"K" LINE

Annual Report 2008

for the year ended March 31, 2008

Corporate Principles

The basic principles of “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 in all corners of the world while being able to continue to grow globally with sustainability,
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.

Charter of Conduct: “K” Line Group Companies

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

1. Human rights
   The “K” Line Group will consistently respect human rights and well consider personality, individuality and diversity of its corporate members and improve work safety and conditions to offer them comfort and affluence.
2. Compliance to the Principles of Corporate Ethics
   The “K” Line Group promises to comply with applicable laws, ordinances, rules and spirit of the international community and conduct its corporate activities through fair, transparent and free competition.
3. Trustworthy company group
   “K” Line Group continues to pay special attention to safety in navigation, achieving customer satisfaction and garnering trust from the community by providing safe and beneficial services.
4. Environmental efforts
   The “K” Line Group recognizes that global environmental efforts are a key issue for all of humanity and that they are essential both in business activities and existence of the company and therefore we are committed to a voluntary and proactive approach to such issues to protect and preserve the environment.
5. Disclosure of corporate information and communication with society
   The “K” Line Group will protect personal information, properly manage corporate information and disclose corporate information timely and appropriately, widely promoting bidirectional communication with society including shareholders.
6. Contribution to society
   The “K” Line Group as a Good Corporate Citizen will make ongoing efforts to contribute to social development and improvement and support employee’s voluntary participation in such activities.
7. Harmony in the international society
   The “K” Line Group will contribute to development of international society in pursuance of its business pertaining to international logistics and related businesses, respecting each country’s culture and customs.
8. Confront anti-social forces
   The “K” Line Group will resolutely confront anti-social forces or organizations which may threaten social order and public safety.

The management of each “K” Line Group Company recognizes that it is their role to realize the spirit of the Charter and to set the pace that is to be followed by every employee in their company as well as by business partners.
In the event of any incidents in breach of this Charter, the management of the respective “K” Line Group member company will demonstrate decisiveness to resolve the problem(s), conduct a thorough investigation to determine the cause and to take preventative measures. Additionally, such management will expeditiously and accurately release information and fulfill their accountability to society.

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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.

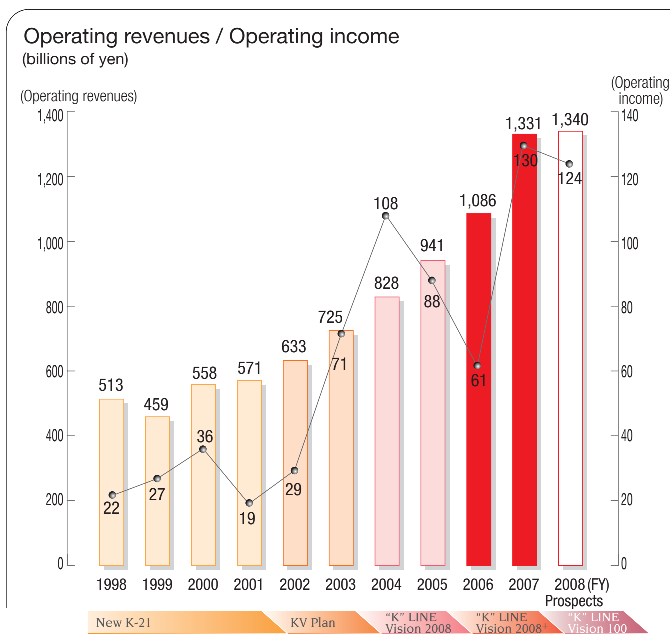
Financial Highlights

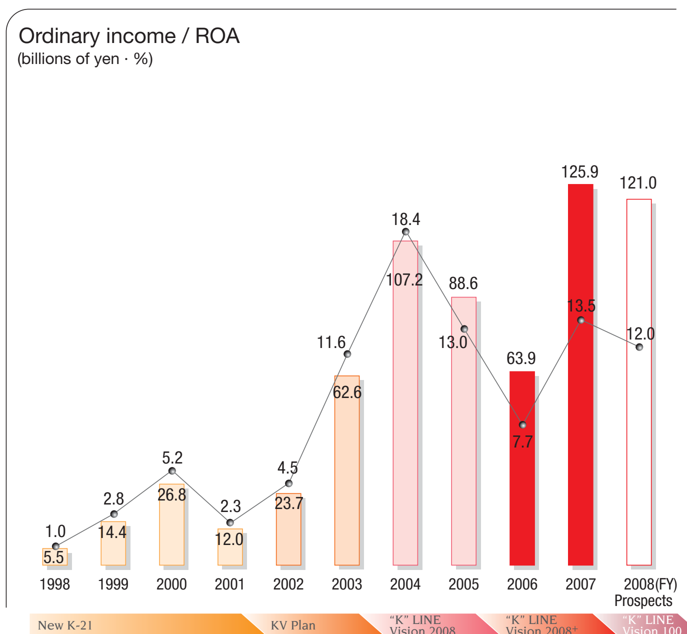
Kawasaki Kisen Kaisha, Ltd.
and Consolidated subsidiaries
Years ended March 31

	New K-21				KV Plan	
	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003
Operating revenues	¥513,100	¥458,693	¥557,869	¥571,014	¥632,725	¥724,667
Operating income	21,508	26,817	36,009	19,049	29,282	70,534
Ordinary income*1	5,494	14,358	26,804	11,968	23,672	62,564
Net income	1,596	6,843	1,948	4,768	10,373	33,196
Net assets	68,607	74,132	68,647	77,716	82,040	121,006
ROE (%)	2.3	9.6	2.7	6.5	13.0	32.7
ROA (%)	1.0	2.8	5.2	2.3	4.5	11.6
DER (times)	5.35	4.70	4.83	4.32	3.74	2.33
Total assets	522,499	514,802	513,797	533,295	515,825	559,135
Per share of common stock (yen)						
Net income	2.73	11.68	3.28	8.03	17.24	55.71
Net assets	117.23	125.01	115.61	130.88	138.29	204.37
Cash dividends applicable to the year	3.00	4.00	5.00	3.00	5.00	10.00
Employees						
Marine transportation	—	1,256	1,180	1,133	991	1,000
Logistics/Harbor transportation	—	3,601	3,911	4,066	4,166	4,212
Other	—	686	716	859	856	876
Total	—	5,543	5,807	6,058	6,013	6,088

Notes: 1. Unless otherwise stated, above figures are all in millions of yen.
2. With the exception of fiscal 2006, amounts posted under 'shareholders' equity' (calculated using the previous accounting standards) are employed for 'net assets.'
3. The U.S. dollar amounts are converted from the yen amounts at ¥100.19 = U.S.$1, the exchange rate prevailing on March 31, 2008.

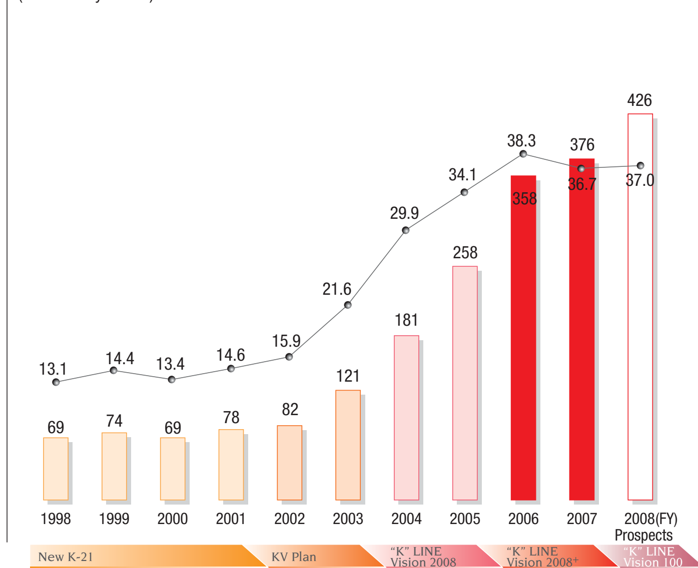
*1: Ordinary income is income before income taxes and extra-ordinary items.



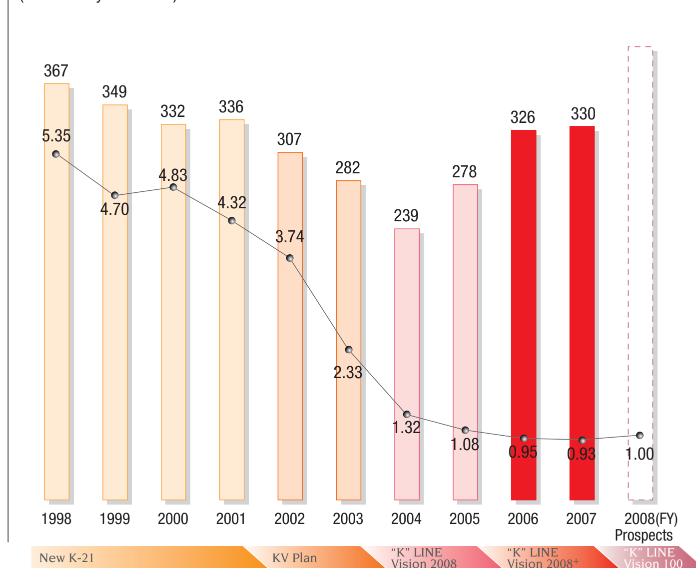


"K" LINE Vision 2008		"K" LINE Vision 2008+			"K" LINE Vision 100	
FY2004	FY2005	FY2006	FY2007 Results	Thousands of U.S. dollars FY2007	FY2008 Prospects	
¥828,444	¥940,819	¥1,085,539	¥1,331,048	$13,285,239	¥1,340,000	Operating revenues
108,054	87,976	61,357	129,649	1,294,031	124,000	Operating income
107,235	88,573	63,928	125,868	1,256,290	121,000	Ordinary income*1
59,853	62,424	51,514	83,012	828,541	78,000	Net income
181,276	257,810	357,625	376,277	3,755,636	426,000*2	Net assets
39.6	28.4	17.1	23.7			ROE (%)
18.4	13.0	7.7	13.5		12.0	ROA (%)
1.32	1.08	0.95	0.93		1.00	DER (times)
605,331	757,040	900,439	968,630	9,667,928		Total assets
				(U.S. dollars)		**Per share of common stock** (yen)
100.70	104.89	86.67	131.36	1.31	122.44	Net income
306.06	435.19	556.55	558.46	5.57		Net assets
16.50	18.00	18.00	26.00	0.26	27.00	Cash dividends applicable to the year
						Employees
885	898	961	1,041			Marine transportation
4,412	4,986	5,190	5,522			Logistics/Harbor transportation
929	943	890	1,052			Other
6,226	6,827	7,041	7,615			Total

*2: The prospective amount of shareholders' equity



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



DER : Interest-bearing liabilities / Shareholders' equity

To Our Stakeholders

President and CEO Hiroyuki Maekawa

Sales and earnings hit record highs

In fiscal 2007, despite a further increase in expenses due to the surge in fuel oil prices since previous fiscal year, the drybulk market reached record highs, and strong cargo movements in the containership and car carrier business drove strong growth in liftings. A generally good performance was also recorded in energy and resource transportation (oil tankers and LNG carriers). As a result, operating revenues reached ¥1,331,048 million on a consolidated basis, operating income ¥129,649 million, ordinary income ¥125,868 million, and net income ¥83,012 million — in each case a record high.

New Midterm Management Plan "K" LINE Vision 100

In fiscal 2006, we launched our midterm management plan "K" LINE Vision 2008+ with "sustainable growth and establishment of a stable profitability structure" as its theme. During the reporting period, we achieved our final-year (fiscal 2008) targets a year early, raising the possibility of posting results that meet our putative targets for the middle years of the 2010s. In light of these developments, we reviewed the plan, and established "K" LINE Vision 100 as our new midterm management plan in April 2008. This new plan brings together business strategies for the four years from fiscal 2008 to fiscal 2011 in advance of the 100th anniversary of the founding of the Company in 2019. The plan addresses five management efforts under a theme of "synergy for all and sustainable growth" in partnership with our stakeholders. For more details of the "K" LINE Vision 100, please see pages 10 to 13.

The entire "K" Line group will make a concerted effort to achieve the goals and numerical targets in the new management plan.

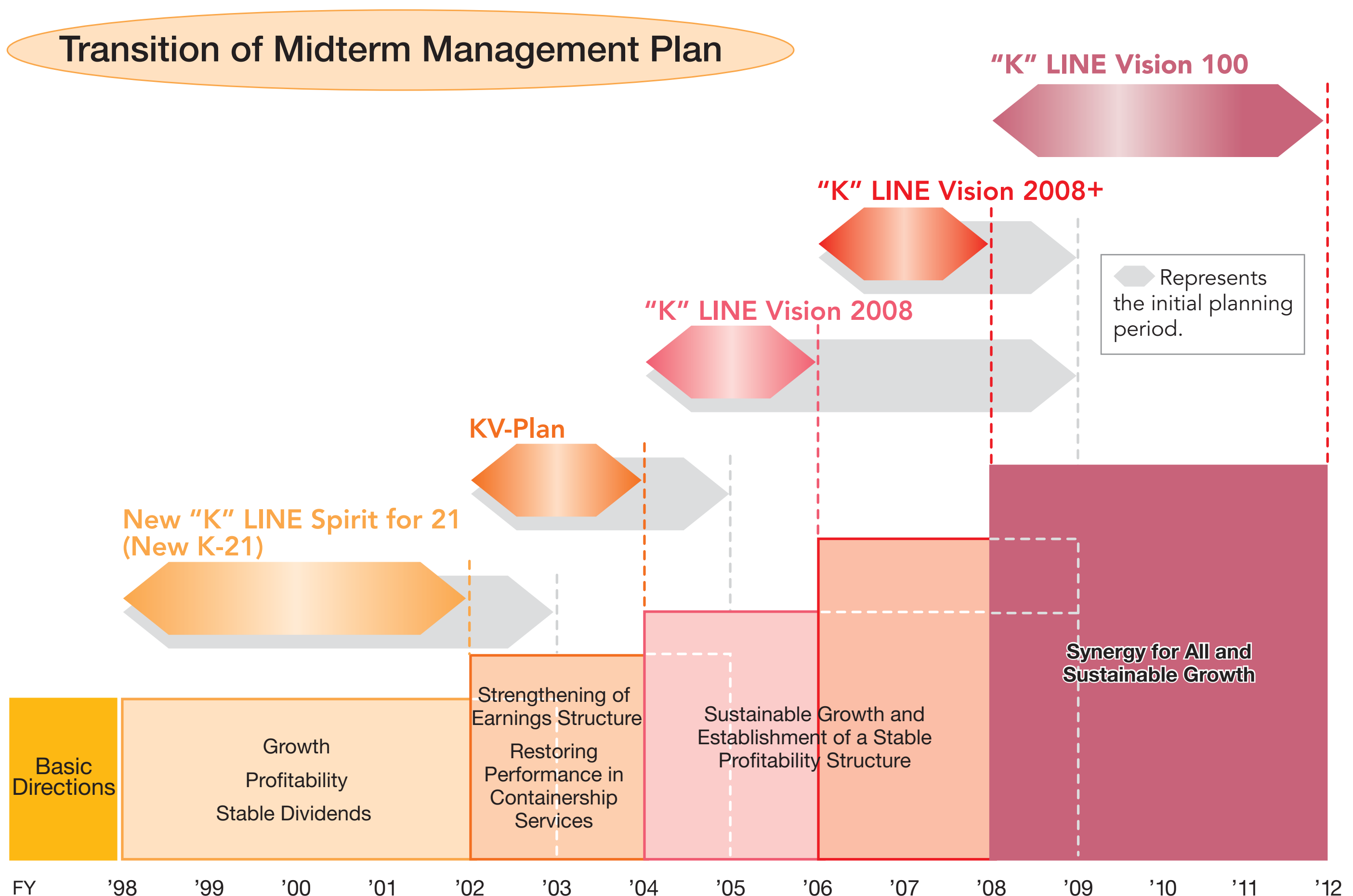
I hope we can count on the future support and understanding of all stakeholders in these endeavors.

Transition of our Midterm Management Plan

The “K” LINE spirit that is rooted in Kawasaki Kisen’s own spirit and culture emanates from the ideals of our founders and the process of overcoming the numerous challenges we have faced over the years. It is based on this spirit that we have developed our business, unfettered by precedent or custom, constantly looking for ways to start afresh, open-minded and unafraid of failure, always ready to challenge the unknown, both aggressively and daringly.

Having now begun to emerge from the turbulent period of internationalization and the restructuring of the marine transportation industry during the latter half of the 1990s when Japan’s economic system started meeting global standards, we are finally able to look forward to continue paying a stable dividend. After a decade of continued steady progress in pursuit of our unerring vision, we can now report, notwithstanding dramatic changes in the business environment, having achieved record fiscal 2007 revenues and income. In April 2008 we also established “K” LINE Vision 100, a new four-year midterm management plan covering through March 2012, and are now launching initiatives targeting 2019, the Centennial anniversary of our Company.

Shown below is a review of our responses over the past decade to the changes in the business environment and the sustainable growth of the “K” Line Group.



New "K" LINE Spirit for 21 (New K-21)

April 1998 through March 2002

While Japan's economic system and corporate management were continuing their global shift, we launched New K-21, a five-year management plan built on the fundamental policy of emphasizing profitability as well as the Company's growth. It seeks long-term objectives towards 21st century such as "continued stable dividend distribution" and "establishment of a corporate group to carry out customer-oriented and global-extended logistics business centered on the marine transportation business."

Two years into the plan, performance had improved beyond initial expectations, but major changes in the business environment led us to revise the plan.

In fiscal 2000, the third year of the plan, we turned in the best performance in our history. The major slowdown in the world economy that followed, however, resulted in more severe deterioration in performance than expected, with no prospects for short-term recovery. To enable us to deal with the dramatic changes in the economic environment without delay, the plan was completed as of the business year ending March 2002, one year early.

1998 | 1999 | 2000 | 2001 | 2002

Basic Principle

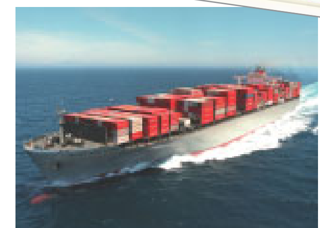
Growth, Profitability and Continued Stable Dividends

- Press ahead with globalization of management
- Strengthen group management
- Invigorate the organization
- Promote marine safety
- Preserve the environment
  (This had been included in marine safety but was separated as a discrete item when the New K-21 plan was revised in July 2000.)

Major Accomplishments

Finalized building of 13 new 5,500-TEU containerships

- Established a new performance-based human resources system (April 2001)
- Developed "K" Line Group Environmental Policy (May 2001) and acquired ISO 14001 certification (March 2002)
- Established "K" Line Pte Ltd in Singapore as one element for globalization of management (July 2001)
- Established total logistics service company "K" Logistics Corp. (October 2001)
- Architected IT system in three major regions (November 2001)
- Established "K" Line Accounting and Finance Co., Ltd. (KAF) to centralize accounting for the "K" Line Group (November 2001)



Golden Gate Bridge,
a 5,500-TEU containership

KV-Plan

April 2002 through March 2004

The New K-21 plan initiated in fiscal 1998 succeeded in making us a much healthier company, but performance started to decline in 2001 due to a sharp drop in container freight rates. We therefore promulgated a three-year management plan named KV-Plan, calling for the rapid construction of a more robust corporate financial structure that would not be influenced by fluctuations in market rates. Under the Cost Slash 300 campaign (referring to ¥30 billion in cost reductions over three years), we set out to further improve our financial status by reducing debt and emphasizing cash flow management. We also undertook initiatives to strengthen our sales force by globalization of business in local-oriented manner; to continue one assignment of the previous plan which was to bolster the logistics services; and to address marine safety and environmental issues. As a result, the initial plan targets were achieved one year ahead of schedule and with a successful V-shaped rebound, the plan was completed.

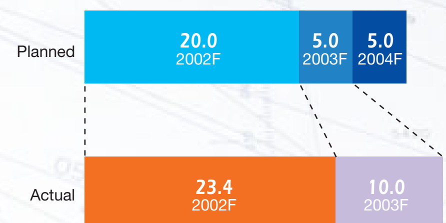
2002 — 2003 — 2004

Basic Principle

Improve financial status, improve performance in containership services

- Improve financial health further by reducing costs and utilizing IT
- Promote globalization in local-oriented manner and pursue synergies among business groups
- Strengthen commitment to logistics services
- Pursue new marine transportation technologies, emphasize safety in shipping operations, bolster environmental initiatives
- Strengthen corporate governance for greater management transparency and efficiency

"Cost Slash 300"
Cost curtailed plan and results (Billions of yen)



Major Accomplishments

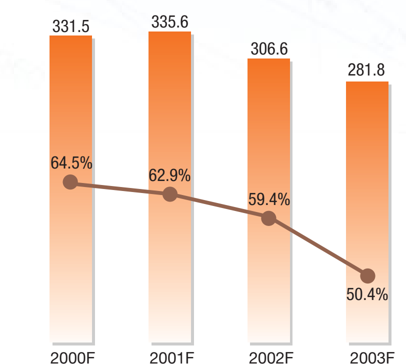
Achieved three-year target of ¥30 billion in cost reductions in just two years

◎Set up Bulk Carrier/LNG Carrier Division at "K" Line (Europe) Limited to serve as the local sales hub for the EU region (May 2002)

◎Established "K" LINE TOTAL LOGISTICS, LLC (KLTL) as the Group's flagship brand for logistics services (May 2002)

◎Issued our Social & Environmental Report incorporating environmental and safety initiatives (August 2002)

◎Established "K" Line (Japan) Ltd. to bolster sales force for our containership services (October 2002)



“K” LINE Vision 2008

April 2004 through March 2006

With the successful V-shape recovery achieved under the previous management plan, we launched a management plan known as “K” LINE Vision 2008 covering the five-year period from fiscal 2004 through fiscal 2008. This was designed to consolidate sustainable growth and stable profitability, also positioning the period as one of preparation for the huge strides forward after 2009, the 90th anniversary of the Company.

This plan aimed for a large-scale fleet upgrade plan of 181 vessels equivalent to capital investment of ¥730 billion as well as for stable growth with establishment of a corporate base as a Group by a consistently growing stable profit which would increase shareholders’ equity. Despite rapid and frequent changes in the business environment, including structural changes in the world economy, notably related to China, also the restructuring of the marine transportation industry, overall financial results for the two fiscal years of 2004 and 2005 reached the levels targeted for 2008, thanks to a cost-competitive fleet upgrade, higher service quality levels and efforts to expand our business in new growth markets. In order to deal with soaring bunker prices and other dramatic changes in the business environment, we decided to revise the plan.

2004 | 2005 | 2006

Basic Principle

Sustainable Growth and Establishment of a Stable Profitability Structure

- To ensure stable profitability structure through reinforcing business base
- To create high-level, refined and more matured culture of the group companies with materialization of dreams and upgrading of the “K” LINE Brand
- To strengthen corporate governance and response to risk management

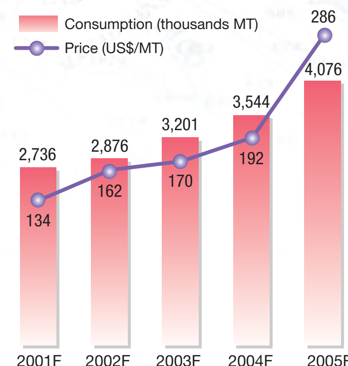
Major Accomplishments

◉ Achieved plan’s first-year income targets, helped by favorable business conditions

(Billions of yen)

	FY2004 actual	FY2005 actual	“K” LINE Vision 2008 FY2008 planned
Operating Revenues	828.4	940.8	870.0
Operating Income	108.1	88.0	88.0
Ordinary Income	107.2	88.6	87.0
Net Income	59.9	62.4	55.0
ROE	39.6%	28.4%	17.0%
Interest- bearing Liabilities	239.2	278.2	260.0
Shareholder’s Equity	181.3	257.8	340.0
Equity Ratio	29.9%	34.1%	43.0%
DER (Times)	1.32	1.08	0.77
Capital Investment in Vessels	34.4	83.3	135.0
Fleet Scale	390	407	461

Fuel oil price



◎ Established the Internal Audit Office to enhance corporate governance (July 2004)

◎ Set up the Bulk Carrier Division at K Line (China) Ltd. in Shanghai to strengthen the dry bulk services business in China (February 2006)

“K” LINE Vision 2008+

April 2006 through March 2008

After two years had passed under the previous “K” LINE Vision 2008 plan, business conditions surrounding the marine transportation industry underwent extraordinary changes, including soaring fuel prices and a restructuring of the industry through mergers and acquisitions. In response we reviewed the plan for the remaining three years and re-issued it in the form of the new “K” LINE Vision 2008+. Under this plan, we pledged our continued commitment to “sustainable growth and the establishment of a stable profitability structure”, but also set forth what “K” LINE and its group should be in the mid-2010’s, to guide us on this new quest starting in 2006 as a fresh beginning.

Fuel prices and ship costs have risen remarkably despite a sharp increase in seaborne trade and an unprecedented rise in dry bulk market rates. Even under such a dramatic change in the business environment, we achieved the levels set for the final plan year, fiscal 2008, one year ahead of schedule, so we decided to complete the plan and thus move on to new objectives.

2006 — 2007 — 2008

Basic Principle

Sustainable Growth and Establishment of a Stable Profitability Structure

- Measures to support systematic expansion of business scale
  - Fleet upgrading plan achieving maximum investment efficiency
  - Ship operation administration structure supporting safety in navigation
  - Developing into the best and strongest global management organization
  - Re-construction of system and organization for flexible and quick decision-making
- Response to changes in business environments
  - CSR (Corporate Social Responsibility) and environmental measures
  - Reform of cost structure
  - Risk management

Heavy Lift Services

Major Accomplishments

- Announced “K” Line’s ship management structure to sustain safety and quality (May 2006)
- Established the CSR & Environmental Committee (May 2006)
- Speeded up decision making and execution of duties through introduction of the Executive Officer System (June 2006)
- Merged “K” Line Air Service, Ltd. and “K” Logistics Corp. into newly-established “K” LINE LOGISTICS, LTD., to put logistics services on a stronger footing (July 2006)
- Defined the Code of Conduct for Group companies (December 2006)
- Established the Logistics Advisory Committee (January 2007)
- **Re-entered heavy lift services (April 2007)**
- Established our representative office in India to strengthen dry bulk and car carrier services (July 2007)
- **In line with our in-house “K” Line Maritime Academy (KLMA) concept, opened new training facilities in India and the Philippines (June 2007 and February 2008, respectively)**

Filipino President Arroyo and President Maekawa at the opening ceremony of the new training facility in the Philippines

"K" LINE Vision 100

Vision for our 100th anniversary and our fiscal 2008-2011 midterm management plan

In addition to our plan for the three years between April 2006 and March 2009, the Company compiled "K" LINE Vision 2008+, a roadmap for achieving still better performance in the middle years of the 2010s. The Group has been making a concerted effort to meet the targets in this plan.

Growth in marine cargo movements has far exceeded initial expectations, driven by the high growth rates of China and other major emerging economies. While the drybulk market has reached unprecedented highs, there have also been major changes in the marine cargo operating environment, including hikes in fuel oil prices and in the cost of new buildings, as well as rising ship operation expenses. In fiscal 2007 we achieved our targets for fiscal 2008, the last year of the management plan, one year early, raising the possibility of posting results that meet our putative targets for the middle years of the 2010s. This prompted us to review the plan, and in April 2008, we established a new midterm management plan called "K" LINE Vision 100.

In "K" LINE Vision 100, our major theme is "synergy for all and sustainable growth." It is based on our belief that sustainable growth can only come from relations of mutual benefit with all stakeholders. In the run-up to 2019, the 100th anniversary of our founding, we are developing five management efforts described on the following pages, and compiling business strategies division-by-division. Our business and financial targets for the period fiscal 2008-2011 are as follows:

■ Performance/Financial targets

(Billions of Yen)

	FY2007 actual	FY2008 (planned)	FY2009 (planned)	FY2010 (planned)	FY2011 (planned)
Operating revenues	1,331.0	1,340.0	1,450.0	1,600.0	1,750.0
Ordinary income	125.9	121.0	135.0	145.0	160.0
Net income	83.0	78.0	85.0	95.0	105.0
ROA	13%	12%			10% or higher
Shareholder's equity	355.8	426.0			680.0 or higher
Equity ratio	37%	37%			40% or higher
DER (Times)	0.93	1.00			0.85 or lower
Interest-bearing debt/ operating CF	2.3	4.2			3.5 or lower
Payout ratio	20%	22%			25%

	Mid-2010's	2019 100th-Anniversary
Operating revenues	Operating revenues 2.2 trillion yen	Operating revenues 3 trillion yen
Payout ratio	30%	

■ Assumptions of this plan

	FY2007 actual	FY2008 (planned)	FY2009 (planned)	FY2010 (planned)	FY2011 (planned)
Baltic Dry Index	7,770	6,900	5,500	4,100	3,500
CAPE (US$/day)	125,000	100,000	80,000	60,000	50,000
Panamax (US$/day)	60,000	60,000	50,000	30,000	25,000
Handymax (US$/day)	48,000	50,000	40,000	25,000	25,000
VLCC (WS)	95	100	100	100	110
Exchange rate (YEN/US$)	115	100			
Fuel oil price (US$/MT)	407	520 (Oil price: US$100/bbl at Dubai)			

Baltic Dry Index:
Freight rate index for ocean-going bulk carriers, as calculated by the Baltic Exchange in London. The index uses 1,000 as the freight rate for April 1, 1985.

Cape-size:
Dry bulk carriers of over 150,000 dwt tons.

Panamax-size:
Dry bulk carriers of 60,000-70,000 dwt tons for transiting the Panama Canal.

Handymax-size:
Multi-purpose dry bulk carriers of 18,000 to 50,000 dwt tons with self-loading facilities capable of cargo loading and unloading at ports that do not have modern loading facilities.

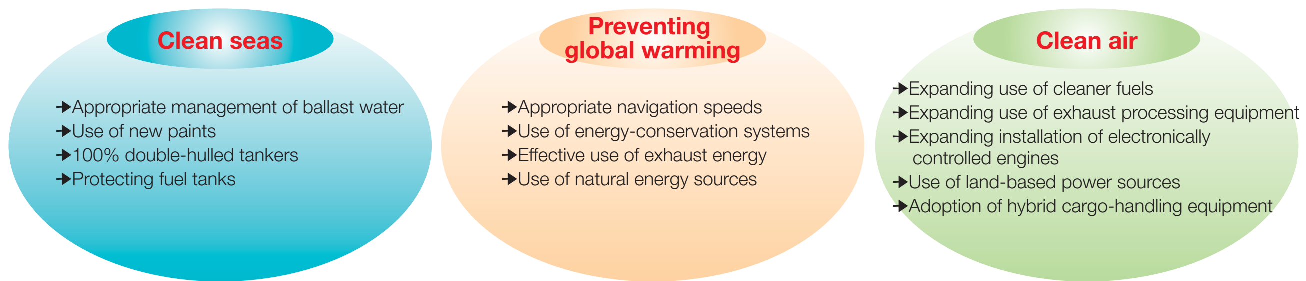
VLCC:
Very Large Crude oil Carriers: 200,000 to 300,000 dwt ton tankers.

Synergy for All and Sustainable Growth: Five management efforts

1 Activities to Promote Environmental Protection

For the middle years of the 2010s, we have set ourselves the environmental target of reducing emissions of CO2, SOx (sulphur oxides) and NOx (nitrogen oxides) per ton-mile by 10% from fiscal 2006 levels. We will cut emission volumes by as much as is feasible through use of both hardware and software such as energy-saving systems in ship operation and shore-based cargo-handling operations and transportation, effective capture of emitted energy, as well as rigorous enforcement of optimal speeds on shipping routes.

From July 2008 we split off our Environment Team from the Marine Safety Administration Group and upgraded it to the Environment Management Division to oversee all Groupwide efforts to achieve environmental targets.

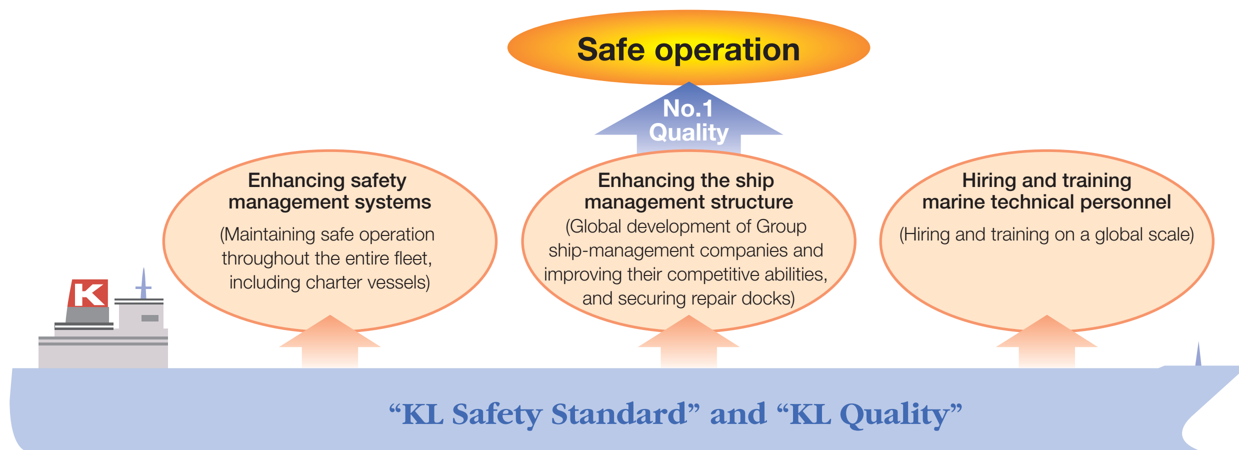


Making every effort toward improving the earth's environment

2 Stable and Safe Ship Operation Administration Structure

We continue to regard safety in ship navigation and cargo operations as a matter of the highest priority. Using global management systems, we have adopted the in-house KL Safety Standard for safety in ship navigation and cargo operations, drawing on its own expertise in this area. By building on a single quality standard ("K" Line quality) and beefing up ship inspections by marine superintendents, we are raising quality standards for vessels in operation at sea and at port and promoting safety and navigation.

In addition, by encouraging information-sharing among the whole Group using the KL Safety network, we are strengthening shore-based support systems and upgrading safety management systems. We are improving ship management through expansion of overseas bases for Group ship management companies, greater focus on ship categories and use of high-quality crews and highly experienced ship-management supervisors. We are strengthening crew recruitment and training as we expand our fleets by creating a broader role for "K" Line Maritime Academy and providing attractive workplaces.



3 Borderless Management through the Best and Strongest Organization

As the Group's operating activities become increasingly globalized, we are speeding up our shift to "borderless" management in which there are no borders among countries and group companies. All employees involved in businesses around the world adopt the "K" Line Standard in this type of management. To raise comprehensive capabilities as a Group through cooperation and personnel exchanges between enterprises of the Group, we are fostering global human resources and reforming operations. Shared visions and clarification of the role of each individual, optimized matching of staff and duties, and fair treatment for all will motivate Group employees around the world and create energized workplaces.

By getting these things right, "K" Line Group seeks cost competitiveness, technological capabilities and high-quality services.

The "K" Line University seminar is held for overseas staff working at local subsidiaries and at our units in Japan, U.S.A. and U.K.

4 Proper Allocation of Strategic Investment and Management Resources

While continuing to make aggressive investments in the fundamentals of established businesses, we are developing new businesses. We will make additional investments as necessary to rapidly foster strategic businesses in areas such as heavy lifter and offshore vessels, businesses which we have recently entered. We are taking care to strike a balance between investments for generation of stable profit and "seed" investments to generate new revenue streams.

Fleet improvement plans (FY2008- FY2011)

(Unit: Vessels)

	End of FY2007	Fleet improvement plans (investing approximately 1.18 trillion yen)					End of FY2011*	Mid-2010's	100th anniv. (End of 2019)
		FY2008	FY2009	FY2010	FY2011	Total			
Containerships	99	4	15	15	9	43	132	Approx. 750-ship fleet	Approx. 900-ship fleet
Dry Bulk Carriers	169	13	16	16	20	65	225		
Car Carriers	102	4	10	8	5	27	106		
LNG Carriers	34	14	1	0	0	15	48		
Oil Tankers	28	4	5	0	4	13	45		
Heavy Lift Vessels	15	3	1	3	0	7	18		
Offshore Vessels	0	0	0	3	3	6	6		
Short Sea/RORO Vessels	52	2	0	1	1	4	60		
Total	499	44	48	46	42	180	640		

* Figures represent targets, taking into consideration a decrease due to sale of vessels or termination of charter contracts.

5 Improvement of Corporate Value and Complete Risk Management

We aim for well-balanced sustainable growth through business expansion that emphasizes profitability and efficient use of capital. At the same time, we are taking measures to avoid or prevent potential risks. These include market, foreign exchange fluctuation, personnel, safety/environment and disaster risks. Taking every precaution when such risks become obvious, we will carry out thorough risk management.

Our goal is not only a healthy financial position. We also aim to improve corporate value through rigorous management that includes identifying risks not described on the balance sheet.

Business Strategy

We foresee sustained growth in demand for marine cargo services due to an increasing world population, deepening division of labor (with production centered in emerging countries), growing purchasing power in the emerging economies and resource-rich countries, and the increasing tendency of producers and consumers of resources and grain to be remotely located from one another. Against this backdrop, we have drawn up the following four-year business strategies that each of our businesses will undertake to achieve their targets.

Containership Services – Sustainable Business Growth and Efficient Business Management

We aim to expand service networks for example by increasing "north-south" routes connecting advanced and emerging economies, to respond to the increasing globalization of our customers on the back of increased business with newly emerging markets.

To maintain and strengthen competitiveness in world markets, we will continue to upgrade our fleet and container terminals, operating our businesses with an emphasis on environmental protection and safety in ship navigation and transportation operations.

Dry Bulk Carrier Services – Top-Class Worldwide with Cape-size and Post-Panamax Vessels

We are cultivating new customers and expanding customer bases by strengthening overseas business bases in London, Singapore, Shanghai, India and South Korea. We will reinforce the structure of stable profitability, increasing the proportion of contracts of medium- and long-term duration. By providing high-quality cargo services to meet diversifying customer needs and aggressively expanding fleets, we aim to join the global leaders in quality and volume in the Cape-size and Post-Panamax bulkers.

Cape-size: Dry bulk carriers of over 150,000 dwt tons.
Post-Panamax-size: Bulk carriers between 77,000 and 90,000 dwt tons, usually used for thermal coal shipments.

Car Carrier Services offering World-Leading Transportation Quality and Full Route Network

By observing safety and quality management rules and promoting global environmental protection, we provide world-leading high-quality services that win the trust of customers. We aim to expand our route network as our business grows in line with rising demand on existing trade as well as from new customers in emerging economies such as China, India and Russia.

Energy Transportation and Tanker Services – Top-Class Worldwide with Safe Transportation

We offer safe and high quality services to maximize brand value through being environment-friendly, responding to the increasing shift towards clean energy and the defacto phase out of single-hull tankers due to oil-pollution concerns. In July 2008 we established the Energy Transportation Business Development Group to draw up strategic business expansion plans at an early date. To generate synergies through a multi-faceted business model, we are progressively entering new business fields.

New business fields: Compressed natural gas (CNG) transportation; LNG-Floating Production Storage and Offloading (LNG-FPSO) vessels; Floating, Storage and Regasification Unit (FSRU) vessels; chemical tankers; offshore support vessels; drilling ships; etc.

Heavy Lift and Offshore Support Business – Upgrading our fleet with the most modern heavy lifting equipment

With the expected construction of new petrochemical plants in oil-producing nations and nuclear power plants in the United States and other countries, we expect a steady increase in demand for transportation by ultra-heavy lifters. In the four years from 2008, we plan to introduce seven of the latest heavy lifters, putting us among world leaders in heavy-lift fleets. We also plan to cultivate new demand through development of services that create synergies with offshore support businesses, an area we plan to enter in 2010.

Logistics Business – Mobility and High-Quality Services

We expect intensifying competition among logistics companies due to the rapid evolution of supply-chain-management-related and other demands. We also expect to see greater diversification of customer needs due to increasing demands for green logistics. We supply tailor-made logistics services for individual customers through locally rooted sales models based on solution proposals. By quickly strengthening fundamentals through business and capital alliances, we aim to create a total logistics Group centered on "K" Line Logistics, Ltd.

Interview with the President

The management of "K" Line recently announced their vision of the company in 2019, its 100th anniversary year, under the name "K" LINE Vision 100 in view of substantial change of business environment, which is also the company's midterm management plan from the period FY2008 to FY2011. We asked "K" Line President Hiroyuki Maekawa to tell us his hopes regarding the current midterm plan, and to describe "K" Line's policies and strategies for the future, including plans to enhance shareholder value.

Q Could you tell the readers your expectations regarding the "K" LINE Vision 100 midterm business plan?

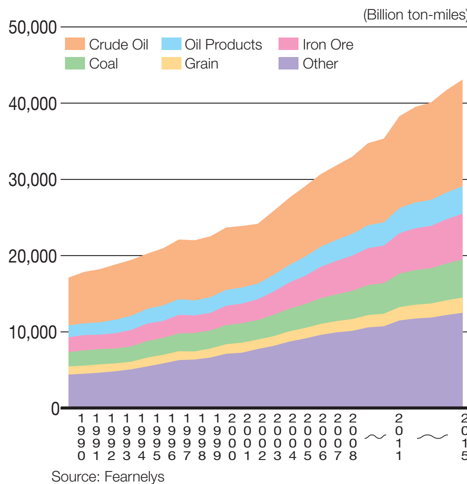
As a shipping company, the entire world is our business partner. To be successful on this large stage, we must form productive partnerships with a wide range of people who have different priorities and/or different value systems. To become the shipping company of first choice out of all our competitors, we must first ensure safety in ship navigation and cargo operations. And to be able to do so, we must create relationships of trust with our business partners, fully utilizing our highly qualified personnel.

Our stakeholders include not only our customers, employees and shareholders, but also our business partners and members of society as a whole. We aim to realize mutual benefits by building partnerships based on mutual trust. This, in turn, will make possible the continued growth of the Company. For this reason we have selected "Synergy for All and Sustainable Growth" as the theme of our current midterm management plan.

In 2019 we will celebrate the 100th anniversary of the establishment of "K" Line, and to mark this we have set an annual sales target of ¥3 trillion whereas the Company's sales topped the ¥1 trillion mark for the first time in fiscal 2006. In retrospect, "K" Line's ordinary income first topped ¥10 billion in 1995. In a mere ten years from 1995 the Company's profit increased more than 10-fold. We did not choose this ¥3 trillion target simply because it was a nice round number; on the contrary, it reflects our conviction that if the measures set out in our midterm plan are properly implemented, the Company will make sure progress toward the ¥3 trillion goal. We are now working to move steadily closer to this new target.

What differences are there between the present business environment and past boom periods?

Trends in world seaborne trade volume



Source: Fearnelys

Previously the United States was the sole locomotive of the global economy, but the structure of the world economy has been changing. In recent years, emerging economies in VISTA* in addition to BRICs* have made big leaps. The progress made by India has been particularly impressive. Back when China alone was emerging as a major powerhouse, many observers were skeptical that a significant structural change was occurring in the world economic order. Now however a large number of emerging economies and resource-rich countries are accumulating increasing amounts of capital, and it is becoming clear to everyone that the global economy is being pulled not by one locomotive, but many.

Up to now, the experience of the shipping industry has been that business is good only for 3 years out of ten years, at best. As long as world business activities are not disrupted by a major conflict, we can expect the global economy to continue growing overall, and the volume of marine cargo movement will keep growing at an even faster pace over the medium-to-long term.

* VISTA: Vietnam, Indonesia, South Africa, Turkey and Argentina
BRICs: Brazil, Russia, India and China

Could you explain the five main management efforts you are pursuing as part of the "K" LINE Vision 100?

"K" LINE Vision 100
Five Management Issues

Activities to promote environmental protection

Stable and safe ship operation administration structure

Borderless Management Through the Best and Strongest Organization

Strategic investment and proper allocation of management resources

Improvement of corporate value and complete risk management

Our five main management efforts under the plan are: Activities to promote environmental protection; Stable and safe ship operation administration structure; Borderless management through the best and strongest organization; Strategic investment and proper allocation of management resources; Improvement of corporate value and complete risk management.

The foundation of all these efforts is the prime theme of the plan expressed in our slogan "Synergy for All and Sustainable Growth." Today the protection of the natural environment has become a matter of concern for everyone on Earth, and it is imperative for us to actively address environmental preservation issues in order to maintain a harmonious relationship with the society of which we are a part. In addition, the primary issue that confronts us is to build a safe ship operation administration structure and to ensure safe ship operation in order to establish a relationship of trust with our customers. In making these goals a reality we would like to raise the level of expertise and capability of our workforce engaged in our business, and offer our customers a world-class service in every region where we operate.

We have also taken a major step toward realizing the sustainable growth and stability of the Company in the future through the creation of a rigorous risk management system. This system ensures the identification of all potential risks to which the Company's operations are exposed, and the deliberation and implementation of appropriate countermeasures.

Q As you have just mentioned, the environment is now a matter of worldwide concern. What specific steps has the "K" Line Group taken with regard to environmental preservation?

For a shipping company such as "K" Line whose business is conducted on the oceans of the world, preservation of the global environment is a matter of the utmost importance, and we have been tackling this issue very seriously. Shipping business is closely bound to awareness of the environmental burden that is caused by our business operations and the need for environmental preservation such as prevention of marine and air pollution.

In 2001 we announced "K" Line Group's Environmental Policy to strengthen environmental preservation activities. In our "K" LINE Vision 100 plan, this issue is also the first of the plan's five major management efforts. We are of course particularly concerned with the global warming problem that is such a serious issue for everyone, and we aim to reduce emissions of carbon dioxide by our vessels to 90% of the fiscal 2006 level (on a g/ton mile basis) by around the mid 2010's. As part of our initiatives to reduce emissions of global warming gases, we have already taken steps such as reducing vessel speeds in the vicinity of Port of Long Beach in California, as well as for our car carriers in Ise Bay and Mikawa Bay in Japan, as this has proven to be effective in reducing emissions. From here onward, we will have to put even more efforts into energy conservation, including adopting the most-fuel-efficient routes and speeds, also installing energy-saving equipment. At the same time, we will be required to participate actively in initiatives to tackle the global warming issue led by the Japanese government and international bodies.

"K" Line participates in the Green Flag campaign supported by the port authority of Long Beach, California, which is aimed at cutting CO_2 emissions by reducing the speeds of vessels approaching or leaving the port. In 2007 "K" Line achieved an annual reduction in CO_2 emissions of approximately 4,000 tons of carbon equivalent. We are No. 1 among the shipping companies whose ships called this port more than 200 times a year.

To facilitate the implementation of such initiatives by strengthening our overall environmental preservation system, in July 2008 we reorganized the Environment Team within our Marine Safety Administration Group as an independent body, the Environment Management Division. Under the lead of this division, we will diligently and swiftly pursue the environmental initiatives set forth in our "K" LINE Vision 100 plan, including steps to retard global warming and bring about cleaner oceans and a cleaner atmosphere.

Q Expanding your fleet would require hiring many new crew members. What steps are you taking to secure a sufficient number of qualified seafarers?

Safety is today's top-priority issue for all the shipping companies. The risk of accidents is increasing because the amount of shipping tonnage in operation is growing. Unless we maintain "K" Line's high safety standards as we expand our operational scale, the Company will not continue to grow. Under the tight demand situation of seafarers, we have focused on how ships should be maintained and managed properly, and how seamen can be recruited and fostered adequately, which are our top priority issues.

We intend to hire qualified seafarers from all over the world, and are currently examining a number of countries as candidates for new "sources of crew supply." We are already conducting training courses for prospective ship crews in some countries with established records in crew hiring. In my opinion, it will be better to nurture crew members in those countries and select candidates to become

Cadets

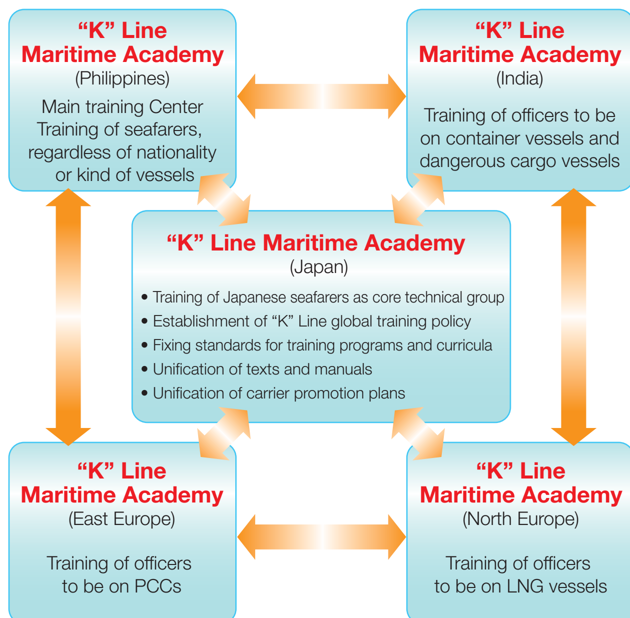
superintendents for the ship management companies. Those who have received thorough training at such institutions can reasonably be expected to meet our safety standards.

In fiscal 2006 we hired approximately 150 cadets to serve aboard the vessels we operate. These crew members hail from a diverse range of countries including the Philippines, India, Bangladesh, China as well as Bulgaria and other Eastern European countries. We are planning to increase the number of cadets to 300 or so in fiscal 2011. We plan to accept qualified cadets from a wider range of training institutes than in the past as we believe that widening our net will raise our chances of hiring the best-qualified seafarers.

Q What kind of training system have you put in place to nurture superior crew members?

In May 2006 we drafted a concrete plan for the "K" Line Maritime Academy (KLMA) that will meet our high standards for recruiting marine technical personnel from all over the world and training them to be the ones on whom the "K" Line Group can rely for its safe vessel operations. In the following year, to give more concrete form to our concept, we completed the KLMA Master Plan that lays out the policies that direct the Academy's training courses as well as "K" Line's basic principles with respect to ship operational safety, environmental protection and health and safety at work. The plan also spells out the roles and functions of our training facilities all over the world, the Group's training concepts and training programs for instructors as well as cadets, plus career paths for marine technical personnel.

We are also actively working to expand our global network of training facilities. In June 2007 we opened KLMA (India) and in February 2008 we carried out a threefold expansion of the scale of our Manila training center, KLMA (Philippines). This facility has the capacity to accept 10,000 trainees per annum of all nationalities for training as cadets. It is expected to play a significant role in raising the overall quality of "K" Line's marine personnel.



Last but not least, we have been vigorously tackling the development of a sufficient staff of instructors to train all these cadets. Although we have extensive experience in training instructors in Japan and the Philippines, we do not have a sufficient number of instructors to implement our plans for expansion of our crew intake. We have therefore put together a set of instructor-instruction schemes in fiscal 2008 that spells out our basic stance on what is required and mandates that we expect our instructors not simply to teach the necessary technical skills but all KLMA instructors who acquire the "K" Line standard must also carry out our unique training program for seafarers.

In this way, we have been actively promoting specific measures to meet our crew training needs as part of our aim of being a company in which our marine technical personnel can pursue their work with feeling of security. By enabling our seafarers

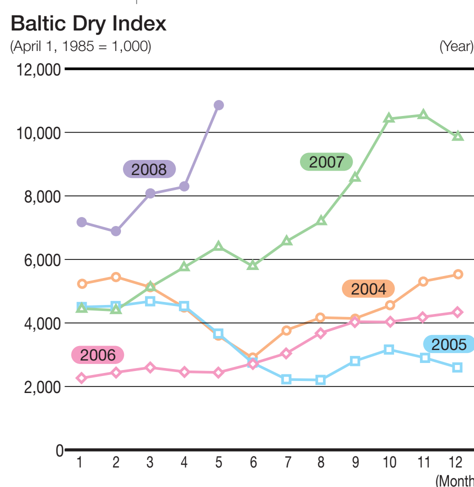
to demonstrate their abilities to the fullest, the Company will grow and improve earnings, which in turn will further motivate them. I think such a win-win situation is ideal for both the Company and seafarers. This is the most vital element for the realization of safe ship operations.

Q Please tell us something about your plans for expanding "K" Line's fleet and other investment strategies.

"K" Line operated 499 vessels as of the end of fiscal 2007, and by the end of FY2011, we will have taken delivery of 180 new vessels. At this pace, we should have around 750 vessels by the mid-2010s. We also project a total of 900 vessels coming in sight by the time we celebrate our Company's 100th anniversary in 2019. We have already ordered almost all the 180 vessels to be delivered for the period of the current midterm business plan and are now currently undertaking the fleet improvement plan in FY2012 onward, holding talks with shipbuilders regarding vessels to be built in the FY2012-13 period.

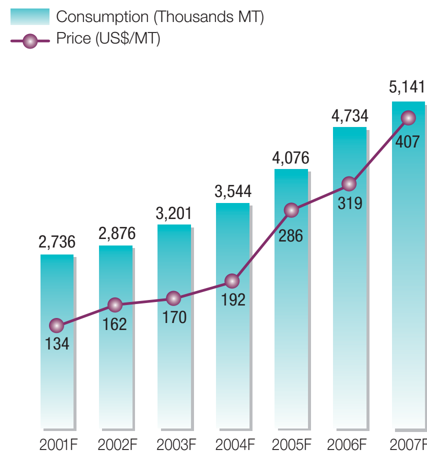
To assure stable profitability we are maintaining our active investment in ships for our existing operations — containerships, car carriers and dry bulk carriers. We aim to capture new demand in the field of transporting energy resources as well. We are also carrying out plans to invest in new businesses such as heavy lifter and offshore support vessels so as to bring them into profit-making business as soon as possible. These investments will be carried out in a well-timed and balanced way by internal financial rules, which include equity ratio at 40% at the minimum, ROA at 8% or more, DER at 95% or less, and a ratio of interest-bearing debt to operating cash flow at 4.5 times or under. (Please also see the section on "K" Line's fleet improvement plan on page 12)

Q Could you give an outline of "K" Line's business performance for fiscal 2007, the prospects for fiscal 2008 and your numerical targets for the period up to fiscal 2011?



In the latter half of fiscal 2007 the U.S. and European financial markets were hit by turmoil stemming from the U.S. subprime loan issue. Despite this, global economies recorded generally favorable performances. Regarding the operating environment for shipping companies, the dry bulk market hit record high levels as a result of a sharp increase in the volume of marine freight to China. Business was also brisk in the fields of containerships, car carriers, LNG carriers and oil tankers. On the negative side, we were faced with increases in various costs, notably a steep rise in fuel prices.

Against this background we continued working to expand our business operations in line with the objectives of our "K" LINE Vision 2008+ midterm management plan. As a result, we achieved our eighth straight year of operating revenue growth on both a consolidated and non-consolidated basis for yet further all-time highs. Operating income, ordinary income and net income, on both a consolidated and non-consolidated basis, also reached record highs. Thanks to this performance, the Company achieved the numerical targets initially set for fiscal



2008 — the final year of the current midterm plan — one year early. Our targets for the mid-2010s are already in sight.

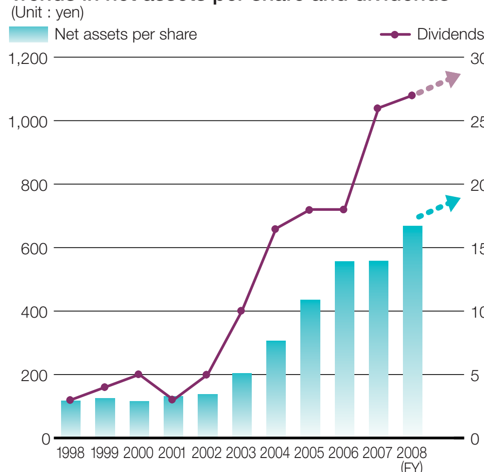
Turning to short-term prospects, despite a long list of potential uncertain factors, including economic trends in the world's major countries, impact of the subprime loan issues on the real economy, strength of the yen against foreign currencies and high prices of crude oil, we expect firm sea freight movements centered on imports by China and other emerging economies. Supply and demand conditions for cargo space should remain stable for the time being.

Under the "K" LINE Vision 100, our current midterm management plan, we have conducted simulations of "K" Line's business performance for each year up to fiscal 2011 on the basis of an assumed exchange rate of ¥100/US$1 and a fuel oil price of US$520 per ton. On this basis we project business performance for fiscal 2008 as follows: operating revenues at ¥1,340 billion, ordinary income at ¥121 billion and net income at ¥78 billion. Compared with the corresponding figures for fiscal 2007, the operating revenue projection is up slightly while the figures for ordinary income and net income are down slightly. In fiscal 2009 and after, we expect the year-on-year comparison to change to an increase in all three items. For fiscal 2011 we see operating revenues at ¥1,750 billion and ordinary income at ¥160 billion. I think sustainable soaring growth in and after fiscal 2009 will assure an improvement in the Company's financial status. Since we drew up our current plan, crude oil prices have continued to rise while on the positive side dry bulk market is also rising sharply, thanks to robust demand. We will make our best efforts to increase our profit for the current fiscal year.

Q Could you explain "K" Line's policy on shareholder return, and in particular your dividend payment plans?

Under our "K" LINE Vision 100 plan, we have placed top priority on optimizing shareholder return. We are therefore aiming for a dividend payout ratio of 30% on the basis of consolidated net income by the mid-2010s. This plan assumes that sufficient retained earnings are put aside to finance the capital investment needed for continuous growth and to ensure a healthy financial position. We will raise our payout ratio gradually with the aim of reaching an optimum level, setting a payout ratio goal of 25% for fiscal 2011 as a midway target.

For fiscal 2008 we will pay an annual dividend of ¥27 per share which will make payout ratio 22-23% compared with 20% which was set as a target in fiscal 2008 for our previous midterm management plan, "K" LINE Vision 2008+.



Special 1 Report

Growth of Customer Segment through Aggressive Expansion into Overseas Markets

Global management is a theme we have responded to in several management plans. We have promoted a decentralization of offices and management so as to be aligned with market diversity around the world, thereby attempting to develop more local-oriented business. In addition, to take better advantage of business opportunities in countries and regions with rapidly growing economies, we are increasingly delegating responsibility to overseas subsidiaries so that they might carry out sales activities that are more deeply rooted in local regions. We also launched a business organization which operates across the boundaries of groups in charge of Dry Bulk business in the headquarters. We are promoting expansion of overseas customer bases, carrying on business regardless of ship's size and cargo.

Seeking local-oriented sales activities

In 2001 we established a new subsidiary in Singapore, "K" Line Pte Ltd, with the intent of developing a locally-rooted independent marine transportation business which could more readily anticipate the needs of customers operating primarily in Asia and offer them unique services.

With continuing growth of the world economy in recent years, a company whose base is in Japan, such as "K" Line, may have an opportunity to do business in certain countries and regions where there is an imbalance between demand and supply of ship tonnage due to the emergence of demand for new vessels stemming from the rapid development and/or reduction of ship tonnage provided in those countries and regions.

We focus on such countries and develop our business there in a customer-driven and locally-aware manner, conducting sales activities in a more timely way by establishing Representative Offices and/or adding dry bulk sales capabilities to the local subsidiary, as the situation requires. "K" Line (India) Private Limited was established in April 2008 as a joint venture with an Indian company.

Party celebrating the launch of Indian shipping agency "K" Line (India) Private Limited

Establishing a cross-section sales organization

In June 2006 we launched the Drybulk Project Business Division as a means of more proactively targeting overseas markets, one of the major topics addressed in "K" LINE Vision 2008+, our previous midterm management plan. Within "K" Line group, "K" Line Bulk Shipping (UK) Limited, our UK subsidiary, and "K" Line Pte Ltd, our Singapore subsidiary, have each carried on their own respective locally-rooted business. In addition to these companies, we established a lateral business organization in dry bulk business sector within our Tokyo headquarters to press ahead more aggressively with overseas sales.

In the past there sometimes were cases when, depending on the type of vessel or cargo, a business group would not be able to pursue new business, but with this powerful organization dedicated to overseas markets, pushing back the boundaries of organization and reporting directly to a vice president, with no obligation to achieve earning target or assigned fleet, we now have a comprehensive program to approach our targeted markets, regardless of type of vessel or cargo.

Since its launch, this division has dealt directly with customers to ensure that new business opportunities are not lost. It has targeted huge markets which require a focused approach. In particular, it has already succeeded in concluding several long-term contracts in India and Korea with bases now established in both countries.

Interview with Vice President Eiichi Suzuki

Proactive Targeting of Overseas Customers — Accomplishments of the Drybulk Project Business Division

In 2006 we set up the Drybulk Project Business Division within the dry bulk business sector at our Tokyo Head Office which is a dedicated unit to press forward with business activities across organizational boundaries. We asked Eiichi Suzuki, the Vice President in charge, to tell how the division was launched, its accomplishments during its first two years and future overseas business initiatives.

Q

Tell us how the Drybulk Project Business Division came to be set up at the head office.

A

Business groups of our dry bulk services are divided among three units: the Coal & Iron Ore Carrier Group; the Bulk Carrier Group; and the Thermal Coal, Woodchip and Pulp Group. Each group deals with its own kind of cargo, controlling and operating vessels for their respective type of cargo. That would pose absolutely no problem for work in existing markets but when breaking into new markets, cases arise where a single group cannot deal with all the types of cargo and vessels required. One example is cape-size ships assigned to the Coal & Iron Ore Carrier Group to carry thermal coal. In such cases the lack of a lateral organization could conceivably handicap us in approaching the opportunity aggressively.

The initial target was India where we had virtually no track record, and where our complete lack of understanding of what the possibilities were as to kinds of cargo or what types of ships might be required forced us to set up an organization across group boundaries. In order to allow the Drybulk Project Business Division to focus on sales and not be distracted with daily work such as ship management, it was set up to report directly to me, and took the approach that once a project was won it was assigned to one of the sales groups.

Q

Exactly what does the Drybulk Project Business Division do, and what has it accomplished?

A

Since the objective of the unit is to break into new markets, the first thing we do is make frequent visits to local regions. At the time we had no representative in India. Given how important I believe it is to deepen customer relationships in face-to-face meetings on frequent trips, I directed the unit to travel to the country in question whenever an opportunity presented itself. To build a relationship of trust is so critical even though e-mail correspondence is well advanced. We discuss specific potential projects with whichever of the three groups mentioned earlier that expresses an interest and have them sign the contract, but if no group shows an interest, I make the final decision myself. After a bit of initial confusion, the three groups have been responding very positively.

Specific accomplishments include the conclusion with India's JSW Group of one COA (seven-year contract of affreightment) with a long-term consecutive voyage charter involving as many as 13 vessels; and contracts with a Korean steel and an electric power company for a long-term consecutive voyage charter involving four vessels.

We are very proud that these accomplishments have improved our standing in each country.

Q

It has been reported that the Drybulk Project Business Division, with its steady record of accomplishment, will be dissolved in July 2008. What is your approach going to be?

A

We put the Drybulk Project Business Division into motion initially in order to break into the growth market in India, and in that regard we have already enjoyed a certain degree of success. In addition, we thought we could further raise our local presence by having an employee of the Drybulk Project Business Division continue his activities as a local representative, thus we set up a Representative Office in India in July 2007. In April 2008 we also established "K" Line (India) Private Limited through a merger with a local firm, and it is now functioning as an autonomous agency carrying out activities tailored to the local market.

Our approach going forward will be to assign each country and vessel type to one of the three Drybulk Services groups at the head office. At the country level, for instance, Vietnam will be handled by the Bulk Carrier Group and Taiwan by the Thermal Coal, Woodchip and Pulp Group; as to vessel type level, cape-size vessels will be handled by the Coal & Iron Ore Carrier Group and post-panamax by the Thermal Coal, Woodchip and Pulp Group. I believe this will break down the walls that existed between types of ship and cargo and be a positive force for winning new contracts overseas.

Also emerging are new approaches to developing our business overseas, such as joint ventures between our regional subsidiaries and local firms, which are already starting to run their businesses in ways truly attuned to local needs, including making their own decisions about ship management and operation. I would also like to further expand and build up our sales network, while ensuring that we strictly follow each country's rules and regulations. Setting up offices near our customers will allow us to build closer relationships of trust with them face-to-face, which we regard as the most important point in pursuing sales.

Special 2 Report

New Business Initiatives — Re-entry into Heavy Lift Services

The previous midterm management plan called for us to establish a stable profitability structure through diversification of business territory. That prompted us in recent years to consider re-entering the exploding market for plant transportation, and we thus entered into a partnership with the SAL (Schiffahrtskontor Altes Land) Group, a German carrier specializing in heavy lift business, through an equity participation.

1 Heavy Lift Services History

We entered the plant transport business in 1965, starting with the shipment of a large-scale oil refinery plant to Peru. We responded to the rapid growth in demand for plant transport from Japan starting in the early 1970s, and by the latter half of that decade we were operating the nation's largest heavy lift fleet numbering more than 10 vessels.

Starting in 1980s, however, the demand for plant transport from Japan stagnated after the sharp appreciation of Japanese yen. We downsized our heavy lift fleet and organization since 1983 and were compelled to exit the business at the beginning of the 1990s.

In the process of developing new business in accordance with our midterm management plan, we took note of the increasing demand for energy in recent years and the resulting growth in demand for plant transportation, and studied how to participate in the heavy lift business again. The result was a successful re-entry into the business in April 2007 through an equity participation in Germany's SAL Group.

Makassaru Maru, a heavy lift vessel in the 1970s

Interview with Senior Managing Executive Officer Yoichi Hasegawa

The Future of Heavy Lift Services and Their

The company re-entered heavy lift services in April 2007 by making an equity participation in the SAL Group. We asked Yoichi Hasegawa, Senior Managing Executive Officer in charge of heavy lift services, about the process leading up to the partnership and future developments.

Q

What led to the decision to partner with the SAL Group?

A

There was a discussion about whether we as "K" Line could re-enter heavy lift services as one of the new businesses designed to expand the range of our shipping services. Of course we had an option to start this business from scratch, but since heavy lifting requires specialized maritime capabilities and expertise, we felt that partnering with an existing player might be a more realistic approach. After our search for the optimal partner we entered into negotiations with the SAL Group and reached an agreement to acquire 50% of SAL's stock, allowing us to re-enter heavy lift services. The advantage for the SAL Group, on the other hand, was the ability to leverage our global organization and network to grow its business.

Q

Tell us the outline of the SAL Group, your new partner.

A

The company's origins date back to 1838 and the delivery by the Sietas shipyard of its first ship, ordered by the Heinrich family of

2 Increasing Demand for Heavy Lift Services

Soaring crude oil prices in recent years have created a vast pool of oil money which in turn has given rise to a variety of plant projects in the Middle East and Gulf regions. This is also stimulating the development of non-petroleum energy sources, notably LNG (liquefied natural gas). With a rush now underway to build new vessels, driven by the world-wide growth in cargo shipments, demand for heavy lift shipping services, requiring equipment such as that for ship engines and gantry cranes, is exploding.

The shipments for industrial plants are commonly unitized to the extent possible to meet delivery deadlines, cut costs, and facilitate on-site assembly, and the size of these shipments is trending upward. In addition, plants are typically unloaded at sea or at inconvenient harbors not having facilities such as those found at container terminals, meaning that heavy lift shipping requires specialized expertise and technology as well as extensive experience. This makes it an industry with extremely high barriers that restrict entry.

3 Energy Resources Transportation from Upstream to Downstream

Not only does the partnership with SAL allow us to quickly acquire expertise in heavy lifter services, but the venture, as it unfolds, holds great promise for synergies with our existing businesses.

For instance, in the context of LNG development projects under planning or being implemented in various countries, building up our heavy lift capability will allow us to broaden our participation from merely transporting LNG, as we did in the past, to transporting plants for production fields and reliquifaction facilities being constructed, enabling us to participate in the full range of shipping services across the LNG supply chain, from upstream to downstream.

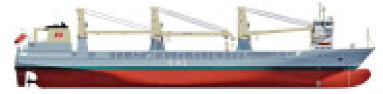
We are now working to expand sales activities and build up our fleet by means of newbuildings and upgrades, having a five-year objective of reaching ¥50 billion in heavy lift services revenue.

Newbuildings

TYPE 176

Completion in 2008 Four

FRAUKE	Completion in Feb. 2008
ANNE SOFIE	Completion in Apr. 2008
	October, 2008 will be completed.
	December, 2008 will be completed.



Deadweight	12,000 mtons
Hold	110.00 x 17.00 x 13.20 m
Deck	128.00 x 24.00 m
Cranes	2x700 mtons SWL, 1x350 mtons SWL
Speed	20 knots

Role in Expanding Our Range of Shipping Services

Germany. In 1980 the SAL Group was founded in its current form by Hans Heinrich, a member of the founding family and one of the joint management team. SAL's primary business is semi-liner service between the Far East and Asia and Europe by way of India and the Middle East. Revenues for the group as a whole in the period ending December 2007 amounted to €137 million, equivalent to approximately ¥22 billion. Operating in a specialized business area demanding sophisticated technology and expertise, the SAL Group boasts high profitability.

Q

Share with us the current situation and future prospects of the heavy lift services market, and the prospects for the "K" Line/SAL Group partnership.

A

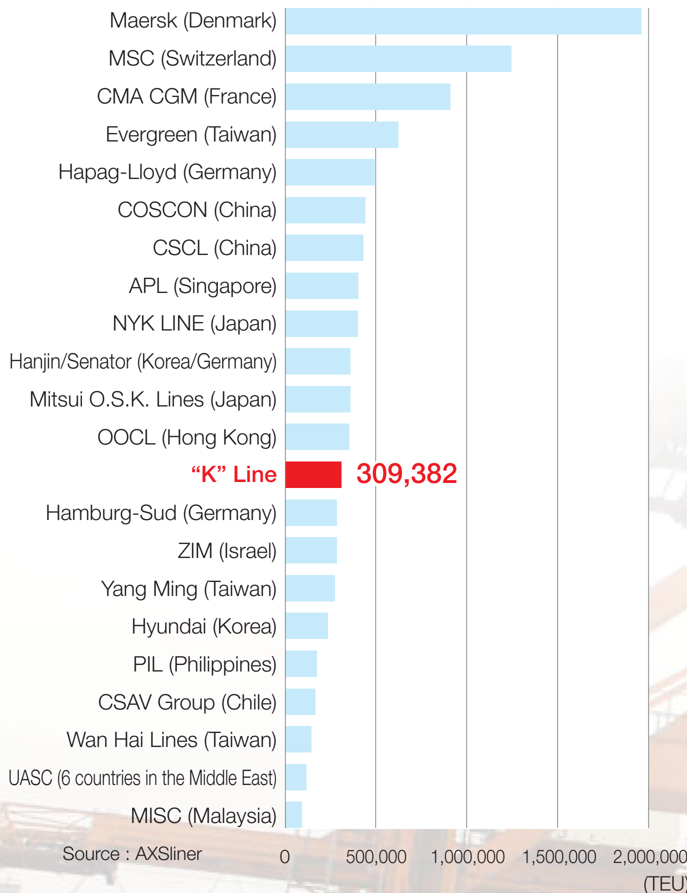
At least 200 heavy lift vessels are active, but the term heavy lift covers a range of vessel types and crane lifting capacities, and the services provided by these vessels takes varied forms. The number of firms in the area focused on by the SAL Group, ultra-heavy lift transportation, is extremely limited, and the SAL Group is regarded as one of the three big dedicated heavy lifters in the world. Energy-related capital investment is booming along with the skyrocketing prices of resource-based energy, and there is brisk infrastructure development activity in developing countries, notably the BRICs, all of which promises continued increases in demand for large-scale heavy lift services in which the SAL Group excels. In fact, one long-term transport contract runs through 2012, and we are now seeing a substantial number of inquiries concerning ultra-heavy lift shipments in excess of 700 tons. In response to this market growth, the SAL Group is increasing its fleet. Between 2008 and the beginning of 2009 four new vessels (of type 176) will be delivered. These newbuildings are to be equipped with dual cranes capable of lifting 700 tons each or 1,400 tons in tandem. We are confident that "K" Line and the SAL Group will thus be able to secure a unique and defensible position in the heavy lift industry.

Market Data

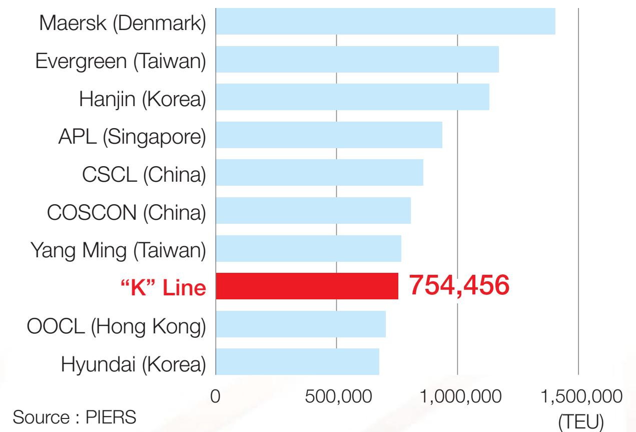
The "K" LINE Group has attained a solid position of a global shipping company that owns and operates a multiplicity of carriers to meet marine transport needs on the worldwide markets.

Containerships

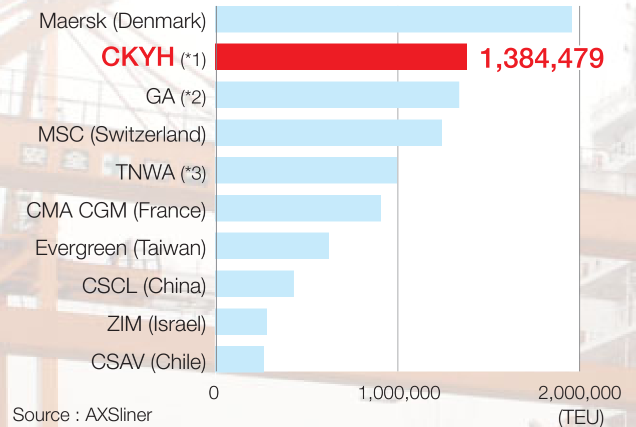
Container Carriers Ranked by Operating Capacity
(as of April 2008)



Top Ten Carriers on the Service from the Far East to the North America (classified by shipping company)
(January to December in 2007)



Comparison of Tonnage in Operation by Alliance
(as of April 2008)



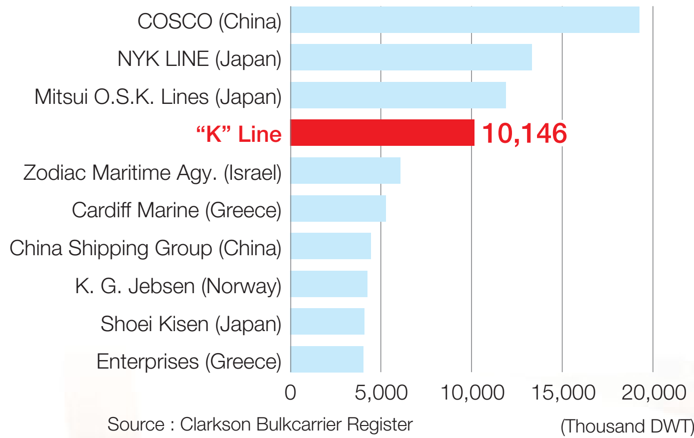
(*1) CKYH :
COSCON, "K" Line, Yang Ming, Hanjin

(*2) GA : Grand Alliance
Hapag-Lloyd, NYK LINE, MISC, OOCL

(*3) TNWA : The New World Alliance
APL, Hyundai, Mitsui O.S.K. Lines

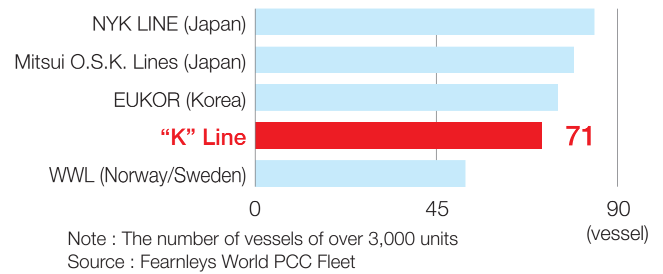
Dry Bulk and Car Carriers

Top Ten Carriers in Terms of Owing Tonnage of Dry Bulkers
(as of March 2008)



Source : Clarkson Bulkcarrier Register

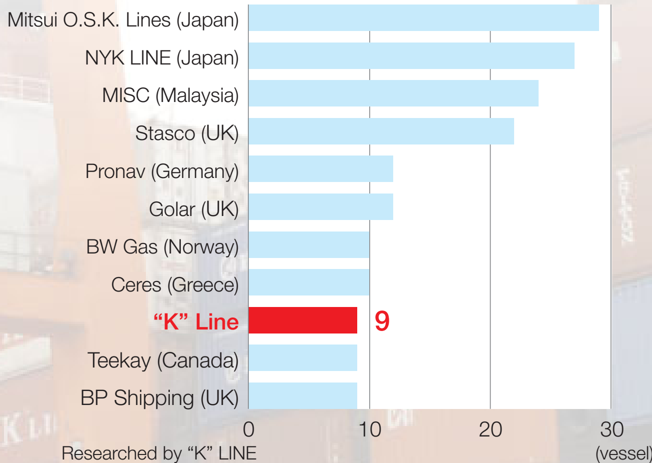
Top Five Carriers in Terms of Operating Car Carriers in Number (as of July 2007)



Note : The number of vessels of over 3,000 units
Source : Fearnleys World PCC Fleet

Energy Transportation Carriers and Tankers

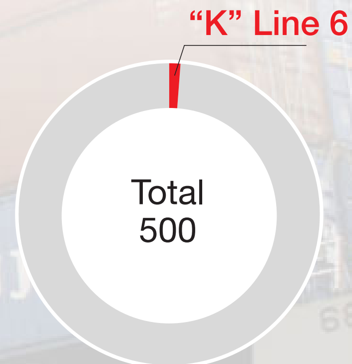
Number of Managed LNG Carriers (by shipping company)
(as of March 2008)



Researched by "K" LINE

Number of VLCCs in Operation

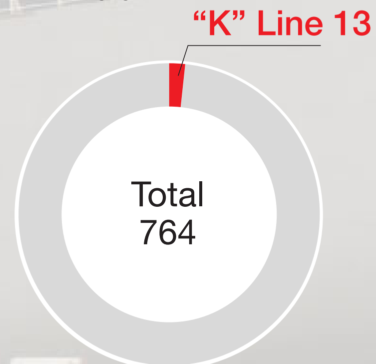
VLCC : Very Large Crude Carrier; 200,000~300,000 DWT tankers



Source : Clarkson Tanker Register

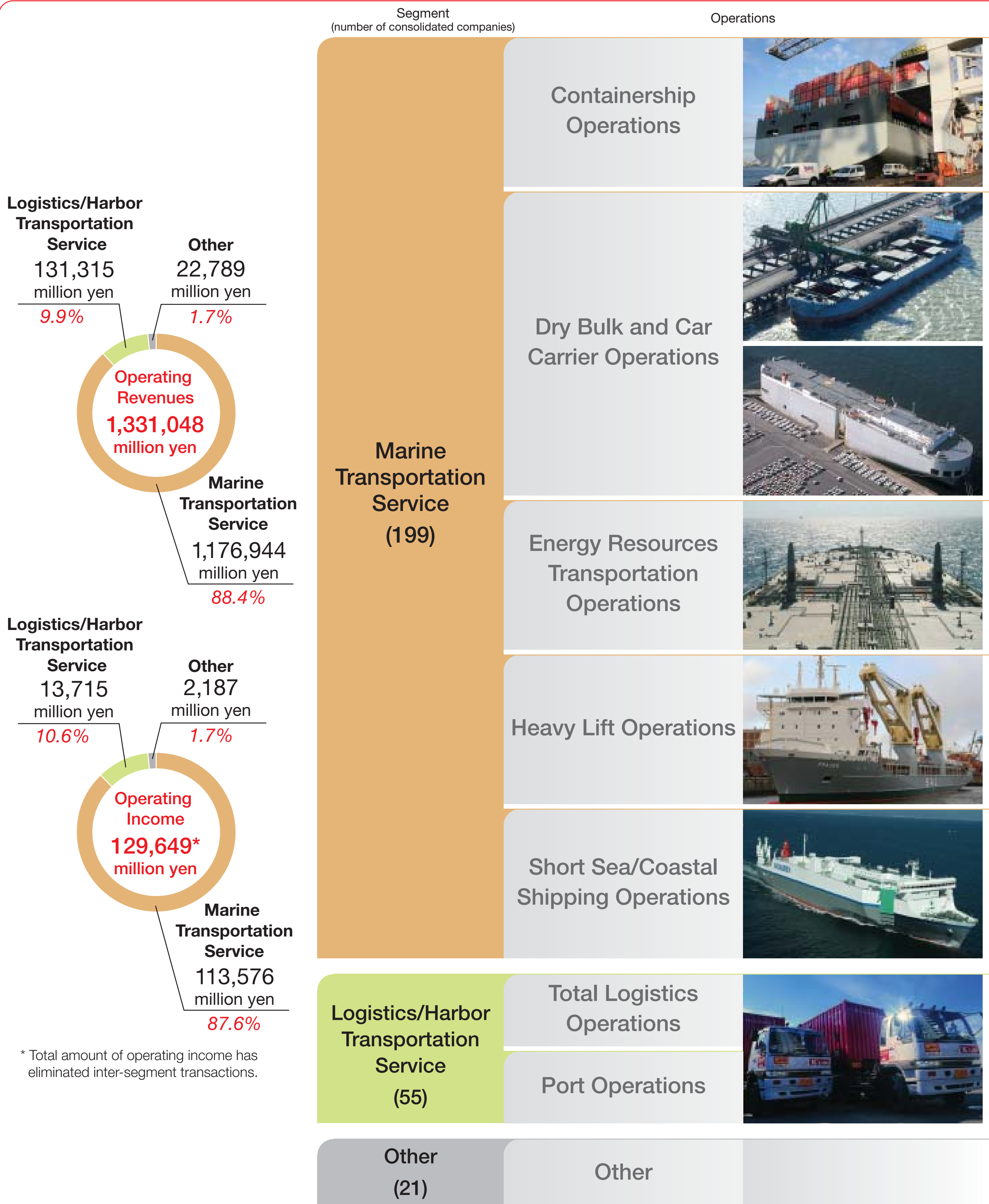
Number of Mid-Sized Tankers (AFRAMAX) in Operation

AFRAMAX means tankers ranging from 80,000 to 120,000 DWT



Source : Clarkson Tanker Register

"K" LINE at a Glance (Business Performance by Segment)



Lines of Business

Review of Operations

Containership Services

➡P28

We are operating East/West trunk lines linking Asia/North America, Asia/Europe and Europe/North America through an Alliance with prominent shipping companies of China, Taiwan and South Korea. In addition, our global operations include both Intra-Asia and North/South service networks.

Expansion of the world's economy is driving overall cargo volumes up. Europe-bound cargo volumes rose 9% over the previous period, while cargo volumes on the North/South Routes, where we worked to offer expanded route selection and put larger ships into operation, jumped 36% over the previous period. As a result, revenues and operating income for this sector as a whole grew year-on-year.

Dry Bulk Carrier Services

➡P30

We transport raw materials such as coal, iron ore, grain and paper products by bulk carriers. Recently, in addition to Japan-bound shipments, we have been aggressively pursuing off-Japan trade such as that which is China and India-bound, also in the Atlantic.

Car Carrier Services

➡P32

Since 1970 when "K" Line deployed Toyota Maru No. 10 as Japan's 1st PCC (Pure Car Carrier), we have been recognized as a pioneer engaged in safe and prompt transportation of completed cars.

In the Dry Bulk Carrier Services, the company uses long-term transport contracts to stabilize profits, but also deploys ships under spot contracts. Taking advantage of the rise in market rates allowed this sector to report increases in both revenues and income over the previous period. In the Car Carrier Business, overall shipments of completed cars increased about 9% to 3.4 million, with growth in exports to developing countries offsetting a decline in shipments from Japan to the U.S. The increase in transport capacity from five newbuildings that were placed in operation, as well as efficiencies in ship deployment, allowed us to keep profits steady. As a result, the Dry Bulk and Car Carrier Business overall reported year-on-year increases in revenues and income.

Energy Transportation and Tanker Services

➡P34

Our services consist of liquefied gas transportation by both LNG and LPG carriers as well as transport of crude oil/oil products by tankers.

LNG Carrier Services completed two new vessels bringing the number of vessels we own or are involved with to 33. One short-term charter ship also performed well, resulting in stable profitability for this sector. In Tanker Services, high fuel and operating costs pulled income down somewhat below the level of the previous period. As a result, the Energy Transportation and Tanker Services Business overall reported a decrease in income despite increased revenues.

Heavy Lift Services

➡P36

Starting in April 2007 we have been operating our heavy lift services jointly with the SAL Group, a dedicated heavy lift player in which we made an equity investment. Demand for large-scale cargo transport related to energy and infrastructure development has boomed in recent years, promising to make this business a new major source of profits for the company.

Thanks to brisk demand for transport of large-sized cargo related to energy and infrastructure development projects driven by heightened demand for resources, this sector contributed to income as one of our newer marine transportation businesses.

Short Sea/Coastal Shipping Services

➡P37

Kawasaki Kinkai Kisen Kaisha, Ltd. and other companies in the group provide domestic marine transport services using cargo and passenger ferries, high-speed cargo ferries, roll-on/roll-off (RORO) vessels for transporting paper, dedicated vessels to carry limestone for cement production, and general cargo carriers, as well as cargo liners and bulk carriers to and from Asia.

In our Short Sea/Coastal Shipping Services, booming demand in the steel and cement sectors contributed to high utilization rates. RORO Services expanded as a result of replacement of old vessels with new ones and setting up new routes. Ferry Services saw a large increase in income on the back of growth in passenger and truck traffic as a result of the increase from two to four ships on the Hachinohe/Tomakomai route.

Total Logistics Services

➡P38

We are concentrating our efforts on making certain that our network responds as accurately as possible to the remarkably advanced demands of customers in today's rapidly developing logistics market. We provide total logistics services, including logistics solutions, by consolidating the knowhow and broad experience of all members of the "K" Line Group.

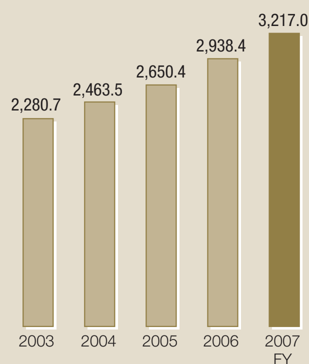
Total Logistics Services reported lower income despite higher revenues. Higher oil prices caused a partial shift of air freight to sea, but there were also unfavorable factors such as the increase in fuel costs in land transportation business. Both revenues and operating income were up.

In addition to the above, Group companies operate ship management, real-estate management and other businesses.

Sales and operating income both rose, driving the strong performance at both the top and bottom lines.

Business Review and Outlook

Containership Services



Fiscal 2007

[North American Trade]

Cargo movement from East Asia to North America was impacted by deterioration of the U.S. housing market, which led to slower growth continuing from the previous year in housing-related items, the principal category of cargo. As a result of general unease about future economic conditions, and particularly concerning financial markets, brought on by the subprime loan issue, cargo movement in the second half fell below that of the previous year, resulting in flat growth for the full year.

Cargo movement to the West Coast, which increased by approximately 9% in fiscal 2006, began to decrease in the spring of 2007 and declined by more than 5% after autumn, finishing down 3% for the full year. Cargo movement to the East Coast was impacted by the surge in fuel oil. A leap in the cost of shipping goods to inland destinations via the West Coast brought on a shift of some cargo to direct shipping to the East Coast, which led to robust growth in this aspect of our business. Demand for this service increased 18% during the peak season from summer to autumn, and rose by 9-10% for the full year.

Cargo movements from China and Hong Kong continued to grow to the extent that they accounted for 73% of all Asia to North America shipments. Growth in exports from Vietnam continued, surging 24% year-on-year. Traffic from Vietnam now accounts for a greater share of North American business than shipments from Indonesia or Malaysia, and is just below that of Thailand. Huge growth in Vietnam is expected as it becomes a production and export base following China.

In response to growing demand, together with our CKYH* Alliance partners, "K" Line moved to improve service on cargo bound for the East Coast. This business grew 15% year-on-year. Combining this with traffic to the West Coast, overall growth in shipments to North America rose 11%, helping us to expand our share of this market.

*Our valued Alliance partners are COSCON (China), Yang Ming (Taiwan) and Hanjin Shipping (Korea). CKYH ranks as one of the biggest container shipping alliances in the world.

[European Trade]

Solid growth of 17% year-on-year was achieved in cargo shipped from Asia to Northern Europe, also shipments to Mediterranean area continued to be robust with growth of 22%. Noteworthy amid the growth in Northern Europe was the 75% year-on-year jump in shipments to Russia. This expansion resulted in Russia becoming our number one market in this region overtaking Sweden, Finland and Denmark. Rapid business expansion, in excess of 30%, also continued in cargo movements from Asia to the eastern Mediterranean-to Turkey and Greece, and to Black Sea ports.

By export area, cargo movements from China and Hong Kong continued to expand, accounting for 68% of the total. Shipments from Thailand and Korea grew over 20% from the level of the previous year. Cargo shipped from Vietnam on European routes jumped more than 18%. The scale of Vietnam/Europe trade was on a par with Korea/Europe trade.

In April 2007 "K" Line's fourth 8,000-TEU* vessel was launched. This completed our conversion, undertaken with Alliance partner Yang Ming of Taiwan, to operate very large 8,000-TEU containerships for the China-Northern Europe route. In September we began direct East Asia-Black Sea service. In addition, in November 2007 Yang Ming started a fortnightly East Asia-Northern Europe service in which we are participating using four 4,000-TEU vessels. This expansion of service contributed to a 9% rise in cargo carried from Asia to Northern Europe and the Mediterranean.

*TEU: 20-feet equivalent units

[Other Trades]

On our intra-Asia routes, we began direct China-Straits service in May 2007 in cooperation with Regional Container Lines Shipping Co., Ltd. (RCL) of Thailand. In October we began using new 1,700-TEU vessels for intra-Asia service. Three of these vessels commenced operation by the end of fiscal 2007.

On North-South routes, together with China Shipping (China),

Evergreen (Taiwan) and Maruba (Argentina), we began Europe-South America East Coast service in March 2007. In June we switched to the use of larger 3,500-TEU vessels on our Asia-South Africa route. In cooperation with CSAV (Chile), we started services on Asia-South America East Coast routes, and in March 2008, in cooperation with Mitsui O.S.K. Lines, we launched our second string service on Asia-South America West Coast routes. These and other steps were taken in line with our long-term plans described in our midterm management plan "K" LINE Vision 2008+ for business expansion on North-South routes.

Business Plan and Outlook for Fiscal 2008

For East-West routes in 2008, "K" Line projects an approximately 12% growth in ship space supply and an 11% growth in demand. We are somewhat cautious about business on the North American route due to the economic outlook in the U.S. However, taking into consideration the chronic congestion in European ports and reaction to record-high fuel oil prices, which is forcing ship operation at economical cruising speeds, a balance in supply-demand on East-West routes can nonetheless be maintained. Our outlook is for continued growth on intra-Asia routes and North-South routes in 2008, against the background of soaring raw materials prices. We intend to continue expanding our service network to more accurately meet customer needs and realize greater cost-competitiveness.

To handle the anticipated expansion of cargo volumes, we will add to our fleet one 8,000-TEU containership for service on Asia-Europe routes and three 1,700-TEU vessels for intra-Asia routes.

We are enhancing our marketing capabilities, upgrading management practices with the underlying objective of achieving higher profitability and conducting cost saving to thus cope with the intensified competition expected when the Far Eastern Freight Conference dissolves in October 2008.

Topics

Service Network Expanded and Upgraded

New Intra-Asia Route Established

In May 2007, in cooperation with RCL of Thailand, we initiated an intra-Asia route linking North China and the Straits.

Asia-North America routes to include Yokkaichi as a port of call.

Since May 2007 we have been the only company in our industry to use Yokkaichi as a port of call on an Asia-North America route.

Asia-South Africa Routes Strengthened

During June 2007, in cooperation with PIL Pte Ltd of Singapore and MISC of Malaysia, we began upgrading from 1,300-TEU vessels to 3,300-3,800-TEU vessels to greatly increase capacity. In addition, new Asian ports of call were added to existing routes, such as Hong Kong, Taiwan (Kaohsiung) and ports in China.

New Asia-South America East Coast Route Established

In June 2007 we began service on this route in cooperation with CSAV of Chile. We completed a network linking the East Coast of South America, centered on Brazil, with the three major areas of Asia, North America and Europe.

Asia-Black Sea Direct Route Established

In September 2007 we began operating on the direct Asia-Black Sea route as a joint service with Yang Ming, China Shipping and Zim Line of Israel.

CKYH Asia-Europe Routes Re-structured

In November 2007 port rotation of the 6-loop service offered by our CKYH Alliance was rationalized. During the same period, we added space by utilizing the newly-established fortnightly service provided by Yang Ming.

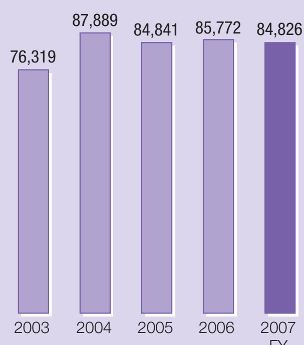
Asia-Red Sea Route Expanded

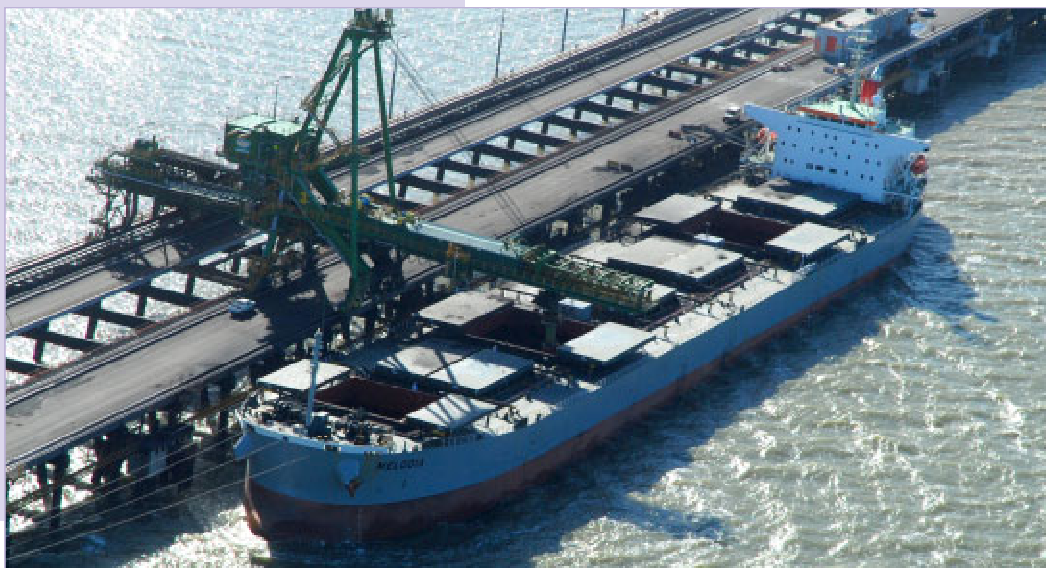
In February 2008 "K" Line began service on East Asia-Red Sea routes in cooperation with Germany's Hapag Lloyd and Wan Hai Lines of Taiwan. Together with the existing services with PIL on the same routes, we now operate a 2-sailing per week service.

Asia-South America West Coast Routes Upgraded

In cooperation with Mitsui O.S.K. Lines, we moved from a one-loop to a two-loop service after March 2008. In addition to reducing the number of ports of call to improve service efficiency, we greatly expanded space available on these routes.

Dry Bulk Carrier Services





Fiscal 2007

After a brief period of adjustment at the outset of fiscal 2007, the Baltic Dry Index rose sharply from July on to unprecedented highs, setting new records daily. China's iron ore imports rose by 60 million tons in 2007 on a calendar-year basis to finish at 380 million tons. Against this background of growth in cargo movement, ship space supply-demand situation remained tight, resulting in a significant rise in the market price. Subsequently, an easing caused by heavy congestion and demurrage in Australia and serious problems among iron ore and coal shippers led to a new period of adjustment starting in November 2007. This was followed by a sharp recovery from February 2008 on, and the market once again rose to a very high level.

Under these market conditions, we completed 10 newbuildings in fiscal 2007 and took other steps, in line with our midterm management plan, to make our fleet more competitive. As a result, by the end of the reporting term, the operating fleet for our dry bulk carrier business had expanded to 169 vessels. This significantly contributed to increased earnings.

From the viewpoint of the major dry bulk cargoes we carry such as raw materials for steelmaking, we endeavored to stabilize earnings by concluding medium to long-term contracts. These included, first of all, a 15-year contract concluded with China's largest steelmaker, Baosteel Group, for services using a 300,000-ton iron-ore carrier, and 5-year contracts with two leading Chinese steel producers, Shougang Corp. and Wuhan Iron and Steel Corp. In Europe, "K" Line Bulk Shipping (UK) Ltd., an independently-managed Group company, has expanded its base of European customers by building up its own fleet.

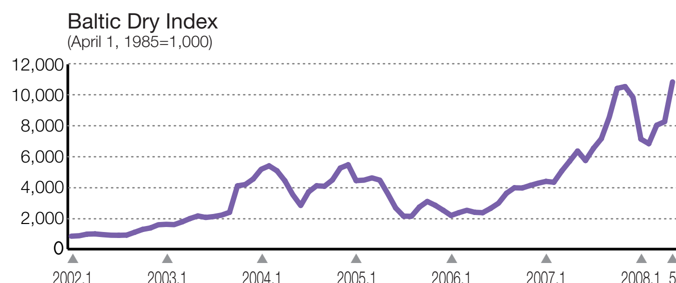
As for thermal coal carrier service, the total volume shipped to Japan in fiscal 2007 remained approximately unchanged at somewhat more than 80 million tons, despite lower vessel turn-around time caused by longer port stay due to congestion at loading ports in Australia. Despite these conditions, we managed to maintain the volume carried at 14 million tons, approximately the same level carried in fiscal 2006.

Regarding products for paper mills, medium- and long-term contracts with domestic paper makers have enabled us to stabilize earnings from transporting woodchips and pulp.

In our general bulk carrier service, Group companies such as independently-managed "K" Line Pte. Ltd. effectively deploy small and medium-sized fleets. Benefiting from buoyant spot market conditions, we achieved solid earnings growth in this business segment.

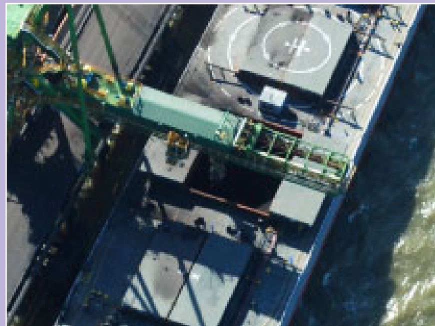
We stepped up overseas marketing efforts, enabling us to conclude important contracts. The most significant was a very large contract with JSW Group, India's giant private-sector conglomerate, for a service using 10 vessels. We also concluded contracts with Korean Western Power Co., Ltd. for thermal coal shipments using two vessels, and a 20-year contract with Glovis Co., Ltd. for coal and iron ore transportation to Hyundai Steel Company.

As a result of the efforts outlined above, "K" Line achieved record earnings in its dry bulk carrier services business in fiscal 2007.



Business Plan and Outlook for Fiscal 2008

While there is cause for concern regarding the world economy and considerable uncertainty in financial markets, the latter situation caused by the U.S. subprime loan issue and higher price of crude oil, we expect a continuing high rate of economic growth in China to be the impetus for an expansion of cargo movements in fiscal 2008. In addition, changes in



trading patterns in recent years have brought about a lengthening of shipping distances for transportation of grain, coal, iron ore and other major products. This leads us to expect an increase in the need for ship space and to anticipate that market conditions will continue to be very favorable.

“K” Line intends to expand the geographic scope of its services in China, India, Korea, the Middle East, Europe and other markets. We will also upgrade customer services and realign our fleet to enhance competitiveness, and in our marketing will give added emphasis to build even closer relationships with customers.

In coal and iron ore carrier services, we will strengthen our overseas marketing, focusing on our bases in the U.K., Singapore, China (Shanghai) and India. “K” Line also intends to bring the number of cape-size vessels in this service to 90 by the end of fiscal 2011 as part of fleet realignment efforts. Also we expect growth of thermal coal carrier services, which will result from ongoing and planned increases in electric power generation in emerging countries. We expect to add four newbuildings to this service by fiscal 2011. The Corona Series vessels have won accolades from domestic customers and our plans include deploying these vessels in overseas service.

In transportation of woodchips and pulp we plan to add three newbuildings to our chip carrier fleet in fiscal 2008, and along with forging stronger ties with domestic customers, we intend to expand into off-Japan trade with services for overseas papermakers. We will also make every effort to sign contracts to carry new cargoes such as soybean flour.

In general bulk carrier service, our aim is to win greater business in Asia by leveraging our state-of-the-art fleet and high-quality services, also to expand in Atlantic waters. Responding to increased steel production around the world, we plan to further our involvement in off-Japan trade in iron and steel shipments growth. “K” Line intends to engage in energetic marketing overseas by forming closer ties with local areas. This effort will include hiring and training local staff in Korea, India and elsewhere.

Topics

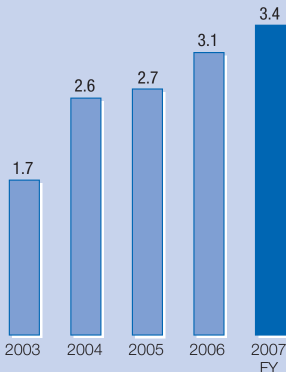
Master Contract concluded with the prominent India conglomerate JSW Group

“K” Line entered into a series of new charter agreements, under a master contract, for ten vessels with India’s JSW Group. Each agreement is for ten years.

Annual production of crude steel by the JSW Group company JSW Steel Ltd. is 4.5 million tons. In addition to expanding the scale of its existing steel mills, JSW Steel has decided to build two new mills. These would raise annual crude steel production to 30 million tons by 2014. JSW Energy, an electric power company and another member of the JSW Group, also has large-scale expansion plans. The company intends to produce 15,000 MW of power (thermal and hydroelectric power combined) by 2015.

This new contract is for carrying imported coking and thermal coal for the JSW Group steel and electric power plants by deploying up to ten vessels to provide the necessary ship space. The contract calls for annual shipments of 12 million tons by 2015, when all of the vessels will be in service. It had already been decided that “K” Line would provide the JSW Group with one panamax-size bulk carrier in 2008, and two post-panamax bulkers in 2009. Combined with the latest contract, by 2015 “K” Line charters will account for over 40% of coal supplied to this group, or 15 million tons.

Car Carrier Services



Fiscal 2007

Although negative growth was registered in auto sales in both the Japanese and U.S. markets in 2007, expansion of demand in emerging countries, particularly the BRICs, led to market expansion to the scale of 70 million vehicles worldwide. This led to substantial growth in marine transport of completed cars during the year.

"K" Line endeavored to increase its supply of ship space by deploying newbuildings and other measures, but the relatively longer days at sea required for expanded cargo movements to the Middle East, Africa, Central and South America as well as Eastern Europe led to a persistently very tight supply-demand situation for ship space.

The total number of vehicles carried by the Group rose to 3.4 million, a 9% increase year-on-year. Along with the deployment of newbuildings, substantial growth in European short-sea services provided by Group company "K" Line European Sea Highway Services GmbH contributed significantly to the overall increase.

Business Plan and Outlook for Fiscal 2008

Despite such adverse factors as the sharp rise in value of the yen against the dollar, and the economic setback in the U.S. caused by the subprime loan issue, we can anticipate that demand for Japanese cars, which offer superior fuel economy, will remain firm. In addition, although negative year-on-year sales growth is projected for the U.S. market in 2008, we do not anticipate a large drop in marine transport of Japanese cars.

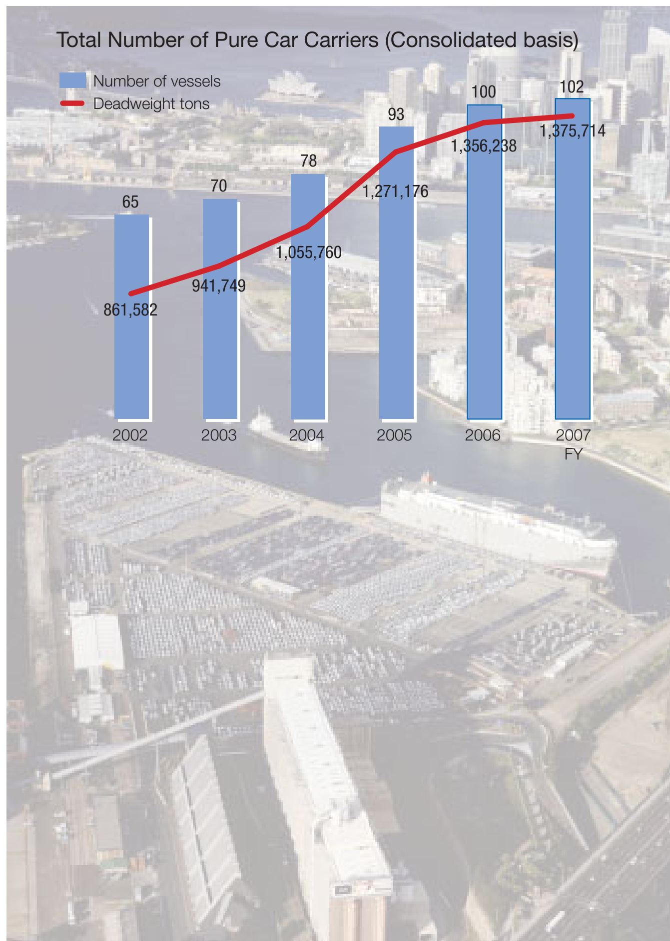
At the same time, cargo movements to Middle Eastern countries are expected to increase due to the rising purchasing power of these countries resulting from high oil prices. Expansion is also expected for markets in Russia and Eastern Europe, where economic growth is dynamic. We anticipate that demand from these sources will generate an expansion of cargo movement that will offset the effects of a slump in demand in the U.S. In addition to utilizing existing Baltic routes, we have already taken the initiative to develop Black Sea routes to meet the need for expanded cargo movements to Russia. Benefits are expected from this enhanced capacity for increased business.

We also intend to bolster hub and spoke functions. Under a three-company joint venture agreement with PSA Singapore Terminals and Nippon Yusen Kaisha (NYK), we helped to establish Singapore's first dedicated automobile terminal with operations scheduled to begin in January 2009.

We think the extraordinarily tight ship space supply-demand situation will be gradually alleviated. However, we also see need to expand our routes for carrying exports from highly cost-competitive production bases in China, India and South Africa. This means we can expect a rise in demand for ship space and further need to diversify our service networks. Consequently, "K" Line plans to add 27 newbuildings to its fleet over the four-year period from fiscal 2008 through fiscal 2011.

Along with a sharp rise to unprecedented levels in the cost of steel for new vessels, ship management expenses and fuel oil prices have risen to record levels. Although these rising costs put downward pressure on

earnings, we will endeavor to charter back unprofitable ships, deploy vessels capable of high fuel economy and take other measures to restrain rise in costs. We will also continue our efforts to provide cost-competitive services.



Topics

New Routes Established

In May 2007, in order to fully participate in the transport of vehicles from China where their export is rapidly increasing, we began services linking China and the Middle East, as well as India and South Africa.

Fleet Expansion

"K" Line added five newbuildings to bolster shipping capacity. Among these, are a three-ship series, the *Oregon Highway, Georgia Highway* and *Michigan Highway*, which are designed with full consideration for the environment, as described below.

Features

① Minimum environmental burden

Normal car carriers with a capacity to carry 6,000 vehicles have 13,000 to 14,000 kW main engines. However, improvement in the hull design of these vessels has enabled them to be fitted with lower-output 12,000 kW engines without loss of performance. The efficiency gained from using engines with the same output as in 5,000-unit car carriers, which are one class smaller, translates into proportional reductions of NOx and SOx emissions and a smaller environmental footprint from these vessels. Also, the utilization of electric deck equipment lowers the risk of polluting the ocean by spilling oil.

② Environment-Friendly Design

Usually when a ship is not carrying cargo or carrying a light load, it carries seawater ballast to maintain hull stability. By partially substituting cement (fixed ballast) for seawater ballast, we are reducing the transfer of microorganisms in the seawater that would have been used. This contributes to minimize the ecological impact attributable to ballast water discharge.

Energy Transportation and Tanker Services

Fiscal 2007

[LNG Carrier Services]

With the increasing demand for energy and rising environmental concern around the globe, demand for natural gas has shown solid growth. Global liquified natural gas (LNG) volume transported in 2007 increased by approximately 7% to 165 million tons compared with previous year. In line with this growing demand and delaying start-up of new LNG supply plants, there have been increasing spot and/or short-term activities in LNG trading from various supply sources in addition to long-term trade movements. To meet this kind of customer transportation needs, we have chartered an LNG carrier in mid-term from the market, operated for spot and/or short-term LNG business.

Our LNG carrier fleet has been augmented by deliveries of one new vessel in December 2007 and another in March 2008. As of the end of fiscal 2007, we currently have 33 carriers in operation that contribute to our stable earnings in this business segment. Including vessels currently under construction, the total rises to 48 vessels (involving 16 projects) by the middle of 2009.

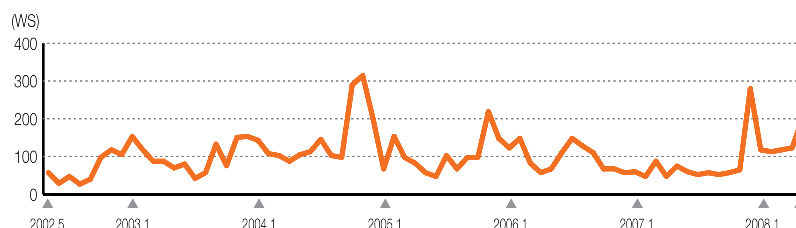
Along with our fleet expansion and development of business, we have been aggressively employing and training seafarers for high levels of skill to contribute to our safe and reliable operation of LNG carriers. In October 2007 our training program for seafarers assigned to LNG carriers was accredited by the Norwegian shipping classification society Det Norske Veritas (DNV) to be in accordance with LNG Shipping Suggested Competency Standards set by the Society of International Gas Tanker and Terminal Operators (SIGTTO). We also established "K" Line Maritime Academy (Philippines) in February 2008 where thorough training has been conducted in accordance with the same standards.

[Oil Tanker Services]

Regardless of soaring crude oil prices, demand for oil has continued to rise worldwide, particularly in China, India and the U.S.A., and because of this background, demand for oil transport has remained high. Despite significant changes in the freight market in fiscal 2007, Middle East-Japan VLCC routes maintained an annual average of 90 on the worldscale. With rising awareness of environmental issues, some countries are moving to phase out single-hull tankers in advance of an expected ban. We are also seeing an increase in conversions of single-hull tankers to Floating Production, Storage and Off-loading system (FPSO) or to bulkers in response to strong demand for those vessels. The ship supply-demand situation is tightening due to the steady removal of single-hull tankers from service and charterers' increasing preference for double-hull tankers.

"K" Line received one new VLCC completed in June 2007 and now has a fleet of six VLCC. In addition we have a total of five 100,000 DWT sized oil-product tankers. Having received new ammonia carriers in May and another in July 2007, respectively, we now have a five-ship fleet for carrying LPG and ammonia. At the same time, "K" Line Pte. Ltd., a Group company in Singapore, is developing operations centered on the Asia region deploying a fleet of thirteen 100,000 DWT sized crude-oil tankers.

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



Business Plan and Outlook for Fiscal 2008

[LNG Carrier Services]

In fiscal 2008, three LNG carriers for Indonesia's Tangguh LNG Project and eight very large LNG carriers with capacity of 210,000 m^3 for Qatar's RasGas III project will be delivered. Including these, 14 vessels will join our fleet. We will ensure smooth deployment of these newbuildings to the fixed projects and endeavour to agressively and flexibly expand our scope of operations to meet diversifying LNG transportation needs.

[Oil Tanker Services]

Although there is concern about the possibility of a temporary decline in demand for oil because of the U.S. subprime loan issue, "K" Line expects global demand for oil to continue to increase as a result of rising oil demand in China, India and Central and South America. To match demand growth for oil transport, a large number of tankers is scheduled to be delivered in 2008, 2009 and by 2010. However, at the same time it is expected that almost all single-hull tankers will be banned by the end of 2010, which will eliminate any vessel oversupply. Because of this background, we expect stable freight market overall except a temporary softening aspect. Regarding oil product transport, environmental issues will make the building of new oil refineries or expanding existing ones difficult in Europe and the U.S.A. so we can anticipate increased demand for shipment of oil products to Europe and the U.S. from the Far East, India and the Middle East. In keeping with this, we are adding new, state-of-the-art ships for the transport of both crude oil and oil products. As we pursue a strategy of expanding our transport services with 1st class operations, we will vigorously continue efforts to ensure ship safety operation.

Topics

Two New Vessels Completed

We recently took delivery of two newly-completed LNG carriers. Both vessels are operated/managed by "K" Line LNG Shipping (UK) Limited, a subsidiary of the Company engaged in operations in Atlantic waters.

Ship name	*CELESTINE RIVER*	*TRINITY ARROW*
Date completed	December 14, 2007	March 31, 2008
Shipyard	Kawasaki Shipbuilding	Imabari Shipbuilding (Koyo Dockyard)
Tank Capacity	145,000m^3	152,600m^3
Cargo Tank	(Moss type)	(Membrane type)
Features	Having high compatibility with the world's major LNG terminals, this vessel will be tradeable in every part of the world.	A long period of research and development preceded the building of this vessel. Although this is the first LNG carrier built by Imabari Group, it has the distinction of having the largest cargo tank capacity of any LNG carrier constructed in Japan.

VLCC *TAMAGAWA* Completed

On June 29, 2007 the 315,000 DWT double-hull VLCC *TAMAGAWA* was completed at the Sakaide Yard of Kawasaki Shipbuilding Corp. and deployed under a long-term charter contract with ExxonMobil. This is a Malacca-max vessel designed for maximum cargo capacity and having a draft of 20.5m which is maximum draft limitation in the Malacca Straits.

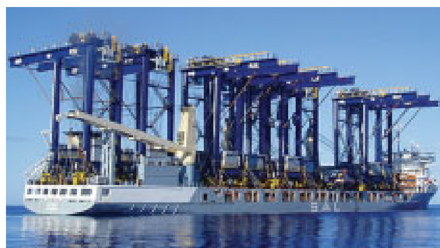
Giving consideration to the environment, the ship's fuel and cargo tanks and its pump room are all double-hulled.

Heavy Lift Services

Fiscal 2007

In response to growth in demand for large and heavy cargo transportation related to energy development and infrastructure facilities, in April 2007 we entered into an alliance involving capital participation with the SAL Group, a German company specializing in plant transportation business. Although we had withdrawn from heavy plant transportation operations in the early 1990s, we have re-entered the market by means of this new partnership. The SAL Group has an established track record, proven technical capabilities and high competitiveness in such areas as ship quality, speed and crane capacity. The alliance established between the SAL Group and the "K" Line Group, which has a worldwide network, makes the partnership a very competitive one, based on mutual cooperation and a complementary operational framework.

In June 2007, the SAL Group established SAL Japan Co., Ltd. as a base in Japan in order to provide customers in the Japanese market with tailored services. In addition, the SAL Group has representative offices in China (Shanghai, Beijing) and the U.K. (London) for the purpose of gathering market information. In February 2008, the SAL Group completed the *Frauke*, a state-of-the-art vessel with sailing speed of 20 knots, two cranes each with lifting capacity of 700 tons (for a combined, simultaneous capacity of 1,400 tons). The plan for fiscal 2008 is to complete a total of four vessels of this class.



A heavy lifting vessel in service loaded with a gantry crane

Business Plan and Outlook for Fiscal 2008

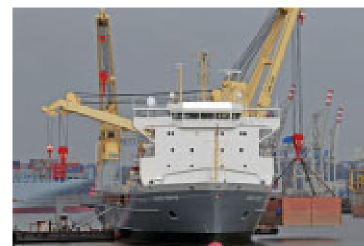
Rising global demand is raising energy resource prices. This, in turn, is stimulating strong demand for infrastructure and plant for new resource development centered on offshore extraction for oil refineries and electric power generation plants. This has led to a substantial expansion of heavy plant shipments, which means we can anticipate healthy growth in SAL Group operations.

Scale of the SAL Group fleet will grow to 18 vessels once the four new vessels mentioned above are deployed during the current fiscal year. By adding these new advanced ships, the SAL Group is raising its transportation capacity and strengthening its operational capabilities.

Topics

176-Class State-of-the-Art Vessel Completed

The *Frauke*, a heavy lift vessel and the first new ship deployed after we established the joint venture business with SAL, was completed in February 2008. This vessel is 160 meters in length, has a capacity of 12,000 DWT and has two cranes, each with a lifting capacity of 700 tons. When used in tandem, the cranes can lift 1,400 tons (By way of comparison, a 16-car train on Japan's Shinkansen line, popularly called the bullet train, weighs approximately 1,000 tons). Also, besides having a full array of machinery and the capability to discharge ultra-heavy cargo, *Frauke* is the largest vessel in the SAL Group fleet. With speeds up to 20 knots and a 9-meter draft, this new vessel is certain to help SAL and "K" Line meet the expected rise in demand for transportation of ultra-heavy cargo.



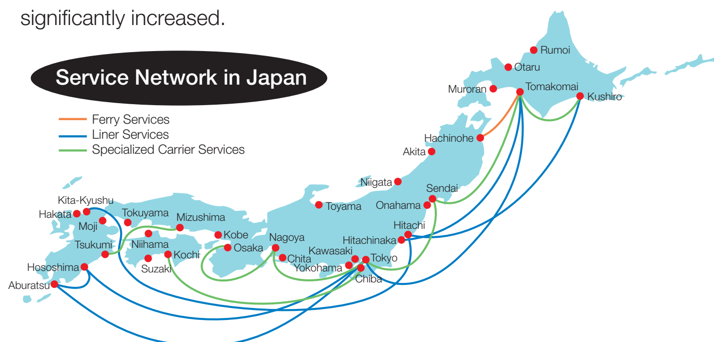
Short Sea/Coastal Shipping Services

Fiscal 2007

[Short Sea Services] Benefiting from a strengthening market in our tramper services, we succeeded in increasing the volume of bulk cargo, mainly coal shipped from Russia and China to Japan. In addition, we aggressively worked to expand spot cargo transportation, a business in which high earnings can be expected. In our liner services, solid growth was achieved in transport of steel products, notably in outward-bound service carrying steel plate for automotive plants in Thailand. Inbound transportation of plywood shipments from Malaysia has diminished but bulk shipments of gypsum, sugar and other products have increased.

[Coastal Services] Within our tramper services, in addition to the effects of record-high growth of domestic crude steel production, mention must be made of our completion in October 2007 of a specialized carrier for limestone. Significant growth was posted in liner services on the back of stable earnings secured from long-term contracts with paper manufacturers for dedicated vessel service. Other business areas contributing to growth in this segment were general cargo transportation and shipments of milk, other dairy items as well as agricultural and marine products from Hokkaido.

[Ferry Services] Large revenue growth was posted for our ferry services between Hachinohe and Tomakomai. In addition to increasing passenger service to four vessels, we made gains from expanded volume of home-delivery goods, foodstuffs and other products, also by revising transportation schedules in November 2007 for added convenience. As a result, truck and passenger transportation volumes significantly increased.



Business Plan and Outlook for Fiscal 2008

[Short Sea Service] Our Bulk Carrier Business is expected to continue benefiting from a strong market, particularly for bulk shipments of coal, dolomite and other cargo for customers in materials industries, and we are aggressively working to expand our operations in off-Japan, intra-Asia transportation services. We are scheduled to receive a 12,000 DWT bulk carrier to be completed in January 2009, which will primarily be used for carrying woodchips. In this and other ways, we are striving to realize stable earnings in this business field.

In our liner services, we are scheduled to charter a 10,000 DWT vessel in August 2008. "K" Line intends to vigorously pursue new business in the transportation of steel products and plants.

[Coastal Services] In the tramper services, two new coal carriers are scheduled for completion in April and November 2008. They will be used for shipments to electric power plants. This will include transportation of coal in Tokyo Bay, a new business for us. In our liner services, we plan to consolidate our principal routes centered on Hitachinaka Port as well as serving Kushiro, Tomakomai, Tokyo and Kitakyushu. To derive full benefit from synergetic effects, we will aggressively seek relay cargo business as part of our efforts to add additional stability to operations on these routes.

[Ferry Services] In operating a four-vessel fleet of passenger ferries between Hachinohe and Tomakomai, we will continue to pursue safety in navigation and route operations. To secure stable passenger and truck transportation volumes we will strive to further improve the convenience and quality of our services.

Topics

MITSUKAWA MARU, a Specialized Limestone Carrier, Completed

The completion in October 2007 of the *MITSUKAWA MARU*, a large specialized limestone carrier, will contribute to the "K" Line Group's effort to add capacity to meet rising demand.

Total Logistics Services

Fiscal 2007

"K" Line's midterm management plan, "K" LINE Vision 2008+, positions Total Logistics Services as a strategic business segment. The plan calls for expansion in (1) locally-based logistics; (2) solution-based logistics; and (3) air freight, a business area that we intend to further strengthen to serve as one of the pillars of this segment in line with overall measures that we are aggressively implementing under the management plan.

The goal of "K" Line Logistics, Ltd. is to serve as a single window for the integrated handling of both air and maritime freight forwarding services in this core logistics business. The "K" Line Group intends to actively expand its network in this business to serve customers in China and emerging markets. During fiscal 2007, we greatly expanded our air freight services from Asia to North America for one of the largest manufacturers of precision office equipment. Regarding maritime cargo, we newly gained business from one of the leading tire manufacturers on the occasion of relocating their production to overseas. As indicated by the above, the company is engaging in marketing activities based on closer ties with customers in a variety of industries to gain greater in-depth understanding of the broad and diverse range of customers needs for innovative logistics services.

In the buyer consolidation and supply chain management fields, our U.S.A.-based Century Distribution Systems, Inc. began providing new services to two leading retailers of household and office goods and textiles that make large-scale purchases from China and elsewhere. In addition, we introduced the "K" Line Group's Visibility Management System (VMS) to support customers' logistics management. As a striking example, this system was fully utilized when a record snowfall in China at the beginning of 2008 led to a logistics logjam in distribution. Using the system, we were able to assist our customers to re-route shipments to final destinations with a minimum delay, providing customers with accurate and reliable delivery time information that is readily available through VMS. This enabled us to win greater trust and satisfaction from those customers.

In Thailand, we are offering expanded logistics services for customers such as the auto assembly industry. Among our "one-stop" services, K Line (Thailand) Ltd. is providing some rather unique operations including milk-run delivery of parts to the assemblers as well as combined car-carrier transport and trucking services plus customs clearance and warehousing. In Indonesia, we are expanding our customer base by providing a similar package of combined services.

Business Plan and Outlook for Fiscal 2008

In this business segment, we will focus on Asian markets where we expect further growth, particularly in shipments from China and Thailand. Our strategy is through close communications with customers in order to timely and efficiently address their individual and unique requirements. We will also make the fullest use of VMS, our logistics management system used throughout the "K" Line Group, to further reinforce all segments of our buyer consolidation services. We also intend to expand supply chain management services for freight forwarding and other logistics services provided to retailers, primarily at destination side, that need support in handling distribution of purchased goods. In this way, the "K" Line Group plans to be in a position to readily respond to customers' latest needs involving logistics services for both maritime and air cargos, as well as with Group-wide support at every stage of the distribution process. We will continue making every effort to further enhance our services and expand our logistics business.

Topics

Toward Eco-Friendly Freight Transportation

As part of our broad menu of operations in Japan, we are offering expanded ferry services for trailer-trucks to help protect the environment by reducing long-distance over-the-road truck transportation. In Thailand, we are fitting our trucks with GPS systems to enable vehicle operation management with the goal of saving fuel, thereby also protecting the environment by reducing exhaust emissions.

Corporate Governance

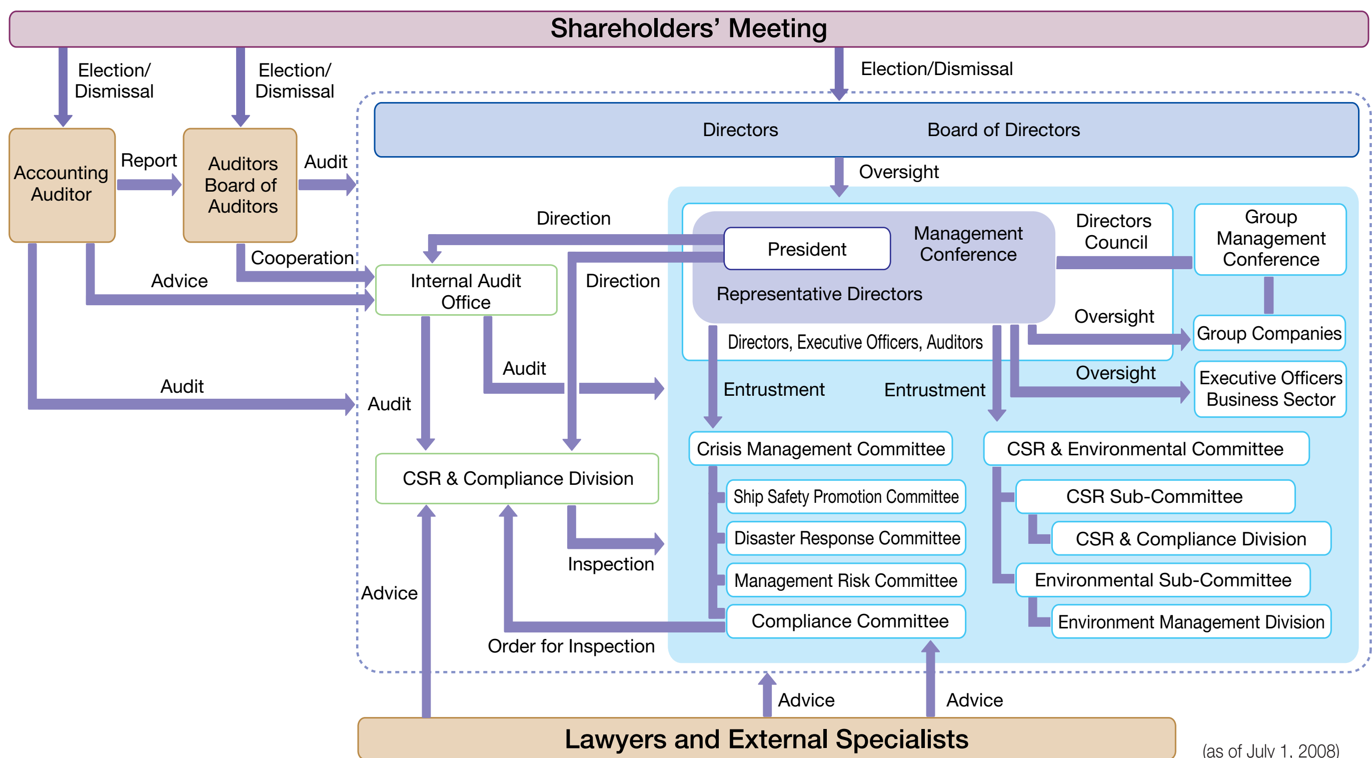
For a company to perform its social responsibilities and achieve sustained growth, it is essential to establish and maintain a good corporate governance system as well as a good risk management system. We are striving to increase shareholder value by ensuring a high level of corporate ethics throughout the Group and building an effective corporate governance system across the Group. In addition, we established four committees to deal with business-related risks in the areas of ship safety promotion, disaster response, compliance and management risks, as well as a Crisis Management Committee to supervise the four committees.

Structure of Business Execution

We introduced the Executive Officer System and ever since have been endeavoring to upgrade efficiency of management through assignment of power and consequential speedier decision-making. The Board of Directors exists as an organization for decision-making on the basic direction of management, matters stipulated by laws and regulations and other important management issues, as well as for overseeing the performance of duties. The Board is convened more than once every month. The Directors' Council is convened two times every month, in principle, and all Directors, Auditors and Executive Officers participate in the Directors' Council in order to contribute to the President's decision-making through free discussion among all Board Members/Auditors/Executive Officers and to achieve full compliance and share information related to important management issues. Two out of the four auditors shall be outside auditors specified in the Corporate Law of Japan. A Management Conference is held once a week for Representative Directors and Directors/Executive Officers in order to freely exchange opinions on major management issues and in order to further enhance the transparency and promptness of management decisions and policies. (A list of Directors, Auditors and Executive Officers as of July 1, 2008 can be found on p.41)

Internal Control System

Representative Directors, and under their direction, Directors, Executive Officers and General Managers in charge of specific business operations are responsible for establishing internal controls, assessing their effectiveness and ensuring that they function properly. The Internal Audit Office is charged with assisting the Directors to execute their duties related to establishment and maintenance of Internal Control through feedback and recommendations for improvement. Auditors observe whether the Directors establishing and organizing Internal Controls are properly functioning. In terms of controls at the Group level, we have established a Group Conduct Policy to ensure that member companies carry out their businesses in appropriate fashion. It forms the basis for a Code of Conduct developed by each company.



Risk Management

✧ Risk Management leading to Ship Navigational Safety

At the Ship Safety Promotion Committee whose chairman is the President, "K" Line's management and directors of the group ship management companies map out and implement a variety of measures in relationship with ship safety. With our own know-how, SMS (Safety Management System) was established with the adoption of the ISM Code defined in SOLAS (Safety of Life at Sea) and the standards required for ISO9000. With the same system being commonly applicable to both land and ships throughout our group companies, we are fully committed to safety in ship navigation and cargo operations. Diligent and concerted endeavors are in progress for stabilization of quality in transportation services. Marine technical personnel or specialists are required to pay regular visits to ships, including chartered ones, for inspection of ship conditions, etc. in accordance with our own guidelines for ship quality exceeding legal requirement- "KL-Quality."

✧ Risk Management against Disasters

This dictates what we must do at the time of occurrence of a major disaster for securing safety of life and property as well as responsive measures for recovery (including emergency communications) and also what we must do for business continuation after such a disaster. An "Emergency Response Manual" with concrete contents of responsive measures has been compiled and has been handed to all employees in the form of a handbook. For use at time of disasters, we have introduced a system confirming the individual safety of all employees using the email function of mobile phones. Against destruction of computerized data by disasters, we have set up a system where backup data can be stored in a remote place so that we can secure important management information and recover business activities as early as possible.

Disaster Response Summary Handbook

Tanker Incident Response Drill

Onboard Inspection

✧ Risk Management Related to Compliance

- All the group companies provide compliance manuals and working regulations to all employees so that they are well informed of their compliance systems and laws/regulations/norms with which they must comply.
- In case any breach of laws/regulations/norms is found through the compliance hotline system or internal audit, the Compliance Committee will take quick and corrective action.
- In case a compliance matter occurs in a group company, it will be possible to communicate through "K" Line's hotline window, as well as through their own hotline systems.

✧ Risk Management Relevant to Management

In case all other management risks, namely political, social and economic factors such as social crimes of terrorism/threats, economic situations such as rumor damage, fluctuations of exchange/interest-rate, tax systems of individual nations and inflation, invocation of legal restrictions/policy related to protectionism, and any other changes to competition circumstances are likely to give not a little impact on our business in general, the Management Risk Committee will take preventive measures and respond appropriately to them in the event they should actually happen. With regard to information management, arrangements are made to use individual IC cards for using PCs. As a result, no third-party is able to use any PC. As for connection with our network from outside, disposable one-time password will be prepared in order to prevent access from others.

Directors, Auditors and Executive Officers

(as of July 1, 2008)

President Hiroyuki Maekawa

Representative Director
Eiichi Suzuki

Representative Director
Yoichi Hasegawa

Representative Director
Tetsuo Shiota

Representative Director
Katsue Yoshida

Representative Director
Toshio Shimizu

Directors

President	Hiroyuki Maekawa
Representative Director	Eiichi Suzuki
Representative Director	Yoichi Hasegawa
Representative Director	Tetsuo Shiota
Representative Director	Katsue Yoshida
Representative Director	Toshio Shimizu
Director	Norio Tsutsumi
Director	Toshinori Morita
Director	Kozo Eguchi
Director	Takashi Saeki
Director	Keisuke Yoshida
Director	Takashi Torizumi

Auditors

Auditor	Koichi Otaki
Auditor	Joe Mukaigawa
Auditor	Fumio Watanabe
Auditor	Kengo Yamashita

Executive Officers

President & CEO	Hiroyuki Maekawa	
Vice President	Eiichi Suzuki	Assistant to President, Overall Bulk Carrier Business, Dry Bulk Carrier Business
Senior Managing Executive Officer	Yoichi Hasegawa	Car Carrier Business, Heavy Lifter Business, New Business Planning & Development
Senior Managing Executive Officer	Tetsuo Shiota	Corporate Sector
Senior Managing Executive Officer	Katsue Yoshida	Energy Resources Transportation Business, Technical Sector
Senior Managing Executive Officer	Toshio Shimizu	Containership Business, Port Business
Managing Executive Officer	Shigeru Soda	CEO of “K” Line Holding (Europe) Limited
Managing Executive Officer	Norio Tsutsumi	Ship Planning Sector, Environment Preservation
Managing Executive Officer	Toshinori Morita	Human Resources, Information System, General Affairs, Legal
Managing Executive Officer	Shigenori Ishii	Thermal Coal, Woodchip and Pulp Carrier Business
Managing Executive Officer	Kozo Eguchi	Marine Sector
Managing Executive Officer	Eiichi Murakami	Car Carrier Business
Managing Executive Officer	Yoshikazu Minagawa	Energy Resources Transportation Business
Managing Executive Officer	Jiro Asakura	Coal & Iron Ore Carrier Business, Drybulk Planning
Managing Executive Officer	Takashi Saeki	Corporate Planning, Investor & Public Relations, Research, Total Logistics Business, CSR & Compliance
Managing Executive Officer	Eizo Murakami	Containership Business, Port Business
Managing Executive Officer	Mamoru Mori	Managing Director of “K” Line (Hong Kong) Ltd.
Executive Officer	Keisuke Yoshida	Finance
Executive Officer	Kiyoshi Terashima	Car Carrier Business
Executive Officer	Masami Sasaki	Marine Sector
Executive Officer	Takashi Torizumi	Accounting, Internal Audit
Executive Officer	Shigeo Itaya	Managing Director of K Line (China) Ltd.
Executive Officer	Kazutaka Imaizumi	Bulk Carrier Business
Executive Officer	Toshiyuki Suzuki	Containership Business, GM Containership Business Group
Executive Officer	Hiromichi Aoki	LNG Carrier Business, Energy Transportation Business Development

Objective and Mission of our CSR (Corporate Social Responsibility) Activities

The Corporate Principles of "K" Line Group as a business organization centering on shipping lie in contributing to the enrichment of people's lives worldwide, through: Diligent efforts for safety in navigation and cargo operations as well as for environmental preservation; Sincere response to customer needs by making every possible effort; and Continual upgrading of service quality. The Objective of our CSR activities is to materialize above Corporate Principles. The Mission of the CSR activities of "K" Line Group is, as a sustainable and globally growing group, to enhance its Social Value, through responding to the expectations of Stakeholders such as Customers, Shareholders, Employees, Business Partners and Society.

Basic Policies in Promoting CSR Activities

We recognize that the concept of CSR is composed of two areas, i.e. "Social Responsibility" and "Social Contribution." Our basic policies in promoting CSR activities in each respective area are as follows:

- Social Responsibility:
  We comply with all laws and regulations, respect social precepts, practice fair business activities, and make diligent efforts for safety in navigation and cargo operations as well as environmental preservation.
- Social Contribution:
  We contribute to society through our group business activities. And, as a "Good Corporate Citizen" we positively serve the community.

We are also moving forward with initiatives to build a mutually beneficial relationship with all stakeholders, in pursuit of the "Synergy for All and Sustainable Growth" set as a new theme in the new midterm management plan.

Safety in Navigation and Cargo Operations

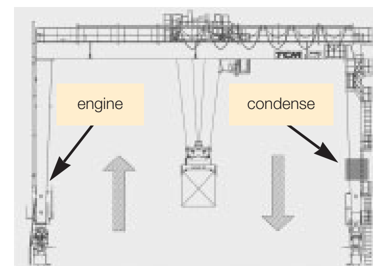
As of the end of fiscal 2007 the Group's fleet numbered 499 vessels, and is planned to increase the total to 640 by the end of fiscal 2011 and approximately 900 by our Centennial in 2019. The entire Group is committed to safety in navigation of its rapidly growing fleet, and is strengthening all our safety procedures developed over the years. It is noteworthy that 96% of our fleet is managed by our group companies. This allows integrated ship management starting at the newbuilding stage and continuing through the life of the ship. We are also committed to standardizing and enhancing marine technology related to safety in navigation and cargo operation. In order to secure and educate seafarers on a global scale, we are applying our in-house "K" LINE Maritime Academy (KLMA) concept to build up training centers both inside and outside Japan; laying down global training guidelines; and standardizing training program curricula. A maritime training facility was established in India in June 2007, and our facility in the Philippines, opened in 1993, was greatly enlarged in February 2008, and we are also engaged in training seafarers for loading and unloading oil tankers and LNG carriers, using simulators to create conditions very similar to those of actual operations.

Preservation of the Environment

Since environmental preservation was first raised as an important management issue in 1998, the Group has pursued initiatives under our Environmental Management System, in turn based on our own Environmental Policy. The new Midterm Management Plan going into effect this fiscal year identifies environmental initiatives as being of top priority. We review our environmental initiatives annually and set new goals for the following fiscal year as well as for the medium- and long-term targets. We continue our efforts to prevent water and air pollution and reduce consumption of natural resources.

Recent Initiatives

- We began introducing low-sulfur fuel oil for generator engines in containerships berthing at Tacoma and Vancouver in March 2007. The sulfur content as a percentage of fuel used in ships berthed at these ports should be 0.5% or lower. By this arrangement, SOx is reduced by about 80%, and PM (Particulate Matter) is reduced by about 70%.
- We have introduced a system that electronically controls the timing and the amount of lubricating oil to reduce the rate of consumption of lubricating oil.
- Daito Corporation, a Group company, installed three environmentally-friendly, energy-saving hybrid transfer cranes at its Ohi Terminal in Tokyo and Honmoku Terminal in Yokohama in 2007. Daito plans to introduce three additional cranes in 2008.



Social Contribution Activities

To fulfill our responsibilities as a good corporate citizen, “K” Line, together with the other members of its corporate group, actively engages in a wide range of social contribution activities. During the year under review we engaged in certain new social contribution activities in addition to continuing those we have been engaged in for many years. Below is a partial list of these activities.

✧ Tie-Up with an Overseas NPO

We participate as a member in the Clean Cargo Working Group sponsored by Business for Social Responsibility (BSR), a U.S. CSR and Environmental NPO engaged in preservation of the environment in the field of marine transportation. The world’s major owners of container cargo and shipping lines participate in this group.

✧ Donation of Scholarships

K Line (Thailand) Ltd., a group company in Thailand, has been granting scholarships to students studying transportation engineering in Thai Suranari University of Technology every year since fiscal 2005 after a memorial event celebrating the 40th anniversary of the company held in 2004. The scholarships have been provided to a total of 28 students.

✧ Hiring and Training Graduates of Technological University in the Philippines

We established the “K” Line Class at Technology University of Philippines Visayas to provide maritime training to candidates for chief engineer and first engineer at Group companies. The candidates will undergo on-the-job training onboard Group ships and then come aboard as engineers after acquiring their seamen’s license. We also made a contribution to the University to further increase effectiveness of the training program.

✧ Tree-Planting in Brazil

In celebration of establishment of “K” LINE BRASIL LTDA., an overseas subsidiary, we made a donation through ABJICA-SP of 1,000 trees for the suburbs of Sao Paulo in June 2007. We organized a tree-planting ceremony in January 2008 commemorating the 100th anniversary of the arrival of the first Japanese immigrants to Brazil.

✧ Support/Aid for Disasters

The Company made donations in response to the Chuetsu Offshore Earthquake in July 2007, an earthquake in Peru in August and a cyclone in Bangladesh in November of the same year. We also helped to transport supplies to support reconstruction, including clothing, medicine and medical equipment that were collected by domestic charitable organizations. The supplies were delivered to areas affected by the earthquake in Peru.

✧ Support for American Children’s Arts

“K” Line America, Inc. makes a donation to “Art 180”, a Richmond-based group focused on the welfare of at-risk children. This organization, along with other NPOs, provides young people the chance to express themselves through art, and to share their stories with others. Art 180 does this by designing and providing programs for young people challenged by their circumstances of poverty, neglect, the constant threat of drugs and violence, etc. The children’s artistic works are displayed in many places in the city. This program aims to create future leaders who transcend their circumstances and work to effect positive change around them.

✧ Tokyo Bay Cleanup Operation

In June 2008, our employees and their families participated in the Tokyo Bay Cleanup Operation held in Tokyo. The operation is a campaign taking place every year for a week starting from World Environment Day in June.

✧ Visits to Container Terminal

We provided opportunities for high school students to visit and view a containership berthed at Ohi Container Terminal at the Port of Tokyo, in cooperation with on-site study programs where high school students visit companies to learn about their business activities, products and services. To promote understanding of our work in marine transportation, we also offer opportunities for visits to container terminals by customers, mass media and students, including primary school social studies field trips.

The Wide World of “K” Line

C
Qinhuangdao
Xingang
Yantai
Rizhao
Lianyungang
Inchon
Daesan
Pyongtaek
Kunsan
Gwangyong
Pohang
Ulsan
Busan
Kwangyang
Masan
Yosu
Nantong
Baoshan
Majishan
Caojing
Yantian
Shekou
Chiwan
Huangpu
Nansha
Xiamen
Taichung
Mailiao
Kaohsiung
Yung Ann
Wenchang
Hong Kong

A
Aarhus
Fredericia
Hunterston
Redcar
Immingham
Teesport
Copenhagen
Dublin
Grimsby
Cuxhaver
Emden
Felixstowe
Thamesport
Shell Haven
Sheerness
Isle of Grain
Southampton
Fawley
Bristol
Cork
Port Talbot
Ijmuiden
Flushing
Antwerp
Ghent
Zeebrugge
Dunkirk
Cherbourg

B
Al Basrah
Bandar Imam Khomeini
Kuwait
Kharg Island
Mina al Ahmadi
Shuaiba
Mina Abdulla
Ras al Khafji
Assaluyeh
Jubail
Juaymah
Ras Tanura
Dammam
Halul Island
Sitra
Bahrain
Al Shaheen
Ras Laffan
Doha
Mesaieed
Jebel Dhanna
Das Island
Zirku Island
Bandar Abbas
Sirri Islands
Abu Dhabi
Mina Jabel Ali
Sharjah
Fujairah
Sohar
Ruwais
Ras AL Khaimah
Khor Fakkan
Mina al Fahal
P.S. Qaboos

Melkøya
Reykjavik
Copenhagen
Bremerhaven
Unsikaupunki
Hanko
Drammen
Paldiski
Helsinki
Hamina
Rotterdam
Oslo
Gdynia
Wallhamn
St. Petersburg
Antwerp
Halmstad
Sodertalje
Gdansk
Malmo
Stockholm
Felixstowe
Hamburg
Gothenburg
London
Bremen
Le Havre
Prague
Vienna
Bilbao
Genoa
Novorossiysk
Santander
Gijon
Vigo
Leixoes
Lisbon
Setubal
Savona
La Spezia
Fos
Livorno
Barcelona
Civitavecchia
Tarragona
Valencia
Naples
Salerno
Gioia Tauro
Koper
Trieste
Venice
Thessaloniki
Taranto
Constantza
Varna
Odessa
Ilichevsk
Derince
Istanbul
Gemlik
Izmir
Mersin
Larnaca
Tartous
Milazzo
Piraeus
Limassol
Beirut
Haifa
Hadera
Ashdod
Gibraltar
Algiers
Tunis
Malta/Valletta
Benghazi
Mohammedia
Casablanca
Tripoli
Zareis
Misrata
Alexandria
Idku
Damietta
Port Said
Abuzenima
Aqaba
Yanbu
Rabigh
Jiddah
Ain Sukhna
Ashkelon
Port Sudan
Bashayer
Ras Isa
Hodeidah
Aden
Dubai
Nouadhibou
Nouakchott
Dakar
Banjul
Kamsar
Bissau
Conakry
Freetown
Monrovia
Abidjan
Lome
Cotonou
Tema
Lagos
Port Harcourt
Bonny Island
Douala
Libreville
Pointe Noire
Matadi
Boma
Luanda
Mombasa
Darsalaam
Walvis Bay
Saldanha Bay
Cape Town
Johannesburg
Maputo
Richards Bay
Durban
East London
Port Elizabeth
Port Louis
Pointe de Galets
Karachi
Sikka
Pipavav
Mundra
Dahej
Mumbai
Nhava Sheva
Goa
New Mangulore
Calcutta
Vishakhapatnam
Chennai
Tuticorin
Colombo
Chittagong
Nanjing
Shanghai
Hefei
Hangzhou
Yantian
Wuhan
Chengdu
Chongqing
Guangzhou
Changchun
Beijing
Vostochny
Tianjin
Dalian
Seoul
Head office (Tokyo)
Qingdao
Suzhou
Ningbo
Fuzhou
Keelung
Taipei
Xiamen
Shenzhen
Hong Kong
Manila
Port Campha
Haiphong
Hanoi
Bangkok
Ho-Chi-Minh City
Shah Alam
Singapore
Jakarta
D
E
Napapa
Darwin
Gove
Griffin Venture
Cossack Pioneer
Varanus Island
Wandoo
Broome
Weipa
Cape Flattery
Townsville
Dalrymple Bay
Noumea
Legendre
Port Hedland
Abbot Point
Haypoint
Barrow Island
Wooly Butt
Port Walcott
Gladstone
Withnell Bay
Dampier
Cape Cuvier
Brisbane
Newcastle
Geraldton
Fremantle
Adelaide
Sydney
Botany Bay
Port Kembla
Eden
Kwinana
Bunbury
Esperance
Geelong
Western Port
Melbourne
Burnie
Launceston
Hobart

K “K” Line Overseas Major Affiliates and Representative Offices
● Ports of Call (Including Ports for DST & Feeder Services)
★ “K” Line’s World Headquarters

E

Nakagusuku
Kushiro
Muroran
Tomakomai
Noshiro
Akita
Sakata
Niigata-Higashi
Niigata
Toyama
Nanao
Tsuruga
Maizuru
Ofunato
Ishinomaki
Souma
Haramachi
Onahama
Hitachi
Hitachinaka
Kashima
Kimitsu
Chiba
Futtu
Tokyo
Kawasaki
Yokohama
Shimizu
Omaezaki
Toyohashi
Atsumi
Kinuura
Nagoya
Owase
Yokkaichi
Sakai-Senboku
Wakayama
Kakogawa
Himeji
Tagonoura
Kawagoe
Osaka
Kobe
Chita
Takehara
Kure
Hiroshima
Misumi
Sakaiminato
Iwakuni
Yanai
Ube
Tokuyama
Nakanoseki
Moji
Tobata
Hibikinada
Hakata
Matsuura
Matsushima
Kanda
Oita
Reihoku
Tsukumi
Sendai
Tonda
Hososhima
Aburatsu
Shibushi
Kiire
Sakaide
Fukuyama
Mizushima
Tachibana
Komatsujima
Kikuma
Iyomishima
Niihama

F

Boston
New York
Baltimore
Cove Point
Morehead City
Wilmington
Savannah
Sparrows Point
Norfolk
Portsmouth
Elba Island
Charleston
Brunswick
Hamilton
Jacksonville
Houston
Lake Charles
Mobile
Port Canaveral
Galveston
New Orleans
Freeport
Miami
Port Everglades
Nassau
Altamira
Veracruz
Santo Domingo
Frederiksted
Philipsburg
Basseterre
Pointe-a-Pitre
Port-au-Prince
San Juan
Roseau
Kingston
St. John's
Castries
Fort de France
Kingstown
Bridgetown
Santo Tomas de Castilla
Puerto Quetzal
Puerto Cortes
Acajutla
San Lorenzo
Corinto
Caldera
Bonaire
Curacao
Aruba
St. George's
Port of Spain
Puerto Sucre
Guanta
La Guaira
Point Fortin
Cristobal
Puerto Limon
Cartagena
Puerto Cabello
Balboa
Manzanillo

Kenai
Prince Rupert
Vancouver
Roberts Bank
New Westminster
Tacoma
Seattle
Portland
Coos Bay
Benicia
Richmond
Stockton
Sacramento
San Francisco
Oakland
Port Hueneme
Lakewood
Long Beach
Los Angeles
San Diego
Ensenada
Cedros Island
Topolobampo
Mazatlan
Manzanillo
Lazano Caldenas
Acapulco
Altamira
Mexico City
Honolulu
Toronto
Seven Islands
Montreal
Halifax
Chicago
Omaha
Detroit
Boston
New York/New Jersey
Baltimore
Columbus
Cleveland
Memphis
Norfolk
Richmond
Charleston
Houston
Atlanta

F

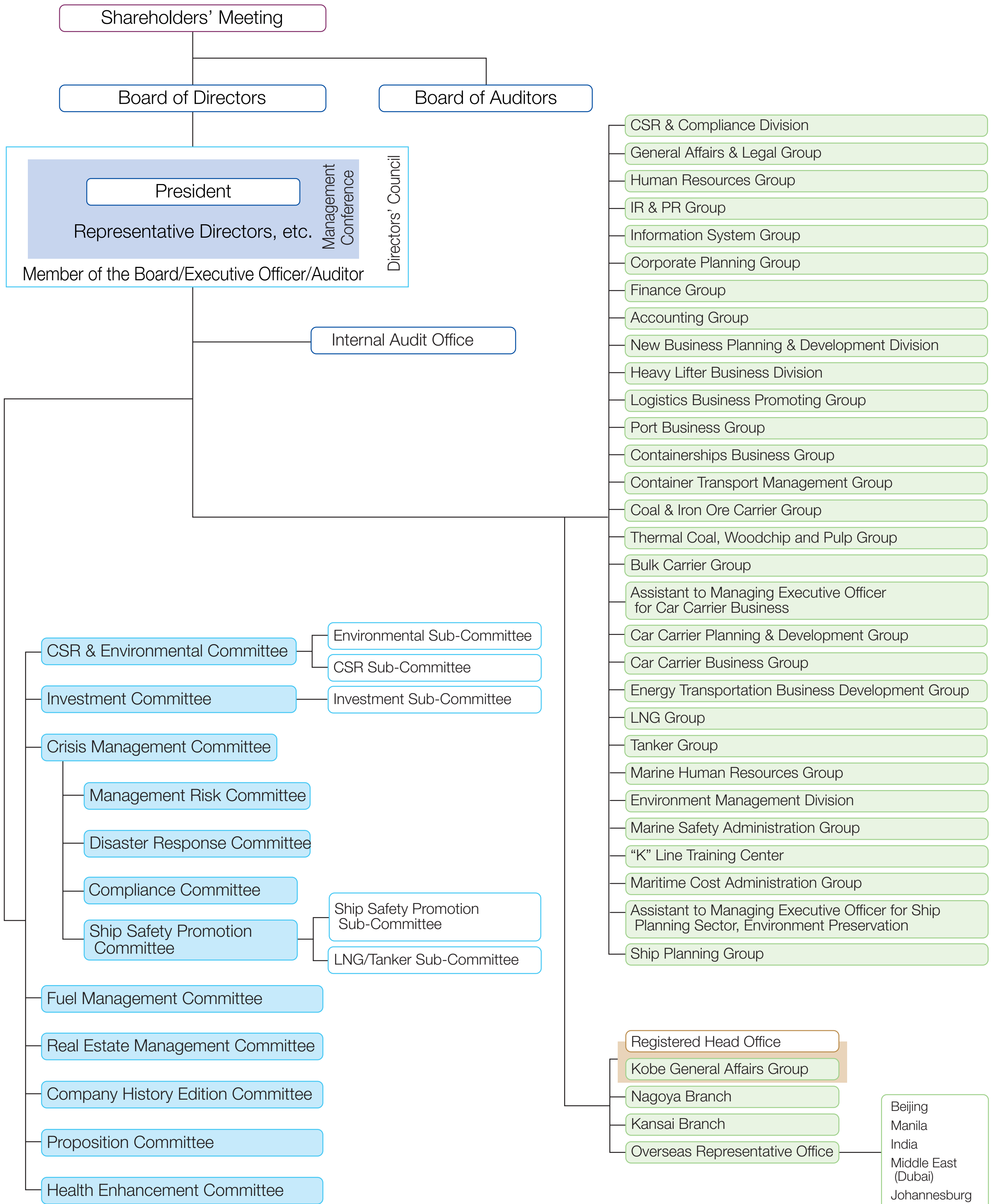
Buenaventura
Esmeraldas
Manta
Guayaquil
Callao
Lima
Matarani
Arica
Iquique
Antofagasta
Huasco
Guayacan
Valparaiso
Santiago
San Antonio
San Vicente
Punta Arenas
Ponta da Maderia
Fortaleza
Salvador/Miguel de Oliveira
Vitoria
Ponta Do Ubu
Praia Mole
Tubarao
Rio de Janeiro
Guiba
Santos
Sao Paulo
Paranagua
Sao Francisco do Sul
Itajai
Rio Grande
Campana
Zarate
Montevideo
Buenos Aires
Bahia Blanca

D

Danang
Sriracha
Laem Chabang
Vung Tau
Cebu
Surat Thani
Villanueva
Iligan
Krabi
Penang
Dulang
Malong
Tanjung Sulong (Kemaman)
Seria
Kota Kinabalu
Blang Lancang
Belida
Labuan
Miri
Muara
Sandakan
Tawau
Bontang
Santan
Kuantan
Port Kelang
Tanjong Pelapas
Kuching
Bintulu
Dumai
Karimum
Pasir Gudang
Balikpapan
Senipah
Tanjung Bara
North Plau Laut
Banjarmasin
Widuri
Cinta
Cigading
Balongan
Semarang
Surabaya

Whangarei
Taharoa
Napier
Lyttelton

Organization



(as of July 1, 2008)

Fleet and Container Terminals

"K" Line Group Composition of Fleet (as of March 31, 2008)

Type of Vessel	2008 Owned No.	2008 Owned DWT (mt)	2008 Chartered No.	2008 Chartered DWT (mt)	2008 Total No.	2008 Total DWT (mt)	2007 Total No.	2007 Total DWT (mt)
Containerships	12	594,366	87	3,600,106	99	4,194,472	89	3,860,942
		14%		86%		100%		
Dry Bulk Carriers	48	5,369,728	121	12,245,118	169	17,614,846	159	16,912,403
		30%		70%		100%		
Car Carriers	35	478,070	67	897,644	102	1,375,714	100	1,356,238
		35%		65%		100%		
Tankers and Gas Carriers								
LNG Carriers	21	1,480,563	2	154,704	23	1,635,267	22	1,556,048
Oil Tankers	8	1,645,226	10	1,432,669	18	3,077,895	15	2,550,702
Product Tankers	1	99,992	4	421,433	5	521,425	5	500,860
LPG Carriers	2	99,995	3	109,097	5	209,092	3	149,991
Sub Total	32	3,325,776	19	2,117,903	51	5,443,679	45	4,757,601
		61%		39%		100%		
Heavy Lift	6	55,991	9	75,468	15	131,459	—	—
		43%		57%		100%		
Other Group Companies' Fleet								
Short Sea Ships	9	127,699	20	236,195	29	363,894	17	82,818
Coastal Ships	12	66,866	5	20,386	17	87,252	29	364,006
Ferries	3	12,744	2	6,819	5	19,563	5	19,244
Others	1	11,075	—	—	1	11,075	—	—
Sub Total	25	218,384	27	263,400	52	481,784	51	466,068
		45%		55%		100%		
Total	**158**	**10,042,315**	**330**	**19,199,639**	**488**	**29,241,954**	**444**	**27,353,252**
		34%		**66%**		**100%**		

Note: Fleet operated by the Company and consolidated subsidiaries. (Trip charters included.)

"K" Line On-Dock Terminals (as of March 31, 2008)

Terminal	Location	Berth Length	Berth Depth	Total Area	Container Storage Space
Japan					
"K" Line Tokyo Container Terminal	Tokyo Ohi	660m	15m	259,500m^2	4,370 TEU*
"K" Line Yokohama Container Terminal	Yokohama Honmoku	400m	12m	133,591m^2	1,968 TEU
"K" Line Osaka Container Terminal	Osaka Nanko	350m	14m	63,031m^2	1,082 TEU
"K" Line Kobe Container Terminal	Kobe Rokko	800m	14m	355,900m^2	4,716 TEU
U.S.A.					
International Transportation Service, Inc.	Long Beach	1,920m	13-16m	955,000m^2	15,905 TEU
Husky Terminal & Stevedoring, Inc.	Tacoma	830m	16m	376,000m^2	4,800 TEU
TransBay Container Terminal Inc.	Oakland	320m	14m	182,000m^2	2,551 TEU
Belgium					
Antwerp International Terminal NV*[1]	Antwerp	350m	15.5m	175,000m^2	2,990 TEU

*1: Capital Participation Realized by Joint Management.

* TEU: Twenty Foot Equivalent Unit

Major Subsidiaries and Affiliates

DOMESTIC

Business		Company Name	"K" Line's Ownership (%)*	Paid-in Capital (millions)	Revenue (millions)
Marine Transportation		Kawasaki Kinkai Kisen Kaisha, Ltd.	50.7	¥2,368	¥45,511
		Asahi Kisen Kaisha, Ltd.	100.0	100	577
		Kobe Pier Co., Ltd.	100.0	100	69
	★	Badak LNG Transport, Inc.	25.0	80	6,288
	★	Shibaura Kaiun Co., Ltd.	100.0	20	367
Shipping Agency		"K" Line (Japan) Ltd.	100.0	150	3,005
	★	Shimizu Kawasaki Transportation Co., Ltd.	50.0	10	393
Ship Management		"K" Line Ship Management Co., Ltd.	100.0	75	15,466
		Taiyo Nippon Kisen Co., Ltd.	100.0	400	25,130
		Escobal Japan Ltd.	100.0	10	380
Harbor Transportation/ Warehousing		Daito Corporation	100.0	842	25,859
		Nitto Total Logistics Ltd.	100.0	1,596	12,376
		Hokkai Transportation Co., Ltd.	80.1	60	11,154
		Seagate Corporation	100.0	270	7,845
		Nitto Tugboat Co., Ltd.	100.0	150	4,104
		Tokyo Kokusai Koun Kaisha, Ltd.	70.0	75	1,986
	★	Rinko Corporation	25.1	1,950	12,992
	★	Kokusai Logistics Co., Ltd.	83.3	100	1,411
Logistics		"K" Line Logistics, Ltd.	90.7	400	42,098
Land Transportation		Japan Express Transportation Co., Ltd.	100.0	100	6,125
		Shinto Rikuun Kaisha, Ltd.	100.0	30	1,132
		Maizuru Kousoku Yusou Co., Ltd.	100.0	25	830
Container Repairing		Intermodal Engineering Co., Ltd.	100.0	40	1,082
Travel Business		"K" Line Travel, Ltd.	100.0	100	8,940
Other Business		"K" Line Engineering Co., Ltd.	100.0	50	3,978
		Shinki Corporation	100.0	80	2,212
		"K" Line Systems, Ltd.	100.0	40	1,447
		KMDS Co., Ltd.	100.0	40	1,345
		Kawaki Kosan Kaisha, Ltd.	100.0	30	838
		Crown Enterprise Co., Ltd.	100.0	10	413
		"K" Line Accounting and Finance Co., Ltd.	100.0	100	198

*1 Operating revenues of Century Distribution Systems (Shipping) Limited for Fiscal 2007 are aggregated with those of its parent company, Century Distribution Systems (International) Limited.

★ Subsidiaries and Affiliates Accounted for the Equity Method
* Includes Holdings of Subsidiaries

¥: Japanese yen
£: Pounds sterling
A$: Australian dollars
RMB: Chinese renminbi
BAT: Thai baht
RP: Indonesian rupiah
S$: Singapore dollars
EUR: Euro
HK$: Hong Kong dollars
MYR: Malaysian ringgit
US$: United States dollars
NT$: New Taiwan dollars
WON: Korean won
C$: Canadian dollars
MXN: Mexican peso
DKK: Danish krone
NOK: Norwegian krone
SEK: Swedish krone

(as of March 31, 2008)

OVERSEAS

Business		Company Name	"K" Line's Ownership (%)*	Paid-in Capital (millions)	Revenue (millions)
Marine Transportation		"K" Line Pte Ltd	100.0	US$1.1	US$355
		"K" Line Bulk Shipping (UK) Limited	100.0	US$34	US$204
		"K" Line European Sea Highway Services GmbH	100.0	EUR5	EUR89
		"K" Line LNG Shipping (UK) Limited	100.0	US$6	US$16
	★	Northern LNG Transport Co., I Ltd.	49.0	US$40	US$16
	★	Northern LNG Transport Co., II Ltd.	36.0	US$42	US$16
		SAL Schiffahrtskontor Altes Land GmbH & Co. KG	50.0	EUR0.2	EUR3
Shipping Agency		"K" Line America, Inc.	100.0	US$15.5	US$75
		"K" Line (Australia) Pty Limited	100.0	A$0.0001	A$15
		"K" Line (Belgium)	51.0	EUR0.06	EUR2.7
		"K" Line Canada, Ltd.	100.0	C$0.1	US$1.6
		K Line (China) Ltd.	100.0	US$2	US$24
		"K" Line (Deutschland) GmbH	100.0	EUR0.2	EUR7.7
		"K" Line (Europe) Limited	100.0	£0.01	£17
		"K" Line (Finland) OY	51.0	EUR0.01	EUR1.7
		"K" Line (France) SAS	100.0	EUR0.5	EUR3
		"K" Line (Hong Kong) Limited	100.0	HK$15	HK$288
		"K" Line (Korea) Ltd.	100.0	WON400	WON6,465
		"K" Line Maritime (M) Sdn Bhd	57.5	MYR0.3	MYR15
		K Line Mexico, SA de CV	100.0	MXN0.9	US$0.3
		"K" Line (Nederland) B.V.	100.0	EUR0.1	EUR4
		K Line (Norway) AS	100.0	NOK0.1	NOK3
		"K" Line (Portugal)–Agentes de Navegação, S.A.	51.0	EUR0.2	EUR2
		"K" Line (Scandinavia) Holding A/S	51.0	DKK1	DKK17
		"K" Line (Singapore) Pte Ltd	95.0	S$1.5	S$16
		K Line (Sweden) AB	100.0	SEK0.1	SEK16.6
		"K" Line (Taiwan) Ltd.	60.0	NT$60	NT$302
		K Line (Thailand) Ltd.	34.0	BAT30	BAT1,542
		"K" Line (Western Australia) Pty Limited	100.0	A$0.0001	A$0
		PT. K Line Indonesia	95.0	RP463.6	RP63,471
Terminal Operator		International Transportation Service, Inc.	100.0	US$20	US$236
		"International Terminal Service of Augusta" S.r.l.	100.0	EUR14.8	EUR0
		The Rail-Bridge Terminals (New Jersey) Corporation	100.0	US$3	US$5
		TransBay Container Terminal, Inc.	95.0	US$0.1	US$22
	★	Husky Terminal & Stevedoring, Inc.	50.0	US$0.1	US$43
Freight Consolidation		Century Distribution Systems, Inc.	99.5	US$2.3	US$7
		Century Distribution Systems (Europe), B.V.	100.0	EUR0.02	EUR0.1
		Century Distribution Systems (Hong Kong) Limited	100.0	HK$0.08	HK$80
		Century Distribution Systems (Shenzhen) Limited	100.0	RMB6.5	RMB41.6
		Century Distribution Systems (International) Limited	100.0	HK$1.8	HK$104
	*1	Century Distribution Systems (Shipping) Limited	100.0	HK$0.000001	
Warehousing		Universal Logistics System, Inc.	100.0	US$12.3	US$1
		Universal Warehouse Co.	100.0	US$0.05	US$4.8
		Universal Warehouse Co. (NW)	100.0	US$0.0001	US$0.17
Logistics		"K" Line Logistics (Hong Kong) Ltd.	100.0	HK$8	HK$209
		"K" Line Logistics (U.K.) Ltd.	100.0	£0.2	£4
		"K" Line Logistics (U.S.A.) Inc.	100.0	US$0.5	US$38
		"K" Line Logistics (Singapore) Pte. Ltd.	100.0	S$1.15	S$23
		K Line Logistics (Thailand) Ltd.	86.4	BAT20	BAT380
		K Line Logistics South East Asia Ltd.	95.0	BAT73	BAT0
Land Transportation		James Kemball Limited	100.0	£0.01	£17
		ULS Express, Inc.	100.0	US$0.05	US$8
Container Repairing	★	Multimodal Engineering Corporation	100.0	US$0.15	US$7
Financing		"K" Line New York, Inc.	100.0	US$17.1	US$36
Holding Company		Kawasaki (Australia) Pty. Limited	100.0	A$4.8	A$0.7
		"K" Line Holding (Europe) Limited	100.0	£20	£0
		"K" Line Heavy Lift (UK) Limited	100.0	EUR17	EUR10
Other Business		Connaught Freight Forwarders Limited	100.0	HK$0.01	HK$0.1
		Cygnus Insurance Company Limited	100.0	US$3	US$3
		"K" Line TRS S.A.	100.0	US$0.006	US$0
		Marinus Enterprise, Inc.	100.0	US$0.5	US$0
	★	PrixCar Services Pty Limited	33.3	A$2.2	A$56

Financial Section

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Review of Fiscal 2007

During fiscal 2007 both the domestic and global economies performed well. Nevertheless the subprime loan issue created turbulence in financial markets in both Europe and United States, but did not cause any significant impact to the real economy until end of the reporting period, other than a decline in home sales in the United States.

The economies of European countries performed strongly, supported by a favorable employment environment, while the BRICs and resource-rich countries such as those in the Middle East achieved economic expansion boosted by significant capital investment and growth in domestic consumption. The Japanese economy achieved modest expansion powered by brisk exports to China and emerging economies, plus robust capital investment and consumer spending.

The environment surrounding marine transportation was characterized by an unprecedentedly high dry bulk market, while containership and car carrier operations benefited from brisk trading of goods that generated high cargo volumes. Business was stable in the energy transportation and tanker business, in which the Company operates oil tankers and LNG carriers. Overall, therefore, the business environment was robust.

In the previously reported environment, “K” LINE Group worked to expand its business based on policies prescribed in “K” LINE Vision 2008+, our midterm business plan. As a result, operating revenues for fiscal 2007 increased by ¥245.509 billion year-on-year to ¥1,331.048 billion on a consolidated basis. Operating income increased by ¥68.292 billion to ¥129.649 billion, impacted strongly by steep increases in fuel oil prices and rises in operating expenses, also by sharp fluctuations in exchange rates through the year-end. The ratio of operating income to sales rose by 4.0 percentage points to 9.7%.

Although the financial balance remained flat compared with the previous year, at ¥1.441 billion, the non-operating income fell to a deficit of ¥3.781 billion owing to factors such as the posting of exchange losses totaling ¥7.689 billion, up by ¥6.652 billion year-on-year. Net extraordinary gains totaled ¥10.961 billion, resulting mainly from the sale of Non-Current Assets and Investment Securities, with the result that income before income taxes and minority interests for fiscal 2007 increased by 79.2% to ¥136.828 billion.

After adjustment for current and deferred income taxes and minority interests, net income for the reporting period rose by ¥31.498 billion to ¥83.012 billion. Thus, both revenues and profits reached historical highs.

As of the reporting period, the criteria for calculating revenues from freight transportation for containership business has been changed to composite transportation criteria under which revenues are calculated according to the proportion of transportation periods that have elapsed for each cargo. In consequence, operating revenues, operating income, and net income each declined by ¥11.791 billion.

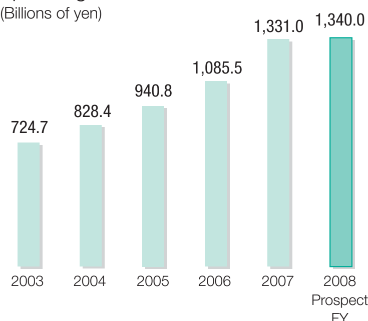
Operating Results by Segment

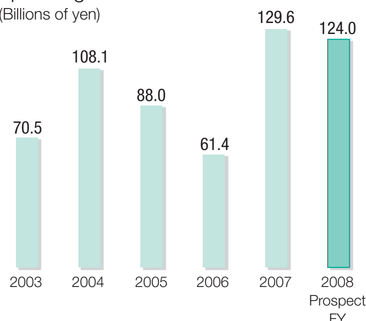
Marine Transportation

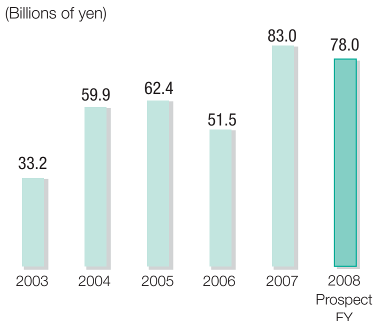
The marine transportation segment as a whole achieved operating revenues of ¥1,176.944 billion, up by 25.6% year-on-year, and operating income of ¥113.576 billion, up by 150.3%.

◆ Containership Services ◆

Supported by the expansion of the global economy, cargo movements were generally healthy. European trade especially achieved increase of some 20%, backed by a strong Euro that encouraged Northern Europe trade, also by strong consumer spending in Russia and neighbouring Eastern European countries. On the service to North America, cargo movements from Asia have been slowing down from the second half due to a fall in housing-related cargoes, with the result that total cargo







volume was relatively flat for the year as a whole. Backed by newly-built large 8,000TEU size vessels operated since the middle of 2006, the Company achieved 9% growth in cargo volume to Europe, and freight-rate levels were well up year-on-year. North America trade was boosted by an increase in the number of vessels resulting from the addition of two new services to the East Coast inaugurated during the previous fiscal year, with the result that cargo volume was up by 11%, in addition to our also being able to raise freight rates. Overall cargo volume was also up on East Asian trades, bolstered in particular by strong demand for export cargoes from Japan.

On our North/South Service networks, we inaugurated two new routes linking the east coast of South America with Europe and with East Asia; and on South African routes we enlarged vessel size to match with boost in transportation demand. As a result, cargo volumes rose by a substantial 36% year-on-year, and freight-rate levels also rose. In consequence, the overall business performance of the containership segment showed year-on-year growth in both revenues and profits in spite of the impact of negative factors such as further steep rises in fuel oil prices and changes in accounting policy.

◆ Bulk Carrier and Car Carrier Services ◆

In dry bulk transportation, market freight rates for large size carriers remained in a high range supported by the persistence of tight supply-demand conditions in view of the strong requests for vessels to carry larger cargo volumes. The imports by China of iron-ore jumped by 60 million tons to some 380 million tons, together with a marked increase in transportation distance per ton. For example, the quantity of iron ore shipped via the long distance from Brazil totaled around 100 million tons, up by some 25 million tons year-on-year.

Lower vessel operating rates affected by prolonged congestion at coal ports in Australia was an additional factor strengthening demand for vessels. The Company secured stable earnings from long-term transportation contracts for such cargoes as raw materials for steelmaking, thermal coal and raw materials for paper production, also benefited from sharp increases in freight rates through the efficient allocation of vessels on spot contracts. As a result, dry bulk carrier business as a whole achieved year-on-year increases in both revenues and profits.

In the car carrier business, ocean transport of complete vehicles from Japan grew by some 9% from the previous year to approximately 3.4 million units despite a decline in exports to the United States owing to the slow market there which was counterbalanced by substantial volume of exports to emerging countries. Business was also boosted by the development of new services to China, India, Middle Eastern countries and South Africa, leading shipments to those regions to rise by 22% year-on-year, while shipments to Latin America and the Caribbean were up by 38%. In addition, increased transportation capacity resulting from the launch of five newbuildings, together with efficient fleet allocation, enabled us to secure earning opportunities that resulted in the generation of stable earnings.

In consequence, the bulk carrier and car carrier business overall posted year-on-year increases in both revenue and profits.

◆ Energy Transportation and Tanker Services ◆

In LNG carrier services, this year's reporting period saw the completion of two new vessels, raising the fleet that the Company owns or is involved in operating to 33.

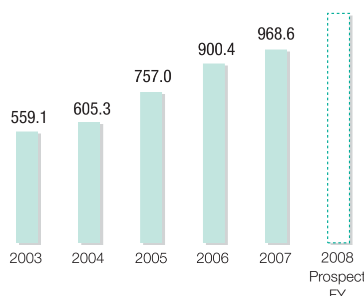
Additionally, the Company successfully operated one vessel on short-term charters to take advantage of heavy demand for spot cargo shipments enabling it to generate stable earnings.

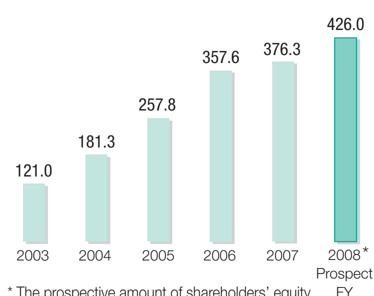
In tanker services, rates remained close to their year-earlier levels through the period, supported by heavy demand for oil by countries such as China and India. The Company added one VLCC and two ammonia carriers to its fleet during the period, but because of sharp rises in fuel costs and operating expenses, profits were down slightly from the previous year.

As a result, energy transportation and tanker business posted growth in revenues but with a decline in profit.

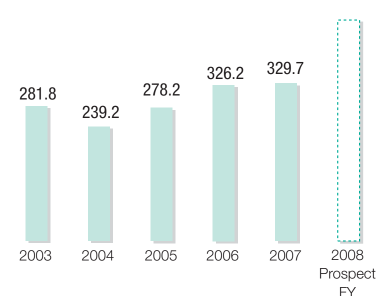
◆ Heavy-Lift Shipping Services ◆

During the reporting period we re-entered the heavy-lift shipping business by taking a 50% equity stake in the German-based SAL Group which specializes in that business category. Today, there is massive demand for the transportation of large cargoes relating to energy development and the development of infrastructure being undertaken because of the growing demand for energy-related resources. As expected, these activities have contributed to earnings as an integral





* The prospective amount of shareholders' equity



part of our marine transportation segment.

◆ Short Sea/Coastal Shipping Services ◆

In domestic shipping services, the Company maintained high vessel operating rates primarily for specialized limestone carriers, owing to strong demand from the domestic steel and cement industries. The Company also expanded the scale of its roll-on/roll-off (RORO) ship services by introducing a newly-built replacement RORO vessel and by inaugurating new services.

In ferry services, the Company increased its operating frequency between Hachinohe and Tomakomai to four sailings per day from two in the previous year. Total volume of both passengers and trucks rose as a result, generating substantial revenue growth.

Logistics/Harbor Transportation

In the logistics/harbor transportation segment as a whole, we achieved year-on-year growth of 3.3% in operating revenues to ¥131.315 billion even though operating income slipped by 0.8% to ¥13.715 billion. This was attributable to negative factors such as the shift from air to ocean transport as a result of the sharp increases in crude-oil prices and resulting higher fuel costs for land transport business.

Other Business

In businesses other than those described above, operating revenues totaled ¥22.789 billion, up by 6.1% year-on-year, and operating income was ¥2.187 billion, up by 22.6%.

Outlook for Fiscal 2008

The outlook for fiscal 2008 is shrouded by a number of uncertainties such as economic trends in leading countries, impact of the subprime loan issue on the real economy, exchange rates and trends in crude-oil prices. Nevertheless, marine cargo movements centered on China and emerging countries are projected to be robust, and the supply-demand relationship should remain stable.

In containership business it is expected that the subprime loan issue will dampen and choke off growth on routes to North America, but cargo movements on European and North/South service should remain firm. Given this environment in these trades, any increase in shipping tonnage will primarily be directed not at North American service with its stagnating demand, but instead on the European side in which cargo movements are expected to remain robust. On European service in particular, with the long voyage distances, ocean shipping companies are adding another vessel to those introduced for the purpose of reducing fuel costs, and are adopting a general practice of assigning vessels in a way that permits slower sailing. This appears to be bringing a certain supply-demand adjustment mechanism into play. On intra-Asia and North/South services we forecast that demand will expand as a result of robust capital investment and increasing purchasing power, and that this will help to bring about a substantial increase in cargo volumes. We also forecast that increases in items such as fuel, expenses for rail movement and other modes of inland transportation, terminal-related expenses, as well as the cost of measures to conserve the environment will prompt more efforts to cut costs and raise rates. In fiscal 2008 our results therefore will show growth in revenues but a decline in profit.

In bulk carrier and car carrier business, there is expected to be global growth in demand for resource-related transportation, and dry bulk market should continue to move in a high range. Nevertheless, in part because of uncertainties such as trends in the Chinese economy after the Beijing Olympics, there is concern in predicting freight levels that rate trends will be somewhat more unstable than in fiscal 2007.

Given this operating environment, in dry bulk carrier services we will introduce 13 newbuildings to expand the scale of our operations, and will endeavor to secure stable growth in earnings by increasing the number of medium- and long-term cargo contracts. With respect to car carriers, there is expected to be ongoing heavy demand for cargo movements, particularly among emerging and resource-rich countries, so we expect global marine cargo movements to retain a firm undertone. To cater to the expansion of trade in completed vehicles we will add four newbuildings to expand our business scale in order to secure stable earnings in this area.

With regard to energy transportation and tanker business, in fiscal 2008 our LNG carrier fleet is scheduled to be supplemented by 14 newbuildings, bringing the total to 47 vessels. We will endeavor to meet in a flexible and positive manner the requirements of LNG transportation as user needs continue to diversify, further expanding the scope of our business. With regard to oil tankers, through the completion of newbuildings we will increase our supply capacity, and even though forecasts indicate a temporary softening of the tanker supply-demand situation, there is expected to be global growth in demand for oil, particularly by China and India. We also expect single-hull tankers to be successively retired in response to the increasing calls for safe transportation and environmental protection, so this market should generally remain firm. Through safe and efficient allocation of ships, we will aim to ensure stable earnings.

In heavy-lift shipping business, which we have jointly undertaken with the German-based SAL Group, a specialist in this field, we intend to supplement our existing fleet with three new vessels equipped with cranes having lift capability of 1,400 tons (700 tons × 2), making a total of 18 vessels. With a high-performance fleet and advanced operating know-how, we aim to meet the increasing demand for heavy-lift shipping

and secure stable earnings from this business.

In domestic shipping services, our Company Group plans to complete the building of two new vessels for use in secondary domestic coal transportation, aiming to increase earnings by introducing competitive vessels. In the sphere of ferry services we will be active in operating passenger ferries on the Hachinohe-Tomakomai route with a schedule of four sailings per day, endeavoring to secure steady volume of both passenger and truck traffic, and strengthening the overall foundation of these services.

Assuming an expansion in the scale of operations throughout the marine transportation segment as described above, and a bullish forecast for freight rates, we predict a year-on-year rise in revenues, but with decline in profit.

In the logistics and harbor transportation segment the harsh cost environment is expected to continue. However, our aim will be to further expand earnings by striving to reduce costs in every possible way such as implementing measures to counter rises in fuel costs, also by continuing our vigorous efforts to broaden the customer base.

In the “other business” segment we expect results to remain basically at their year-earlier level.

As a result of the above, our forecast for consolidated results in fiscal 2008 is for operating revenues of ¥1,340 billion, operating income of ¥124 billion and net income of ¥78 billion. These forecasts are premised on the assumption of an average yen/dollar exchange rate throughout the period of ¥100 to US$1, and a fuel price of US$520 per ton.

Financial Position

As of the end of fiscal 2007, total assets stood at ¥968.630 billion, representing an increase of ¥68.191 billion from the previous year-end. The principal components of this increase were vessels and construction in progress which more than offset a decline in the value of securities resulting from falling prices of equity holdings.

Current liabilities increased by ¥15.551 billion, which is mainly attributable to increases in trade payables and accrued income taxes resulting from the expansion of the Company’s business scale, and which more than offset declines in the current portion of bonds redeemable within one year and in short-term borrowings. Long-term liabilities increased by ¥33.988 billion, owing primarily to an increase in long-term borrowings despite a decline in bonds. As a result, total liabilities stood at ¥592.353 billion at the end of fiscal 2007.

Net assets stood at ¥376.277 billion, representing a year-on-year increase of ¥18.652 billion. Principal factors for this were a decline in valuation and translation adjustments as a result of falling prices of equity holdings, also an increase in retained earnings.

As a net result of the above, the equity ratio as of the end of fiscal 2007 was 36.7%, down by 1.6 percentage points. Return on equity (ROE) rose by 6.6 points to 23.7%, and the debt-to-equity ratio (DER) improved by 0.02 of a point to 0.93.

Cash Flow

Cash and cash equivalents at the end of fiscal 2007 stood at ¥48.044 billion, representing a decline of ¥12.449 billion from the previous year-end.

Net cash provided by operating activities totaled ¥141.238 billion compared with ¥66.483 billion a year earlier, attributable principally to an increase in income before income taxes.

Net cash used in investing activities totaled ¥145.541 billion compared with ¥102.853 billion a year earlier, owing mainly to expenditures for acquisition of vessels.

Net cash used for financing activities totaled ¥7.460 billion compared with net cash ¥53.377 billion provided in the previous year, owing mainly to outflow for repayment of borrowings.

Basic Policy on Payment of Dividends and Dividend Payouts

The Company considers maximizing return of profit to shareholders to be an important issue, giving due consideration to fundamental issues contained in management plans, including the appropriation of funds for capital investment, also retention of earnings necessary for enhancing and strengthening the essential fabric of the Company. Our policy is to set an interim target payout ratio of 25% on a consolidated basis in fiscal 2011, with a view to achieving a payout equivalent to 30% by the mid-2010s, steadily increasing the ratio from the 20% payout figure for this reporting period.

The dividend for fiscal 2007 has been determined in line with a 20% payout ratio as projected at ¥26 per share.

With regard to the dividend for the current fiscal year, after comprehensively taking factors such as the Company’s financial position and outlook for the full term into consideration, payout ratio is projected to be 22%-23%, making the dividend for the year ¥27 per share, including the interim dividend of ¥13.5 per share.

Business Risks

We are engaged in international business. When any unexpected event occurs in the areas and markets with which the "K" Line Group's business is involved, due to political or economic factors, and/or natural phenomena, this could exert an adverse effect upon the Group's business. In the field of marine transportation, which is our main line of business, cargo movements and freight markets are exposed to a variety of influences stemming from economic trends in various parts of the world, commodity markets, the balance of supply and demand relating to ship space, and a multiplicity of competition. The above-mentioned trends all possess the potential to exert an adverse impact on our business activities and achievements.

Economic movements in the main exporting and importing nations of the world — North America, Europe, Japan and China — including changes in taxation systems and the appearance of inflationary trends, legal enforcement of rules/regulations for protectionism in foreign trade and changes in the policies of individual nations are likely to give rise to a decline in cargo movements between nations and a fall in the volume of freight in the markets exposed to severe price competition, resulting in an impact on our business achievements and financial status.

Factors other than those listed above are detailed below. We attempt, insofar as is possible, to anticipate the likely materialization of such risks sufficiently in advance, and to diligently prepare all counter-measures deemed necessary to protect against them.

Currency Fluctuations

A high proportion of operating revenues of the group is U.S. dollar-based, the value of which is naturally susceptible to being influenced after conversion into Japanese yen at the exchange rate prevailing at the time of conversion.

Efforts are being made to minimize the adverse impact of currency fluctuations by means of a shift towards dollar-based expenses, and by utilizing currency derivatives.

In spite of the above efforts, the appreciation of the yen against the U.S. dollar is likely to have adverse effects on the financial position and business performance of the Group.

Fuel-Oil Price Fluctuations

Fuel-oil costs occupy a large portion of the Group's total operational expenses. Fuel-oil prices fluctuate due mainly to factors outside the control of the Group, such as the balance of supply and demand for crude oil, production and pricing policies adopted by OPEC and other oil-producing nations, which change according to political and oil-production situations in oil producing nations. As we are all aware, it is incredibly difficult to speculate on these factors with any degree of accuracy. Maximum efforts — through the use of futures trading and similar measures — are being made to alleviate whatever adverse impact may arise from such factors.

The prevailing and continual significant hikes in fuel-oil prices and decline in supply of quantity, nonetheless, will result in pushing up the business costs of the Group, with the possibility of having an adverse impact on the financial position and business performance of the Group.

Interest-Rate Fluctuations

We have continued to pursue investment in new shipbuildings and other capital investment. Needless to say, we are attempting to reduce interest-bearing liabilities by utilizing retained earnings and operating leases. We will still depend quite significantly on borrowing from financial institutions for the foreseeable future.

With respect to borrowing for mainly capital investment, we try to borrow at fixed interest rates, fixed interest rate swaps, etc. in preparation for rises in interest rates in the future. It should be understood, however, that the costs of procuring funds are exposed to interest-rate fluctuations. This could worsen the financial position and business performance of the group.

Public Regulations

Shipping is regulated by various international conventions and treaties related to shipping operations, registry and construction and national or regional laws/rules/regulations related to business permits and taxes. Laws/rules/regulations newly legislated may restrict business activities of the Group or increase business costs, resulting in an adverse impact upon the financial position and business performance of the Group.

The entire fleet of ships operated by the Group is being managed and operated in compliance with current laws/rules/regulations, and it is also adequately insured. In case laws/rules/regulations are changed in the future, extra expenses may be incurred in response to new legal restraints or requirements.

Safe Ship Operations and Environmental Preservation

It is a top-priority for the Group to address itself to safe ship operation and the preservation of the environment. We are doing our best to maintain, upgrade and strengthen our criteria for safety in ship navigation and cargo operations, and for our crisis management structure.

In the unfortunate event of the occurrence of an accident, especially an oil spillage causing marine pollution, this could gravely worsen our financial position and business performance. Serious damage to our ships and also danger to the crews are likely to be caused by worsening security situation and political changes in ships' navigation areas, as well as piracy and terrorist attacks on ships. In this way, there is the possibility of such events causing a deterioration in the marine transportation business.

Competition Circumstances, etc.

The "K" Line Group is doing business in all international markets, and is involved in competition with many shipping companies at home and abroad. Any difference in allocation of management resources and in competitiveness of cost or technology is likely to impact the Group's status in the shipping industry and its business performance.

In our containership services, we are striving to be competitive in terms of maintenance and upgrading through participation in alliances with foreign shipping companies. It should be understood that if we are confronted with a unilateral breakaway from an alliance by any partner, or any other such event that we cannot control, it could have an unfavorable impact on our business activities, financial position and business performance.

* The above risk categories were examined and outlined by the "K" Line Group as of the end of March 2008. The risks described here may not cover all the risks for the entire Group.

Selected Financial Data

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

Consolidated	Millions of yen					
	2008	2007	2006	2005	2004	2003
Operating revenues	**¥1,331,048**	¥1,085,539	¥940,819	¥828,444	¥724,667	¥632,725
Operating income	**129,649**	61,357	87,976	108,054	70,534	29,282
As a percentage of operating revenues	**9.7%**	5.7%	9.4%	13.0%	9.7%	4.6%
Net income	**83,012**	51,514	62,424	59,853	33,196	10,373
Total assets	**968,630**	900,439	757,040	605,331	559,135	515,825
Shareholders' equity (until 2006)/ Net assets (since 2007)	**376,277**	357,625	257,810	181,276	121,006	82,040
As a percentage of total assets	**36.7%**	38.3%	34.1%	29.9%	21.6%	15.9%
Interest-bearing liabilities	**329,716**	326,187	278,234	239,249	281,811	306,575
As a percentage of total assets	**34.0%**	36.2%	36.8%	39.5%	50.4%	59.4%
Debt-to-equity ratio	**0.93**	0.95	1.08	1.32	2.33	3.74
Return on equity	**23.7%**	17.1%	28.4%	39.6%	32.7%	13.0%
Interest coverage ratio	**27.69**	15.97	16.16	19.47	14.32	4.99
Financial income and expenses	**1,441**	1,468	(1,122)	(2,517)	(3,546)	(5,155)
Depreciation and amortization	**36,362**	32,294	28,623	24,634	25,558	29,511

Notes:(1) Effective March 31, 2005, the Company and its domestic consolidated subsidiaries opted for early adoption of a new accounting standard for the impairment of fixed assets. The effect of the adoption of this new standard was to decrease income before income taxes by ¥7,038 million for the year ended March 31, 2005.

(2) Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8). Total shareholders' equity at March 31, 2007 under the previous method of presentation amounted to ¥330,260 million ($2,797,636 thousand).

(3) Effective the year ended March 31, 2008, the Company and certain consolidated subsidiaries have recognized the revenues from container vessels in accordance with the course of transportation time on each cargo. The effect of this adoption was decrease marine transportation and other operating revenues, operating income, and income before income taxes and minority interests decreased by ¥11,791 million ($117,685 thousand) for the year ended March 31, 2008.

(4) Effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have changed their method of depreciation based on an amendment to the Japanese Corporation Tax Law (Law for Partial Amendment of Income Tax Law, etc. (Law No. 6 of March 30, 2007) and Cabinet Order for Partial Amendment of Enforcement Order of Corporation Tax Law (Cabinet Order No. 83, March 30, 2007)) for tangible fixed assets acquired on or after April 1, 2007. The effect of this adoption on profit and loss was immaterial for the year ended March 31, 2008.

(5) Effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have changed their method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or prior to March 31, 2007. Such tangible fixed assets are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts effective April 1, 2007. The effect of this adoption was to decrease marine transportation and other operating revenues, operating income, and income before income taxes by ¥609 million ($6,079 thousand) for the year ended March 31, 2008.

Non-Consolidated	Millions of yen					
	2008	2007	2006	2005	2004	2003
Operating revenues	**¥1,063,705**	¥857,279	¥742,569	¥658,700	¥584,958	¥499,792
Operating income	**89,715**	28,103	56,679	85,288	55,068	19,843
As a percentage of operating revenues	**8.4%**	3.3%	7.6%	12.9%	9.4%	4.0%
Net income	**58,939**	25,250	38,820	49,012	24,452	6,536
Total assets	**541,450**	518,501	481,542	376,345	329,965	269,140
Shareholders' equity (until 2006)/ Net assets (since 2007)	**258,075**	241,181	188,966	143,019	96,839	65,872
As a percentage of total assets	**47.7%**	46.5%	39.2%	38.0%	29.3%	24.5%
Interest-bearing liabilities	**91,124**	133,109	145,129	108,421	132,460	126,856
As a percentage of total assets	**16.8%**	25.7%	30.1%	28.8%	40.1%	47.1%
Debt-to-equity ratio	**0.35**	0.55	0.77	0.76	1.31	1.93
Return on equity	**23.6%**	11.7%	23.4%	40.9%	30.1%	10.0%
Interest coverage ratio	**39.03**	8.64	18.98	25.35	17.49	2.07
Financial income and expenses	**5,531**	5,523	1,342	1,017	(859)	(1,934)
Depreciation and amortization	**7,329**	6,815	7,503	6,114	6,358	7,005

Notes:(1) Effective March 31, 2005, the Company opted for early adoption of a new accounting standard for the impairment of fixed assets. The effect of the adoption of this new standard was to decrease income before income taxes by ¥4,684 million for the year ended March 31, 2005.

(2) Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8). Total shareholders' equity at March 31, 2007 under the previous method of presentation amounted to ¥231,961 million.

(3) Effective the year ended March 31, 2008, the Company has recognized the revenues from container vessels in accordance with the course of transportation time on each cargo. The effect of this adoption was decrease marine transportation and other operating revenues, operating income, and income before income taxes and minority interests decreased by ¥11,669 million ($116,466 thousand) for the year ended March 31, 2008.

(4) Effective the year ended March 31, 2008, the Company has changed their method of depreciation based on an amendment to the Japanese Corporation Tax Law (Law for Partial Amendment of Income Tax Law, etc. (Law No. 6 of March 30, 2007) and Cabinet Order for Partial Amendment of Enforcement Order of Corporation Tax Law (Cabinet Order No. 83, March 30, 2007)) for tangible fixed assets acquired on or after April 1, 2007. The effect of this adoption on profit and loss was immaterial for the year ended March 31, 2008.

(5) Effective the year ended March 31, 2008, the Company has changed their method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or prior to March 31, 2007. Such tangible fixed assets are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts effective April 1, 2007. The effect of this adoption was to decrease marine transportation and other operating revenues, operating income, and income before income taxes by ¥425 million ($4,240 thousand) for the year ended March 31, 2008.

Consolidated Balance Sheets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1(a)) 2008
Current assets:			
Cash and deposits (Note 15)	**¥ 50,701**	¥ 63,927	**$ 506,046**
Marketable securities (Note 3)	**22**	996	**224**
Accounts and notes receivable — trade	**112,128**	110,599	**1,119,154**
Allowance for doubtful receivables	**(678)**	(588)	**(6,771)**
Inventories	**34,265**	21,723	**341,999**
Prepaid expenses and deferred charges	**37,281**	29,352	**372,102**
Deferred income taxes (Note 6)	**7,662**	5,875	**76,478**
Other current assets	**24,799**	20,915	**247,518**
Total current assets	**266,180**	252,799	**2,656,750**
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates	**45,557**	45,158	**454,702**
Investments in securities (Notes 3 and 5)	**94,233**	142,820	**940,545**
Long-term loans receivable	**9,594**	10,785	**95,762**
Deferred income taxes (Note 6)	**2,839**	5,963	**28,337**
Other assets	**20,907**	35,712	**208,672**
Allowance for doubtful receivables	**(582)**	(679)	**(5,814)**
Total investments and other assets	**172,548**	239,759	**1,722,204**
Vessels, property and equipment:			
Vessels (Note 5)	**542,897**	499,750	**5,418,670**
Buildings and equipment (Notes 5 and 14)	**109,848**	107,194	**1,096,402**
Accumulated depreciation	**(340,557)**	(323,587)	**(3,399,112)**
	312,188	283,357	**3,115,960**
Land (Notes 5, 11 and 14)	**32,441**	32,570	**323,792**
Construction in progress	**170,041**	85,862	**1,697,184**
Vessels, property and equipment, net	**514,670**	401,789	**5,136,936**
Intangible assets:			
Goodwill, net (Note 4)	**9,120**	—	**91,032**
Other intangible assets	**6,112**	6,092	**61,006**
Total intangible assets	**15,232**	6,092	**152,038**
Total assets	**¥968,630**	¥900,439	**$9,667,928**

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1(a)) 2008
Current liabilities:			
Short-term loans (Note 5)	**¥ 39,165**	¥ 47,909	**$ 390,903**
Current portion of long-term debt (Note 5)	**28,754**	45,293	**286,994**
Accounts and notes payable — trade	**86,206**	82,721	**860,423**
Advances received	**26,643**	17,323	**265,920**
Current portion of obligations under finance leases	**818**	920	**8,168**
Accrued income taxes (Note 6)	**36,210**	14,463	**361,417**
Other current liabilities	**28,686**	22,302	**286,317**
Total current liabilities	**246,482**	230,931	**2,460,142**
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	**256,598**	226,981	**2,561,114**
Allowance for employees' retirement benefits (Note 8)	**9,672**	10,310	**96,538**
Allowance for directors' and corporate auditors' retirement benefits	**2,023**	2,765	**20,190**
Accrued expenses for overhaul of vessels	**24,655**	17,155	**246,085**
Obligations under finance leases, less current portion	**4,382**	5,084	**43,732**
Deferred income taxes (Note 6)	**9,549**	36,058	**95,308**
Other long-term liabilities (Note 4)	**38,992**	13,530	**389,183**
Total long-term liabilities	**345,871**	311,883	**3,452,150**
Commitments and contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 9)**:**			
Common stock:			
Authorized — 2,000,000,000 shares in 2008 and 2007			
Issued — 638,764,790 shares in 2008, and 620,978,336 in 2007	**45,819**	39,357	**457,325**
Capital surplus	**30,664**	24,202	**306,061**
Retained earnings (Note 17)	**281,384**	211,603	**2,808,505**
Less treasury stock, at cost	**(929)**	(989)	**(9,277)**
Total shareholders' equity	**356,938**	274,173	**3,562,614**
Valuation and translation adjustments:			
Net unrealized holding gain on investments in securities (Note 3)	**17,809**	46,251	**177,748**
Deferred (loss) gain on hedges	**(23,141)**	14,215	**(230,970)**
Revaluation reserve for land (Note 11)	**4,186**	5,515	**41,787**
Translation adjustments	**(29)**	4,322	**(294)**
Total valuation and translation adjustments	**(1,175)**	70,303	**(11,729)**
Minority interests in consolidated subsidiaries	**20,514**	13,149	**204,751**
Total net assets	**376,277**	357,625	**3,755,636**
Total liabilities and net assets	**¥968,630**	¥900,439	**$9,667,928**

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

Consolidated Statements of Income

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2008	2007	**2008**
Marine transportation and other operating revenues (Note 16)	**¥1,331,048**	¥1,085,539	**$13,285,239**
Marine transportation and other operating costs and expenses (Note 16)	**1,127,017**	957,847	**11,248,801**
Gross operating income	**204,031**	127,692	**2,036,438**
Selling, general and administrative expenses (Note 16)	**74,382**	66,335	**742,407**
Operating income (Note 16)	**129,649**	61,357	**1,294,031**
Other income (expenses):			
Interest and dividend income	**6,547**	5,697	**65,341**
Interest expense	**(5,106)**	(4,228)	**(50,958)**
Equity in earnings of affiliates	**1,643**	1,572	**16,397**
Exchange loss, net	**(7,689)**	(1,037)	**(76,744)**
Gain on sales of vessels, property and equipment, net	**3,474**	8,187	**34,671**
Gain on sales of investments in securities, net	**7,738**	5,830	**77,237**
Loss on impairment of fixed assets (Note 14)	**—**	(1,062)	**—**
Other, net	**572**	37	**5,714**
Other income, net	**7,179**	14,996	**71,658**
Income before income taxes and minority interests	**136,828**	76,353	**1,365,689**
Income taxes (Note 6)**:**			
Current	**47,579**	23,006	**474,891**
Deferred	**2,422**	316	**24,175**
Total income taxes	**50,001**	23,322	**499,066**
Minority interests	**3,815**	1,517	**38,082**
Net income	**¥ 83,012**	¥ 51,514	**$ 828,541**

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

Consolidated Statements of Changes in Net Assets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

		Millions of yen									
	Number of shares in issue (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on investments in securities	Deferred (loss) gain on hedges	Revaluation reserve for land	Translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2006	593,797	¥29,690	¥14,535	¥169,430	¥(1,032)	¥36,929	¥ —	¥6,467	¥1,791	¥ —	¥257,810
Reclassified balance as of March 31, 2006	—	—	—	—	—	—	—	—	—	11,233	11,233
Issuance of new shares	27,181	9,667	9,667	—	—	—	—	—	—	—	19,334
Net income	—	—	—	51,514	—	—	—	—	—	—	51,514
Cash dividends	—	—	—	(10,657)	—	—	—	—	—	—	(10,657)
Bonuses to directors and corporate auditors	—	—	—	(381)	—	—	—	—	—	—	(381)
Purchases of treasury stock	—	—	—	—	(182)	—	—	—	—	—	(182)
Disposal of treasury stock	—	—	—	(40)	225	—	—	—	—	—	185
Reversal of revaluation reserve for land	—	—	—	950	—	—	—	—	—	—	950
Net change in retained earnings resulting from inclusion or exclusion of subsidiaries and other	—	—	—	787	—	—	—	—	—	—	787
Net changes in items other than shareholders' equity	—	—	—	—	—	9,322	14,215	(952)	2,531	1,916	27,032
Balance at March 31, 2007	620,978	39,357	24,202	211,603	(989)	46,251	14,215	5,515	4,322	13,149	357,625
Issuance of new shares	**17,787**	**6,462**	**6,462**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12,924**
Net income	**—**	**—**	**—**	**83,012**	**—**	**—**	**—**	**—**	**—**	**—**	**83,012**
Cash dividends	**—**	**—**	**—**	**(13,211)**	**—**	**—**	**—**	**—**	**—**	**—**	**(13,211)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(248)**	**—**	**—**	**—**	**—**	**—**	**(248)**
Disposal of treasury stock	**—**	**—**	**—**	**(13)**	**308**	**—**	**—**	**—**	**—**	**—**	**295**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**9**	**—**	**—**	**—**	**—**	**—**	**—**	**9**
Net change in retained earnings resulting from inclusion or exclusion of subsidiaries and other	**—**	**—**	**—**	**(16)**	**—**	**—**	**—**	**—**	**—**	**—**	**(16)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(28,442)**	**(37,356)**	**(1,329)**	**(4,351)**	**7,365**	**(64,113)**
Balance at March 31, 2008	**638,765**	**¥45,819**	**¥30,664**	**¥281,384**	**¥ (929)**	**¥17,809**	**¥(23,141)**	**¥4,186**	**¥ (29)**	**¥20,514**	**¥376,277**

	Thousands of U.S. dollars (Note 1(a))									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on investments in securities	Deferred (loss) gain on hedges	Revaluation reserve for land	Translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	$392,823	$241,559	$2,112,014	$(9,869)	$461,632	$141,878	$55,047	$43,141	$131,240	$3,569,465
Issuance of new shares	**64,502**	**64,502**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**129,004**
Net income	**—**	**—**	**828,541**	**—**	**—**	**—**	**—**	**—**	**—**	**828,541**
Cash dividends	**—**	**—**	**(131,859)**	**—**	**—**	**—**	**—**	**—**	**—**	**(131,859)**
Purchases of treasury stock	**—**	**—**	**—**	**(2,474)**	**—**	**—**	**—**	**—**	**—**	**(2,474)**
Disposal of treasury stock	**—**	**—**	**(126)**	**3,066**	**—**	**—**	**—**	**—**	**—**	**2,940**
Reversal of revaluation reserve for land	**—**	**—**	**90**	**—**	**—**	**—**	**—**	**—**	**—**	**90**
Net change in retained earnings resulting from inclusion or exclusion of subsidiaries and other	**—**	**—**	**(155)**	**—**	**—**	**—**	**—**	**—**	**—**	**(155)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**(283,884)**	**(372,848)**	**(13,260)**	**(43,435)**	**73,511**	**(639,916)**
Balance at March 31, 2008	**$457,325**	**$306,061**	**$2,808,505**	**$(9,277)**	**$177,748**	**$(230,970)**	**$41,787**	**$ (294)**	**$204,751**	**$3,755,636**

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

Consolidated Statements of Cash Flows

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥136,828**	¥ 76,353	**$1,365,689**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**36,362**	32,294	**362,935**
Loss on impairment of fixed assets	**—**	1,062	**—**
(Reversal of) provision for employees' retirement benefits	**(637)**	49	**(6,362)**
Accrued expenses for overhaul of vessels	**7,568**	3,799	**75,535**
(Reversal of) provision for directors' and corporate auditors' retirement benefits	**(741)**	47	**(7,399)**
Interest and dividend income	**(6,547)**	(5,697)	**(65,341)**
Interest expense	**5,106**	4,228	**50,958**
Gain on sales of marketable securities and investments in securities	**(7,738)**	(5,684)	**(77,237)**
Gain on sales of vessels, property and equipment	**(3,942)**	(8,411)	**(39,341)**
Loss on sales of vessels, property and equipment	**468**	224	**4,670**
Changes in operating assets and liabilities:			
Decrease in accounts and notes receivable — trade	**1,321**	6,315	**13,183**
Increase (decrease) in accounts and notes payable — trade	**3,858**	(8,742)	**38,507**
Increase in inventories	**(12,381)**	(1,726)	**(123,576)**
Increase in short-term assets	**(10,122)**	(5,880)	**(101,029)**
Other, net	**16,309**	(2,207)	**162,788**
Subtotal	**165,712**	86,024	**1,653,980**
Interest and dividends received	**6,441**	5,664	**64,288**
Interest paid	**(5,101)**	(4,164)	**(50,917)**
Income taxes paid	**(25,814)**	(21,041)	**(257,652)**
Net cash provided by operating activities	**141,238**	66,483	**1,409,699**
Cash flows from investing activities:			
Purchases of marketable securities and investments in securities	**(11,146)**	(27,836)	**(111,244)**
Proceeds from sales of marketable securities and investments in securities	**14,122**	10,584	**140,951**
Acquisition of the subsidiaries' shares resulting in change in scope of consolidation (Note 15)	**(12,090)**	—	**(120,672)**
Purchases of vessels, property and equipment	**(158,438)**	(118,843)	**(1,581,371)**
Proceeds from sales of vessels, property and equipment	**28,216**	35,864	**281,628**
Increase in intangible assets	**(1,204)**	(1,324)	**(12,019)**
Increase in long-term loans receivable	**(16,596)**	(37,088)	**(165,646)**
Collection of long-term loans receivable	**24,288**	45,235	**242,423**
Other, net	**(12,693)**	(9,445)	**(126,697)**
Net cash used in investing activities	**(145,541)**	(102,853)	**(1,452,647)**
Cash flows from financing activities:			
(Decrease) increase in short-term loans, net	**(7,724)**	25,397	**(77,089)**
Proceeds from long-term debt	**77,225**	90,047	**770,790**
Repayment of long-term debt and obligations under finance leases	**(53,382)**	(56,852)	**(532,807)**
Proceeds from issuance of bonds	**—**	29,755	**—**
Repayment of bonds	**(10,000)**	(3,000)	**(99,810)**
Decrease in commercial paper, net	**—**	(21,000)	**—**
Cash dividends paid	**(13,215)**	(10,654)	**(131,900)**
Cash dividends paid to minority shareholders	**(414)**	(293)	**(4,134)**
Other, net	**50**	(23)	**490**
Net cash (used in) provided by financing activities	**(7,460)**	53,377	**(74,460)**
Effect of exchange rate changes on cash and cash equivalents	**(866)**	1,891	**(8,638)**
Net (decrease) increase in cash and cash equivalents	**(12,629)**	18,898	**(126,046)**
Cash and cash equivalents at beginning of year	**60,493**	41,157	**603,784**
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	**186**	441	**1,857**
Decrease in cash and cash equivalents arising from exclusion of subsidiaries from consolidation	**(6)**	(3)	**(62)**
Cash and cash equivalents at end of year (Note 15)	**¥ 48,044**	¥ 60,493	**$ 479,533**

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, 2008

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 under 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, 2007 to the 2008 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 ¥100.19 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2008 on the Tokyo Foreign Exchange Market. Furthermore, the translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 275 and 220 subsidiaries for the years ended March 31, 2008 and 2007, respectively. The principles of consolidation are to include significant subsidiaries whose voting interests are owned 40 per cent or more by a consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, 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

Most of the consolidated subsidiaries have a December 31 year end which does not accord with that of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year end of these subsidiaries and the year end of the Company.

(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 balance sheets.

(f) 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, by container, 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.

Change in method of accounting

Effective the year ended March 31, 2008, the Company and its overseas consolidated subsidiary have changed their method of accounting for revenue recognition with respect to container vessels from the cargo loaded method to the complex transportation progress method.

Until the year ended March 31, 2007, revenues from container vessels were recognized in full as of the date on which a vessel embarks from the port where the cargo was loaded, and no year-end adjustments were made for any portions of uncompleted voyages (the cargo loaded method).

Regarding container shipping transportation, the type of transportation services offered have remarkably changed and diversified, such as the expansion of mode of transportation including inland transit. In addition, volumes of freight have rapidly increased over the past few years. Under these circumstances, the Company concluded that it is preferable to adopt the complex transportation progress method under which revenues from

container vessels are recognized based on passage of the transportation period because it more appropriately reflects its results of the container shipping services business.

As a result of the change in accounting method, marine transportation and other operating revenues, operating income, and income before income taxes and minority interests decreased by ¥11,791 million ($117,685 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(g) 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.

(h) Investments in securities

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

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

(i) Inventories

Inventories consist of fuel and supplies which are stated at cost determined by the moving average method.

(j) Vessels, property and equipment and depreciation

Vessels, property and equipment are stated at cost (see Note 11).

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

The 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.

Change in method of accounting

Effective the year ended March 31, 2008, the Company and certain consolidated subsidiaries have changed their methods of accounting for depreciation of vessels, property and equipment acquired on or after April 1, 2007. This change was made based on an amendment to the Japanese Corporation Tax Law. The effect on operating income, and income before income taxes and minority interests was immaterial for the year ended March 31, 2008.

Supplemental information

Vessels, property and equipment acquired on or prior to March 31, 2007 are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value by the straight-line method over five years once they have been fully depreciated to the limits of their respective depreciable amounts effective April 1, 2007. As a result of the change in accounting method, operating income and income before income taxes and minority interests decreased by ¥609 million ($6,079 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(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 high.

(l) 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.

(m) 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.

(n) Leases

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

(o) 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.

(p) Retirement benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. Certain overseas consolidated subsidiaries also have defined benefit pension plans.

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

An allowance for employees' retirement benefits has been provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

Actuarial differences are amortized in the year following the year in which the differences are recognized principally by the straight-line method over a certain period (principally nine

years) which falls within the 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.

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.

Supplemental information

A resolution for the abolishment of a retirement benefit plan for directors and corporate auditors of the Company was approved at a meeting of the Board of Directors of the Company held on May 19, 2006. In connection with the abolishment of the retirement benefit plan, effective June 26, 2006 (which was the date of the annual general meeting of the shareholders), the Company has not provided an accrual for retirement benefits for directors and corporate auditors. As a result, the Company has reclassified the balance of the accrual as of March 31, 2007 to long-term payable. Such balance included in other long-term liabilities amounted to ¥593 million ($5,917 thousand) in the accompanying consolidated balance sheet as of March 31, 2008.

(q) Financial instruments

The Company and its consolidated subsidiaries utilize derivatives to hedge the risk arising from fluctuation in foreign currency exchange rates, interest rates and market prices. Under their derivatives policies, trading in derivatives is not entered into for speculative purposes.

Derivatives positions are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a component of net assets.

If interest rate swap contracts are used as hedge and meet certain hedging criteria, 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.

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.

(r) Distribution of retained earnings

Under the Law, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 17).

2. Changes in Method of Accounting

(a) Accounting Standard for Business Combinations

Effective the year ended March 31, 2007, the Company adopted "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Accounting Standard for Business Divestitures" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan (ASBJ) Statement No. 7 and ASBJ Guidance No. 10, respectively, both of which were issued on December 27, 2005). The adoption of these accounting standards had no effect on the consolidated statement of income for the year ended March 31, 2007.

(b) Accounting Standard for Directors' Bonuses

Effective the year ended March 31, 2007, the Company and certain domestic consolidated subsidiaries adopted "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4 issued on November 29, 2005). Under this standard, directors' bonuses are expensed as incurred and included in selling, general and administrative expenses. Prior to the adoption of this standard, the Company and certain domestic consolidated subsidiaries accounted for such bonuses as deductions from retained earnings.

As a result of the adoption of this accounting standard, income before income taxes and minority interests decreased by ¥374 million for the year ended March 31, 2007 from the amount which would have been recorded under the method applied in the previous year.

(c) Accounting Standard for Share-based Payments

Effective the year ended March 31, 2007, the Company adopted "Accounting Standard for Share-based Payments" and "Guidance on Accounting Standard for Share-based Payments" (ASBJ Statement No. 8 issued on December 27, 2005 and ASBJ Guidance No. 11 issued on May 31, 2006, respectively). The adoption of this accounting standard had no effect on the consolidated statement of income for the year ended March 31, 2007.

(d) Accounting Standard for Presentation for Net Assets in the Balance Sheet

Effective the year ended March 31, 2007, the Company adopted an accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. As a results of the adoption of this accounting standard, certain items which were previously presented as liabilities are now presented as components of net assets. Such items include minority interests.

3. Marketable Securities and Investments in Securities

At March 31, 2008 and 2007, marketable securities and investments in securities with quoted market prices which are classified as other securities are summarized as follows:

	Millions of yen					
	2008			2007		
	Acquisition costs	As reflected in the balance sheet	Difference	Acquisition costs	As reflected in the balance sheet	Difference
Securities whose market value reflected in the balance sheet exceeds their acquisition costs:						
Equity securities	**¥53,815**	**¥82,890**	**¥29,075**	¥55,161	¥128,603	¥73,442
Debt securities	**—**	**—**	**—**	103	104	1
Other	**20**	**20**	**0**	—	—	—
Subtotal	**53,835**	**82,910**	**29,075**	55,264	128,707	73,443
Securities whose market value reflected in the balance sheet does not exceed their acquisition costs:						
Equity securities	**1,739**	**1,440**	**(299)**	131	108	(23)
Debt securities	**—**	**—**	**—**	6	6	—
Other	**—**	**—**	**—**	21	21	(0)
Subtotal	**1,739**	**1,440**	**(299)**	158	135	(23)
Total	**¥55,574**	**¥84,350**	**¥28,776**	¥55,422	¥128,842	¥73,420

	Thousands of U.S. dollars		
	2008		
	Acquisition costs	As reflected in the balance sheet	Difference
Securities whose market value reflected in the balance sheet exceeds their acquisition costs:			
Equity securities	**$537,125**	**$827,327**	**$290,202**
Debt securities	**—**	**—**	**—**
Other	**203**	**203**	**0**
Subtotal	**537,328**	**827,530**	**290,202**
Securities whose market value reflected in the balance sheet does not exceed their acquisition costs:			
Equity securities	**17,362**	**14,370**	**(2,992)**
Debt securities	**—**	**—**	**—**
Other	**—**	**—**	**—**
Subtotal	**17,362**	**14,370**	**(2,992)**
Total	**$554,690**	**$841,900**	**$287,210**

At March 31, 2008 and 2007, securities without quoted market prices are summarized as follows:

	As reflected in the balance sheet		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Investments in securities:			
Unlisted equity securities	**¥9,803**	¥13,840	**$97,846**

Proceeds from sales of investments in securities classified as other securities for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Proceeds from sales	**¥14,142**	¥10,332	**$141,147**
Aggregate gain	**7,785**	5,849	**77,699**
Aggregate loss	**5**	3	**50**

The redemption schedule as of March 31, 2008 and 2007 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen		
	2008		
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years
Debt securities	**¥3**	**¥3**	**¥1**

	Millions of yen		
	2007		
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years
Debt securities	¥1	¥109	¥2

	Thousands of U.S. dollars		
	2008		
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years
Debt securities	**$27**	**$31**	**$5**

4. Goodwill

Goodwill and negative goodwill as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Goodwill	**¥9,294**	¥64	**$92,765**
Negative goodwill	**(174)**	(98)	**(1,733)**
	¥9,120	¥(34)	**$91,032**

The above balance as of March 31, 2007 is included in other long-term liabilities.

5. Short-Term Loans and Long-Term Debt

Short-term loans from banks and insurance companies had average interest rates of 3.95 per cent and 3.15 per cent per annum at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks and insurance companies due in installments from April 2008 through November 2022 at average interest rates of 1.91 per cent and 1.69 per cent per annum at March 31, 2008 and 2007, respectively, for fixed-rate loans, and at variable rates for floating-rate loans	**¥227,611**	¥191,608	**$2,271,793**
1.00 per cent bonds in Japanese yen, due March 25, 2008	**—**	10,000	**—**
Euro-yen zero coupon convertible bonds with stock acquisition rights in Japanese yen, due March 22, 2011	**2,145**	12,396	**21,409**
Euro-yen zero coupon convertible bonds with stock acquisition rights in Japanese yen, due April 4, 2013	**25,596**	28,270	**255,474**
1.48 per cent bonds in Japanese yen, due December 14,2011	**15,000**	15,000	**149,716**
1.83 per cent bonds in Japanese yen, due April 14, 2014	**15,000**	15,000	**149,716**
Total	**285,352**	272,274	**2,848,108**
Less: Current portion	**(28,754)**	(45,293)	**(286,994)**
	¥256,598	¥226,981	**$2,561,114**

The euro-yen zero coupon convertible bonds with stock acquisition rights due 2011 are convertible at ¥700 per share subject to adjustment for certain events including stock splits. At March 31, 2008, if all the outstanding convertible bonds had been converted at the above conversion price, 3,064 thousand new shares of common stock would have been issuable.

The euro-yen zero coupon convertible bonds with stock acquisition rights due 2013 are convertible at ¥851 per share subject to adjustment for certain events including stock splits.

At March 31, 2008, if all the outstanding convertible bonds had been converted at the above conversion price, 30,077 thousand new shares of common stock would have been issuable.

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 28,754	$ 286,994
2010	29,053	289,979
2011	35,363	352,963
2012	25,901	258,519
2013	38,302	382,295
2014 and thereafter	127,979	1,277,358
	¥285,352	$2,848,108

A summary of assets pledged as collateral for shot-term loans of ¥13,635 million ($136,091 thousand), long-term debt of ¥82,779 million ($826,226 thousand) and debt to be incurred in the future at March 31, 2008 is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels and buildings at net book value	¥148,062	$1,477,813
Investments in securities	9,881	98,619
Other	3,536	35,295

6. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 37.6 per cent for the years ended March 31, 2008 and 2007.

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2008 has been omitted as the difference is immaterial.

The effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2007 differs from the statutory tax rate for the following reasons:

	2007
Statutory tax rate	37.6%
Difference in statutory tax rates of consolidated subsidiaries	(8.5)
Permanently nondeductible expenses	0.7
Other	0.8
Effective tax rate	30.6%

Temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2008 and 2007 and their net tax effect are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Allowance for employees' retirement benefits	**¥ 2,852**	¥ 3,168	**$ 28,462**
Loss on impairment of fixed assets	**1,707**	1,799	**17,040**
Elimination of intercompany profit	**1,151**	1,165	**11,487**
Non-deductible allowances	**2,704**	2,427	**26,983**
Accounts and notes payable — trade	**6,207**	3,857	**61,955**
Deferred loss on hedges	**2,460**	3,377	**24,558**
Other	**3,418**	3,820	**34,116**
Gross deferred tax assets	**20,499**	19,613	**204,601**
Valuation allowance	**(3,025)**	(1,117)	**(30,189)**
Total deferred tax assets	**17,474**	18,496	**174,412**
Deferred tax liabilities:			
Reserve for special depreciation	**(1,003)**	(942)	**(10,015)**
Deferred gain for tax purposes	**(2,168)**	(2,129)	**(21,640)**
Unrealized holding gain on investments in securities	**(11,547)**	(28,358)	**(115,249)**
Deferred gain on hedges	**—**	(11,125)	**—**
Accelerated depreciation in overseas subsidiaries	**(3,525)**	—	**(35,182)**
Other	**(1,311)**	(3,042)	**(13,082)**
Total deferred tax liabilities	**(19,554)**	(45,596)	**(195,168)**
Net deferred tax liabilities	**¥ (2,080)**	¥(27,100)	**$(20,756)**

7. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen						
	2008				2007		
At March 31,	Vessels	Equipment	Other	Total	Equipment	Other	Total
Acquisition costs	**¥22,413**	**¥54,782**	**¥3,468**	**¥80,663**	¥54,993	¥7,642	¥62,635
Accumulated depreciation	**1,150**	**32,350**	**1,259**	**34,759**	26,242	1,832	28,074
Net book value	**¥21,263**	**¥22,432**	**¥2,209**	**¥45,904**	¥28,751	¥5,810	¥34,561

	Thousands of U.S. dollars			
	2008			
At March 31,	Vessels	Equipment	Other	Total
Acquisition costs	**$223,701**	**$546,785**	**$34,614**	**$805,100**
Accumulated depreciation	**11,473**	**322,891**	**12,566**	**346,930**
Net book value	**$212,228**	**$223,894**	**$22,048**	**$458,170**

Until the year ended March 31, 2007, "Vessels" was included in "Other," however, it has been separately disclosed at March 31, 2008 due to an increase in its materiality.

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expense for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Lease payments	**¥9,418**	¥8,586	**$94,000**
Depreciation	**7,256**	7,100	**72,426**
Interest expense	**1,491**	1,758	**14,880**

Future minimum lease payments subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 6,961	$ 69,479
2010 and thereafter	39,707	396,314

Future minimum lease payments subsequent to March 31, 2008 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 19,771	$ 197,336
2010 and thereafter	106,289	1,060,872

8. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the consolidated balance sheets as of March 31, 2008 and 2007 for the accompanying Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Retirement benefit obligation*	**¥(30,772)**	¥(31,116)	**$(307,136)**
Fair value of pension plan assets	**19,354**	20,727	**193,168**
Net unfunded benefit obligation	**(11,418)**	(10,389)	**(113,968)**
Unrecognized actuarial differences	**2,157**	(455)	**21,531**
Unrecognized past service cost	**695**	534	**6,942**
Net retirement benefit obligation	**(8,566)**	(10,310)	**(85,495)**
Prepaid pension cost	**1,106**	—	**11,043**
Allowance for employees' retirement benefits	**¥ (9,672)**	¥(10,310)	**$ (96,538)**

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

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost*	**¥1,889**	¥1,866	**$18,854**
Interest cost	**588**	591	**5,872**
Expected return on pension plan assets	**(566)**	(157)	**(5,652)**
Amortization:			
Actuarial differences	**23**	123	**226**
Past service cost	**160**	127	**1,598**
Retirement benefit expenses	**¥2,094**	¥2,550	**$20,898**

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

The assumptions used in accounting for the above plans for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Expected rates of return on plan assets	**Mainly 3.5%**	Mainly 0%

9. Shareholders' Equity

The Law provides that an amount equal to 10% 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% 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, 2008 and 2007 amounted to ¥2,540 million ($25,355 thousand) and ¥2,540 million, respectively.

In accordance with the former Commereial 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 2002 stock option plan (the 2002 plan) was approved by shareholders of the Company on June 27, 2002. The 2003 stock option plan (the 2003 plan) was approved by shareholders of the Company on June 27, 2003. 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 2002 plan	September 2, 2002	From June 28, 2004 up to and including June 27, 2012
The 2003 plan	July 24, 2003	From June 28, 2005 up to and including June 27, 2013
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

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

Movements in number of stock options for each stock option plan of the Company during the years ended March 31, 2008 and 2007 are summarized as follows:

	The 2002 plan	The 2003 plan	The 2004 plan	The 2005 plan
Number of stock options:				
Outstanding as of March 31, 2006	49	590	370	488
Vested	—	—	—	—
Exercised	19	218	161	—
Expired	—	—	—	—
Outstanding as of March 31, 2007	30	372	209	488
Vested	—	—	—	—
Exercised	8	95	92	275
Expired	—	—	7	—
Outstanding as of March 31, 2008	22	277	110	213

The unit price of stock options for each stock option plan of the Company during the years ended March 31, 2008 and 2007 is summarized as follows:

	Yen			
	The 2002 plan	The 2003 plan	The 2004 plan	The 2005 plan
Unit price of stock options:				
Exercise price as of March 31, 2007	¥ 156	¥ 278	¥ 633	¥ 693
Average market price per share at exercise during the year ended March 31, 2007	1,000	924	925	—
Exercise price as of March 31, 2008	¥ 156	¥ 278	¥ 633	¥ 693
Average market price per share at exercise during the year ended March 31, 2008	1,435	1,416	1,416	1,573

	U.S. dollars			
	The 2002 plan	The 2003 plan	The 2004 plan	The 2005 plan
Unit price of stock options:				
Exercise price as of March 31, 2008	$ 1.56	$ 2.77	$ 6.32	$ 6.92
Average market price per share at exercise during the year ended March 31, 2008	14.32	14.13	14.13	15.70

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

In accordance with the Code, a stock option plan for certain directors and certain employees of Kawasaki Kinkai Kisen Kaisha, Ltd., a consolidated subsidiary of the Company, and a director of its subsidiary was approved at an annual general meeting of the shareholders of Kawasaki Kinkai Kisen Kaisha, Ltd. The 2003 stock option plan (the 2003 plan) was approved by shareholders of the Company on June 27, 2003.

The stock option plan of Kawasaki Kinkai Kisen Kaisha, Ltd. is summarized as follows:

Stock option plan	Date of grant	Exercisable period
The 2003 plan	September 3, 2003	From June 28, 2005 up to and including June 27, 2008

One stock option gives the holder the right to purchase one thousand shares of Kawasaki Kinkai Kisen's common stock.

Movements in the number of stock options of Kawasaki Kinkai Kisen Kaisha, Ltd. for the 2003 plan during the years ended March 31, 2008 and 2007 are summarized as follows:

	The 2003 plan
Number of stock options:	
Outstanding as of March 31, 2006	10
Vested	—
Exercised	—
Expired	—
Outstanding as of March 31, 2007	10
Vested	—
Exercised	8
Expired	—
Outstanding as of March 31, 2008	2

The unit price of stock options for the stock option plan of Kawasaki Kinkai Kisen Kaisha, Ltd. during the years ended March 31, 2008 and 2007 is summarized as follows:

	Yen	U.S. dollars
	The 2003 plan	The 2003 plan
Unit price of stock options:		
Exercise price as of March 31, 2007	¥195	
Average market price per share at exercise during the year ended March 31, 2007	—	
Exercise price as of March 31, 2008	195	$1.95
Average market price per share at exercise during the year ended March 31, 2008	686	6.85

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

Movements in treasury stock of the company for the years ended March 31, 2008 and 2007 are summarized as follows:

	Number of shares			
	March 31, 2006	Increase	Decrease	March 31, 2007
Treasury stock:				
Common stock	2,249,488	190,598	415,638	2,024,448

	Number of shares			
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock:				
Common stock	**2,024,448**	**184,717**	**484,054**	**1,725,111**

10. Amounts per Share

The amounts per share of net income for the years ended March 31, 2008 and 2007 and net assets per share at March 31, 2008 and 2007 are summarized as follows:

	Yen		U.S. dollars
	2008	2007	**2008**
Net income:			
Basic	**¥131.36**	¥ 86.67	**$1.31**
Diluted	**123.72**	76.62	**1.24**
Net assets	**558.46**	556.55	**5.57**
Cash dividends applicable to the year	**26.00**	18.00	**0.26**

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

Cash dividends per share represent the cash dividends applicable to the respective years together with the interim cash dividends paid.

11. 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 for 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). Disclosure of the information on the difference between the fair value of the land as of March 31, 2008 and its carrying value after revaluation has been omitted because the fair value of this land was higher than its carrying value after revaluation.

12. Commitments and Contingent Liabilities

At March 31, 2008, commitments made by the Company and its consolidated subsidiaries for the construction of vessels amounted to ¥535,822 million ($5,348,060 thousand).

Contingent liabilities for notes receivable endorsed, loans guaranteed, reservation of guarantee for an unconsolidated subsidiary and joint indebtedness as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable endorsed	¥ 3	$ 30
Loans guaranteed	17,942	179,075
Reservation of guarantee for an unconsolidated subsidiary	239	2,380
Joint indebtedness	29,860	298,036
Total	¥48,044	$479,521

13. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries have entered into forward foreign exchange contracts, 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. In addition, the Company and its consolidated subsidiaries have entered into bunker future swaps and freight futures in order to minimize the impact of market movements.

The Company and its consolidated subsidiaries are exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency and interest-rate derivatives as well as to certain market risk arising from the currency and interest-rate derivatives, bunker future swaps, and freight futures. These derivatives have effectively offset the market risk related to the respective assets and liabilities on the balance sheet.

Deferred gain and/or loss have been recognized, at fair market value, for all derivatives which qualify for hedge accounting.

The execution and control of derivatives transactions at the Company have been managed in accordance with its internal regulations which stipulate the purpose for entering its derivatives transactions, their scope of use, and the reporting system to prevent unexpected losses caused by improper or excess use and to enable effective mutual monitoring and observation by the management organizations. All derivatives transactions are approved by or reported to the Company's management organizations and the Finance Group is responsible for controlling open derivatives positions and reporting to the management organizations periodically, if necessary.

The execution and control of derivatives transactions at the consolidated subsidiaries have also been managed in accordance with their internal regulations. In addition, they have reported certain information on their derivatives transactions, such as the amount of each contract and its fair value, to the Company each accounting period.

The Company and its consolidated subsidiaries assess the effectiveness of each hedge contract by comparing the cumulative amounts of the hedging item's market movements or cash flow fluctuations to those of the underlying hedged item, except when interest-rate swap contracts meet certain hedging criteria.

Disclosure of fair value information on derivatives has been omitted because all open derivatives positions qualified for hedge accounting.

14. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries did not recognize any impairment loss for the year ended March 31, 2008.

The Company and its consolidated subsidiaries have recognized loss on impairment of fixed assets in the accompanying consolidated financial statements for the year ended March 31, 2007.

Loss on impairment of fixed assets consisted of the following:

Place	Description	Classification	Millions of yen
Osaka	Terminal backland	Land	¥ 538
Yokohama	Logistics facility	Buildings and equipment	259
Chiba	Other business use assets	Buildings	178
Other	Idle assets	Land	87
			¥1,062

The Company and its consolidated subsidiaries group their fixed assets for business use at each management accounting unit; however, they group other business use assets and idle assets at each item.

The Company groups the terminal backland in Osaka and other business use assets in Chiba by individual asset due to a change in management accounting unit. Since the carrying value of the terminal backland in Osaka and other business use assets in Chiba was

deemed to be irretrievably lower than their respective recoverable amounts, their carrying value was reduced to their respective recoverable amounts and a loss on impairment of ¥716 million was recognized in the accompanying consolidated statement of income for the year ended March 31, 2007. The recoverable amount of the terminal backland was measured at its estimated selling value based on a valuation submitted by a real estate appraiser and the recoverable amount of the other business use assets was measured based on the estimated selling price.

Since the profitability of the logistics facility in Yokohama decreased significantly, its carrying value was reduced to its recoverable amount and a loss on impairment of ¥259 million was recognized in the accompanying consolidated statement of income for the year ended March 31, 2007. The recoverable amount was measured based on value in use (the present value of future cash flows) discounted at a rate of 4.4% per year.

Since the idle assets' carrying value was deemed to be irretrievably lower than their respective recoverable amounts mainly due to decreasing land prices, their carrying value was reduced to their respective recoverable amounts based on a valuation submitted by a real estate appraiser and a loss on impairment of ¥87 million was recognized in the accompanying consolidated statement of income for the year ended March 31, 2007.

15. Supplementary Information on Statements of Cash Flows

Cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2008 and 2007 are reconciled to cash and deposits reflected in the accompanying consolidated balance sheets as of March 31, 2008 and 2007 as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash and deposits	**¥50,701**	¥63,927	**$506,046**
Time deposits with a maturity of more than three months after the purchase date	**(2,657)**	(3,434)	**(26,513)**
Highly liquid marketable securities with low risk	**—**	0	**—**
Cash and cash equivalents	**¥48,044**	¥60,493	**$479,533**

Significant non-cash transactions for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Increase in common stock resulting from exercise of stock acquisition rights	**¥ 6,462**	¥ 9,667	**$ 64,502**
Increase in capital surplus resulting from exercise of stock acquisition rights	**6,462**	9,667	**64,502**
Decrease in convertible bonds with stock acquisition rights resulting from exercise of stock acquisition rights	**¥12,924**	¥19,334	**$129,004**

Effective the year ended March 31, 2008, SAL Group companies have been consolidated as a result of the acquisition of their shares. The fair value of assets and liabilities included in consolidation as of the beginning of consolidation was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 6,555	$ 65,425
Non-current assets	30,980	309,216
Total Assets	¥37,535	$374,641
Current liabilities	¥ 6,144	$ 61,323
Long-term liabilities	12,706	126,816
Total Liabilities	¥18,850	$188,139

16. Segment Information

(a) Business segment information

The consolidated results have been divided into three business segments; Marine Transportation, Logistics/Harbor Transportation, and Other.

	Millions of yen					
	Year ended March 31, 2008					
	Marine Transportation	Logistics/Harbor Transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues from customers	**¥1,176,944**	**¥131,315**	**¥22,789**	**¥1,331,048**	**¥ —**	**¥1,331,048**
(2) Intra-group sales and transfers	**11,318**	**62,858**	**47,162**	**121,338**	**(121,338)**	**—**
Total revenues	**1,188,262**	**194,173**	**69,951**	**1,452,386**	**(121,338)**	**1,331,048**
2. Costs and expenses	**1,074,686**	**180,458**	**67,764**	**1,322,908**	**(121,509)**	**1,201,399**
Operating income	**¥ 113,576**	**¥ 13,715**	**¥ 2,187**	**¥ 129,478**	**¥ 171**	**¥ 129,649**
3. Total assets, depreciation and amortization, and capital expenditures:						
(1) Total assets	**¥ 831,722**	**¥157,722**	**¥47,743**	**¥1,037,187**	**¥(68,557)**	**¥ 968,630**
(2) Depreciation and amortization	**29,257**	**5,881**	**1,224**	**36,362**	**—**	**36,362**
(3) Capital expenditures	**150,295**	**8,089**	**2,949**	**161,333**	**—**	**161,333**

	Millions of yen					
	Year ended March 31, 2007					
	Marine Transportation	Logistics/Harbor Transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues from customers	¥936,943	¥127,108	¥21,488	¥1,085,539	¥ —	¥1,085,539
(2) Intra-group sales and transfers	7,708	59,209	35,580	102,497	(102,497)	—
Total revenues	944,651	186,317	57,068	1,188,036	(102,497)	1,085,539
2. Costs and expenses	899,282	172,486	55,285	1,127,053	(102,871)	1,024,182
Operating income	¥ 45,369	¥ 13,831	¥ 1,783	¥ 60,983	¥ 374	¥ 61,357
3. Total assets, depreciation and amortization, and capital expenditures:						
(1) Total assets	¥759,778	¥155,469	¥33,623	¥ 948,870	¥(48,431)	¥ 900,439
(2) Depreciation and amortization	25,287	5,866	1,141	32,294	—	32,294
(3) Loss on impairment of fixed assets	625	259	178	1,062	—	1,062
(4) Capital expenditures	114,889	5,939	558	121,386	—	121,386

	Thousands of U.S. dollars					
	Year ended March 31, 2008					
	Marine Transportation	Logistics/Harbor Transportation	Other	Total	Eliminations	Consolidated
1. Revenues:						
(1) Operating revenues from customers	**$11,747,118**	**$1,310,663**	**$227,458**	**$13,285,239**	**$ —**	**$13,285,239**
(2) Intra-group sales and transfers	**112,971**	**627,385**	**470,726**	**1,211,082**	**(1,211,082)**	**—**
Total revenues	**11,860,089**	**1,938,048**	**698,184**	**14,496,321**	**(1,221,082)**	**13,285,239**
2. Costs and expenses	**10,726,477**	**1,801,162**	**676,352**	**13,203,991**	**(1,212,783)**	**11,991,208**
Operating income	**$ 1,133,612**	**$ 136,886**	**$ 21,832**	**$ 1,292,330**	**$ 1,701**	**$ 1,294,031**
3. Total assets, depreciation and amortization, and capital expenditures:						
(1) Total assets	**$ 8,301,442**	**$1,574,230**	**$476,525**	**$10,352,197**	**$ (684,269)**	**$ 9,667,928**
(2) Depreciation and amortization	**292,017**	**58,702**	**12,216**	**362,935**	**—**	**362,935**
(3) Capital expenditures	**1,500,095**	**80,740**	**29,433**	**1,610,268**	**—**	**1,610,268**

As mentioned in Note 1(f), the Company and its overseas consolidated subsidiary have changed their method of accounting for revenue recognitions with respect to container vessels. The effect of this change was to decrease total revenues and operating income for the year ended March 31, 2008 in the marine transportation segment by ¥11,791 million (US$117,675 thousand) from the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 1(j), the Company and certain consolidated subsidiaries have changed their method of accounting for depreciation of vessels, property and equipment. The effect of this change was to decrease operating income for the year ended March 31,

2008 in the marine transportation and others segments by ¥606 million (US$6,045 thousand) and ¥3 million (US$33 thousand), respectively, from the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 2(b), the Company and certain domestic consolidated subsidiaries opted for adoption of an accounting standard for directors' bonuses. The effect of this adoption was to decrease operating income for the year ended March 31, 2007 in the marine transportation, logistics/harbor transportation, and others segments by ¥180 million, ¥157 million, and ¥36 million, respectively, from the corresponding amounts which would have been recorded under the previous method.

(b) Geographical segment information

Each segment principally covers the following countries or regions:

North America: U.S.A. and Canada
Europe: U.K., Germany, the Netherlands and France
Asia: Hong Kong, Singapore, Thailand, Indonesia, South Korea, Malaysia, and the People's Republic of China
Other: Australia

	Millions of yen							
	Year ended March 31, 2008							
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues from customers	**¥1,199,609**	**¥28,757**	**¥52,582**	**¥49,570**	**¥ 530**	**¥1,331,048**	**¥ —**	**¥1,331,048**
(2) Intra-group sales and transfers	**14,702**	**25,059**	**14,921**	**17,459**	**931**	**73,072**	**(73,072)**	**—**
Total revenues	**1,214,311**	**53,816**	**67,503**	**67,029**	**1,461**	**1,404,120**	**(73,072)**	**1,331,048**
2. Costs and expenses	**1,112,764**	**51,766**	**53,384**	**55,360**	**1,299**	**1,274,573**	**(73,174)**	**1,201,399**
Operating income	**¥ 101,547**	**¥ 2,050**	**¥14,119**	**¥11,669**	**¥ 162**	**¥ 129,547**	**¥ 102**	**¥ 129,649**
3. Total assets	**¥ 803,184**	**¥31,395**	**¥90,906**	**¥91,107**	**¥4,723**	**¥1,021,315**	**¥(52,685)**	**¥ 968,630**

	Millions of yen							
	Year ended March 31, 2007							
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues from customers	¥987,297	¥32,074	¥25,222	¥40,583	¥ 363	¥1,085,539	¥ —	¥1,085,539
(2) Intra-group sales and transfers	11,796	26,252	9,645	16,876	933	65,502	(65,502)	—
Total revenues	999,093	58,326	34,867	57,459	1,296	1,151,041	(65,502)	1,085,539
2. Costs and expenses	958,954	55,346	29,610	45,311	1,100	1,090,321	(66,139)	1,024,182
Operating income	¥ 40,139	¥ 2,980	¥ 5,257	¥12,148	¥ 196	¥ 60,720	¥ 637	¥ 61,357
3. Total assets	¥769,742	¥33,554	¥53,302	¥82,005	¥3,447	¥ 942,050	¥(41,611)	¥ 900,439

	Thousands of U.S. dollars							
	Year ended March 31, 2008							
	Japan	North America	Europe	Asia	Other	Total	Eliminations	Consolidated
1. Revenues:								
(1) Operating revenues from customers	**$11,973,340**	**$287,024**	**$524,822**	**$494,764**	**$ 5,289**	**$13,285,239**	**$ —**	**$13,285,239**
(2) Intra-group sales and transfers	**146,745**	**250,118**	**148,923**	**174,259**	**9,289**	**729,334**	**(729,334)**	**—**
Total revenues	**12,120,085**	**537,142**	**673,745**	**669,023**	**14,578**	**14,014,573**	**(729,334)**	**13,285,239**
2. Costs and expenses	**11,106,544**	**516,678**	**532,821**	**552,558**	**12,958**	**12,721,559**	**(730,351)**	**11,991,208**
Operating income	**$ 1,013,541**	**$ 20,464**	**$140,924**	**$116,465**	**$ 1,620**	**$ 1,293,014**	**$ 1,017**	**$ 1,294,031**
3. Total assets	**$ 8,016,609**	**$313,353**	**$907,333**	**$909,345**	**$47,137**	**$10,193,777**	**$(525,849)**	**$ 9,667,928**

As mentioned in Note 1(f), the Company and its overseas consolidated subsidiary have changed their method of accounting for revenue recognition with respect to container vessels. The effect of this change was to decrease both total revenues and operating income for the year ended March 31, 2008 in the Japan segment and in the Asia segment by ¥11,669 million (US$116,466 thousand) and ¥122 million (US$1,219 thousand), respectively, from the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 1(j), the Company and certain consolidated subsidiaries have changed their method of accounting for depreciation of vessels, property and equipment. The effect of this change was to decrease operating income for the year ended

March 31, 2008 in the Japan segment by ¥609 million (US$6,079 thousand) from the corresponding amount which would have been recorded under the previous method.

As mentioned in Note 2(b), the Company and certain domestic consolidated subsidiaries opted for adoption of an accounting standard for directors' bonuses. The effect of this adoption was to decrease operating income for the year ended March 31, 2007 in the Japan segment by ¥374 million from the corresponding amount which would have been recorded under the previous method.

(c) International business information

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

Each segment principally covers the following countries or regions:

North America: U.S.A. and Canada
Europe: U.K., Germany, the Netherlands and France
Asia: South-East Asia, The Middle East, the People's Republic of China and India
Oceania: Australia and New Zealand
Other: Central and South America and Africa

	Millions of yen					
	Year ended March 31, 2008					
	North America	Europe	Asia	Oceania	Other	Total
1. International revenues	**¥343,607**	**¥246,595**	**¥294,767**	**¥121,974**	**¥132,667**	**¥1,139,610**
2. Consolidated revenues						**1,331,048**
International revenues as a percentage of consolidated revenues	**25.8%**	**18.5%**	**22.1%**	**9.2%**	**10.0%**	**85.6%**

	Millions of yen					
	Year ended March 31, 2007					
	North America	Europe	Asia	Oceania	Other	Total
1. International revenues	¥296,627	¥202,054	¥221,960	¥104,233	¥89,132	¥ 914,006
2. Consolidated revenues						1,085,539
International revenues as a percentage of consolidated revenues	27.3%	18.6%	20.5%	9.6%	8.2%	84.2%

	Thousands of U.S. dollars					
	Year ended March 31, 2008					
	North America	Europe	Asia	Oceania	Other	Total
1. International revenues	**$3,429,549**	**$2,461,275**	**$2,942,079**	**$1,217,432**	**$1,324,152**	**$11,374,487**
2. Consolidated revenues						**13,285,239**
International revenues as a percentage of consolidated revenues	**25.8%**	**18.5%**	**22.1%**	**9.2%**	**10.0%**	**85.6%**

As mentioned in Note 1(f), the Company and its overseas consolidated subsidiary have changed their method of accounting for revenue recognition with respect to container vessels. The effect of this change was to decrease international revenues for the year ended March 31, 2008 in the North America segment the Europe segment the Asia segment, the Oceania segment, and the Other segment by ¥3,381 million (US$33,742 thousand), ¥2,298 million (US$22,935 thousand), ¥5,056 million (US$50,466 thousand), ¥79 million (US$787 thousand), and ¥977 million (US$9,755 thousand), respectively, from the corresponding amounts which would have been recorded under the previous method.

17. Subsequent Event

The following distribution of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, were approved at a meeting of the Company's shareholders held on June 25, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥14.00 = U.S.$0.14 per share)	¥8,926	$89,087

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

We have audited the accompanying consolidated balance sheets of Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

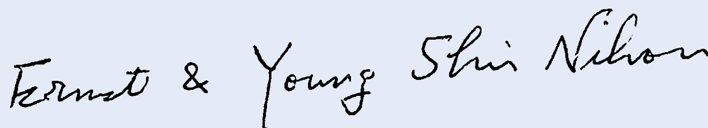
We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 1(f), effective the year ended March 31, 2008, the Company and its overseas consolidated subsidiary have changed their method of accounting for revenue recognition with respect to container vessels.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a).



Osaka, Japan
June 25, 2008

A MEMBER OF ERNST & YOUNG GLOBAL

Outline of the Company

(as of March 31, 2008)

Name: Kawasaki Kisen Kaisha, Ltd. ("K" Line)

Established: April 5, 1919

Paid-in Capital: ¥45,819.34 million

President: Hiroyuki Maekawa

Employees:

On-land Duty	432
At-sea Duty	168
Total	600

Business Lines:

Marine transportation
Land transportation
Air transportation
Through transportation involving marine, land and air transportation
Harbor transportation, etc.

Offices:

Head Office:
Hibiya Central Building, 2-9, Nishi-Shinbashi 1-chome, Minato-ku, Tokyo 105-8421, Japan
Phone: (+81) 3-3595-5063 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) 78-858-6509

Branches

Nagoya:
11th Fl. Nagoya International Center Building, 1-47-1, Nagono, Nakamura-ku, Nagoya 450-0001, Japan
Phone: (+81) 52-589-4510 Fax: (+81) 52-589-4585

Kansai*:
4, Nishi 6-Chome, Koyo-Cho, Higashinada-ku, Kobe 658-0033, Japan
Phone: (+81) 78-858-6506 Fax: (+81) 78-857-1533

Overseas Offices:

Beijing, Manila, Middle East (Dubai), Johannesburg, India

Overseas Agents:

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

Affiliated Companies: 26 (Domestic), 249 (Overseas)
(to be consolidated)

* The Kansai branch has been relocated to the following address since May 26, 2008.
5F Fl. Daidouseimei Kobe Building, 2-7, Sakaemachidori 1-chome, Chuo-ku, Kobe 650-0023, Japan
Phone: (+81) 78-325-8727 Fax: (+81) 78-393-2676

Stock Information

(as of March 31, 2008)

Share Capital

Authorized: 2,000,000,000 shares of common stock

Issued: 638,764,790 shares of common stock

Number of shareholders: 30,303

Shareholder Registry Administrator:

The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-0014

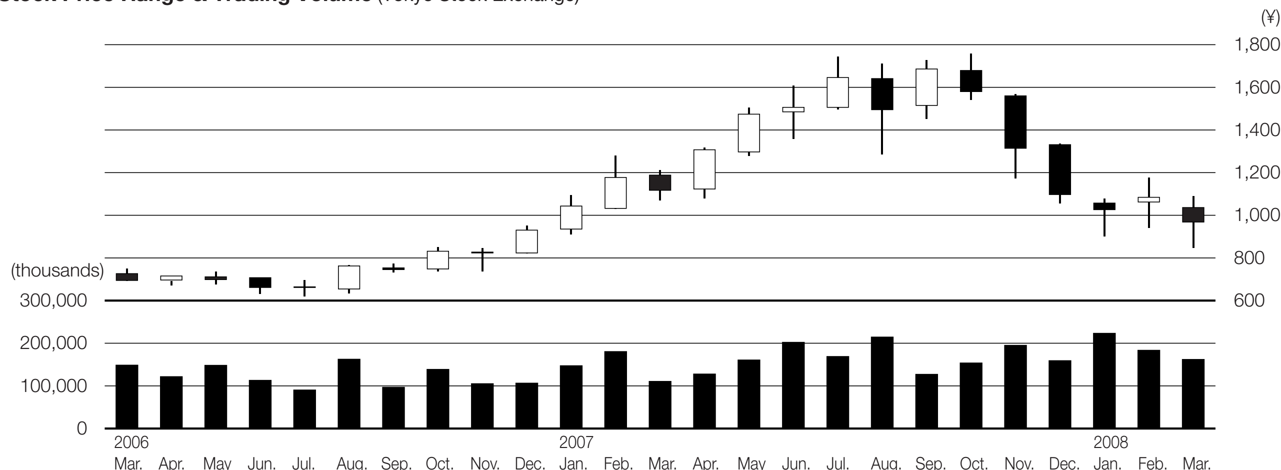
Listing of Shares

"K" Line's shares are listed for trading on the following stock exchanges:
Tokyo, Osaka, Nagoya and Fukuoka

Principal Shareholders

Shareholders	Number of Shares Held (thousands)	Percentage of Voting Rights (%)
Japan Trustee Services Bank, Ltd. (trust account)	62,292	9.75
The Master Trust Bank of Japan, Ltd. (trust account)	55,735	8.72
Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	30,000	4.69
Tokio Marine & Nichido Fire Insurance Co., Ltd.	28,020	4.38
Sompo Japan Insurance Inc.	27,295	4.27
JFE Steel Corporation	25,305	3.96
Nippon Life Insurance Company	17,915	2.80
Mizuho Corporate Bank, Ltd.	11,100	1.73
Trust & Custody Services Bank, Ltd. (trust account)	9,138	1.43
Japan Trustee Services Bank, Ltd. (trust account 4)	8,484	1.32

Stock Price Range & Trading Volume (Tokyo Stock Exchange)



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