—	1
Reversal of revaluation reserve for land	—	—	—	(1)	—	(1)	—	—	—	—	—	—	—	(1)
Net change in retained earnings resulting from changes in scope of consolidated or equity method	—	—	—	(231)	—	(231)	—	—	—	—	—	—	—	(231)
Net changes in items other than shareholders' equity	—	—	—	—	—	—	8,513	33,492	52	24,655	—	66,712	4,042	70,754
Net change during the year:	174,000	10,426	10,422	10,437	1	31,286	8,513	33,492	52	24,655	—	66,712	4,042	102,040
Balance at March 31, 2013	939,382	¥75,458	¥60,315	¥223,287	¥(904)	¥358,156	¥2,476	¥ (8,104)	¥2,350	¥(14,307)	¥—	¥(17,585)	¥21,404	¥361,975
Balance at April 1, 2013	939,382	¥75,458	¥60,315	¥223,287	¥(904)	¥358,156	¥2,476	¥ (8,104)	¥2,350	¥(14,307)	¥ —	¥(17,585)	¥21,404	¥361,975
Change in items during the year:														
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	(2,345)	—	(2,345)	—	—	—	—	—	—	—	(2,345)
Net income	—	—	—	16,642	—	16,642	—	—	—	—	—	—	—	16,642
Purchases of treasury stock	—	—	—	—	(9)	(9)	—	—	—	—	—	—	—	(9)
Disposal of treasury stock	—	—	(3)	—	5	2	—	—	—	—	—	—	—	2
Reversal of revaluation reserve for land	—	—	—	(3,158)	—	(3,158)	—	—	—	—	—	—	—	(3,158)
Net change in retained earnings resulting from changes in scope of consolidated or equity method	—	—	—	4	—	4	—	—	—	—	—	—	—	4
Net changes in items other than shareholders' equity	—	—	—	—	—	—	5,712	13,858	3,629	14,378	(446)	37,131	448	37,579
Net change during the year:	—	—	(3)	11,143	(4)	11,136	5,712	13,858	3,629	14,378	(446)	37,131	448	48,715
Balance at March 31, 2014	939,382	¥75,458	¥60,312	¥234,430	¥(908)	¥369,292	¥8,188	¥ 5,754	¥5,979	¥ 71	¥(446)	¥ 19,546	¥21,852	¥410,690

(Thousands of U.S. dollars) (Note 1(a))

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on investments in securities	Deferred gain (loss) on hedges	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2013	$733,171	$586,038	$2,169,521	$(8,784)	$3,479,946	$24,058	$ (78,741)	$22,833	$(139,011)	$ —	$(170,861)	$207,967	$3,517,052
Change in items during the year:													
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends	—	—	(22,785)	—	(22,785)	—	—	—	—	—	—	—	(22,785)
Net income	—	—	161,698	—	161,698	—	—	—	—	—	—	—	161,698
Purchases of treasury stock	—	—	—	(87)	(87)	—	—	—	—	—	—	—	(87)
Disposal of treasury stock	—	(29)	—	49	20	—	—	—	—	—	—	—	20
Reversal of revaluation reserve for land	—	—	(30,684)	—	(30,684)	—	—	—	—	—	—	—	(30,684)
Net change in retained earnings resulting from changes in scope of consolidated or equity method	—	—	39	—	39	—	—	—	—	—	—	—	39
Net changes in items other than shareholders' equity	—	—	—	—	—	55,499	134,649	35,261	139,701	(4,333)	360,777	4,351	365,128
Net change during the year:	—	(29)	108,268	(38)	108,201	55,499	134,649	35,261	139,701	(4,333)	360,777	4,351	473,329
Balance at March 31, 2014	$733,171	$586,009	$2,277,789	$(8,822)	$3,588,147	$79,557	$ 55,908	$58,094	$ 690	$(4,333)	$ 189,916	$212,318	$3,990,381

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

Consolidated Statement of Cash Flows

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 27,244**	¥ 32,867	**$ 264,710**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**52,244**	59,668	**507,618**
Reversal of allowance for employees' retirement benefits	**—**	(155)	**—**
Increase in liability for retirement benefits	**696**	—	**6,763**
Reversal of allowance for directors' and corporate auditors' retirement benefits	**(42)**	(392)	**(408)**
Decrease in accrued expenses for overhaul of vessels	**(1,113)**	(1,313)	**(10,814)**
Interest and dividend income	**(3,505)**	(4,513)	**(34,056)**
Interest expense	**10,985**	12,262	**106,733**
Exchange gain, net	**(3,092)**	(12,350)	**(30,043)**
Loss on impairment of fixed assets	**3,959**	2,565	**38,467**
Loss related to Anti-Monopoly Act	**5,698**	—	**55,363**
Gain on sales of vessels, property and equipment, net	**(4,958)**	(13,648)	**(48,173)**
Gain on sales of marketable securities and investments in securities, net	**(1,222)**	(268)	**(11,873)**
Loss on devaluation of investments in securities	**1,608**	7,249	**15,624**
Changes in operating assets and liabilities:			
Increase in accounts and notes receivable—trade	**(4,462)**	(4,291)	**(43,354)**
Increase in inventories	**(5,741)**	(3,688)	**(55,781)**
Increase in other current assets	**(1,492)**	(3,084)	**(14,497)**
Increase in accounts and notes payable—trade	**5,777**	3,511	**56,131**
Increase (decrease) in other current liabilities	**3,083**	(873)	**29,955**
Net change in derivative assets and liabilities	**23,613**	—	**229,431**
Other, net	**(8,241)**	3,701	**(80,072)**
Subtotal	**101,039**	77,248	**981,724**
Interest and dividends received	**4,726**	5,283	**45,919**
Interest paid	**(10,996)**	(12,277)	**(106,841)**
Income taxes paid	**(6,541)**	(8,420)	**(63,554)**
Other, net	**—**	(2,078)	**—**
Net cash provided by operating activities	**¥ 88,228**	¥ 59,756	**$ 857,248**

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

Consolidated Statement of Cash Flows (continued)

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2014	2013	2014
Cash flows from investing activities:			
Payments into time deposits	¥ (11,392)	¥ (715)	$ (110,688)
Purchases of marketable securities and investments in securities	(2,137)	(3,798)	(20,764)
Proceeds from sales of marketable securities and investments in securities	11,054	6,972	107,404
Purchases of vessels, property and equipment	(92,317)	(132,289)	(896,978)
Proceeds from sales of vessels, property and equipment	88,910	97,069	863,875
Increase in intangible assets	(772)	(1,034)	(7,501)
Initiation of long-term loans receivable	(1,069)	(1,792)	(10,387)
Collection of long-term loans receivable	1,537	5,997	14,934
Other, net	1,073	2,378	10,426
Net cash used in investing activities	(5,113)	(27,212)	(49,679)
Cash flows from financing activities:			
Decrease in short-term loans, net	(3,156)	(1,283)	(30,665)
Decrease in commercial paper	—	(17,000)	—
Proceeds from long-term loans	77,948	119,358	757,365
Repayment of long-term loans and obligations under finance leases	(122,005)	(94,517)	(1,185,435)
Proceeds from issuance of bonds	49,939	—	485,222
Redemption of bonds	(25,874)	(378)	(251,399)
Proceeds from issuance of common stock	—	20,852	—
Cash dividends paid	(2,343)	(3)	(22,765)
Cash dividends paid to minority shareholders	(1,140)	(697)	(11,077)
Proceeds from stock issuance to minority shareholders	—	32	—
Other, net	(3)	(0)	(30)
Net cash (used in) provided by financing activities	(26,634)	26,364	(258,784)
Effect of exchange rate changes on cash and cash equivalents	7,020	7,387	68,208
Net increase in cash and cash equivalents	63,501	66,295	616,993
Cash and cash equivalents at beginning of year	159,075	92,756	1,545,618
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	31	24	301
Cash and cash equivalents at end of year (Note 17)	¥ 222,607	¥ 159,075	$ 2,162,912

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

Notes to Consolidated Financial Statements

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2014

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. (the "Company") and its consolidated subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations presented in the original consolidated financial statements.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥102.92=U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2014. Furthermore, the translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 293 and 288 subsidiaries for the years ended March 31, 2014 and 2013, respectively. The principles of consolidation are to include significant subsidiaries, whose voting interests are owned 40 per cent. or more by the consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, significant affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways are accounted for by the equity method.

For the purposes of consolidation, all significant intercompany transactions, account balances and unrealized profit among the consolidated group companies have been eliminated.

Goodwill and negative goodwill are, as a rule, amortized by the straight-line method over a period of five years.

(c) Accounting period

The Company and 283 consolidated subsidiaries have a March 31 year end, and the remaining 10 consolidated subsidiaries have a December 31 year end. For 6 of these consolidated subsidiaries with a December year end, adjustments have been made for any significant transactions which took place during the period between their year end and the year end of the Company, and for the other 4, a provisional closing of their accounts as of the year end of the Company has been used.

(d) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies other than those hedged by forward foreign exchange contracts are translated into yen at the rates of exchange in effect at the balance sheet date. Gain or loss resulting from the settlement of these items is credited or charged to income.

(e) Translation of accounts of overseas consolidated subsidiaries

The accounts of the overseas consolidated subsidiaries, except for the components of net assets excluding minority interests of consolidated subsidiaries, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority interests of consolidated subsidiaries are translated at their historical exchange rates. Differences arising from translation are presented as translation adjustments and minority interests in the accompanying consolidated financial statements.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(g) Allowance for doubtful receivables

An allowance for doubtful receivables is provided at an amount calculated based on the historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(h) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined principally by the moving average method.

(i) Securities

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

Under the Companies Act of Japan (the "Companies Act"), unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends.

(j) Vessels, property and equipment and depreciation

Depreciation of vessels is computed by the straight-line or the declining-balance method over the estimated useful lives of the respective vessels.

Depreciation of property and equipment is computed principally by the declining-balance method over the estimated useful lives of the respective assets.

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

(k) Capitalization of interest expense

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

(l) Leases

Leased assets under finance lease transactions that transfer ownership to the lessee are depreciated by the same methods used for owned fixed assets.

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by straight-line method over the lease term.

Finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008 are accounted for as operating lease transactions.

(m) Research and development costs and computer software

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life of 5 years.

(n) Retirement benefits

The liability for retirement benefits has been provided principally at an amount calculated based on the retirement benefit obligation after the fair value of the pension plan assets are deducted. The retirement benefit obligations are attributed to each period by the straight-line attribution method.

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

Past service cost is amortized by the straight-line method principally over a period of nine years, which falls within the estimated average remaining years of service of the eligible employees.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and the long-term expected rate of return from multiple plan assets at present and in the future.

Certain consolidated subsidiaries also provide for retirement benefits to directors and corporate auditors based on their internal rules at the amount which would be required to be paid if all directors and corporate auditors retired at the balance sheet date.

(o) Accrued expenses for overhaul of vessels

Vessels of the Company and its consolidated subsidiaries are subject to periodic overhaul. An accrual is provided on the basis of the estimated amount of total expenses expected to be incurred for overhauling the vessels.

(p) Derivatives and hedging activities

The Company and its consolidated subsidiaries utilize derivatives to hedge the risk arising from fluctuations in foreign currency exchange rates, mainly on forecast transactions denominated in foreign currencies, interest rates, mainly on loan and lease transactions and market prices, mainly on bunker fuel.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed "Special treatment."

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

The hedge effectiveness is assessed based on a comparison of the cumulative changes in cash flows or fair value of the hedged items with those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, an evaluation of effectiveness is omitted for interest-rate swaps which meet certain conditions for applying the special treatment.

(q) Income taxes

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

(r) Deferred assets

Bond issuance costs are charged to income as incurred.

(s) Distribution of retained earnings

Under the Companies Act and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given fiscal year end is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial year. The distribution of retained earnings with respect to the interim financial period is made by resolution of the Board of Directors.

(t) Revenues and related costs

Revenues of the Company and its consolidated subsidiaries from cargo freight and the related costs and expenses, except for those from container vessels, are recognized in full as of the dates on which the vessels complete their respective voyages (the voyage completion method). Revenues from container vessels are recognized, based on the passage of the transportation period (the complex transportation progress method). The related costs and expenses are charged to income as incurred. Revenues and costs with respect to charter services are accounted for on an accrual basis.

(u) Standards issued but not yet effective

Accounting standards for retirement benefits

On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits"

(ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replace the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

These standards require that an entity recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or a liability in the consolidated balance sheet and actuarial gains or losses and prior service cost after adjusting tax effects not recognized as part of pension expense are recognized as part of other comprehensive income.

Those amounts recognized in accumulated other comprehensive income in prior periods that are recognized in the consolidated statement of income in the current period as components of pension benefit expense are treated as reclassification adjustments.

The retirement benefit obligation can be attributed to each period by the benefit formula basis or by the straight-line method, and the calculation method for the discount rate shall be changed.

Among the standard and related guidance above, those related to attribution method of the retirement benefit obligation to each period are effective as of the beginning of the fiscal year ending on March 31, 2015. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The effect of the adoption of this accounting standard on consolidated operating results will be immaterial.

Accounting standards for business combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

These standards and related guidance are effective from the beginning of the fiscal year ending on March 31, 2016.

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

2. Changes in Method of Accounting

Accounting Standard for Retirement Benefits

Effective March 31, 2014, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits"(ASBJ Statement No.26 issued on May 17, 2012) and "Guidance on Accounting Standards for Retirement Benefits"(ASBJ Guidance No.25 issued on May 17, 2012) except provisions set forth in paragraph 35 of the ASBJ Statement No.26 and paragraph 67 of the ASBJ Guidance No.25.

In accordance with the adoption, the retirement benefit obligations after the fair value of the pension plan assets are deducted, actuarial gains and losses and past service costs that have yet to be recognized in profit or loss are recorded as "Asset for retirement benefits" or "Liability for retirement benefits."

The adoption of these standards follows transitional provisions set forth in paragraph 37 of the ASBJ Statement No.26, and the effect of this change is included in other comprehensive income as "Retirement benefits liability adjustments."

As a result of the change, asset for retirement benefits and liability for retirement benefits were recognized in the amounts of ¥1,168 million ($11,349 thousand) and ¥7,978 million ($77,517 thousand), respectively. Accumulated other comprehensive income and minority interests in consolidated subsidiaries decreased by ¥446 million ($4,333 thousand) and ¥34 million ($330 thousand), respectively.

3. Marketable Securities and Investments in Securities

At March 31, 2014 and 2013, marketable securities and investments in securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	¥ 3	¥ 3	¥ 0
Securities whose estimated fair value does not exceed their carrying value:			
Government and municipal bonds	49,998	49,995	(3)
Total	¥50,001	¥49,998	¥(3)

	Millions of yen		
	2013		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	¥2	¥2	¥0
Total	¥2	¥2	¥0

	Thousands of U.S. dollars		
	2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	$ 29	$ 29	$ 0
Securities whose estimated fair value does not exceed their carrying value:			
Government and municipal bonds	485,795	485,766	(29)
Total	$485,824	$485,795	$(29)

At March 31, 2014 and 2013, marketable securities and investments in securities with quoted market prices classified as other securities are summarized as follows:

	Millions of yen		
	2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥37,402	¥18,284	¥19,118
Government and municipal bonds	200	200	0
	37,602	18,484	19,118
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	13,622	20,136	(6,514)
Total	¥51,224	¥38,620	¥12,604

	Millions of yen		
	2013		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥51,595	¥46,771	¥4,824
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,064	1,205	(141)
Total	¥52,659	¥47,976	¥4,683

	Thousands of U.S. dollars		
	2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$363,409	$177,653	$185,756
Government and municipal bonds	1,943	1,943	0
	365,352	179,596	185,756
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	132,355	195,647	(63,292)
Total	$497,707	$375,243	$122,464

Proceeds from sales of investments in securities classified as other securities for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	¥10,571	¥2,837	$102,711
Aggregate gain	2,770	753	26,914
Aggregate loss	(1,471)	(508)	(14,293)

Loss on impairment is recorded on securities whose fair value has declined by 50 per cent. or more, or whose fair value has declined by 30 per cent. or more, but less than 50 per cent., if the decline is deemed to be irrecoverable.

In case that fair value is extremely difficult to determine, loss on impairment is recorded if net assets in balance sheet have significantly declined due to deterioration of financial conditions of issuers.

The Company has recognized loss on devaluation of investments in securities classified as other securities of ¥1,608 million ($15,624 thousand) for the year ended March 31, 2014.

For the year ended March 31, 2013, the Company has recognized loss on devaluation of investments in securities classified as other security of ¥6,145 million and loss on devaluation of investments in securities classified as shares in affiliates of ¥1,098 million.

4. Inventories

Inventories as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Raw materials and supplies	¥49,032	¥42,690	$476,409
Others	118	83	1,146
Total	¥49,150	¥42,773	$477,555

5. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 was as follows:

Asset Description	Usage	Classification	Millions of yen 2014	Thousands of U.S. dollars 2014
Assets for iron ore carrier business	Assets for sale	Vessels and other	¥1,417	$13,768
Assets for short sea and coastal business	Business assets and assets for sale	Vessels and other	1,107	10,756
Assets for heavy lifter services business	Assets for sale	Vessels and other	948	9,211
Assets for bulk carrier business	Assets for sale	Vessels and other	301	2,925
Others	Business assets, assets for sale and idle assets	Building, structures, land, vessels and other	186	1,807
Total			¥3,959	$38,467

Asset Description	Usage	Classification	Millions of yen 2013
Assets for heavy lifter services business	Assets for heavy lifter services	Goodwill	¥1,805
Assets for short sea and coastal business	Assets for sale	Vessels and other	494
Others	Business assets, assets for sale and idle assets	Building, structures, vessels, equipment and other	266
Total			¥2,565

The Company and its consolidated subsidiaries group fixed assets for business use based on the smallest identifiable groups of assets generating cash flows whose income and expenditure monitored perpetually; however, they group idle assets individually.

For the year ended March 31, 2014, the recoverable amounts were measured by estimated sales value for the iron ore carrier business, the heavy lifter services business and the bulk carrier business and by the value-in-use method based on estimated future cash flows discounted at rates of 2.8 per cent. and 3.2 per cent. for the assets for the short sea and coastal business and assets for other business, respectively.

For the year ended March 31, 2013, the recoverable amounts were measured by estimated sales value for the short sea and coastal business, and by the value-in-use method based on estimated future cash flows discounted at rates of 2.6 per cent. and 3.1 per cent. for the assets for the heavy lifter services business and assets for other business, respectively.

Assets for sale have been grouped as business assets. The carrying values of these assets were reduced to the respective recoverable amounts. The recoverable amount was measured at net selling value based on an estimation agreed between the Company and its consolidated subsidiaries as sellers and third parties as buyers for the years ended March 31, 2014 and 2013.

Since the idle assets' carrying values were deemed to be irretrievably lower than the respective recoverable amounts mainly due to decreasing land prices, the carrying values were reduced to their respective recoverable amounts and a loss on impairment was recognized. The recoverable amounts were measured at net selling value, which was reasonably measured mainly by appraisers.

6. Goodwill

Goodwill and negative goodwill as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Goodwill	¥509	¥676	$4,946
Negative goodwill	(1)	(1)	(10)
Net	¥508	¥675	$4,936

7. Short-Term Loans and Long-Term Debt

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.54 per cent. and 0.59 per cent. per annum at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Loans from banks and insurance companies due, in installments through September 2072 at average interest rates of 1.29% and 1.31% per annum at March 31, 2014 and 2013, respectively	¥ 489,776	¥ 516,476	$4,758,803
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen, due April 4, 2013	—	25,496	—
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen, due September 26, 2018	50,000	—	485,814
1.83% bonds in yen, due April 14, 2014	15,000	15,000	145,744
1.46% bonds in yen, due June 19, 2014	30,000	30,000	291,489
Bonds in yen, interest rate indexed to TIBOR, due July 16, 2019	3,699	4,077	35,941
Total	588,475	591,049	5,717,791
Less: Current portion	(116,220)	(113,480)	(1,129,227)
	¥ 472,255	¥ 477,569	$4,588,564

The Euro-yen zero coupon convertible bonds with stock acquisition rights in yen due September 26, 2018 are convertible at ¥314 ($3.05) per share subject to adjustment for certain events including stock splits and are exercisable from October 10, 2013 to September 12, 2018.

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥116,220	$1,129,227
2016	73,589	715,012
2017	65,899	640,293
2018	44,946	436,708
2019	87,504	850,214
2020 and thereafter	200,317	1,946,337
Total	¥588,475	$5,717,791

A summary of assets pledged as collateral at March 31, 2014 for short-term loans and the current portion of long-term loans in the amount of ¥41,344 million ($401,710 thousand), long-term loans of ¥282,008 million ($2,740,070 thousand) and loans to be incurred in the future is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels at net book value	¥433,179	$4,208,890
Buildings and structures at net book value	6,319	61,397
Land	2,994	29,091
Investments in securities	6,970	67,723
Other	63	612
Total	¥449,525	$4,367,713

Investments in securities of ¥6,970 million ($67,723 thousand) were pledged as collateral to secure future loans for investments in vessels and equipment of subsidiaries and affiliates. Therefore, no corresponding liabilities existed as of March 31, 2014.

Out of vessels at net book value of ¥433,179 million ($4,208,890 thousand) above, ¥4,348 million ($42,246 thousand) was pledged as collateral for entrusted guarantees.

8. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 34.2 per cent. for the years ended March 31, 2014 and 2013.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013, respectively, differ from the statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	**34.2%**	34.2%
Changes in the valuation allowance	**3.9**	45.7
Tonnage tax	**(11.6)**	(4.2)
Equity in earnings of subsidiaries and affiliates	**(2.7)**	(2.5)
Surcharge payment	**7.2**	—
Decrease in deferred tax assets resulting from change in the statutory tax rate applicable to the fiscal years beginning on or after April 1, 2014	**2.2**	—
Permanent non-deductible expenses	**1.0**	—
Reversal of revaluation reserve for land	**(4.2)**	—
Loss on impairment of goodwill	**—**	1.9
Other	**1.5**	(15.8)
Effective tax rate	**31.5%**	59.3%

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2014 and 2013 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Allowance for employees' retirement benefits	**¥ —**	¥ 2,409	**$ —**
Liability for retirement benefits	**2,546**	—	**24,738**
Non-deductible allowances	**1,934**	2,513	**18,791**
Loss on impairment of fixed assets	**1,240**	1,272	**12,048**
Elimination of unrealized intercompany profit	**942**	934	**9,153**
Accounts and notes payable—trade	**3,685**	3,911	**35,805**
Loss on devaluation of investments in securities	**1,984**	2,356	**19,277**
Net operating loss carry forwards	**34,291**	33,728	**333,181**
Other	**7,672**	6,255	**74,543**
Gross deferred tax assets	**54,294**	53,378	**527,536**
Valuation allowance	**(17,611)**	(16,380)	**(171,113)**
Total deferred tax assets	**36,683**	36,998	**356,423**
Deferred tax liabilities:			
Reserve for special depreciation	**(971)**	(1,336)	**(9,435)**
Deferred gain on tangible fixed assets for tax purposes	**(1,240)**	(1,435)	**(12,048)**
Unrealized holding gain on investments in securities	**(3,776)**	(1,166)	**(36,689)**
Accelerated depreciation in overseas subsidiaries	**(1,499)**	(1,504)	**(14,565)**
Deferred gain on hedges	**(6,881)**	(1,448)	**(66,858)**
Other	**(6,595)**	(5,813)	**(64,078)**
Total deferred tax liabilities	**(20,962)**	(12,702)	**(203,673)**
Net deferred tax assets	**¥ 15,721**	¥ 24,296	**$ 152,750**

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and its domestic subsidiaries are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

In line with these revisions, the Company and its domestic subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities mainly from 34.2% to 31.7% for temporary differences expected to be realized from April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥604 million ($5,869 thousand), and income taxes-deferred increased by the same amounts as of and for the year ended March 31, 2014.

(Additional information)

Adoption of the consolidated taxation system

The Company will file a tax return under the consolidated corporate-tax system from the fiscal year ending March 31, 2015, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

Accordingly, the Company and its wholly owned domestic subsidiaries will apply "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 1)" (ASBJ Practical Issues Task Force ("PITF") No.5 of March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No.7 of June 30, 2010).

9. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of assets leased to the Company and its consolidated subsidiaries at March 31, 2014 and 2013, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen			
	2014			
At March 31, 2014	Vessels	Equipment	Other	Total
Acquisition costs	**¥23,042**	**¥—**	**¥1,245**	**¥24,287**
Accumulated depreciation	**(4,084)**	**—**	**(917)**	**(5,001)**
Net book value	**¥18,958**	**¥—**	**¥ 328**	**¥19,286**

	Millions of yen			
	2013			
At March 31, 2013	Vessels	Equipment	Other	Total
Acquisition costs	¥22,413	¥14,679	¥1,277	¥38,369
Accumulated depreciation	(6,260)	(13,829)	(821)	(20,910)
Net book value	¥16,153	¥ 850	¥ 456	¥17,459

	Thousands of U.S. dollars			
	2014			
At March 31, 2014	Vessels	Equipment	Other	Total
Acquisition costs	**$223,883**	**$—**	**$12,097**	**$235,980**
Accumulated depreciation	**(39,681)**	**—**	**(8,910)**	**(48,591)**
Net book value	**$184,202**	**$—**	**$ 3,187**	**$187,389**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expense for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease payments	**¥2,565**	¥4,024	**$24,922**
Depreciation	**2,106**	3,762	**20,462**
Interest expense	**366**	559	**3,556**

Future minimum lease payments subsequent to March 31, 2014 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 1,727	$ 16,780
2016 and thereafter	15,778	153,304
Total	¥17,505	$170,084

Future minimum lease payments or receipts subsequent to March 31, 2014 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 28,459	$ 276,516
2016 and thereafter	134,081	1,302,769
Total	¥162,540	$1,579,285

(As lessors)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥37	$360
2016 and thereafter	35	340
Total	¥72	$700

10. Retirement Benefits

The Company and its consolidated subsidiaries have funded and un-funded defined benefit pension plans and defined contribution pension plans.

The defined benefit corporate pension plans provide for a lump-sum payment or annuity payment determined by reference to the current rate of pay and the length of service.

The retirement lump-sum plans provide for a lump-sum payment, as employee retirement benefits, determined by reference to the current rate of pay and the length of service.

Certain consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expenses, for the defined benefit corporate pension plans and the retirement lump-sum plans based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (a "simplified method").

For the year ended March 31, 2014

The changes in the retirement benefit obligation, except for plans which apply a simplified method, during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at April 1, 2013	¥20,772	$201,827
Service cost	1,201	11,669
Interest cost	319	3,100
Actuarial differences	695	6,753
Payment of retirement benefits	(1,207)	(11,728)
Foreign currency exchange rate changes	404	3,925
Other	(5)	(49)
Retirement benefit obligation at March 31, 2014	¥22,179	$215,497

The changes in pension plan assets, except for plans which apply a simplified method, during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Pension plan assets at fair value at April 1, 2013	¥16,961	$164,798
Expected return on pension plan assets	74	719
Actuarial differences	689	6,695
Contributions by the employer	521	5,062
Payment of retirement benefits	(461)	(4,479)
Foreign currency exchange rate changes	13	126
Pension plan assets at fair value at March 31, 2014	¥17,797	$172,921

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits, net at April 1, 2013	¥2,750	$26,720
Retirement benefit expenses	351	3,410
Payment of retirement benefits	(271)	(2,633)
Contributions to the plans	(215)	(2,089)
Liability for retirement benefits, net at March 31, 2014	¥2,615	$25,408

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥ 22,195	$ 215,653
Plan assets at fair value	(19,562)	(190,070)
Subtotal	2,633	25,583
Unfunded retirement benefit obligation	4,177	40,585
Liability for retirement benefits in the consolidated balance sheet, net	¥ 6,810	$ 66,168
Liability for retirement benefits	7,978	77,517
Asset for retirement benefits	(1,168)	(11,349)
Liability for retirement benefits in the consolidated balance sheet, net	¥ 6,810	$ 66,168

Note: The above includes retirement benefit plans which apply a simplified method.

Retirement benefit expenses for the Company and its consolidated subsidiaries for the year ended March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥1,201	$11,669
Interest cost	319	3,100
Expected return on pension plan assets	(74)	(719)
Amortizations of actuarial differences	37	360
Amortizations of prior service cost	77	748
Retirement benefit expenses calculated by a simplified method	351	3,410
Retirement benefit expenses	¥1,911	$18,568

The balances of past service cost and actuarial differences recognized in accumulated other comprehensive income before deduction of tax effects for the year ended March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥467	$4,538
Unrecognized actuarial differences	141	1,370
Total	¥608	$5,908

The fair value of pension plan assets by major category as of March 31, 2014 is as follows:

	2014
Bonds	42%
Equity	24
General account assets	30
Other	4
Total	100%

The assumptions used in actuarial calculation for the above defined benefit pension plans for the year ended March 31, 2014 are as follows:

	2014
Discount rates	Mainly 1.20%
Expected rates of return on plan assets	Mainly 0.00%

Total contributions paid by consolidated subsidiaries to the defined contribution pension plans amounted to ¥765 million ($7,433 thousand) for the year ended March 31, 2014.

For the year ended March 31, 2013

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the accompanying consolidated balance sheet as of March 31, 2013 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen
	2013
Retirement benefit obligation	¥(25,052)
Fair value of pension plan assets	18,555
Net unfunded benefit obligation	(6,497)
Unrecognized actuarial differences	209
Unrecognized past service cost	239
Net retirement benefit obligation	(6,049)
Prepaid pension cost	1,251
Allowance for employees' retirement benefits	¥ (7,300)

The components of retirement benefit expenses for the year ended March 31, 2013 are outlined as follows:

	Millions of yen
	2013
Service cost*	¥1,692
Interest cost	442
Expected return on pension plan assets	(82)
Amortization:	
Actuarial differences	1
Past service cost	97
Contribution to defined contribution pension plan	160
Total retirement benefit expenses	¥2,310

*Retirement benefit expenses for certain domestic consolidated subsidiaries, whose benefit obligation is calculated by a simplified method, have been fully included in service cost.

The assumptions used in accounting for the above plans for the year ended March 31, 2013 are as follows:

	2013
Discount rates	Mainly 1.20%
Expected rates of return on plan assets	Mainly 0.00%

11. Shareholders' Equity

The Companies Act provides that an amount equal to 10 per cent. of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25 per cent. of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2014 and 2013 amounted to ¥2,540 million ($24,679 thousand).

In accordance with the former Commercial Code of Japan (the "Code"), stock option plans for certain directors and certain employees of the Company and certain directors of certain subsidiaries were approved at annual general meetings of the shareholders of the Company. The 2004 stock option plan (the 2004 plan) was approved by shareholders of the Company on June 29, 2004. The 2005 stock option plan (the 2005 plan) was approved by shareholders of the Company on June 29, 2005.

The stock option plans of the Company are summarized as follows:

Stock option plan	Date of grant	Exercisable period
The 2004 plan	August 9, 2004	From June 30, 2006 up to and including June 29, 2014
The 2005 plan	July 25, 2005	From June 30, 2007 up to and including June 29, 2015

Movements in the number of vested stock options for each stock option plan of the Company during the years ended March 31, 2014 and 2013 are summarized as follows:

	The 2004 plan	The 2005 plan
Number of stock options*:		
Outstanding as of March 31, 2012	106	187
Vested	—	—
Exercised	—	—
Forfeited	—	—
Outstanding as of March 31, 2013	**106**	**187**
Vested	**—**	**—**
Exercised	**—**	**—**
Forfeited	**—**	**—**
Outstanding as of March 31, 2014	**106**	**187**

*One stock option gives the holder the right to purchase one thousand shares of the Company's common stock.

The unit price of stock options for each stock option plan of the Company during the years ended March 31, 2014 and 2013 is summarized as follows:

	Yen	
	The 2004 plan	The 2005 plan
Unit price of stock options:		
Exercise price as of March 31, 2014	**¥633**	**¥693**
Average market price per share at exercise during the year ended March 31, 2014	**—**	**—**

	U.S. dollars	
	The 2004 plan	The 2005 plan
Unit price of stock options:		
Exercise price as of March 31, 2014	**$6.15**	**$6.73**
Average market price per share at exercise during the year ended March 31, 2014	**—**	**—**

The exercise prices above are subject to adjustment in the case of certain events including stock splits.

Movements in common stock and treasury stock of the Company for the years ended March 31, 2014 and 2013 are summarized as follows:

	Number of shares (Thousands)			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	**939,382**	**—**	**—**	**939,382**
Treasury stock	**1,628**	**39**	**9**	**1,658**

	Number of shares (Thousands)			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	765,382	174,000	–	939,382
Treasury stock	1,601	34	7	1,628

12. Land Revaluation

The Company and certain domestic consolidated subsidiaries revalued the land used in their business in accordance with the Land Revaluation Law (Law No. 34, March 31, 1998) and the Law to Partially Revise the Land Revaluation Law (Law No. 19, March 31, 2001). The effect of this revaluation has been recorded as revaluation reserve for land in net assets, excluding the related deferred income taxes on land revaluation.

The timing of the revaluation was effective March 31, 2002.

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

At March 31, 2014 and 2013, the fair value of land was lower than its carrying value after revaluation by ¥2,738 million ($26,603 thousand) and ¥2,154 million, respectively.

13. Commitments and Contingent Liabilities

At March 31, 2014, commitments made by the Company and its consolidated subsidiaries for the construction of vessels amounted to ¥80,768 million ($784,765 thousand).

Contingent liabilities for guarantees of loans to affiliates and third-party companies and reservation of guarantees under insurance business laws of Japan as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Guarantee of loans	¥17,091	$166,061
Reservation of guarantee	429	4,168
Total	¥17,520	$170,229

14. Financial Instruments

Status of financial instruments

The Company and its consolidated subsidiaries (the "Group") obtain necessary funding, mainly through bank loans and the issuance of bonds, in accordance with their capital expenditure plans. Excess funds are invested in highly liquid financial assets, and short-term operating funds are financed by bank loans and commercial paper. The Group utilizes derivatives only for reducing risks, but does not utilize them for speculation.

Trade accounts and notes receivable are exposed to credit risk in the event of the nonperformance by counterparties. As revenues from marine transportation are mainly denominated in foreign currencies, trade receivables are exposed to foreign currency exchange risk and a portion of them, net of trade payables denominated in the same foreign currencies, are hedged by forward foreign exchange contracts. Future trade receivables such as for freight and chartered vessels are exposed to market risks, and some of them are hedged by forward freight agreements. The Group holds marketable securities and investments in securities, which are mainly issued by companies who have a business relationship or capital alliance with the Group, and these securities are exposed to the risk of fluctuation in market prices. The Group also has long-term loans receivable mainly from other subsidiaries and affiliates.

The Group has trade accounts and notes payable, which have payment due dates within one year. Funds for certain capital expenditures, such as construction of vessels denominated in foreign currencies, are exposed to foreign currency exchange risk, some of which are hedged by forward foreign exchange contracts. Future trade payables such as payments for bunker fuel are exposed to the risk of fluctuation of market prices, and some of them are hedged by bunker fuel swap contracts. Loans payable, bonds, bonds with stock acquisition rights and lease obligations for finance lease contracts are taken out principally for the purpose of making capital investments. The repayment dates of long-term debt extend up to fifty-eight years subsequent to the balance sheet date. Certain elements of these transactions are exposed to interest rate fluctuation risk. The Group hedges this risk by entering into interest rate swap transactions. The Group has entered into currency swap contracts to minimize foreign currency exchange risk against trade payables.

Regarding derivatives, the Group has entered into: 1) forward foreign exchange contracts and currency swap contracts to hedge foreign currency exchange risk arising from receivables and payables denominated in foreign currencies and funds for business investment; 2) bunker fuel swap contracts to hedge the risk of bunker fuel price fluctuation; 3) forward freight agreements to hedge the risk of fluctuation of market prices; and 4) interest-rate swap contracts to hedge the risk of interest rate fluctuation arising from interest payables for long-term payables and bonds.

For information on hedge accounting policies of the Group, see 1. Summary of Significant Accounting Policies, (p) Derivatives and hedging activities.

The Company monitors regularly the condition of significant business partners by each related business division with whom the Company has accounts receivable for business or loans receivable, and manages the outstanding balances and due dates by counterparties, to minimize the risk of default arising from any decline in the financial condition of counterparties. Its consolidated subsidiaries also monitor the condition of accounts receivable and loans receivable under a similar management policy.

The Group believes that the credit risk of derivatives is insignificant as the Group enters into derivatives transactions only with financial institutions which have a sound credit profile.

For receivables and payables denominated in foreign currencies and future loans related to investment in vessels, the Company has entered into currency swap and forward foreign exchange contracts to hedge foreign currency exchange rate fluctuation risk, and interest-rate swap contracts to minimize interest rate fluctuation risk of loans and bonds. For marketable securities and investments in securities, the Company continuously reviews the condition of holding securities considering the stock market and the relationship with issuing companies, taking into account market value of securities and financial condition of issuing companies in accordance with internal regulations.

The Company enters into derivative transactions with the approval from authorized officers in accordance with internal regulations, which set forth transaction authority and maximum upper limit on positions. Results of derivative transactions are regularly reported at the executive officers meeting. Its consolidated subsidiaries also manage derivative transactions under the same regulations.

The Company manages liquidity risk by preparing and updating cash management plan on timely basis and maintaining liquid instruments on hand based on reports from each business group.

The fair value of financial instruments is based on market price, if available. When there is no market price, fair value is reasonably estimated. Fair value can fluctuate because different assumptions may be adopted for calculation of fair value considering various factors. In addition, the notional amounts of derivatives in Note 15. Derivatives and Hedging Activities are not necessarily indicative of the actual market exposure involved in the derivative transactions.

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2014 and 2013, and the estimated fair value and the difference between them are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	¥186,394	¥186,394	¥ —
Accounts and notes receivable—trade	94,346	94,346	—
Marketable securities and investments in securities:			
Held to maturity debt securities	50,001	49,998	(3)
Other securities	51,224	51,224	—
Investments in affiliates	3,518	968	(2,550)
Total assets	¥385,483	¥382,930	¥(2,553)
Liabilities			
Accounts and notes payable—trade	¥ 91,493	¥ 91,493	¥ —
Short-term loans, inclusive of current portion of long-term loans	77,091	77,694	603
Bonds	53,321	54,965	1,644
Long-term loans	418,934	422,495	3,561
Total liabilities	¥640,839	¥646,647	¥ 5,808
Derivative transactions (*)	¥ (8,840)	¥ (9,179)	¥ (339)

	Millions of yen		
	2013		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	¥162,127	¥162,127	¥ —
Accounts and notes receivable—trade	86,884	86,884	—
Investments in securities	56,102	53,662	(2,440)
Total assets	¥305,113	¥302,673	¥(2,440)
Liabilities			
Accounts and notes payable—trade	¥ 82,607	¥ 82,607	¥ —
Short-term loans, inclusive of current portion of long-term loans	96,579	97,525	(946)
Bonds	48,699	48,370	329
Long-term loans	428,870	433,501	(4,631)
Total liabilities	¥656,755	¥662,003	¥(5,248)
Derivative transactions (*)	¥ (6,431)	¥ (6,927)	¥ (496)

	Thousands of U.S. dollars		
	2014		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	$1,811,057	$1,811,057	$ —
Accounts and notes receivable—trade	916,693	916,693	—
Marketable securities and investments in securities:			
Held to maturity debt securities	485,824	485,795	(29)
Other securities	497,707	497,707	—
Investments in affiliates	34,182	9,405	(24,777)
Total assets	$3,745,463	$3,720,657	$(24,806)
Liabilities			
Accounts and notes payable—trade	$ 888,972	$ 888,972	$ —
Short-term loans, inclusive of current portion of long-term loans	749,038	754,897	5,859
Bonds	518,082	534,056	15,974
Long-term loans	4,070,482	4,105,082	34,600
Total liabilities	$6,226,574	$6,283,007	$ 56,433
Derivative transactions (*)	$ (85,892)	$ (89,186)	$ (3,294)

(*) The value of assets and liabilities arising from derivative transactions is shown at net value, and the amounts in parentheses represent net liability position.

Fair value of cash and deposits, and accounts and notes receivable—trade is based on carrying value as most of them are settled within a short term.

Fair value of marketable securities and investments in securities is based on market prices.

Fair value of accounts and notes payable—trade, and short-term loans is based on carrying value as most of them are settled within a short term, except for the current portion of long-term loans whose fair value is based on same method as long-term loans.

Fair value of bonds is mainly based on market prices.

Fair value of long-term loans is mainly based on the present value of the total amount including principal and interest, discounted by the expected interest rate assuming a new borrowing of the same loan using the balance as of the end of the period.

The financial instruments whose fair value is difficult to determine as of March 31, 2014 and 2013 are summarized as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted investments in securities	¥33,566	¥31,017	$326,137

For unlisted investments in securities, there is neither a market value nor estimated future cash flow, and it is difficult to determine the fair value. Therefore, the fair value of unlisted investments in securities is not included in investments in securities in the summary table of financial instruments.

The redemption schedule as of March 31, 2014 and 2013 for cash and deposits, accounts and notes receivable—trade and held-to-maturity securities is summarized as follows:

	Millions of yen			
	2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥186,394	¥—	¥—	¥—
Accounts and notes receivable—trade	94,346	—	—	—
Marketable securities and investments in securities				
Held-to-maturity securities:				
(1) Government, municipal bonds and others	50,000	2	1	—
(2) Corporate bonds	—	—	—	—
Total	¥330,740	¥ 2	¥ 1	¥—

	Millions of yen			
	2013			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥162,127	¥—	¥—	¥—
Accounts and notes receivable—trade	86,884	—	—	—
Marketable securities and investments in securities				
Held-to-maturity securities:				
(1) Government, municipal bonds and others	0	1	1	—
(2) Corporate bonds	—	—	—	—
Total	¥249,011	¥ 1	¥ 1	¥—

	Thousands of U.S. dollars			
	2014			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	$1,811,057	$—	$—	$—
Accounts and notes receivable—trade	916,693	—	—	—
Marketable securities and investments in securities				
Held-to-maturity securities:				
(1) Government, municipal bonds and others	485,814	19	10	—
(2) Corporate bonds	—	—	—	—
Total	$3,213,564	$19	$10	$—

15. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries have derivatives contracts such as foreign currency exchange contracts, and currency swaps and currency options positions to minimize the impact of fluctuation in foreign exchange rates on forecasted foreign currency transactions. The Company and its consolidated subsidiaries have also entered into interest-rate swaps to minimize the impact of fluctuation in interest rates related to their outstanding debt and lease transactions. In addition, the Company and its consolidated subsidiaries have entered into bunker fuel swaps and forward freight agreements in order to minimize the impact of market movements.

The estimated fair value of the derivatives positions outstanding qualifying for deferral hedge accounting at March 31, 2014 and 2013 is summarized as follows:

Currency-related transactions

			Millions of yen		
			2014		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Forward exchange contracts				
	Buying:				
	USD	Capital expenditures	**¥49,249**	**¥35,961**	**¥3,680**
	JPY	Capital expenditures	**300**	**—**	**(4)**
	CND	Forecasted foreign currency transactions	**4**	**—**	**0**
	Selling:				
	USD	Forecasted foreign currency transactions	**3,122**	**—**	**34**
	Currency swaps				
	Receiving USD, paying EUR	Chartering expense	**1,729**	**840**	**(59)**
	Currency options positions				
	Buying-				
	Put: USD	Accounts receivable—trade	**62**	**—**	**(2)**
	Selling-				
	Call: USD	Accounts receivable—trade	**62**	**—**	**0**
	Total		**¥54,528**	**¥36,801**	**¥3,649**

			Millions of yen		
			2013		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Forward exchange contracts				
	Buying:				
	USD	Capital expenditures	¥ 41,373	¥ 11,770	¥2,907
	JPY	Capital expenditures	255	—	(27)
	EUR	Forecasted foreign currency transactions	8	—	(0)
	SGD	Forecasted foreign currency transactions	4,544	—	(30)
	GBP	Forecasted foreign currency transactions	533	—	(2)
	CND	Forecasted foreign currency transactions	2	—	0
	Selling:				
	USD	Forecasted foreign currency transactions	8,211	—	(254)
	Currency swaps				
	Receiving USD, paying JPY	Chartering expense and lease expense	273,148	247,932	3,048
	Receiving USD, paying EUR	Chartering expense	2,393	1,783	78
	Currency options positions				
	Buying-				
	Put: USD	Accounts receivable—trade	132	—	(16)
	Selling-				
	Call: USD	Accounts receivable—trade	132	—	0
	Total		¥330,731	¥261,485	¥5,704

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2014 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Forward exchange contracts				
	Buying:				
	USD	Capital expenditures	$478,518	$349,407	$35,757
	JPY	Capital expenditures	2,915	—	(39)
	CND	Forecasted foreign currency transactions	39	—	0
	Selling:				
	USD	Forecasted foreign currency transactions	30,334	—	330
	Currency swaps				
	Receiving USD, paying EUR	Chartering expense	16,799	8,162	(573)
	Currency options positions				
	Buying-				
	Put: USD	Accounts receivable—trade	602	—	(19)
	Selling-				
	Call: USD	Accounts receivable—trade	602	—	0
	Total		$529,809	$357,569	$35,456

Interest-rate related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2014 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	¥100,986	¥ 95,626	¥(10,491)
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	8,344	6,480	(338)
	Total		¥109,330	¥102,106	¥(10,829)

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2013 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	¥115,626	¥108,782	¥(12,458)
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	12,483	10,834	(496)
	Total		¥128,109	¥119,616	¥(12,954)

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2014 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	$ 981,209	$929,129	$(101,934)
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans payable	81,072	62,961	(3,284)
	Total		$1,062,281	$992,090	$(105,218)

Other

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2014 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**¥18,671**	**¥5,576**	**¥ 5**
	Forward freight agreements	Ocean freight	**3,349**	**862**	**(2,068)**
	Total		**¥22,020**	**¥6,438**	**¥(2,063)**

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2013 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	¥7,802	¥97	¥ 85
	Forward freight agreements	Ocean freight	1,628	—	237
	Total		¥9,430	¥97	¥322

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2014 Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**$181,413**	**$54,178**	**$ 49**
	Forward freight agreements	Ocean freight	**32,540**	**8,375**	**(20,093)**
	Total		**$213,953**	**$62,553**	**$(20,044)**

Fair value is based on relevant prices quoted by financial institutions and others.

There are no derivative transactions for which hedge accounting is not applied for the years ended March 31, 2014 and 2013.

16. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013.

	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Net unrealized holding gain on investments in securities:			
Amount arising during the year	**¥ 8,016**	¥ 7,414	**$ 77,886**
Reclassification adjustments to income or loss	**311**	4,726	**3,022**
Amount before tax effect	**8,327**	12,140	**80,908**
Tax effect	**(2,610)**	(3,642)	**(25,360)**
Unrealized holding gain on investments in securities	**5,717**	8,498	**55,548**
Deferred gain on hedges:			
Amount arising during the year	**19,016**	38,656	**184,765**
Reclassification adjustments to income or loss	**1,695**	5,092	**16,469**
Adjustments for acquisition costs of vessels due to valuation of hedges	**(2,224)**	3,145	**(21,609)**
Amount before tax effect	**18,487**	46,893	**179,625**
Tax effect	**(5,433)**	(13,251)	**(52,789)**
Deferred gain on hedges	**13,054**	33,642	**126,836**
Revaluation reserve for land:			
Tax effect	**272**	—	**2,643**
Revaluation reserve for land	**272**	—	**2,643**
Translation adjustments:			
Amount arising during the year	**13,243**	26,879	**128,673**
Reclassification adjustments to income or loss	**419**	(924)	**4,071**
Translation adjustments	**13,662**	25,955	**132,744**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method:			
Amount arising during the year	**807**	(162)	**7,841**
Reclassification adjustments to income or loss	**904**	647	**8,784**
Share of other comprehensive income of subsidiaries and affiliates accounted for by the equity method	**1,711**	485	**16,625**
Total other comprehensive income	**¥34,416**	¥68,580	**$334,396**

17. Supplementary Information on Consolidated Statements of Cash Flows

Cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2014 and 2013 are reconciled to cash and deposits reflected in the accompanying consolidated balance sheets as of March 31, 2014 and 2013 as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥186,394**	¥162,127	**$1,811,057**
Time deposits with a maturity of more than three months after the purchase date	**(13,785)**	(3,052)	**(133,940)**
Marketable securities	**49,998**	—	**485,795**
Cash and cash equivalents	**¥222,607**	¥159,075	**$2,162,912**

18. Amounts per Share

Amounts per share at March 31, 2014 and 2013 and for the years then ended are as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Net assets	**¥414.66**	¥363.18	**$4.03**
Net income:			
Basic	**17.75**	12.07	**0.17**
Diluted	**16.33**	—	**0.16**
Cash dividends applicable to the year	**4.50**	2.50	**0.04**

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

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

Diluted net income per share for the year ended March 31, 2013, however, has not been presented because no potentially dilutive securities were outstanding at March 31, 2013.

19. Segment Information

Segment information for the years ended March 31, 2014 and 2013

1. Overview of reporting segments

The Company's reporting segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Group is a shipping business organization centering on marine transportation service and has three reporting segments, which are the containership business segment, the bulk shipping business segment and the offshore energy exploration and production ("E&P") support and heavy lifter business segment, considering the economic characteristics, service contents and method of the provision and categorization of the market and customers.

The containership business includes container ship service and logistics service. The bulk shipping business includes the following services: dry bulk carrier service, car carrier service, energy transportation and tanker business and short sea and coastal business. The offshore energy E&P support and heavy lifter business includes the following services: offshore energy exploration and production business, offshore support vessel business and heavy lifter business.

2. Calculation method of reporting segment income

Reporting segment income represents ordinary income, which consists of operating income and nonoperating income/expenses. Nonoperating income/expenses mainly include interest income, dividend income, interest expense, exchange gain, net and equity in earnings of subsidiaries and affiliates.

Intra-group revenues and transfers are intra-group transactions which are based on market price and other.

3. Information on operating revenues, income or loss, assets, and other items by each reporting segment

Reporting segment information for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen						
	2014						
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*1	Total	Adjustments and eliminations*2	Consolidated
1. Revenues:							
(1) Operating revenues from customers	¥582,398	¥572,686	¥ 32,818	¥36,224	¥1,224,126	¥ —	¥1,224,126
(2) Intra-group revenues and transfers	8,119	2,743	—	43,284	54,146	(54,146)	—
Total revenues	¥590,517	¥575,429	¥ 32,818	¥79,508	¥1,278,272	¥(54,146)	¥1,224,126
2. Segment income (loss)*3	¥ (142)	¥ 41,261	¥ (4,503)	¥ 2,636	¥ 39,252	¥ (6,797)	¥ 32,455
3. Segment assets	¥272,673	¥723,254	¥123,476	¥93,565	¥1,212,968	¥ 41,774	¥1,254,742
(1) Depreciation and amortization	¥ 8,400	¥ 33,938	¥ 7,198	¥ 1,871	¥ 51,407	¥ 837	¥ 52,244
(2) Amortization of goodwill and negative goodwill, net	230	—	(0)	—	230	—	230
(3) Interest income	526	680	113	134	1,453	(131)	1,322
(4) Interest expenses	1,221	6,184	2,821	221	10,447	538	10,985
(5) Equity in earnings of subsidiaries and affiliates	1,225	808	602	122	2,757	—	2,757
(6) Investments in subsidiaries and affiliates accounted for by the equity method	6,570	7,519	5,032	3,703	22,824	—	22,824
(7) Increase in vessels, property and equipment, and intangible assets	9,089	83,047	184	763	93,083	295	93,378

	Millions of yen						
	2013						
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*1	Total	Adjustments and eliminations*4	Consolidated
1. Revenues:							
(1) Operating revenues from customers	¥552,810	¥502,571	¥ 35,712	¥ 43,679	¥1,134,772	¥ —	¥1,134,772
(2) Intra-group revenues and transfers	9,290	2,692	—	46,963	58,945	(58,945)	—
Total revenues	¥562,100	¥505,263	¥ 35,712	¥ 90,642	¥1,193,717	¥(58,945)	¥1,134,772
2. Segment income (loss)*3	¥ 6,631	¥ 24,065	¥ (2,422)	¥ 6,566	¥ 34,840	¥ (6,251)	¥ 28,589
3. Segment assets	¥259,228	¥708,784	¥116,095	¥107,429	¥1,191,536	¥(11,102)	¥1,180,434
(1) Depreciation and amortization	¥ 9,283	¥ 38,952	¥ 7,944	¥ 2,610	¥ 58,789	¥ 879	¥ 59,668
(2) Amortization of goodwill and negative goodwill, net	266	—	2,361	—	2,627	—	2,627
(3) Interest income	752	562	13	200	1,527	(367)	1,160
(4) Interest expenses	1,215	7,061	3,606	397	12,279	(17)	12,262
(5) Equity in earnings of subsidiaries and affiliates	1,065	661	504	152	2,382	—	2,382
(6) Investments in subsidiaries and affiliates accounted for by the equity method	5,669	6,094	3,639	3,635	19,037	—	19,037
(7) Increase in vessels, property and equipment, and intangible assets	29,446	101,956	277	2,438	134,117	438	134,555

	Thousands of U.S. dollars						
	2014						
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*1	Total	Adjustments and eliminations*2	Consolidated
1. Revenues:							
(1) Operating revenues from customers	$5,658,744	$5,564,380	$ 318,869	$351,963	$11,893,956	$ —	$11,893,956
(2) Intra-group revenues and transfers	78,887	26,652	—	420,559	526,098	(526,098)	—
Total revenues	$5,737,631	$5,591,032	$ 318,869	$772,522	$12,420,054	$(526,098)	$11,893,956
2. Segment income (loss)*3	$ (1,380)	$ 400,904	$ (43,752)	$ 25,612	$ 381,384	$ (66,042)	$ 315,342
3. Segment assets	$2,649,368	$7,027,342	$1,199,728	$909,105	$11,785,543	$ 405,888	$12,191,431
(1) Depreciation and amortization	$ 81,617	$ 329,751	$ 69,938	$ 18,179	$ 499,485	$ 8,133	$ 507,618
(2) Amortization of goodwill and negative goodwill, net	2,235	—	(0)	—	2,235	—	2,235
(3) Interest income	5,111	6,607	1,098	1,302	14,118	(1,273)	12,845
(4) Interest expenses	11,863	60,086	27,410	2,147	101,506	5,227	106,733
(5) Equity in earnings of subsidiaries and affiliates	11,903	7,851	5,849	1,185	26,788	—	26,788
(6) Investments in subsidiaries and affiliates accounted for by the equity method	63,836	73,057	48,892	35,979	221,764	—	221,764
(7) Increase in vessels, property and equipment, and intangible assets	88,311	806,908	1,788	7,414	904,421	2,866	907,287

*1 The "Other" segment consists of business segments not classified into aforementioned three reporting segments, including ship management service, travel agency business and real estate rental and management business.

*2 (1) The adjustment and elimination of segment loss of ¥6,797 million ($66,042 thousand) includes the following elements: ¥684 million ($6,646 thousand) of intersegment profit eliminations and ¥6,113 million ($59,396 thousand) of corporate expense, which are not distributed to specific segments.
(2) The adjustment and elimination of segment assets of ¥41,774 million ($405,888 thousand) includes the following elements: ¥64,431 million ($626,030 thousand) of intersegment transaction eliminations and ¥106,205 million ($1,031,918 thousand) of corporate assets, which are not distributed to specific segments.
(3) The adjustment and elimination of depreciation and amortization of ¥837 million ($8,133 thousand) is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.
(4) The adjustment and elimination of interest income of ¥131 million ($1,273 thousand) includes the following elements: ¥215 million ($2,089 thousand) of intersegment transaction eliminations and ¥84 million ($816 thousand) of interest income, which are not distributed to specific segments.
(5) The adjustment and elimination of interest expenses of ¥538 million ($5,227 thousand) includes the following elements: ¥215 million ($2,089 thousand) of intersegment transaction eliminations and ¥753 million ($7,316 thousand) of interest expenses, which are not distributed to specific segments.
(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥295 million ($2,866 thousand) is the increase in assets that belong to the entire group, which are not distributed to specific segments.

*3 Segment income is adjusted for ordinary income as described in 2. Calculation method of reporting segment income.

*4 (1) The adjustment and elimination of segment loss of ¥6,251 million includes the following elements: ¥430 million of intersegment profit eliminations and ¥5,821 million of corporate expense, which are not distributed to specific segments.
(2) The adjustment and elimination of segment assets of ¥11,102 million includes the following elements: ¥64,492 million of intersegment transaction eliminations and ¥53,390 million of corporate assets, which are not distributed to specific segments.
(3) The adjustment and elimination of depreciation and amortization of ¥879 million is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.
(4) The adjustment and elimination of interest income of ¥367 million includes the following elements: ¥410 million of intersegment transaction eliminations and ¥43 million of interest income, which are not distributed to specific segments.
(5) The adjustment and elimination of interest expenses of ¥17 million includes the following elements: ¥410 million of intersegment transaction eliminations and ¥393 million of interest expenses, which are not distributed to specific segments.
(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥438 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

Revenues by countries or geographical areas for the years ended March 31, 2014 and 2013 are summarized as follows:

	(Millions of yen)					
	2014					
	Japan	U.S.A.	Europe	Asia	Other	Total
Revenues	¥499,701	¥209,282	¥178,817	¥302,349	¥33,977	¥1,224,126

	(Millions of yen)					
	2013					
	Japan	U.S.A.	Europe	Asia	Other	Total
Revenues	¥470,543	¥189,558	¥179,018	¥263,719	¥31,934	¥1,134,772

	(Thousands of U.S. dollars)					
	2014					
	Japan	U.S.A.	Europe	Asia	Other	Total
Revenues	$4,855,237	$2,033,443	$1,737,437	$2,937,709	$330,130	$11,893,956

At March 31, 2014 and 2013, vessels, property and equipment by countries or geographical areas are summarized as follows:

	(Millions of yen)			
	2014			
	Japan	Singapore	Other	Total
Vessels, property and equipment	**¥407,417**	**¥71,485**	**¥182,324**	**¥661,226**

	(Millions of yen)			
	2013			
	Japan	Singapore	Other	Total
Vessels, property and equipment	¥421,548	¥71,226	¥170,277	¥663,051

	(Thousands of U.S. dollars)			
	2014			
	Japan	Singapore	Other	Total
Vessels, property and equipment	**$3,958,579**	**$694,569**	**$1,771,512**	**$6,424,660**

The loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 is as follows:

	(Millions of yen)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*1]	Adjustments and eliminations[*2]	Total
Loss on impairment of fixed assets	**¥3**	**¥2,865**	**¥947**	**¥144**	**¥—**	**¥3,959**

	(Millions of yen)					
	2013					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*1]	Adjustments and eliminations[*2]	Total
Loss on impairment of fixed assets	¥0	¥539	¥1,805	¥52	¥169	¥2,565

	(Thousands of U.S. dollars)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*1]	Adjustments and eliminations[*2]	Total
Loss on impairment of fixed assets	**$29**	**$27,837**	**$9,202**	**$1,399**	**$—**	**$38,467**

(*1) The "Other" segment consists of business segments not classified into aforementioned three reporting segments, including ship management service, travel agency business and real estate rental and management business.
(*2) The adjustment and elimination of loss on impairment of fixed assets is loss not allocated to specific segments.

The amortization and balance of goodwill for the years ended and as of March 31, 2014 and 2013 are as follows:

	(Millions of yen)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*]	Adjustments and eliminations	Total
Amortization for the year	**¥231**	**¥—**	**¥—**	**¥—**	**¥—**	**¥231**
Balance at the year end	**509**	**—**	**—**	**—**	**—**	**509**

	(Millions of yen)					
	2013					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*]	Adjustments and eliminations	Total
Amortization for the year	¥266	¥—	¥2,362	¥—	¥—	¥2,628
Balance at the year end	676	—	—	—	—	676

	(Thousands of U.S. dollars)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other[*]	Adjustments and eliminations	Total
Amortization for the year	**$2,245**	**$—**	**$—**	**$—**	**$—**	**$2,245**
Balance at the year end	**4,946**	**—**	**—**	**—**	**—**	**4,946**

The amortization and balance of negative goodwill for the years ended and as of March 31, 2014 and 2013 related to a business combination prior to April 1, 2010 is as follows:

	(Millions of yen)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*	Adjustments and eliminations	Total
Amortization for the year	**¥—**	**¥—**	**¥1**	**¥—**	**¥—**	**¥1**
Balance at the year end	**—**	**—**	**1**	**—**	**—**	**1**

	(Millions of yen)					
	2013					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*	Adjustments and eliminations	Total
Amortization for the year	¥—	¥—	¥1	¥—	¥—	¥1
Balance at the year end	—	—	1	—	—	1

	(Thousands of U.S. dollars)					
	2014					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other*	Adjustments and eliminations	Total
Amortization for the year	**$—**	**$—**	**$10**	**$—**	**$—**	**$10**
Balance at the year end	**—**	**—**	**10**	**—**	**—**	**10**

(*) The "Other" segment consists of business segments not classified into aforementioned three reporting segments, including ship management service, travel agency business and real estate rental and management business.

20. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014, was approved at a meeting of the Company's shareholders held on June 25, 2014:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.50 = $0.04 per share)	**¥ 4,220**	**$ 41,003**

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

We have audited the accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1(a).

Ernst & Young ShinNihon LLC

June 25, 2014
Osaka, Japan

Outline of the Company / Stock Information

Outline of the Company (As of March 31, 2014)

Name	Kawasaki Kisen Kaisha, Ltd. (“K” Line)	
Established	April 5, 1919	
Paid-in Capital	¥75,457.64 million	
President	Jiro Asakura	
Employees	On-land Duty	478
	At-sea Duty	174
	Total	652
Business Lines	Marine transportation, Land transportation, Air transportation, Through transportation involving marine, land and air transportation, Harbor transportation, etc.	

Offices

Head Office	Iino Building, 1-1, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8540, Japan Phone: (+81) 3-3595-5000 Fax: (+81) 3-3595-5001
Registered Head Office	Shinko Building, 8 Kaigandori, Chuo-ku, Kobe 650-0024, Japan Phone: (+81) 78-332-8020 Fax: (+81) 78-393-2676
Branches	**Nagoya:** Nagoya International Center Building, 47-1, Nagono 1-chome, Nakamura-ku, Nagoya 450-0001, Japan Phone: (+81) 52-589-4510 Fax: (+81) 52-589-4585 **Kansai:** Daidouseimei Kobe Building, 2-7, Sakaemachidori 1-chome, Chuo-ku, Kobe 650-0023, Japan Phone: (+81) 78-325-8727 Fax: (+81) 78-393-2676
Overseas Office	Manila
Overseas Agents	Korea, Hong Kong, China, Taiwan, Thailand, the Philippines, Singapore, Malaysia, Indonesia, Vietnam, India, Australia, U.K., Germany, France, the Netherlands, Belgium, Italy, Finland, Denmark, Norway, Sweden, Spain, Portugal, Turkey, Canada, U.S.A., Mexico, Chile, Peru, Brazil, South Africa, etc.
Affiliated Companies	29 (Domestic), 291 (Overseas)

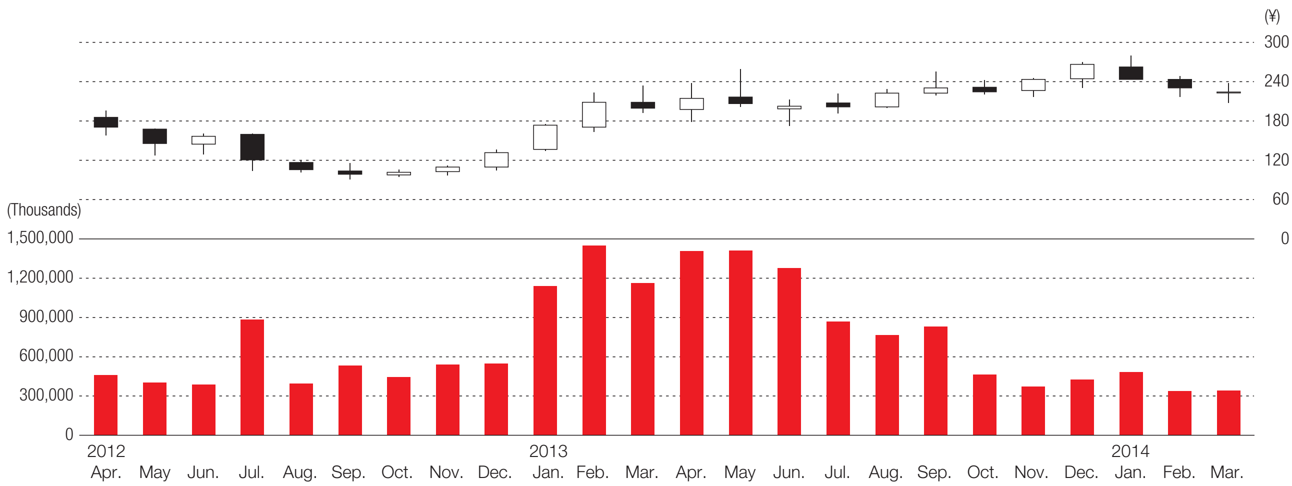
Stock Information (As of March 31, 2014)

Authorized	2,000,000,000 shares of common stock
Issued	939,382,298 shares of common stock
Number of Shareholders	48,014
Shareholder Registry Administrator	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Listing of Shares	Tokyo, Nagoya and Fukuoka

Principal Shareholders

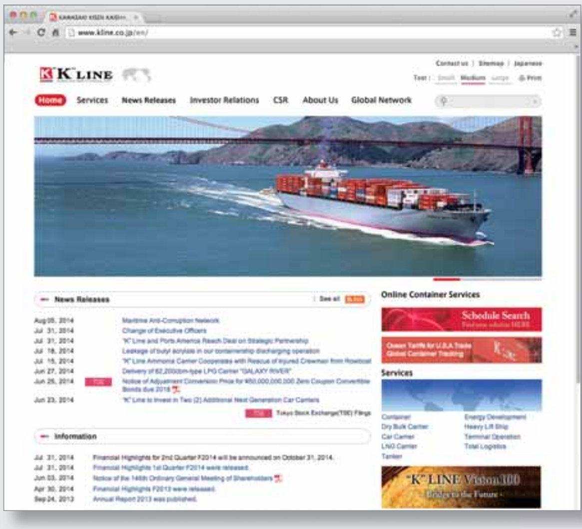
Shareholders	Number of Shares Held (thousands)	Percentage of Shares Held (%)
Japan Trustee Services Bank, Ltd. (trust account)	69,626	7.41
The Master Trust Bank of Japan, Ltd. (trust account)	58,508	6.22
NORTHERN TRUST CO.(AVFC) RE 15PCT TREATY ACCOUNT	34,119	3.63
Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust & Banking Co., Ltd.)	32,923	3.50
JFE Steel Corporation	28,174	2.99
Sompo Japan Insurance Inc.	19,107	2.03
Mizuho Bank, Ltd.	18,688	1.98
BBH Boston GMO International Intrinsic Value	15,589	1.65
Tokio Marine & Nichido Fire Insurance Co., Ltd.	14,010	1.49
Nippon Life Insurance Company	13,614	1.44

Stock Price Range & Trading Volume (Tokyo Stock Exchange)



"K" Line's Websites

In addition to this report, more information is available on "K" Line's website, including the Charter of Conduct for "K" Line Group Companies and environmental data.



Corporate Website

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

Investor Relations

http://www.kline.co.jp/en/ir/index.html

This page offers IR materials, including financial highlights and reports, as well as IR news and other information.

CSR

http://www.kline.co.jp/en/csr/index.html

This page offers more detailed social and environmental information as well as specific ESG-related data.

About This Report

■ Reporting Period

Fiscal 2013 (April 1, 2013–March 31, 2014)

However, the report also includes some developments after April 2014.

■ Scope of Reporting

In principle, this report covers the activities and data of Kawasaki Kisen Kaisha, Ltd. and its subsidiaries and affiliates, except where otherwise noted.

■ Guidelines Referred To

- GRI Sustainability Reporting Guidelines Version 3.1
- ISO 26000
- Environmental Reporting Guidelines 2012, The Ministry of the Environment of Japan
- Environmental Accounting Guidelines 2005, The Ministry of the Environment of Japan

■ Date of Issue

September 2014

■ For Inquiries:

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Cautionary Statement

We would like to advise you that some forward-looking plans, prospects, and strategies, etc. written in this Report that are not historical facts have the possibility of including risk and uncertainties caused by future changes of surrounding circumstances. We would appreciate your understanding that actual results may differ from plans, prospects and strategies, etc.

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

E-Book
"K" LINE REPORT 2014 is also available in e-book format.
http://www.kline.co.jp/en/ir/library/annual/index.html

Consideration for the Environment

MIX
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VEGETABLE OIL INK

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