"K" LINE REPORT 2018

"K" LINE
KAWASAKI KISEN KAISHA, LTD.

Contents

Editorial Policy

The "K" LINE Group is an integrated logistics company that owns and operates various fleets tailored to worldwide marine transportation needs. We also engage in the land transportation and warehousing businesses. The "K" LINE Group has defined the K Value ("K" LINE Value) as a symbol of its corporate value.

In this "K" LINE REPORT, we explain this K Value to a wide range of stakeholders, providing both financial and nonfinancial information. For more details on each of these initiatives, please visit our website (www.kline.co.jp/en/).

Corporate Principle and Vision

In shipping business, which serves as key logistics infrastructure
supporting worldwide economic activity,
the "K" LINE Group earns the trust of customers through the provision of safe,
reliable marine transportation and logistics services.
As an integrated logistics company grown from shipping business,
our corporate principle is to help enrich the lives of people.
Under this principle, we will make further improvements to K Value,
which represents our unique value as a group.

Corporate Principle

~ K : trust from all over the world ~

As an integrated logistics company grown from shipping business, the "K" LINE Group contributes to society so that people live well and prosperously.

We always recognize this principle in our operations.

Vision

Our aim is to become an important infrastructure for global society,
and to be the best partner with customers by
providing the high-quality logistics services based on customer-first policy.

Values the "K" LINE Group prizes

- **Providing reliable and excellent services** .... Contributing to society
- **A fair way of business** .... Fostering trust from society
- **Relentless efforts to achieve innovation** .... Generating new values
- **Respecting humanity** .... Corporate culture that respects individuality and diversity

Corporate Value Creation Story

History and Profile

Sustainable Growth as an Integrated Logistics Company

Since its establishment in 1919, the "K" LINE Group has overcome fiercely changing business conditions on many occasions while working tirelessly to ensure safe and reliable operations, evolving into "an integrated logistics company grown from shipping business." In 2019, we will celebrate our 100th Anniversary. Deploying its strengths—high engineering skills, excellent shipping services, global network, and human resource diversity—which have been developed over its nearly century-old history of exploration and creation, the "K" LINE Group will continue to demonstrate its uniqueness by tackling advanced challenges for its sustainable growth.

1919

Established as Kawasaki Kisen Kaisha, Ltd.
(The office building at the time of founding.)

1968

Our first full containership, *GOLDEN GATE BRIDGE*, was completed.

1970

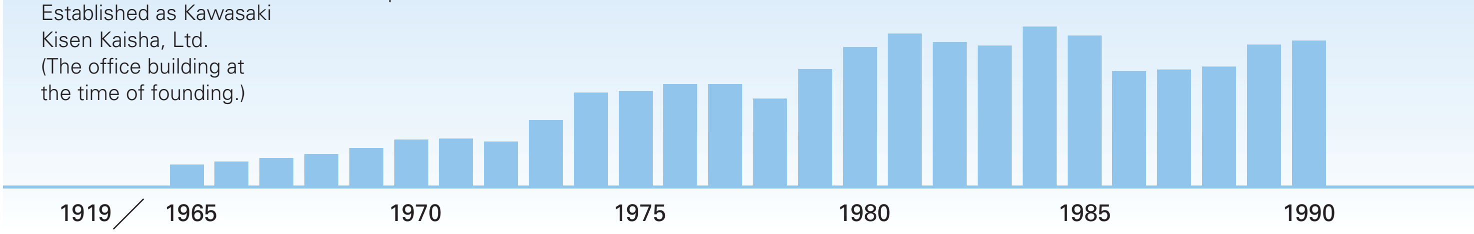
Japan's first pure car carrier (PCC), *TOYOTA MARU NO. 10*, was completed.

1983

Japan's first LNG carrier, *BISHU MARU*, was completed.

1986

The first intermodal transportation over land and sea among Japanese shipping companies was started on the North American continent using Double-Stack Trains (DST).



*Figures up to and including fiscal 1990 are non-consolidated; figures for fiscal 1991 and thereafter are consolidated.

Strengths amassed over

Customer base built on the strong relationships

High engineering skills

As an industry pioneer, we actively incorporate technological innovation into the development of new types of ships and services under our corporate culture of enterprising spirit and broad-mindedness, thereby responding to increasingly diversified and sophisticated customer needs. We also stay on the cutting-edge of environmental conservation.

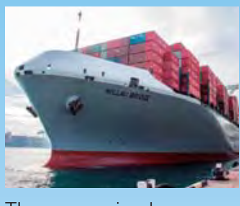
Excellent shipping services

We ensure a high level of transportation quality through World-leading Safety in Navigation and Cargo Operations for maintaining our record of "zero serious accidents", high-quality ship management by in-house companies specialized in each type of ship, and business quality to earn customer trust with advanced maritime technology.

1994

The wide-beam / shallow draft coal carrier *CORONA ACE*, the basic type for the transportation of thermal coal, was completed.

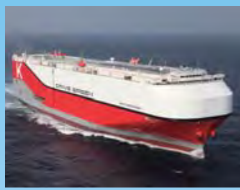
2015



The super-sized (14,000TEU) container vessel, *MILLAU BRIDGE*, with the latest energy-saving technologies was completed.

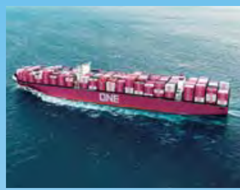
“K” LINE Environmental Vision 2050 (a set of long-term environmental guidelines for 2050) was formulated.

2016



By utilizing the most advanced technology in the world, *DRIVE GREEN HIGHWAY*, a flagship with a capacity of 7,500 vehicles and the goal of becoming an ultimate energy-saving environmentally-friendly car carrier, was completed.

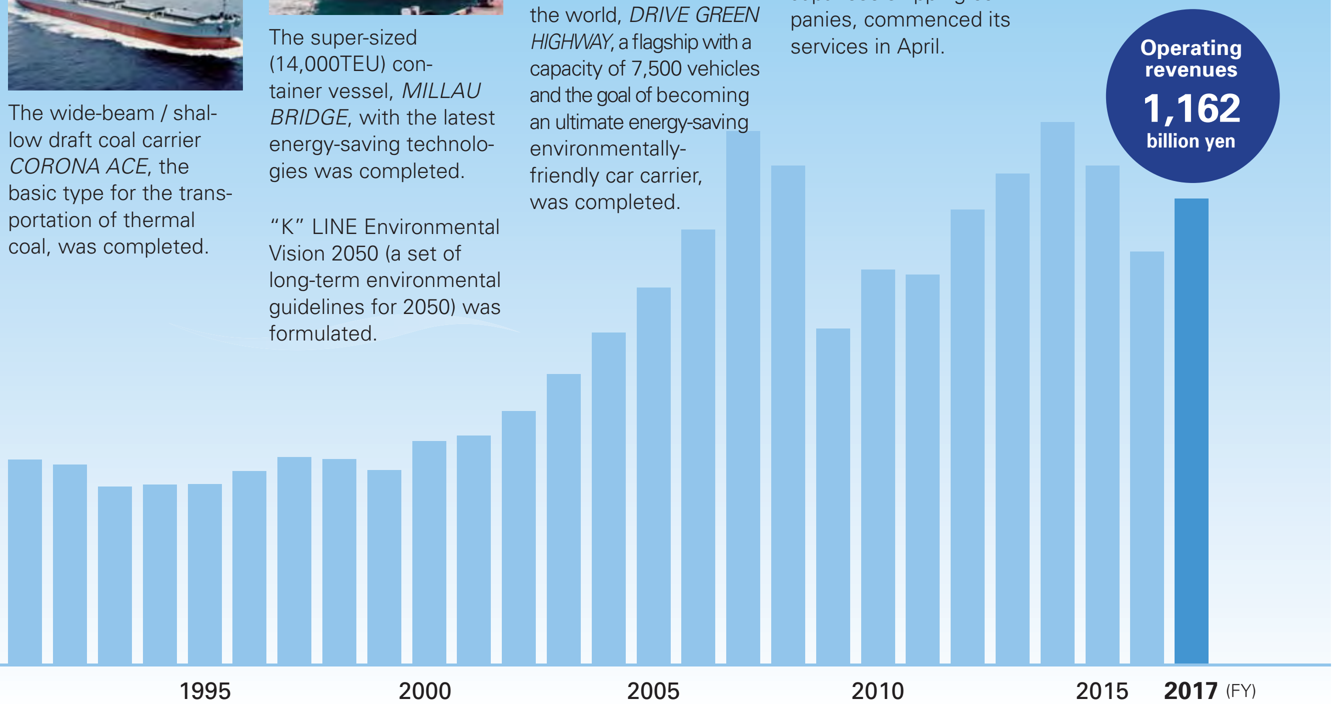
2018



Ocean Network Express (ONE), a joint venture in the liner container-ship business of three Japanese shipping companies, commenced its services in April.

2019

100th Anniversary



100 years of history of trust across multiple industries

Global network

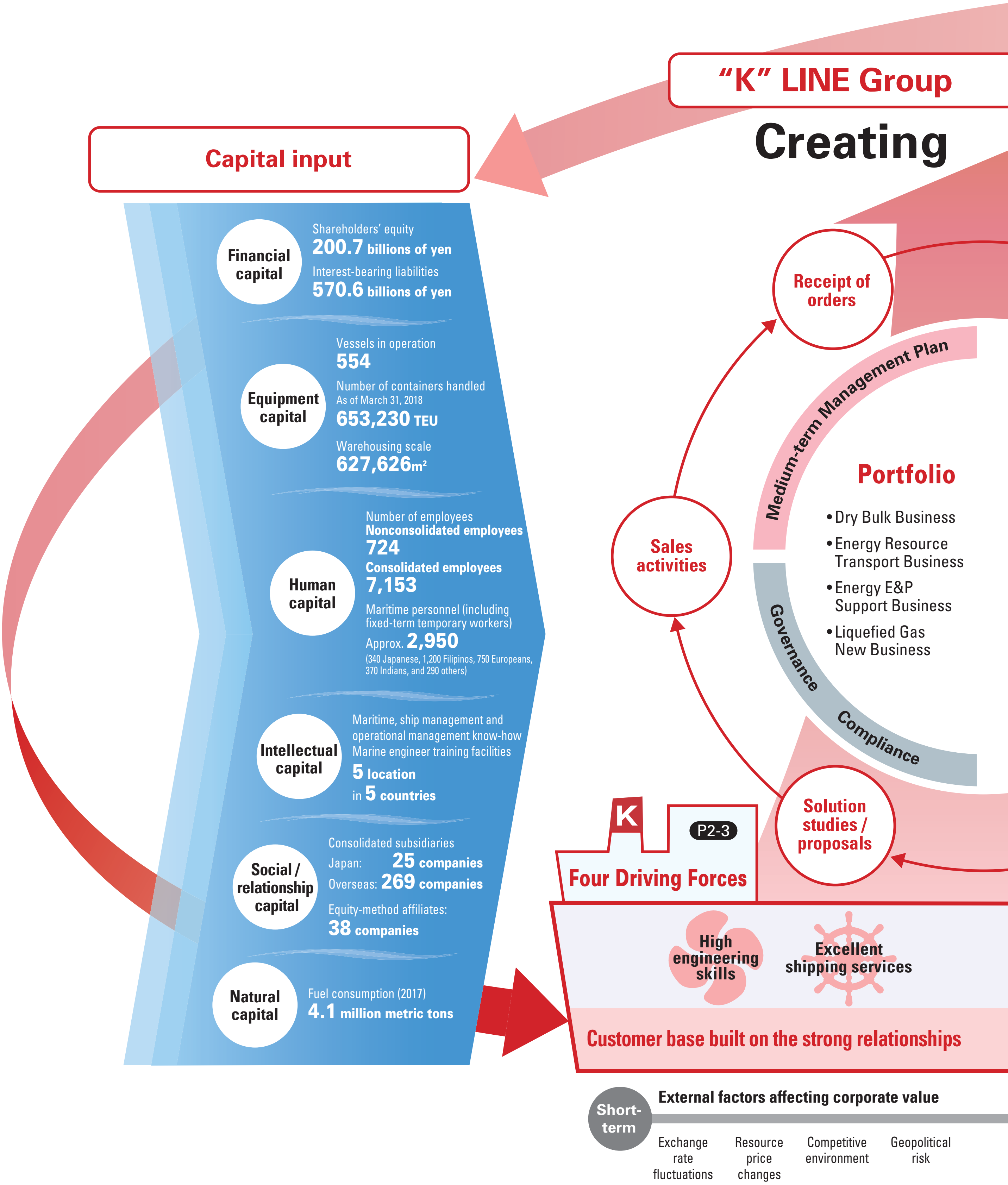
We have built a global network with more than 300 group companies in and out of Japan. Firmly rooted in Europe, North America, Asia, and other countries and regions, we work closely across the world to provide one-stop logistics services.

Human resource diversity

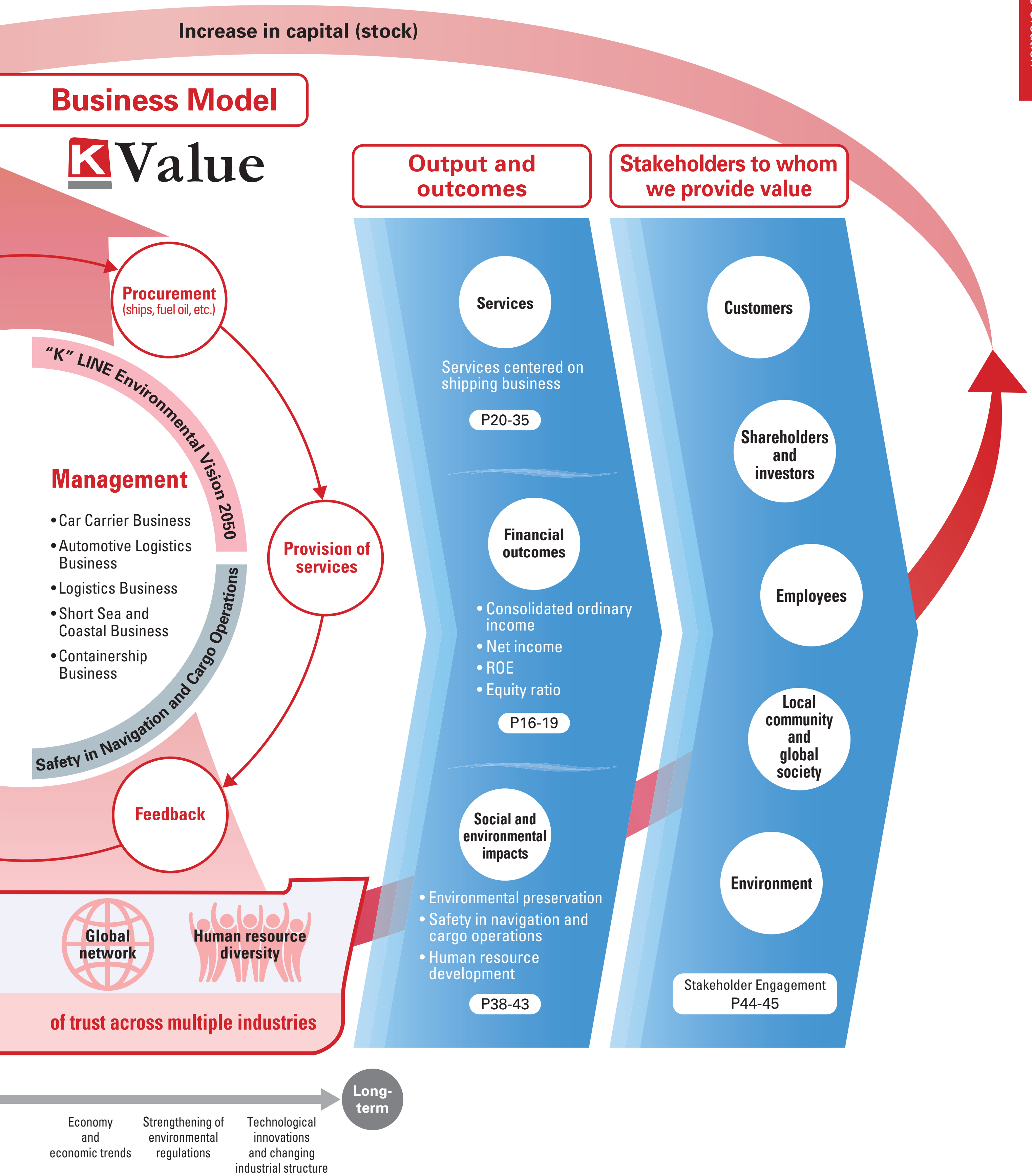
We have developed human resources who support transformation and are rich in diversity on the global stage, which is essential for providing high-quality logistics services based on a customer-first policy.

Corporate Value Creation Story

"K" LINE Group Value Creation Model



As an infrastructure for logistics and trade that helps enrich people's lives around the world, the "K" Line Group leverages various types of capital based on the driving force of its four strengths to provide safe, reliable marine transportation and logistics services. By doing so, we aim to remain as a valuable presence to our stakeholders.



Interview with the President

The "K" LINE Group is united in its pursuit of innovations aimed at sustainable growth.

The Company will celebrate its 100th year of operation in 2019. Following large-scale structural reforms undertaken in fiscal 2015 and fiscal 2016, Ocean Network Express (ONE) started its operations in April 2018 through the integration of three containership businesses. Fiscal 2018 is earmarked as a year of innovation. The brand-new "K" LINE Group will pursue various initiatives with its next 100 years in mind, in its quest to further improve corporate value and thus meet the expectations of all stakeholders.

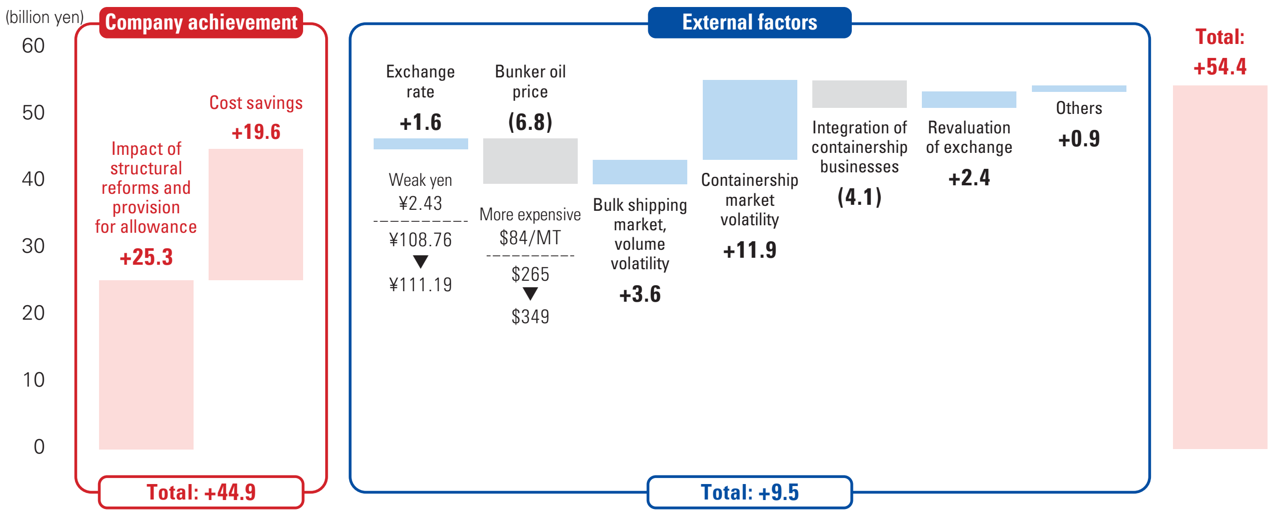
Q1 Please explain the business environment and the Group's performance in fiscal 2017.

A1 **We returned to profitability for the first time in three years as market conditions for our main businesses firmed, while structural reforms and profit enhancement measures produced good results.**

The containership business benefited from healthy cargo movements in east-west trade routes, while the freight rate market remained on an overall recovery trend. The market for dry bulk carriers was buoyed by growth in the cargo movement of iron ore and coking coal to China, which helped cape-size bulkers recover from historically low levels. Small and medium-sized bulkers also continued recovering moderately against a backdrop of solid movements of grain, coal and other cargo. For both containerships and dry bulk carriers, we have not yet achieved full-scale improvement of the supply-demand balance, but we believe that market conditions have bottomed out.

Under these circumstances, our performance improved significantly thanks to rigorous structural reforms taken as an approach toward thorough competitiveness over a two-year period until the previous fiscal year, as well as ongoing cost-cutting efforts and enhancing fleet utilization to improve earnings, which had a ¥44.9 billion positive effect. Despite the negative impact of rising fuel prices and the yen's progressive appreciation, consolidated operating revenues increased ¥131.8 billion year-on-year, to ¥1,162.0 billion. We also reported operating income of ¥7.2 billion, ordinary income of ¥2.0 billion and profit attributable to owners of the parent of ¥10.4 billion—marking the first time in three years of positive figures for all three income categories. We also steadily proceeded with preparations for the integration of the containership businesses of three Japanese companies, with the aim of stabilizing our containership business, which had been an issue. Despite an increase in shareholders' equity in the year under review, the shareholders' equity ratio remained mostly unchanged, at 20.8%, due to the appreciation of the yen. We will continue to strengthen earning capacity and heighten the equity ratio in the future.

Key Factors of Ordinary Income / Loss



Q2 Please describe your performance forecasts for fiscal 2018 and efforts aimed at sustainable growth.

A2 We will strive to both expand and upgrade stable businesses while down-sizing unprofitable ones.

During the year, we integrated our containership business, one of our core businesses, to Ocean Network Express (ONE) through the business integration of three Japanese shipping companies, with ONE becoming an affiliated company accounted for by the equity-method. As a result, we forecast that consolidated operating revenues will decline to ¥754.5 billion in fiscal 2018. Thanks to progress of structural reforms and the recovery trend in the shipping market, we forecast operating income of ¥5.0 billion, ordinary income of ¥5.0 billion, and profit attributable to owners of the parent of ¥7.0 billion. These figures take into account an ¥8.5 billion one-time cost stemming from the containership business integration, which occurred in the first quarter.

With the integration of containership business, we adopted a key management approach aimed at making our business results easier to understand for outside parties. To this end, we reorganized our businesses for disclosure purposes into four segments: Dry Bulk, Energy Resource Transport, Product Logistics and Others.

In the Dry Bulk segment, we will target sustained growth by reducing the number of high-cost ships, mainly small- and medium-sized vessels, while at the same time working to increase the number of medium- and long-term contracts to enhance profit stability.

In the Energy Resource Transport segment, we will continue our focus on expanding stable profits in the LNG carrier and thermal coal carrier categories through medium- and long-term contracts. Although oil tankers are affected by certain market conditions, we plan to increase the number of medium to long-term contracts by replacing existing ships with new ones and entering new agreements. In the liquefied gas new business, we will foster the LNG bunkering business and other businesses as new sources of income. In May 2018, we established a new company jointly with three partners—Chubu Electric Power Co., Inc., Toyota Tsusho Corporation, and Nippon Yusen Kabushiki Kaisha—to develop an LNG bunkering business for LNG - fueled carriers.

In the Product Logistics segment, we expect profitability of the car carrier business to decline due to stagnant cargo movements to resource-rich countries and increased complexity of cargo movement. Nevertheless, we will utilize our fleet of 15 new-generation large-sized vessels, each with a 7,500-vehicle capacity, to improve operational efficiency and reduce vessel costs and operational expenses. We will make maximum use of these vessels, which have high ability to accommodate construction machinery, railway cars and the like, to expand our business in high and heavy cargoes. Meanwhile, in the logistics business, we will rebuild our global network and expand our customer base and business scale with "K" Line Logistics, Ltd. as the core.

Renewal of Business Segment for Disclosure

FY2017 Segment (Old)

- Bulk Shipping Business segment
  - Coal & iron ore carrier
  - Thermal coal carrier
  - Woodchip & pulp carrier
  - Bulk carrier
  - Car carrier (incl. automotive logistics business)
  - LNG carrier
  - Tanker
  - Liquefied gas new business
  - Short sea and coastal business
- Offshore Energy E&P Support & Heavy Lifter Business segment
  - Energy E&P support business
  - Offshore support business
  - Heavy lifter business
- Containership Business segment
  - Containership business (incl. port business)
  - Logistics business
- Others
  - Ship management, travel agency business, real estate business, etc.
- Adjustment

FY2018 Segment (New)

- (New) Dry Bulk segment
  - Coal & iron ore carrier
  - Bulk carrier (incl. woodchip & pulp carrier)
- (New) Energy Resource Transport segment
  - LNG carrier
  - Tanker
  - Thermal coal carrier
  - Energy E&P support business
  - Offshore support business
  - Liquefied gas new business
- (New) Product Logistics segment
  - Car carrier
  - Automotive logistics business
  - Logistics business
  - Short sea and coastal business
  - Containership business (incl. port business, "K" LINE's own containership business, and ONE as an equity-method company)
- Others Segment
  - Ship management, travel agency business, real estate business, etc.
- Adjustment

Consolidated Estimate for FY2018

(billion yen)

	FY2018 1H estimate	FY2018 2H estimate	FY2018 Total (a)	Year-on-year comparison FY2017 (b)	Year-on-year comparison (b)-(a)
Operating revenues	382.0	372.5	754.5	1,162.0	(407.5)
Operating income	(7.5)	12.5	5.0	7.2	(2.2)
Ordinary income	(9.0)	14.0	5.0	2.0	3.0
Profit attributable to owners of the parent	2.5	4.5	7.0	10.4	(3.4)
Exchange rate (¥/$)	¥108	¥110	¥109	¥111.19	(¥2)
Fuel oil price ($)	$376	$369	$373	$349	$24

Estimate by Segment

(billion yen)

Business segment		FY2018 1H estimate	FY2018 2H estimate	FY2018 forecast
Dry bulk	Operating revenues	113.5	115.5	229.0
	Ordinary income	0.0	3.5	3.5
Energy resource transport	Operating revenues	43.0	44.5	87.5
	Ordinary income	1.0	2.0	3.0
Product logistics	Operating revenues	208.5	195.0	403.5
	Ordinary income	(7.5)	9.0	1.5
Containership	Operating revenues	65.1	51.5	116.6
	Ordinary income	(9.1)	4.3	(4.8)
ONE as an equity-method company	Ordinary income	0.1	3.6	3.8
Others	Operating revenues	17.0	17.5	34.5
	Ordinary income	0.5	0.5	1.0
Adjustment	Operating revenues	—	—	—
	Ordinary income	(3.0)	(1.0)	(4.0)
Total	Operating revenues	382.0	372.5	754.5
	Ordinary income	(9.0)	14.0	5.0

Introduction of proposal system, "Suggestions for Greater Strides —Challenge 99"

As I mentioned earlier, the integration of the containership business gives us a great opportunity for innovation. We decided it was good time to encourage each and every officer and employee to think about the future of the Company, and introduced a new proposal system to help build the next-generation "K" LINE Group based on approaches that are not obsessed with the past. The name of the new system, "Suggestions for Greater Strides—Challenge 99," reflects the "Revival for Greater Strides" part of our medium-term management plan and the fact that 2018 is the 99th year since our foundation. We ask officers and employees to send proposals via e-mail about any aspect of the Company's business. Each proposal is given to the relevant department for examination and consideration of response measures and direction, then passed internally and to the individual proposer as feedback. I, personally, also look through all the proposals in the hope that some of them will lead us to the next generation.

Q3 Please tell us your thoughts and expectations for ONE.

A3 I firmly believe that ONE, which harnesses the strengths of three Japanese shipping companies, will earn widespread trust as the nation's largest containership entity.

ONE, which integrates the containership businesses of three Japanese shipping companies, started services in April 2018 as originally planned. This bold business integration gives the new company the business scale and cost competitiveness necessary to survive against international competition. When vessels ordered are in place, ONE will have a total of 224 ships and a capacity of 1.55 million TEU—ranking them just behind the big three European containership companies. In addition, we can stabilize our business operations by using integration to reduce costs. We expect the synergistic effect of the integration to produce US$1.05 billion annually—more than our original forecast—of which 60% will be derived in fiscal 2018, 80% in fiscal 2019 and 100% in fiscal 2020.

Each of the Japanese shipping companies involved has distinctive strengths in the containership business, and we are all committed to providing transportation and services from the customer's perspective with a strong emphasis on quality. Now we are involved in this business as a shareholder. I firmly believe that ONE—which fuses the DNA of three Japanese companies, each with different strengths but a common commitment to quality—will earn the trust of everybody. The three shipping companies involved will provide support with a strong determination to make ONE inevitably successful as the nation's largest containership entity.

For details about ONE, see Business Overview (TOPICS) on page 35

Q4 Please describe the progress status of the Group's medium-term management plan, "Revival for Greater Strides" (fiscal 2017–2019).

A4 In order to build stable profits, we have sought to rebuild our business portfolio, while also introducing business risk–return management method through advanced business management.

We have set three priority initiatives under the plan: (1) Rebuilding portfolio strategy, (2) Emphasizing advanced business management and function-specific strategies and (3) Pursuing ESG initiatives. Through these measures, we will target positive profits for three consecutive years from fiscal 2017, stable businesses with ROA of 6%, stable revenue boosted to ¥30.0 billion or higher and an equity ratio of around 25%.

With respect to the first initiative, "rebuilding portfolio strategy," we completed the integration of the containership business, sold our heavy lifter business, and reduced the number of market-linked high-cost vessels. In these ways, we are working to strengthen our stable businesses. In fiscal 2017, our stable businesses generated revenue of around ¥27.0 billion, up ¥2.0 billion year-on-year, indicating steady progress toward our target of ¥30.0 billion or higher.

As for emphasizing "advanced business management," we started operation of a business risk–return management method with greater attention to capital costs. By introducing this management method, we feel we can identify issues and implement solutions from different angles and thus strengthen the correlation with "rebuilding portfolio strategy." By further entrenching this method into our operations, we also will deepen our advanced business management.

With respect to "emphasizing function-specific strategies," this requires a combination of customer relationship management (CRM) enhancement, technological innovation, business model reform and securement, development, and diversification of human resources. With an understanding of social changes and the strategies of our customers, we are collaborating with them to create a new business model.

Finally, we are "pursuing ESG initiatives" in various ways, including a reinforcing unit supervisory system and risk management. In addition, we are pursuing measures based on "K" LINE Environmental Vision 2050, as the long-term environmental management vision with a view to 2050. As a result, our environmentally-friendly next generation flagship *DRIVE GREEN HIGHWAY* was awarded with Ship of the Year 2016, reflecting the high external praise we have received as an advanced environmental protection company. We also launched an environmental management promotion system called "DRIVE GREEN NETWORK" for the entire Group, and acquired a "Statement of conformity" from a third-party institution.

For details, see Special Feature 1 (pages 12-14) and CSR (pages 36-55)

● Detailed Progress of Management Plan & Initiatives for FY2018

FY2017 "Revival for Greater Strides" start and run-up

Accomplishment of integration of containership business (foundation of "ONE")

"Commencement of "Advanced Business Management" by total risk-return management"

"Strengthen Customer Relationship Management (CRM) and correspond to customer demands for change"

Asset reduction Sold non-core assets (real estate)

- Agreed in principle to participate in FPSO business in Ghana
- Installation of "KAWASAKI Integrated Maritime Solutions Navigating System (K-IMS)"
- Began joint discussions on LNG bunkering business

Development of new business models by cooperation with customers and outsiders
- Initiative for CRM
- Initiative for technological innovation
- Securing human resources by external cooperation

- Delivery of 2 new LNG carriers for Ichthys LNG project in Australia

FY2017 results
Stable income business
- Asset base: ¥500 bln
- Ordinary income: ¥27 bln (up 2 bln y/y)
- ROA (ordinary income): 5.4% (up 0.4% y/y)

- Services start by ONE

Reduce market-sensitive business
- Sold heavy lifter business

Advanced business management / Total risk-return management

For details, see Special Feature 2 (page 15)

FY2018 "Revival for Greater Strides" full scale implementation

Rebuilding business portfolio well underway

Development of new business model

Familiarization of "Advanced Business Management"

Development of customer-oriented new business model (technology / environment) — **Development of new gen-core business**

Ongoing initiative by high-quality and customer base — **Development and expansion of stable business**

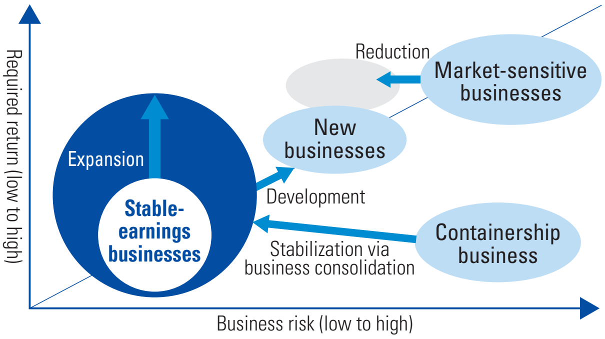
ONE as equity-method affiliate stabilize revenue base — **Profit-making by containership business**

Reduce cost-fixed core fleet / Further initiative for restricting of non-core business

Deployment as important performance indicators for rebuilding business portfolio

Deployment as investment indicator for new project for existing / New gen-core business

● **Business Portfolio Rebuilding**



Q5 Please describe the status of the Group's compliance with environmental regulations including those related to sulfur oxides (SO_x).

A5 **We will use low-sulfur fuel, install SO_x-removal equipment, convert fuel to LNG and otherwise proceed with optimal measures on a ship-by-ship basis.**

Transporting goods by ship has a relatively low environmental impact, but as impacts on the environment become more serious on a global scale, reducing the environmental effect of marine transportation is an urgent issue. Rules governing sulfur concentration in marine fuel are attracting particular attention. Currently, the maximum concentration is 3.5% or less when operating in general waters, but the upper limit will be reduced to 0.5% from January 2020. There are various ways to achieve this, including use of low-sulfur fuel oil, installation of scrubbers (exhaust gas cleaning system) and conversion to LNG and other alternative fuels. We will proceed on a ship-by-ship basis, aware that we cannot limit ourselves to one particular measure. In April 2018, the targets for reducing greenhouse gas emissions including CO_2 emissions from international shipping were decided, then the concrete measures to achieve will be discussed.

Implementing environmental measures will entail large costs, but it is important to take action without delay by sharing the burden fairly among beneficiaries.

Q6 Finally, do you have any message to stakeholders?

A6 **The brand-new "K" LINE Group will strive to implement further innovations.**

In fiscal 2017, which marked the beginning of our medium-term management plan, we successfully guided initiatives aimed at "Revival for Greater Strides" along the right track. Because of the urgent need to enhance our financial position in order to increase equity capital, however, we have decided, with regret, to forgo dividends payments for the year.

In fiscal 2018, we will restore our equity capital, which was affected by structural reforms to date, and build up our strength. We have positioned fiscal 2018 as a year for full-scale implementation of measures in preparation for our next "great strides." At the same time, it will also be a year of innovation, during which we will boldly embrace challenges free from constraints as the brand-new "K" LINE Group. By harnessing Group-wide strengths to forge ahead toward change, we look forward to 2019, the 100th Anniversary of our founding, and to our next centenary of operations.

During the three-year period of our medium-term management plan, we will strive to maintain positive profits and swiftly restore our robust business foundation aiming for the resumption of dividends at an early stage, in our quest to be a company that earns the renewed trust of all stakeholders, including customers and shareholders and other investors. We look forward to your ongoing support for these endeavors.

President and CEO
Eizo Murakami

Special Feature 1

Further Enhancing Services and

-Creating K Value-

As part of efforts to further reinforce function-specific strategies after the containership business integration, the “K” LINE Group is working to strengthen its customer base by promoting customer relationship management (CRM) throughout the Group. In Special Feature 1, we explain about how we deploy our service menu as an integrated logistics company to advance multi-layered, proposal-type sales and thus strengthen our customer base. In the process, we introduce specific initiatives on technological innovation and business model transformation that reflect customer needs.

● **What We Aim to Become**








Creating a New Business Model

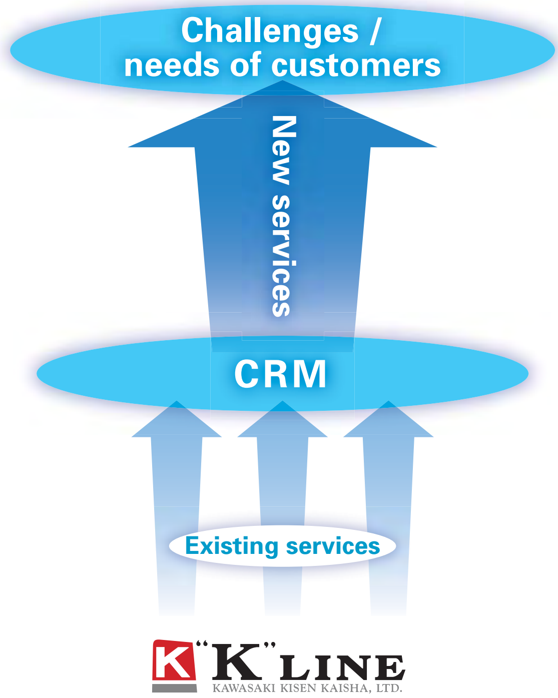
Priority Measure 1: Strengthen Customer Base

As an integrated logistics company that evolved from the shipping business, we utilize our extensive service menu in a Group-wide effort to actively advance multi-layered, proposal-type sales.

Customers are constantly confronted with multiple challenges related to shipping and logistics. In addition to improving service quality with respect to safety and security, as well as addressing environmental regulations and other social issues, our customers have wide-ranging needs in other areas. When setting up a factory, for example, they require not only marine transportation of raw materials and products, but also transportation of factory materials, river and land transportation, factory logistics and the like. In the automobile industry, where technological innovation is progressing rapidly, demand for logistics is changing drastically with the spread of electric vehicles (EV) and IoT, as well as advances in automation driven by AI and other technologies, thus raising the potential for major changes in desired cargo shipping and transportation services. In emerging economies, meanwhile, there is a need to build new logistics infrastructure at the local level to handle complete built-up car logistics.

Accordingly, customers' challenges and needs are changing in many ways, giving rise to numerous business opportunities that transcend existing trading frame-works. In addition to its engineering and excellent shipping services, the Group has a comprehensive menu of marine transportation and logistics services and unique associated know-how. In addition, we have established a system to build new logistics infrastructure in cooperation with local partners around the world. For customers in all industries, therefore, we will fully demonstrate our Group strengths as we focus on delivering optimal solutions. Here, we will drill down vertically into logistics transportation in general to provide services ranging from marine transportation to land transportation in multiple regions. To this end, we have established a function for coordinating multiple businesses and projects within our headquarters. Here, we utilize customer information—collected and shared throughout the Group—in sales activities across our business units, and we are promoting efforts to ensure effective inter-action between various function of overseas bases, Group companies and the like.

● **Strengthen Customer Base (Vertical Approach)**



Priority Measure 2: Create New Business Model

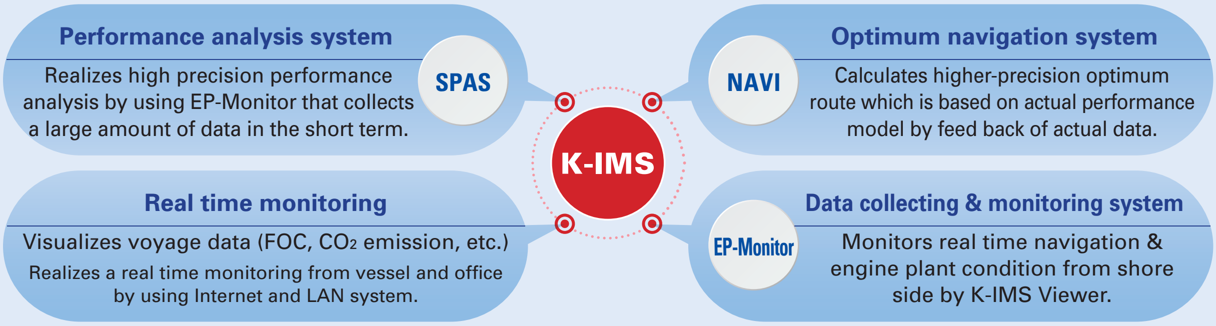
In addition to strengthening these coordinating functions, we are swiftly setting up project teams and have established a system to facilitate systematic solution-based proposals. In addition, we are strengthening our customer base and advancing solution-based proposals with the aim of building a new business model. We have already started using CRM to transform our business model. Here, we are providing solutions and otherwise advancing our businesses in response to demand for logistics infrastructure—including project transportation and complete built-up car logistics—among customers mainly in emerging economies. We are also making advanced responses to environmental problems. For example, we are working with Kawasaki Kinkai Kisen Kaisha, Ltd. to set up Japan's first LNG-fueled ferry service, and we have decided to establish an LNG bunkering business for ships in Japan.

Case Study 1 Deploying Advanced Technologies—Introduction of K-IMS*

We installed "K-IMS," a next-generation integrated vessel operation and performance management system developed jointly with the Kawasaki Heavy Industries Group, into around 90 of our operated and managed vessels. Responding to the spread of broadband communications on the seas, we created "K-IMS" by integrating and updating our "Ship Performance Analysis System" and "Data Collecting & Monitoring System," then combining this with our "Optimum Navigation System" and "Real Time Monitoring" into a single unit. It collects and monitors all kinds of operational big data in real time using the cloud to display routes offering minimum fuel consumption with increased accuracy, thus contributing to improved economic efficiency, safety and environmental performance of vessels fitted with the system.

In the future, we will pursue further automation in stages by incorporating AI, big data, and IoT, and other technological innovations. Our aim is to realize automated vessel navigation that completely eliminates human error, with top priority on safety.

● **Integrated Vessel Operation and Performance Management System**



*Kawasaki–Integrated Maritime Solutions

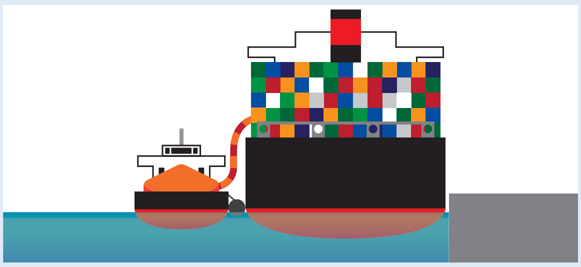
Case Study 2 Pursuing Environmental Advances—LNG Bunkering Business

In May 2018, the Group established a joint venture with Chubu Electric Power Co., Inc., Toyota Tsusho Corporation and Nippon Yusen Kabushiki Kaisha, reflecting a decision to enter the liquefied natural gas (LNG) bunkering business for ships in Japan (Chubu District). LNG is regarded as a powerful fuel candidate to replace heavy oil because it allows reductions in air pollutants and greenhouse gas emissions and meets international regulations on gas emissions that are expected to become more stringent.

● **Overview of the Newly-Established Joint Ventures**

Corporate name	1. Central LNG Marine Fuel Japan Corporation 2. Central LNG Shipping Japan Corporation
Business content	1. LNG bunkering business 2. Ownership of the LNG bunkering vessel
Shareholders	"K" LINE, Chubu Electric Power, Toyota Tsusho and NYK Line
Date of establishment	May 10, 2018

● **Ship-to-Ship Bunkering**



A method of bunkering where an LNG bunkering vessel comes alongside an LNG-fueled vessel to supply LNG at different locations such as along the quayside, pier or at anchor. (From left to right : LNG bunkering vessel, LNG-fueled vessel)

Future Initiatives

We will actively promote CRM in order to further strengthen our systems for addressing customer needs in an accurate and timely manner. Moreover, we will emphasize a more permanent, cross-lateral strategy that covers both the sales development and solution-based proposal aspects of CRM. Here, we will establish a customer data and reinforce information-sharing systems—including those of our overseas bases and affiliated companies—in addition to examinations by individual project teams over set time periods.

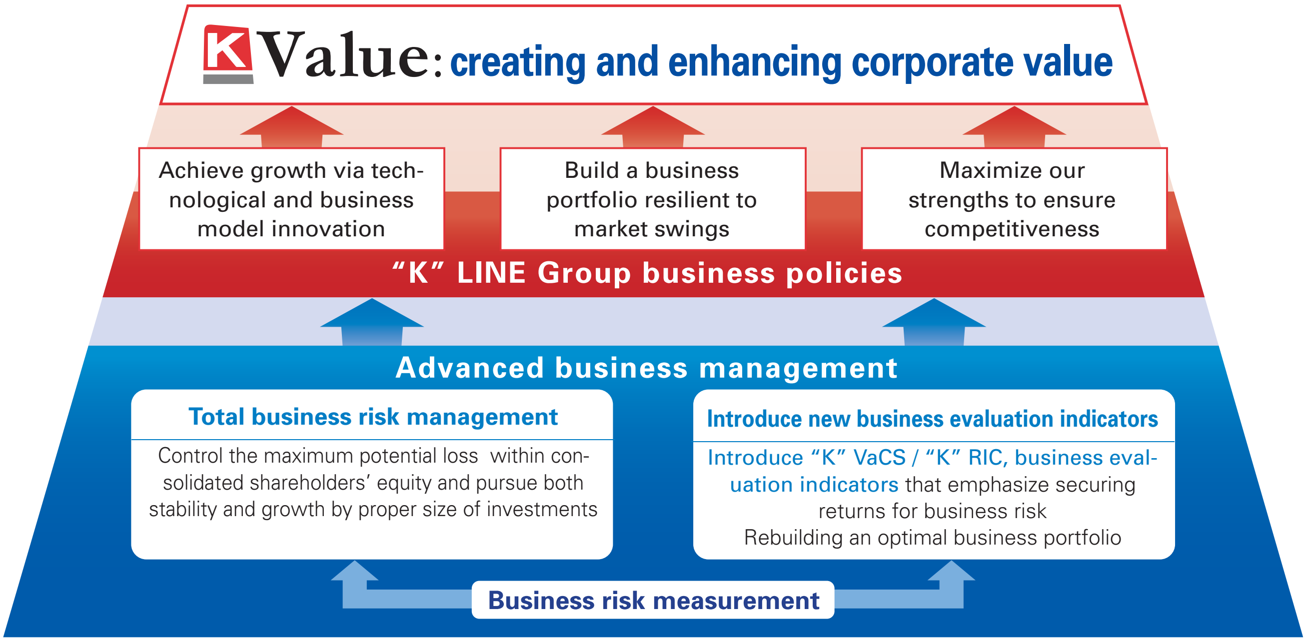
Special Feature 2

Advanced Business Management

New Evaluation Indicators Launched to Support Management Decisions

The “K” LINE Group aims to create and improve corporate value based on a greater awareness of capital costs than ever before. To this end, we introduced and started using two indicators for identifying risks in each business unit and ensuring returns that correspond to those risks. The new indicators are: “K” VaCS, a “K” LINE version of Economic Value Added (EVA), and “K” RIC, a “K” LINE version of Return on Invested Capital (ROIC).

● **Concept of Advanced Business Management**



● **Details of Business Evaluation Indicators**

“K” VaCS — “K” LINE Value after Cost of Shareholders’ Equity —

- **A profit indicator that represents Economic Value Added (EVA) corresponding to the cost of shareholders’ equity**
- **Aims to optimize the Group’s business portfolio by using the measured business risk**

“K” RIC — “K” LINE Return on Invested Capital —

- **An efficiency indicator promoting corporate value enhancement that factors in the cost of capital**
- **Accelerate Return on Invested Capital (ROIC) by establishing a profitability baseline**
- **Sets hurdle rates for each business and the Group overall by using the measured business risk**

Advanced Business Management

The “K” LINE Group takes objective information about market fluctuations (including freight rates, foreign exchange and interest rates), then determines business risk as the maximum potential loss based on statistical measurements. By controlling these maximum amounts, we are able to increase the stability of our businesses. When making decisions about new investment projects, moreover, we measure business risk by project and examine whether or not the profitability of the project matches the business risk. This enables us to make appropriate investment choices. In addition, we are making business-specific assessments using two new indicators based on the measured business risk —“K” VaCS and “K” RIC—in an effort to realize an optimal business portfolio.

Financial and ESG Highlights

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

The Evolution of Medium-Term Management Plans		“K” LINE Vision 100 “Synergy for All and Sustainable Growth”			
		“K” LINE Vision 100		“KV” 2010	New Challenges
		FY2008	FY2009	FY2010	FY2011
Operating results (for the year)	Operating revenues	¥1,244,317	¥838,033	¥985,085	¥972,311
	Operating income	71,604	(52,075)	58,610	(40,563)
	Ordinary income*4	60,011	(66,272)	47,350	(48,956)
	Profit attributable to owners of the parent	32,421	(68,721)	30,603	(41,351)
Financial position (at year-end)	Total assets	971,603	1,043,885	1,032,505	1,066,649
	Net assets	356,153	331,865	314,986	259,935
	Equity capital*5	334,773	308,122	291,669	242,573
	Interest-bearing liabilities	439,622	516,001	483,363	592,523
	Capital expenditures	168,446	181,489	148,993	239,197
	Depreciation and amortization	39,427	45,281	44,722	50,044
	Cash flows from operating activities	77,614	(23,941)	84,902	(2,909)
	Cash flows from investing activities	(148,304)	(63,737)	(54,117)	(83,233)
	Free cash flows	(70,690)	(87,678)	30,785	(86,142)
	Cash flows from financing activities	99,844	109,411	(24,797)	86,307
Per share data	Profit attributable to owners of the parent (¥ or US$)	50.89	(106.24)	40.08	(54.14)
	Net assets (¥ or US$)	525.43	403.53	381.87	317.59
	Cash dividends applicable to the year (¥ or US$)	13.50	—	9.50	—
	Dividend payout ratio (%)	26.5	—	23.7	—
Management index	Return on equity (ROE)*6(%)	9.4	(21.4)	10.2	(15.5)
	Return on assets (ROA)*7(%)	6.2	(6.6)	4.6	(4.7)
	Debt equity ratio (DER)*8(Times)	1.31	1.67	1.66	2.44
	Equity ratio (%)	34.5	29.5	28.2	22.7
Average during the period	Exchange rate (¥ / US$)	101	93	86	79
	Fuel oil price (US$ / ton)	504	407	489	672
Consolidated business data	Vessels in operation*9	504	499	522	559
Human resource data	Consolidated employees	7,706	7,740	7,895	7,703
	Unconsolidated employees	602	623	623	664
	Land	417	433	437	486
	Sea	185	190	186	178
	Women (%)	18.6	18.5	18.9	22.9
	Persons with disabilities (%)	2.05	2.12	1.60	1.60
	Industrial accidents — Land	0	0	0	0
	Industrial accidents — Sea	2	1	0	0
Management*10	Directors	12	15	14	13
	Outside Directors	0	2	2	2
	Audit & Supervisory Board Members	4	5	5	5
	Outside Audit & Supervisory Board Members	2	3	3	3
Environmental data*10, 11	Fuel oil (thousands of tons)	4,392	3,563	3,802	3,949
	CO_2 emissions (thousands of tons)	13,677	11,096	11,838	12,298
	SO_x emissions (thousands of tons)	240	197	208	214
	NO_x emissions (thousands of tons)	410	303	308	323

Notes: *1. Rounded to millions of yen
*2. The U.S. dollar amounts are converted from the yen amounts at ¥106.24 = US$1, the exchange rate prevailing on March 31, 2018.
*3. The Company consolidated its common stock at a ratio of ten shares to one share, effective October 1, 2017. The above figures for profit attributable to owners of the parent per share and net assets per share have been calculated on the assumption that the share consolidation took place at the beginning of the previous fiscal year (April 1, 2016).
*4. Ordinary income consists of operating income and non-operating income / expenses.
*5. Equity capital: Net assets – (Non-controlling interests + Stock acquisition rights)
*6. Return on equity: Profit attributable to owners of the parent / Equity capital

Value for our Next Century

Bridge to the Future | – Action for Future – | Revival for Greater Strides

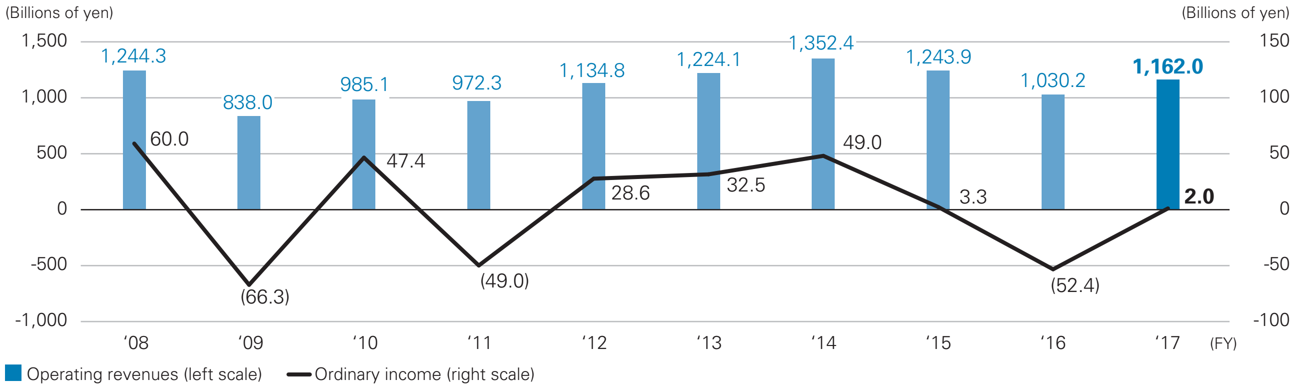
FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2017
					(Millions of yen)*1	(Thousands of U.S. dollars)*2
¥1,134,772	¥1,224,126	¥1,352,421	¥1,243,932	¥1,030,191	**¥1,162,025**	**$10,937,735**
14,887	28,854	47,988	9,428	(46,037)	**7,220**	**67,959**
28,589	32,455	48,981	3,339	(52,389)	**1,963**	**18,477**
10,669	16,642	26,818	(51,499)	(139,479)	**10,384**	**97,741**
1,180,434	1,254,742	1,223,328	1,115,224	1,045,210	**1,041,766**	**9,805,779**
361,975	410,690	467,440	379,914	245,482	**243,094**	**2,288,159**
340,571	388,837	441,532	355,376	219,485	**217,011**	**2,042,649**
629,864	643,795	536,847	525,152	550,512	**570,585**	**5,370,717**
134,555	93,378	89,502	116,593	68,048	**101,105**	**951,666**
59,668	52,244	53,527	48,303	47,421	**43,411**	**408,613**
59,756	88,228	101,826	39,636	(43,919)	**1,167**	**10,985**
(27,212)	(5,113)	(11,177)	(29,569)	(24,882)	**(22,813)**	**(214,731)**
32,544	83,115	90,648	10,066	(68,801)	**(21,646)**	**(203,746)**
26,364	(26,634)	(119,254)	(14,836)	26,436	**22,240**	**209,337**
						(U.S. dollars)
12.07	17.75	28.60	(54.95)	(1,488.23)*3	**111.13*3**	**1.05*3**
363.18	414.66	471.10	379.18	2,341.93*3	**2,326.65*3**	**21.90*3**
2.50	4.50	8.50	5.00	—	**—**	**—**
20.7	25.4	29.7	—	—	**—**	**—**
3.7	4.6	6.5	(12.9)	(48.5)	**4.8**	
2.5	2.7	4.0	0.3	(4.8)	**0.2**	
1.85	1.66	1.22	1.48	2.51	**2.63**	
28.9	31.0	36.1	31.9	21.0	**20.8**	
82	100	109	121	109	**111**	
671	626	541	295	265	**349**	
566	583	584	575	560	**554**	
7,667	7,703	7,834	8,097	8,018	**7,153**	
659	652	676	716	735	**724**	
481	478	504	541	552	**531**	
178	174	172	175	183	**193**	
22.8	24.4	25.4	26.3	24.9	**25.1**	
1.90	1.93	1.87	1.94	2.29	**2.40**	
0	0	0	0	1	**2**	
1	3	1	0	1	**1**	
13	13	10	9	9	**9**	
2	2	2	2	3	**3**	
5	4	4	4	4	**3**	
3	3	3	3	2	**2**	
3,966	3,651	3,646	3,942	3,872	**4,102**	
12,352	11,377	11,360	12,300	12,079	**12,797**	
209	190	182	190	183	**195**	
319	292	283	290	274	**284**	

*7. Return on assets: Ordinary income / Total assets
*8. Debt equity ratio: Interest-bearing liabilities / Equity capital
*9. Includes project-use vessels owned by special purpose companies (SPCs)
*10. For Kawasaki Kisen Kaisha, Ltd.
*11. Total amounts calculated based on fuels supplied to vessels (the number of the vessels do not agree with that of vessels in operation), for which “K” LINE arranged fueling. The figures are calculated on a calendar year basis.

Financial and ESG Highlights

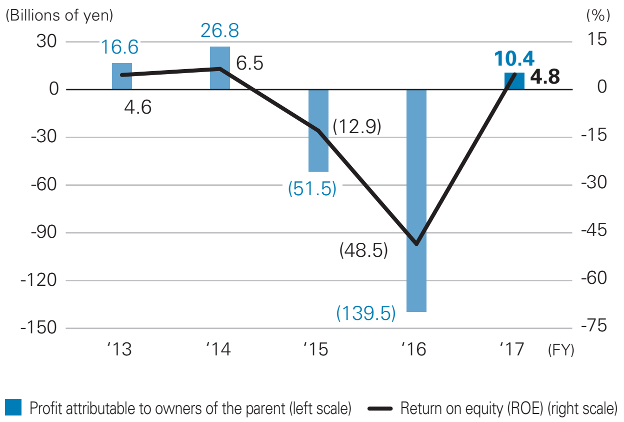
Kawasaki Kisen Kaisha, Ltd. and consolidated subsidiaries
Years ended March 31

Operating Revenues, Ordinary Income



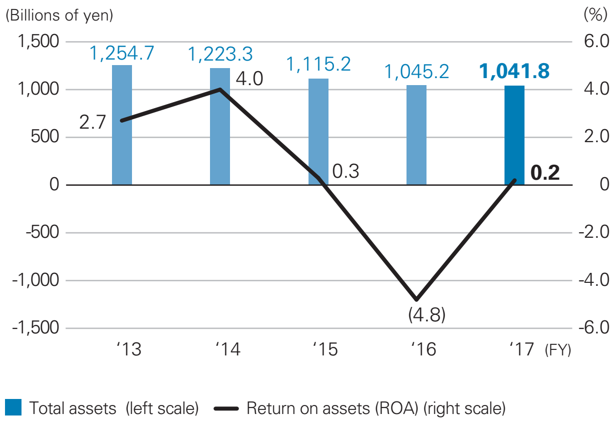
Market conditions for containerships and dry bulk carriers, the Group's major businesses, have recovered from their historically low levels and are improving. In addition, the structural reform and cost-cutting measures implemented in fiscal 2015-2016 have manifested effects, resulting in significant improvements in operating revenues, which increased by 12.8% year-on-year, and ordinary income, which returned to a surplus of ¥2.0 billion.

Profit Attributable to Owners of the Parent, Return on Equity (ROE)



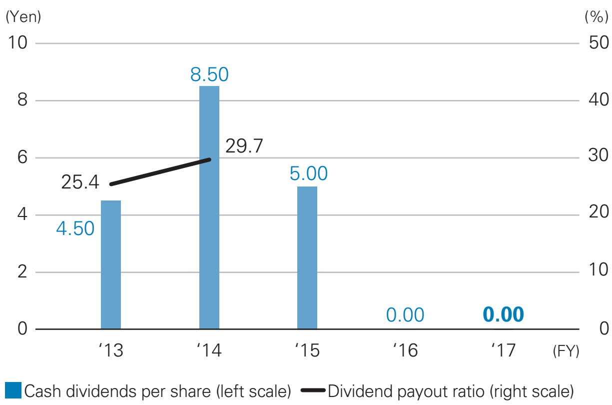
Annual profit was recorded in all profit stages in fiscal 2017 due to structural reform, cost-cutting measures and other factors. Profit attributable to owners of the parent improved by ¥149.9 billion.

Total Assets, Return on Assets (ROA)



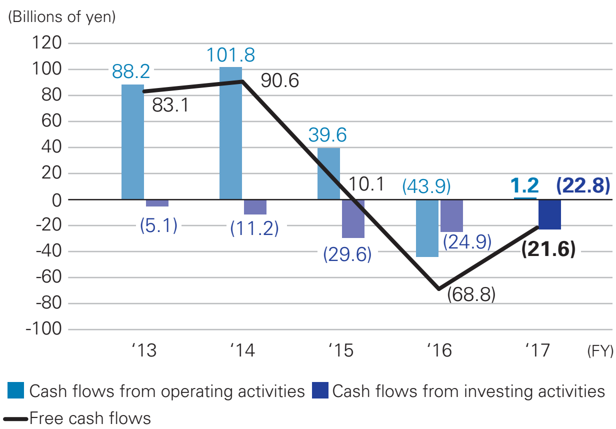
In fiscal 2017, profit attributable to owners of the parent recorded a surplus, and ROA also returned to positive.

Cash Dividends per Share, Dividend Payout Ratio



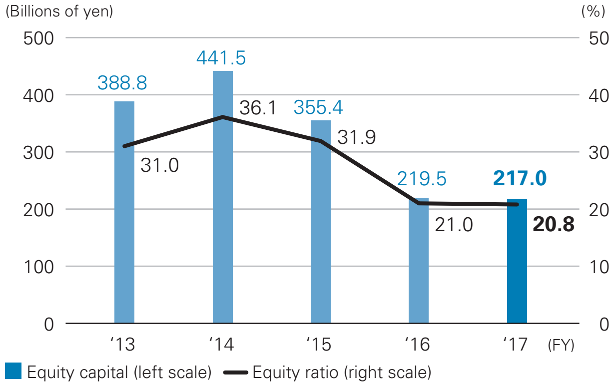
In fiscal 2017, in order to strengthen our financial foundation, we very regrettably had to decide on no dividend payment for the year, in light of the urgent need to improve our financial condition, following the previous year.

Cash Flows



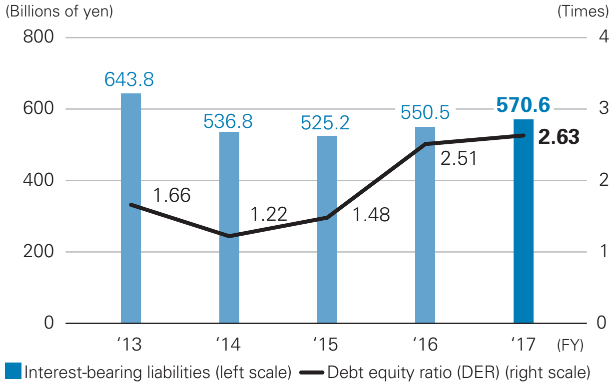
In fiscal 2017, due to the loss before income taxes, depreciation and amortization and the acquisition of ships, free cash flows were negative ¥21.6 billion.

Equity Capital, Equity Ratio



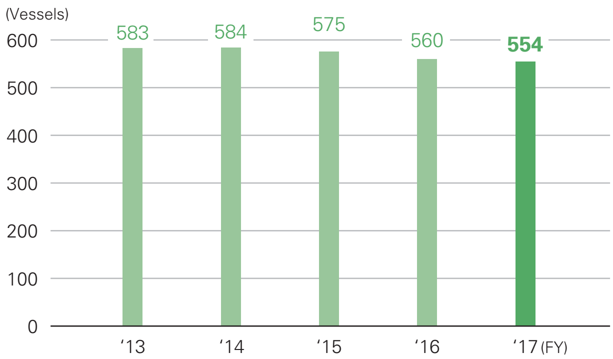
In fiscal 2017, while shareholder capital increased, the effects of the yen's appreciation resulted in equity capital and equity ratio remaining at similar levels as in the previous year at ¥217 billion and 20.8%, respectively. We aim to increase the equity ratio to somewhere around 25% by the end of fiscal 2019.

Interest-bearing Liabilities, Debt Equity Ratio (DER)



In fiscal 2017, due to increases in long-term loans, obligations under finance leases and other items, interest-bearing liabilities increased by ¥20.1 billion year-on-year to ¥570.6 billion. DER climbed by 0.12 points.

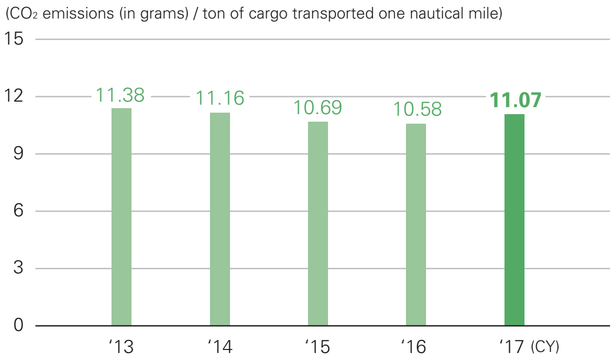
Number of Vessels in Operation (consolidated)



Of the vessels in operation, we disposed of highly costly uneconomic vessels in our core fleet, excluding short-term charters and other vessels, to maintain resiliency to market fluctuations.

Volume of CO_2 Emissions (unconsolidated)

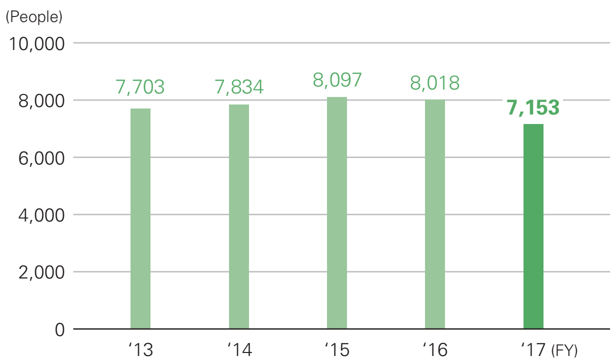
per freight ton-mile* on an annual basis



* Index for transporting one ton of cargo over one nautical mile (1,852 meters)

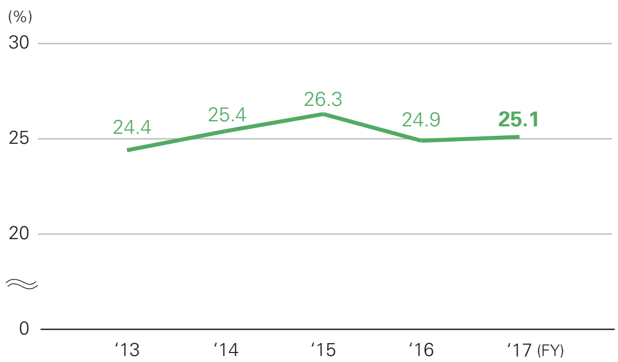
We are reducing CO_2 emissions by introducing environmentally-friendly vessels while enhancing fleet operational efficiency. In April 2018, the goal for reduction of GHG emissions such as CO_2 for international shipping was finally set. We will pursue further reduction.

Number of Employees (consolidated)



In order to realize world-leading safety in navigation and cargo operations, we strive to secure and train outstanding talent.

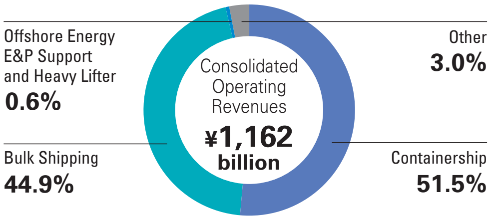
Percentage of Women (unconsolidated)



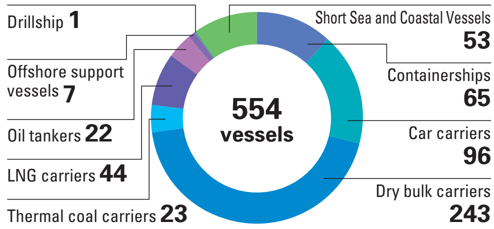
We are taking measures to ensure that our employees can be globally active irrespective of their gender.

At a Glance

"K" LINE Group Operating Revenues by Segment (FY2017)



"K" LINE Group Vessels in Operation (as of March 31, 2018)



• We have renewed our business segments for disclosure so that business results can be more easily understood

Dry Bulk

Dry bulk business

Formerly "Bulk Shipping segment"

Each year, we transport a large volume of dry bulk cargoes including iron ore, woodchip and pulp, grains and coal. We are expanding our business internationally by actively engaging in transportation of cargoes bound for not only Japan but also China, India and other emerging economies, as well as in trades within the Atlantic region.

P22-23

Energy Resource Transport

Energy resource transport business

Formerly "Bulk Shipping segment"

We provide global transport service not only for industrial energy resources such as liquefied gases, including LNG and LPG, crude oil and oil products, and coal for power generation but also for city gas, gasoline and other energy resources used directly by consumers.

P24-25

Energy E&P support business

Formerly "Offshore Energy E&P Support and Heavy Lifter segment"

K Line Offshore AS, located in Norway, provides offshore support vessel services with seven vessels. In addition, "K" LINE participates in an ownership consortium of a drillship which is engaged in oilfield drilling operations under long-term charter to a semi-public Brazilian oil company. We also participate in an ownership consortium of an FPSO which produces crude oil in offshore Ghana under long-term charter to a parastatal Italian oil company.

P26

Liquefied gas new business

New business

We are working to develop and realize new business in liquefied gas (LNG / LPG). In emerging economies mainly in Asia, there are increasing business opportunities, such as for facilities that can receive liquefied gas (FSRU), Floating Gas Power Plant (FGPP), and Small Scale LNG Transportation at a low price and short delivery time as demand for liquefied gas rises, and we are building up our track record in these projects. In addition, given the need to reduce environmental burden, we are working to realize liquefied gas-fueled carriers and enter the liquefied gas bunkering business.

P27

Product Logistics

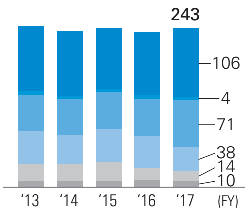
Car carrier business

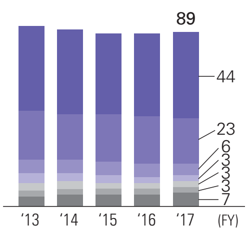
Formerly "Bulk Shipping segment"

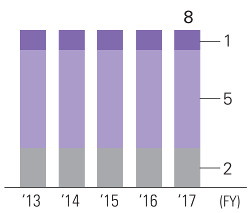
Since 1970, when "K" LINE deployed Japan's first PCC (pure car carrier) into the transportation service of complete built-up cars, we have been recognized as a pioneer in safe and prompt transportation of passenger cars, trucks and other vehicles. We are actively upgrading the fleet and working to improve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

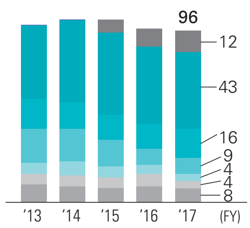
P28-29

Changes in Fleet by Size and Vessel Type (unit: Number of vessels)









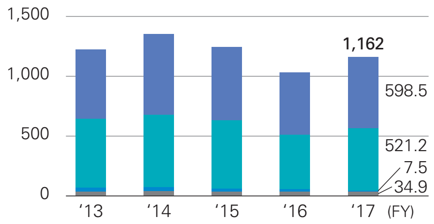
Cape-size
Over-Panamax
Panamax
Handymax
Small handy
Chips and pulp

LNG carriers (including co-owned)
Thermal coal carriers
Oil tankers / VLCC
Oil tankers / AFRAMAX
Petroleum product tankers
Chemical tankers
LPG carriers

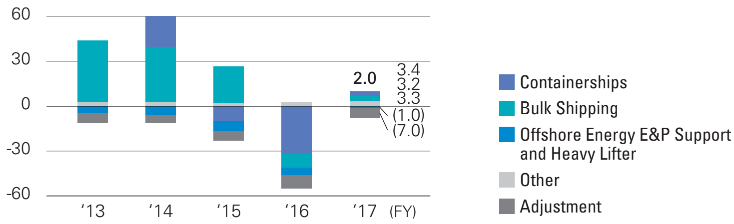
Drillship
Platform supply vessels
Anchor handling tug supply vessels

7,000 units
6,000 units
5,000 units
4,000 units
3,000 units
2,000 units
〜2,000 units
(including short-term chartered vessels)

Operating Revenues (unit: Billions of yen)



Ordinary Income (unit: Billions of yen)



by those outside the Company using a management approach as the key component.

Others

Automotive logistics business

Operated as part of the car carrier business

We are working to strengthen comprehensive logistics that connect plants in automobile production countries and customers in the countries that sell automobiles. Since the 1980s, "K" LINE has expanded the integrated logistics business to an automobile logistics company in Australia. In the 2000s, we started the operation of automobile terminal business in the Port of Singapore that serves as an Asian hub. In recent years, we have been boosting our logistics business rooted in customer needs, including land transportation of cars, vehicle maintenance and temporary storage, in countries such as those located in Asia and Central and South America.

P30

Logistics business

Formerly "Containership segment"

By combining the expertise and service networks of the entire "K" LINE Group, we provide comprehensive logistics services not only for ocean cargo transportation, but also air and sea freight NVOCC, land transportation, warehousing and buyer's consolidation businesses to meet customer needs.

P32-33

Short sea and coastal business

Formerly "Bulk Shipping segment"

Kawasaki Kinkai Kisen Kaisha, Ltd. provides domestic marine transportation and ferry services. It operates passenger ferries, express RORO cargo ships, dedicated carriers for limestone used in steel and cement production, dedicated thermal coal carriers for electric power production and general cargo carriers. It also operates general cargo vessels and bulk carriers for cargo to and from Asia. Furthermore, it has entered the offshore support vessel operations to further enhance the business.

P31

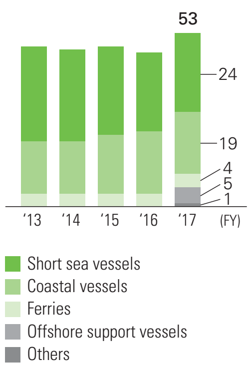
Containership business

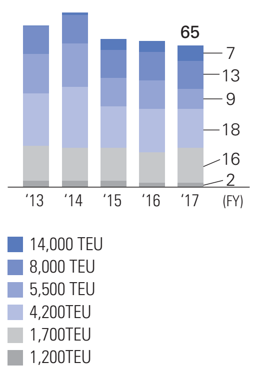
Formerly "Containership segment"

The containership business in April 2018 saw merger of the containership businesses of three Japanese shipping companies to form a new company, called Ocean Network Express. Drawing on its enhanced route network, it provides stable, reliable, high-quality and competitive services, and is capable of swiftly adapting to changes in the environment. In addition, it operates container terminals at four ports in Japan (Tokyo, Yokohama, Osaka and Kobe).

P34-35

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





Business Overview

Dry Bulk Business

Woodchip Carrier

Senior Managing Executive Officer
Atsuo Asano
Responsible for Dry Bulk Carriers Unit, In charge of Bulk Carrier Business

We Stabilize and Strengthen the Earning Base by Securing Medium- and Long-term Contracts and Enhancing Market Resilience.

Basic Strategies

- Expand the ratio of medium- and long-term contracts through cape-size and woodchip sectors
- Enhance resilience to market volatility of small- and medium-sized vessel sectors
- Enhance allocation efficiency and ensure economically-optimal operation of vessels
- Address needs to reduce environmental impacts
- Expand customer base and create new business model

Overview of Fiscal 2017

Dry bulk carrier market showed clear improvement with fast growth in seaborne dry bulk trade driven mainly by strong Chinese demand, while fleet growth remained moderate with limited supply of newbuildings to the market. As a result, earnings improved significantly year-on-year for all dry bulk carrier size sectors. In cape-size sector, in addition to the medium- and long-term contracts, which is the source of our stable earnings, we actively engaged in new trades and achieved record-breaking volume of cargo transported annually, which greatly contributed to expansion of the dry bulk business. For small- and medium-sized vessels, we sought to optimize the fleet composition to match the portfolio of cargo contracts to enhance resilience to market volatility, while maintaining operational scale. The woodchip fleet was 100% covered by contracts throughout the year and contributed to the stable earnings of the dry bulk business. The "K" LINE Group strived to improve revenues and reduce expenditures by taking measures such as continual implementation of cost reduction plans and enhancement of ship allocation efficiency, combined with the structural reforms implemented to strengthen competitiveness in the market for the past two years. While there were negative impacts, including rising fuel oil prices and further appreciation of the yen, business performance improved year-on-year and higher income and profit were achieved.

Fiscal 2018 Business Policies

While seaborne dry bulk trade volume is expected to be fairly flat compared with the previous year, the limited order book suggests that fleet growth will be subdued, with delivery of newbuildings projected to slow further, implying moderate improvement in supply-demand balance of the dry bulk market in the coming year. However, given uncertainty factors such as the impact of further strengthening of China's environmental regulations on steel production and concerns over trade disputes between the United States and China, market volatility may increase at times.

The Coal & Iron Ore Carrier Group will work to increase competitiveness by providing high-quality transportation services, amid the rise in awareness for navigational safety and conservation of global environment. Furthermore, we will strive to secure and increase medium- and long-term cargo transportation contracts, with the aim of enhancing our stable earnings base.

The Bulk Carrier Group will be committed to enhance market resilience by optimizing the fleet composition of its small- and medium-sized vessels, while stepping up efforts in areas requiring advanced transportation know-how.

As for woodchip and pulp carriers, we will aim to operate a stable business amidst the anticipated strong demand for transportation.

Ore Carrier

Executive Officer
Kunio Morimoto
In charge of Coal and Iron Ore Carrier Business, Dry Bulk Planning

Strengths

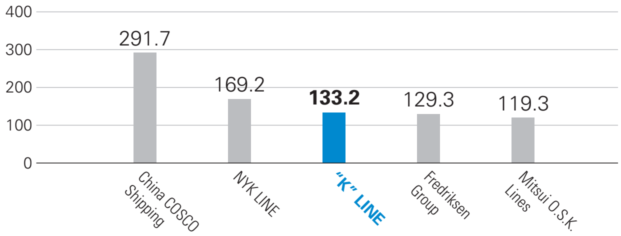
- Medium- and long-term contracts conducive to stable earnings
- Long-standing relationships of trust with leading domestic and overseas customers
- High-quality transportation services and vessel management
- Transportation know-how accumulated over many years
- Medium- and long-term charter partners (shipowners)

TOPICS

The Dry Bulk Carriers Unit is Muscling Up Now!

The Coal & Iron Ore Carrier Group has world-class cape-size fleet in scale and continues to actively seek growth in the market with its fleet that is highly resistant to market fluctuations. From fiscal 2018, long-term contracts for the transportation of Guinean bauxite by cape-size carriers will gradually begin to take effect, which is expected to contribute considerably to ship allocation efficiency of the entire cape-size fleet as well as to stable earnings. For small- and medium-sized vessel fleet, several series of long-term contracts for dedicated nickel carriers commenced in fiscal 2017. The Bulk Carrier Group leverages its transportation quality to actively handle not only main bulk cargo (iron ore, coal and grains) but also a diverse range of other cargo and is steadily increasing its annual cargo volume while maintaining its existing scale of business. The Dry Bulk Carriers Unit that became independent as a segment from this fiscal year will continue in that business with greater strength and flexibility to meet the needs of our customers.

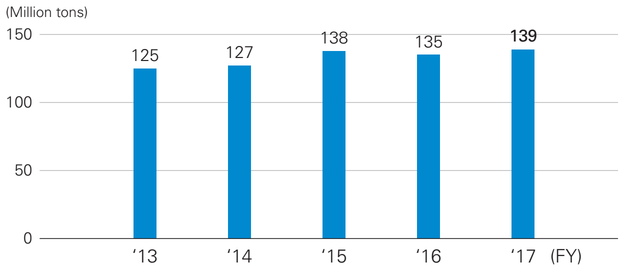
Dry Bulk (all types) Fleet (as of May 2018)



*Owned vessels and a part of chartered vessels

Source: Clarkson

"K" LINE Cargo Tonnage Carried by Dry Bulk Carriers



*All figures exclude thermal coal carriers.

BDI (Baltic Dry Index)

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

Source: Clarkson

Business Overview
Energy Resource Transport Business

LNG Carrier

Managing Executive Officer
Kazuhiko Harigai
In charge of LNG, Thermal Coal, Liquefied Gas New Business

We Expand Our Various Fleets and the Energy Value Chain Business in Anticipation of Strong Growth in Energy Demand in the Medium- and Long-term.

Basic Strategies

- Expand medium- and long-term contracts in Tanker business by replacing existing vessels and obtaining new business
- Expand fleet which will bring stable earnings to "K" LINE for medium- and long-term, responding to LNG development projects, and address diversified customer needs, including medium- and shorter-term contracts
- Engage in and expand the energy value chain business, which will create LNG / LPG demand

Overview of Fiscal 2017

Tanker Services VLCCs (Very Large Crude Carriers) and large LPG (Liquefied Petroleum Gas) tankers contributed to the earnings under medium- and long-term charter contracts. Vessels with expired contracts were sold ahead of schedule to reduce market exposure.

The market condition for tankers, especially medium-size crude oil tankers and petroleum product tankers, stagnated more than our initial forecasts, and revenues and expenditures fell.

LNG Carrier Services During the year, existing fleets operated smoothly and three newly-built vessels were launched, contributing to revenue as a stable earnings business under medium- and long-term charter contracts. On the other hand, the overall market conditions were sluggish with postponement of new development projects and increasing pressure from supply of new vessels due to the delivery of ships ordered for the purpose of speculation.

Thermal Coal Carrier Services In January 2018, we launched *CORONA WISDOM*, an 88,000-ton coal carrier. For the year, vessels including existing operating ships performed smoothly, mainly under medium- and long-term transportation contracts. While some parts of the business were impacted by contracts that were concluded when market conditions for dry bulk carriers were sluggish, we strove to achieve efficient fleet allocation but earnings remained flat from the previous year.

Fiscal 2018 Business Policies

Tanker Services We expect steady growth in demand for crude oil and LPG, especially from emerging economies. Improving the supply-demand gap is expected to take some time due to a large number of new vessel deliveries to the market for both VLCC and LPG tankers; however, progress has been made in scrapping VLCCs, and we expect market conditions to recover over the second half of the year.

Under these circumstances, we will build up our stable earnings by expanding our fleets of VLCCs and large LPG tankers based on medium- and long-term contracts in anticipation of medium- and long-term growth in demand. On the other hand, we will down-size our market-sensitive businesses and rearrange our portfolio without changing total fleet numbers.

LNG Carrier Services We expect demand for LNG, a clean energy source, to grow in the long-term. Under these circumstances, three LNG carriers tied to long-term charter contracts are scheduled to be steadily completed, which will contribute to expanding our stable earnings businesses. In addition, we anticipate a number of development projects to commence with the rise in LNG prices. We will respond flexibly to the demand of medium-term charter vessels while carefully assessing risks, with a plan to expand our fleet to around 60 vessels over the medium-term.

Thermal Coal Carrier Services As set forth in the medium-term management plan, we will increase our competitive and high-quality fleet to about 30 vessels by around 2020 to ensure stable transport to coal-fired power plants, which remain a critical power source in Japan. We aim to contribute to stable earnings by expanding medium- and long-term transport contracts with domestic electric power companies.

Thermal Coal Carrier (Corona Series)

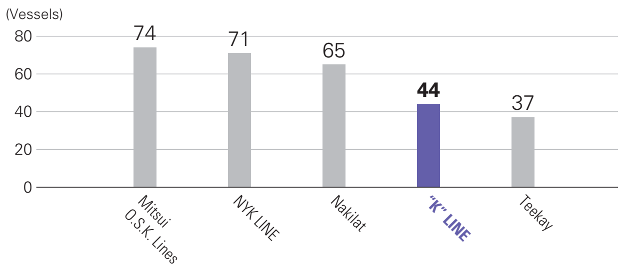
- Downsize market-sensitive businesses
- Expand fleet (Corona series) built especially for transporting thermal coal
- Expand medium- and long-term transportation contracts that contribute to stable earnings

Strengths

- Safety in navigation and cargo operation as well as high quality ship management based on solid track record of energy resource transportation for over 80 years
- Stable customer base built on long-term relationships of trust with both domestic and overseas customers
- Long-term relationships of trust with domestic electric power companies

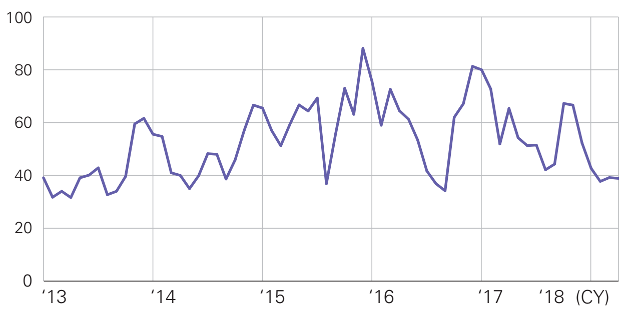
Executive Officer
Tomoyuki Okawa
In charge of Tankers, General Manager of Energy & Off-Shore Business Planning Group

LNG Carrier Fleet Ranking (including co-owned) (as of May 2018)

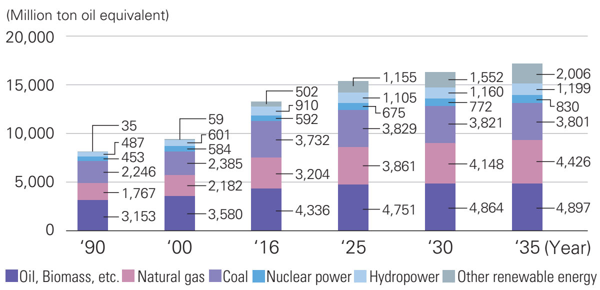


Source: "K" LINE

Tanker Freight Index (WS: World Scale)



Worldwide Demand for Primary Energy (as of February 2018)



Source: BP Energy Outlook 2018

TOPICS Naming of Two LNG Carriers for Ichthys LNG Project in Australia

Two newly-built LNG carriers were named for the LNG production project in Australia (Ichthys LNG Project), which is being promoted by INPEX CORPORATION as operator of the first large-scale LNG project by a Japanese company. Named *PACIFIC BREEZE* and *OCEANIC BREEZE*, the carriers will mainly engage in transport of LNG from a liquefying terminal in Darwin, Australia to INPEX's Naoetsu LNG Terminal (Joetsu City, Niigata Prefecture) and CPC Corporation in Taiwan.

"K" LINE will continue to expand its LNG transport business to strengthen and expand our stable earnings businesses, as set out in our medium-term management plan, "Revival for Greater Strides - K Value for our Next Century."

Business Overview
Energy E&P Support Business

Executive Officer
Tomoyuki Okawa
In charge of Tankers, General Manager of Energy & Off-Shore Business Planning Group

Anchor Handling Tug Supply (AHTS) Vessel

We Endeavor to Expand Projects that Generate Stable Long-term Earnings by Partnering with Other Quality Companies.

Basic Strategies

- Maintain high uptime of drillship and FPSO
- Stabilize profits of offshore support vessel business
- Expand stable earnings through new businesses including new FPSO projects

Strengths

- **Drillship business, and FPSO business:**
  - Maintaining world-class high level operation with partners
  - Stable revenue generated from long-term charter contracts
- **Offshore support vessel business:**
  - High-value-added services provided by high-spec vessels

Overview of Fiscal 2017

Drillship Services We are currently engaged in drilling operations for ultra-deep-water fields 200 kilometers off the coast of Brazil under a long-term charter contract (up to 20 years / until 2032) with Petrobras. In the year under review, we maintained a high utilization rate, which contributed to stable long-term earnings.

Offshore Support Vessel Services Under operation in the North Sea, we reported a loss due to flagging spot rates owing to weakness in offshore E&P development.

FPSO Services "K" LINE, along with Sumitomo Corporation, JGC Corporation, and Development Bank of Japan Inc., entered into the owning and chartering business for oil and gas floating production, storage and off-loading (FPSO) run by Yinson Holdings Berhad in an oil and gas field in offshore Ghana.

Fiscal 2018 Business Policies

Drillship and FPSO Services We continue to expect the achievement of stable earnings by maintaining a high uptime of drillship and FPSO under long-term charter contracts.

Offshore Support Vessel Services We expect that offshore E&P development will be revitalized, i.e., the offshore support vessel (OSV) demand will increase, by improving oil companies' cash flow as rebalancing oil market and impressive cost-cutting efforts. However, the absorption of the over-supply will take time and we expect the market to recover from fiscal 2019 afterwards. Under these circumstances, we will review our asset portfolio and take all options into consideration to minimize market fluctuation risks and achieve stable profits.

TOPICS Expand Stable Earnings Businesses

In line with our effort to cultivate and foster the energy value chain business, we aim to work with reliable partners to expand our activities in businesses that are expected to generate stable earnings for the long-term. As a part of this, as stated in the Overview of Fiscal 2017, we participated in an FPSO owning and chartering business in an oil and gas field in offshore Ghana.

Business Overview
Liquefied Gas New Business

Managing Executive Officer
Kazuhiko Harigai
In charge of LNG, Thermal Coal, Liquefied Gas New Business

Floating Storage and Regasification Unit (FSRU) for LNG

We Aim to Realize New Businesses by Developing Technologies and Proposing New Business Approaches.

Basic Strategies

- Contribute to reducing environmental burden through the liquefied gas fuel business
- Differentiate “K” LINE’s services with technological development
- Capture demand in emerging economies where demand for liquefied gas is growing
- Decrease business risk by partnering with other quality companies

Strengths

- Shipping and gas handling know-how accumulated through many years in the liquefied gas (LNG / LPG) transportation business
- Good business relations by working closely with outstanding customers and partners
- Global network of the “K” LINE Group

Overview of Fiscal 2017

Demand for liquefied gas increased, primarily in emerging economies, with the start of exports of liquefied gas derived from U.S. shale gas. This led to rising consequential demand for FSRU, Floating Gas Power Plant (FGPP) and Small-Scale LNG Transportation at low prices and short delivery times. We therefore strove to capture this new demand by proposing our own unique businesses model.

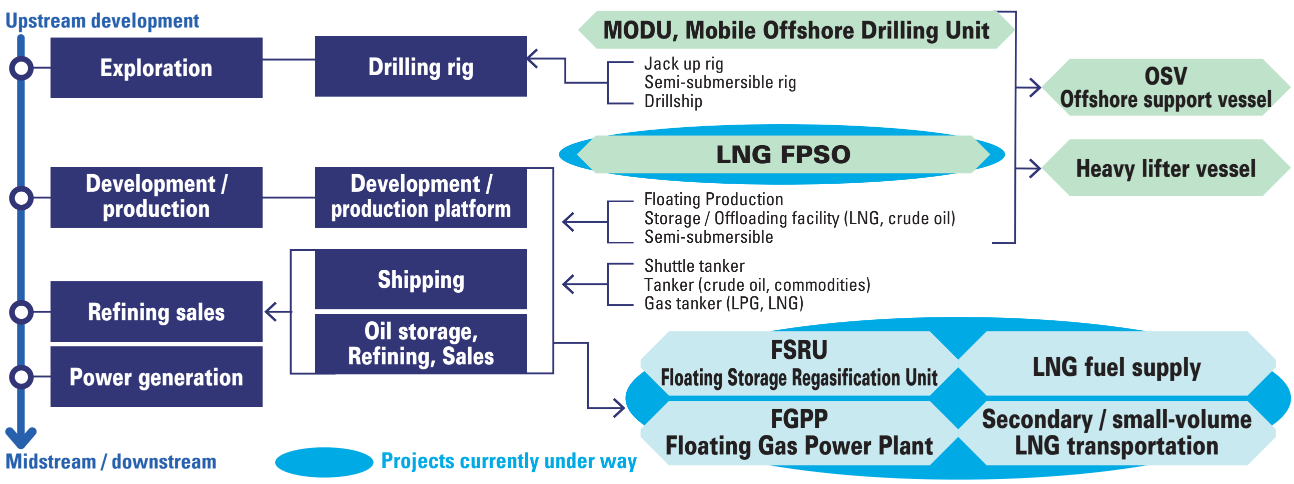
Given the expected growing demand for vessels that utilize liquefied gas as fuel, in anticipation of the strengthening of environmental regulations on ship fuel in 2020, we worked to realize a bunkering business for such vessels in Ise Bay and other locations.

Fiscal 2018 Business Policies

With regard to the business environment, we continue to expect a similar expansion of new business demand as noted in Overview of Fiscal 2017. We will work with our partners in each field to enhance the reliability of our unique solutions for emerging economies and give further substance to our projects.

In the liquefied gas bunkering business, we will develop supply terminals in key regions in addition to the Ise Bay project. In parallel with this, we will reduce environmental burden by realizing “K” LINE’s liquefied gas-fueled carriers.

Business Development from Upstream to Downstream



Business Overview
Car Carrier Business

Car Carrier


Executive Officer
Nobuyuki Yokoyama
In charge of Car Carrier Business

We Aim to Provide Services that Meet Diverse Needs by Deploying Our Engineering Skills and Improving Shipping Quality.

Basic Strategies

- Sequentially roll out large next-generation vessels with cost-competitiveness
- Increase capacity for high and heavy cargoes, such as construction machinery, agricultural machines and railway cars
- Increase efficiency of fleet operation to improve profitability
- Reorganize and expand service network (route optimization) to capture new transportation demand
- Offer more excellent shipping services and develop new technologies in line with the "K" LINE Environmental Vision
- Develop IT / e-commerce that benefits customer convenience

Overview of Fiscal 2017

The total volume of complete built-up cars exported from Japan rose by approximately 4.2% from 4,140,000 units in the previous fiscal year to 4,310,000 units. Although Middle East, Africa and other resource-rich economies continue to have uncertain futures and cargo movements were stagnant, cargo movements to Europe and North America remained firm. In addition, cargo movements showed signs of recovery in Russia and Brazil.

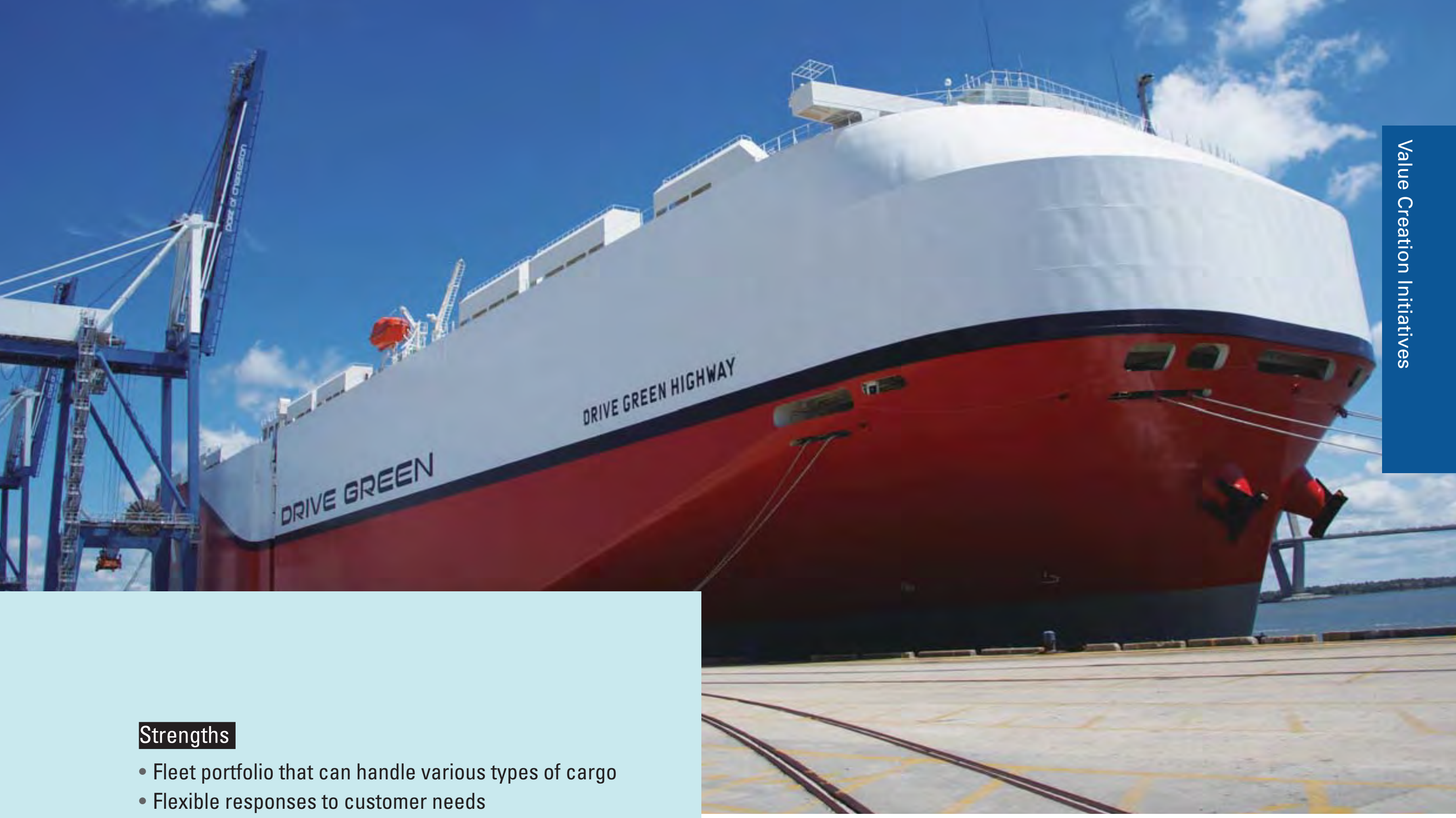
Under these business conditions, the total volume of complete built-up cars shipped by the "K" LINE Group increased by about 14.6%, from 3,110,000 units in the previous fiscal year to 3,560,000 units by successfully capturing cargo bound for Europe and cargo in the Atlantic region. During the year, while striving to increase the number of shipped cars, we continued to engage in optimizing fleet allocation, including improving the efficiency of fleet operation and reorganizing some route services, and sought to improve revenues and expenditures.

Fiscal 2018 Business Policies

In fiscal 2018, we expect to carry a total volume of 4,040,000 complete built-up cars, increased by just under 500,000 year-on-year, thanks to the opening of new services in Latin America and new contracts for cargo from Europe to Japan.

While cargo movements from Far East Asia to Europe and North America remain firm, we foresee that the recovery in cargo movements to the Middle East, Africa and other resource-rich regions will be limited in fiscal 2018. However, sales in the United States and major European countries are solid, and production in Mexico is expanding, so cargo movements in the Atlantic region are expected to remain firm. There is no supply-demand gap in our fleet capacity as we are flexibly adjusting to market conditions.

Automakers' production bases are changing daily with a shift of trends from "local production, local consumption" to "mass production in the right place" and "appropriate production volume in the right place," and cargo movement is becoming increasingly diverse amid an expanding electric vehicle (EV) movement. In order to make a flexible and timely response to changes in and the increasing complexity of the trade structure, we are strengthening our business foundation by expanding the service network while maintaining our fleets properly. Currently ten car carriers each with a 7,500-vehicle capacity are in service, and three new car carriers will join our fleet in fiscal 2018. We will strive to enhance our earnings base by making maximum use of large next-generation vessels equipped with significant capacity for loading construction machinery and rail cars and excellent fuel-efficient performance.



Strengths

- Fleet portfolio that can handle various types of cargo
- Flexible responses to customer needs
- Global service coverage (broad network linking the Pacific and Atlantic regions and integration of short sea services in Southeast Asia and Europe)
- Top world-level transportation quality with "zero damage" mission
- Synergy with the growing complete built-up car logistics business

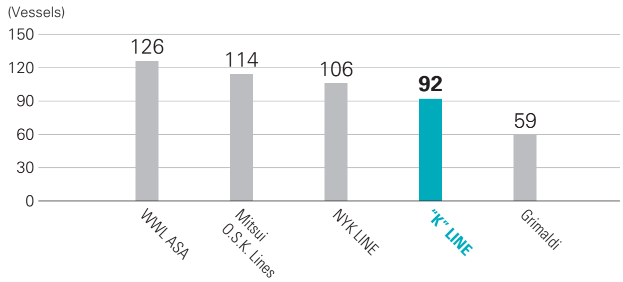
TOPICS Initiatives for a New Mobility Society and Pursuit of Advanced Environmentally-Responsive Technologies

We are very interested in the progress with the transition to EVs and in the growth outlook for self-driving cars and mobility services.

Shifting to EVs could bring about large market fluctuations, including more local production and consumption in Europe, as well as development of China as an export hub. We will closely examine the potential impacts on demand for passenger vehicle sales and marine transportation arising in the future from a society of sharing internet-connected self-driving cars. We believe making appropriate forecasts of the demand growth in emerging economies is also critical.

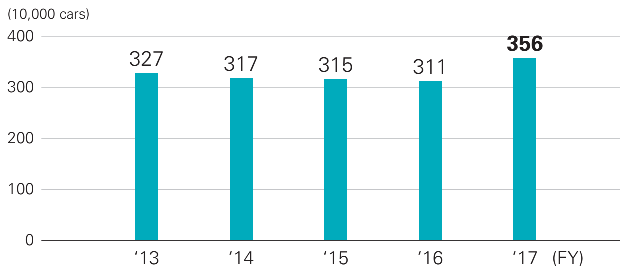
While working hard to mitigate environmental impacts, we will pursue high- quality services that are sustainable into the future. In accordance with "K" LINE Environmental Vision 2050, we aim to suppress greenhouse gas emissions and reduce air pollutants as close to zero as possible in step with the environmental measures taken by automakers. Furthermore, along with promoting energy-saving ship operation, we are making considerations for and researching next-generation car carriers that use environmentally-friendly alternative fuels, such as LNG and LPG.

Car Carrier Fleet Ranking (as of January 2018)

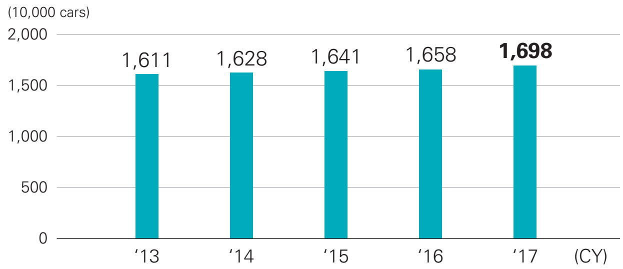


Source: Own-editing based on Hesnes "The Car Carrier Market 2017" and Fearnleys World PCC Report 2017

Cars and Trucks Transported by "K" LINE



Worldwide Car Ocean Transportation Volume



Source: Researched by "K" LINE using IHS Global Insight

Automotive Logistics Business

Executive Officer
Nobuyuki Yokoyama
In charge of
Car Carrier Business

Vehicle depot business in Ho Chi Minh

We Develop Total Logistics Services for Cars that Cover Plants to Distributors.

Basic Strategies

- Develop new businesses for next-generation core businesses
- Provide high quality, high value-added services founded on our customer base
- Boost business development in regions where "K" LINE has strengths

Strengths

- Shipping know-how accumulated through marine transportation business, and ability to make comprehensive land service proposals
- Business development that leverages firm customer base and local characteristics

Overview of Fiscal 2017

Based on the know-how of our logistics companies in Singapore and Australia, we commenced new businesses in Vietnam and the Philippines, where car sales have grown in recent years in Asia, and Chile in Latin America which has a long history in marine transportation. We endeavored to quickly identify customer needs, in our constant effort to provide proposals to customers that leverage our experience in countries and regions where we already operate.

Fiscal 2018 Business Policies

Building upon our customer base developed through marine transportation, we will accelerate research and business expansion in countries and regions that are seeing growing automotive production and sales. We believe our strengths can be leveraged, especially in the Asian and Latin American regions. We will further solidify our service line-up that customers can utilize with confidence and ensure growth of the automotive logistics business as one of our core businesses.

Expansion of Automotive Logistics Business of the Group (10 countries)

Business Overview
Short Sea and Coastal Business

Managing Executive Officer
Daisuke Arai
Responsible for Containerships, Port Business, Logistics, Affiliated Business Promotion Unit

Ferry operated by Kawasaki Kinkai Kisen

We Expand Our Coastal Business and Upgrade Our Offshore Support Vessel (OSV) Business while Working to Improve the Profitability of the Short Sea Business.

Basic Strategies

- Expand our coastal business by introducing large state-of-the-art vessels and opening new routes
- Improve the income and expenditure of the short sea business by capturing profitable cargo and enhancing our fleet
- Further increase efficiency and strengthen the sales ability of our OSV business

Strengths

- Appropriately address customer demand associated with changing conditions in short sea and domestic logistics
- Multi-faceted businesses such as international, coastal and OSV businesses
- OSV business in line with government policies
- Modal shift in response to shortage of truck drivers

Overview of Fiscal 2017

In the short sea business, despite decreases in cargo volume, income and expenditure improved supported by a recovery in market conditions year-on-year. In the coastal business, against the backdrop of solid cargo movements, liner shipping reported increases in cargo volume due to various factors, such as the Shimizu-Oita route that opened in the middle of fiscal 2016 and has become a year-round operation, increases in tonnage on the Hitachinaka-Tomakomai route, and the operation of ferries with low cancellation rates. In the OSV business, we supported the offshore methane hydrate product test, among other activities. As a result, the short sea and coastal business overall reported increases in operating revenues and operating income year-on-year.

Fiscal 2018 Business Policies

In the short sea business, we will actively engage in sales activities and optimize fleet scale with the aim of further improving income and expenditure. In the coastal business, in the face of the growing social problem of truck driver shortage, we will promote a modal shift by using express RORO vessels and ferries to provide highly-punctual services. In the ferry business, we aim to capture cargo that can be shipped on our new larger vessels and acquire cargoes shipped regularly on the Miyako-Muroran route which is to be newly opened. In the OSV business, we will further increase our business efficiency and sales power.

TOPICS Commencement of Daily Routes between Shimizu and Oita and Opening of Miyako-Muroran Route

In the coastal business, we commenced daily routes between Shimizu and Oita and started a new shipping route that connects Hokkaido and Kyushu, linking Hitachinaka-Tomakomai route. On our ferry routes, we have deployed the new large-sized *Silver Tiara* on the Hachinohe-Tomakomai route that has increased our load capacity, while its cabins are designed to offer comfort and privacy. On the new Miyako-Muroran ferry route, we will engage in cargo collection looking ahead to the opening of all segments of the Sanriku Reconstruction Road.

Business Overview

Logistics Business

Warehouse of Universal Warehouse Co. (Group company in U.S.)

Managing Executive Officer
Daisuke Arai
Responsible for Containerships, Port Business, Logistics, Affiliated Business Promotion Unit

We Promote Comprehensive Logistics Services by Combining the Strengths of the Group.

Basic Strategies

- Position "K" LINE LOGISTICS, LTD. as the core of logistics business
- Reorganize and expand global network
- Strengthen locally-oriented logistics services
- Enhance buyers consolidation*1 services
- Develop project cargo freight services

Overview of Fiscal 2017

Domestic demand for logistics services was firm, mainly with respect to land transportation, warehousing and customs clearance, and increases in operating revenues and income were reported. In the international logistics sector, earnings rose year-on-year due to increases in handling volume related to air cargoes departing from and arriving in Japan, mainly for aircraft parts and semi-conductors, commencement of operation of new businesses, as well as expansion of area-rooted services and buyers consolidation. As a result, operating revenues and income increased significantly year-on-year for the logistics business as a whole.

Fiscal 2018 Business Policies

Domestic demand for logistics services is expected to remain firm, mainly with respect to land transportation and warehousing. In the international logistics sector, handling volume related to air cargo, mainly for semiconductors, is expected to be stable, recording earnings at previous year levels.

In fiscal 2018, we will expand the customer base of the NVOCC business*2 with "K" LINE LOGISTICS, LTD. playing a central role. We will work together with Group companies on various aspects, such as introduction of new systems and human resources support, in order to increase the overall handling volume and shift the development and strengthening of the logistics business into full gear.

In addition, we will step up efforts to share regional information and know-how while investing in and supporting priority growth fields in order to enhance and functionally connect our various regional businesses. Through our ability to make logistics proposals based on our high-quality transportation and information technologies fostered over many years, we will harness our comprehensive group-wide power to deliver one-stop logistics services to meet the demand of customers that has not been fulfilled with existing services.

In the meantime, we will closely monitor latest trends in the industry and identify potential demand, with a focus on tapping demand for buyers consolidation services to address small-lot, multiple-commodity shipments, project cargo transportation, and other fields. We will also target diversification of services and business expansion with the aim of becoming a strategic business partner in logistics that customers can trust.

*1 Buyers consolidation: Consolidation-distribution system in which single buyer uses an agent to collect products from multiple local manufacturers, load them into containers for transportation to destination, providing greater shipping efficiency and reduction in cost, lead time, inventory and warehouse work.

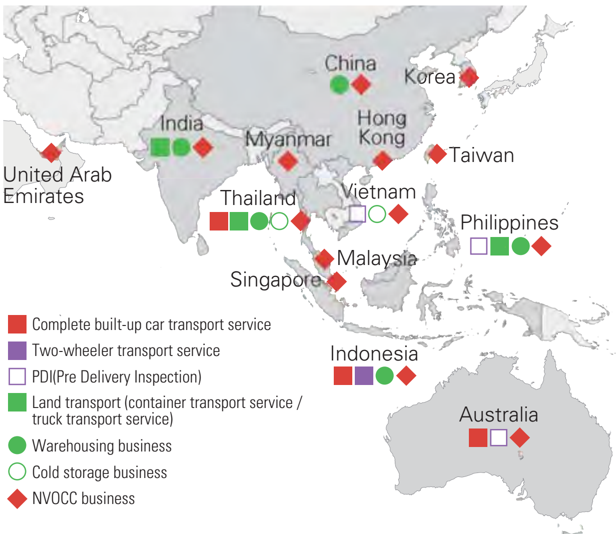
*2 NVOCC business: Freight transportation business that includes incidental services, such as cargo handling as an intermediary between shippers and carriers, during the cargo transportation process.

Trucks operated especially for milk run logistics of Bangkok Marine Enterprises Ltd. (Group company in Thailand)

Strengths

- Use of group-wide assets and global network
- Intra-group sharing and development of customer-first business model
- Ability to make proposals backed by accumulated know-how and technological expertise

The Group's Locally Oriented Comprehensive Logistics Services in Asia



India: Land transport, warehousing business, NVOCC business

China: Warehousing business, NVOCC business

Australia: Complete built-up car transport, PDI, NVOCC business

Thailand: Complete built-up car transport, land transport, warehousing business, cold storage business, NVOCC business

Indonesia: Complete built-up car transport, two-wheeler transport, warehousing business, NVOCC business

Vietnam: PDI, cold storage business, NVOCC business

TOPICS Actively Advance Our Logistics Business in Indonesia

PT. "K" Line Mobaru Diamond Indonesia (KMDI) was founded in Indonesia in 2003 and has evolved mainly as a carrier in the car business. Having a variety of units, including standard trailer types as well as single towing and double decks, KMDI with a leading share in Indonesian carrier car market for the export and import of complete built-up cars and domestic deliveries now enjoys an excellent reputation among customers.

In terms of unit development and improvement, at the request of customers, KMDI developed last year a truck carrier that can carry four small trucks, which has significantly improved transportation efficiency and quality compared to conventional self-propelled trailers and has earned high praise from customers. In the two-wheeler transportation business, the two-wheeler triple-decker truck we developed independently based on customers' feedback has improved loading efficiency by 30% compared to conventional double-decker trucks, and is used primarily for medium- and long-distance domestic transportation.

Furthermore, KMDI operates two container depots in Jakarta's harbor district. With container tractors also in its line-up, it carries out wide-ranging businesses and also works with "K" LINE Group-affiliated companies in Indonesia, such as PT. "K" Line Total Logistics Indonesia. KMDI will continue to draw on its built-up know-how in transportation to constantly improve transportation quality, as well as develop businesses and make new investments in line with customer requests to further expand its business.

Business Overview
Containership Business

Managing Executive Officer
Daisuke Arai
Responsible for Containerships, Port Business, Logistics, Affiliated Business Promotion Unit

Containership

The Containership Business was Integrated to Form Ocean Network Express (ONE) by Three Japanese Shipping Companies.

Overview of Fiscal 2017

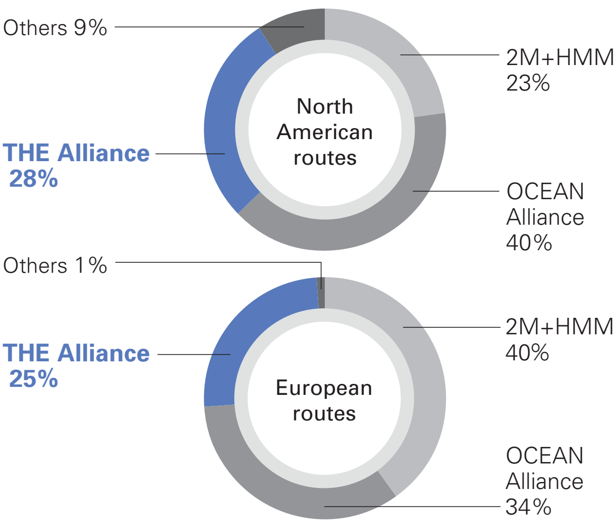
The cargo volume of “K” LINE’s containership business in fiscal 2017 for east-west trunk routes decreased by 2% year-on-year on outward freight bound for North America and increased by 10% year-on-year on outward freight bound for Europe.

The cargo volume increased by 3% year-on-year on Intra-Asia routes, while it decreased by 8% on North-South routes. Total cargo volume for the year including return routes remained mostly unchanged from the previous year.

While the supply-demand balance did not see full-fledged improvement, freight rate conditions in fiscal 2017 recovered due to solid cargo movements. Operating revenues and operating income increased as a result of “K” LINE’s freight rate level exceeding the previous year’s.

In the port business, where we aim to operate high-standard, high-quality terminals, we continued to upgrade our cargo handling equipment, extend and strengthen quay walls and improve other facilities so that we can accommodate larger containerships.

Trade Capacity Share by Alliance (as of May 2018)



THE Alliance: ONE, Hapag-Lloyd (UASC), Yang Ming
OCEAN Alliance: CMA CGM, COSCO, Evergreen, OOCL
2M+HMM: MSC, Maersk, Hyundai M.M.

Source: Alphaliner

Transition of SCFI (Shanghai Containerized Freight Index)

— Northern Europe — The Mediterranean — North America East Coast — North America West Coast
(MED / N.EUR $ / TEU, USWC / USEC $ / FEU)
SCFI-Shanghai Containerized Freight Index
Source: Shanghai Shipping Exchange

TOPICS

About OCEAN NETWORK EXPRESS

Our liner containership business was integrated into Ocean Network Express (ONE), a new company formed by "K" LINE, Mitsui O.S.K. Lines, Ltd. and Nippon Yusen Kabushiki Kaisha, which commenced full-scale service in April 2018.

Having approximately 230 vessels and 1.44 million TEUs, ONE is developing a vast service network linking over 200 ports of calls in 100 countries (as of April 2018). It creates synergies based on the best practices of the three companies and offers stable and infallible services by leveraging the benefits of its fleet scale of up to 1.4 million TEUs and its extensive route network. ONE provides high quality and competitive services that can quickly adapt to changes in the trading environment.

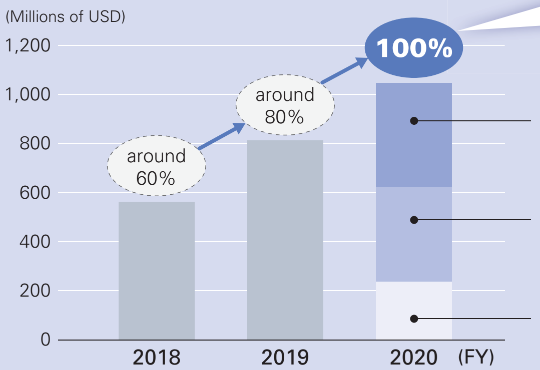
Please see ONE's website for more information.
https://www.one-line.com/en

Synergy Effect from ONE

Synergy effect of yearly US$1,050 million (¥112.4 billion), which exceeds the original amount US$1,028 million (¥110.0 billion), is expected.

*Exchange rate is on the premise of US$1 =¥107.00

Schedule of Synergy Effect



Around 60% of the effect will emerge in the 1st year, 80% in the 2nd year and 100% in the 3rd year.

Variable cost reduction
US$430 million: Cost reduction of rail, truck, feeder, terminal, container, etc.

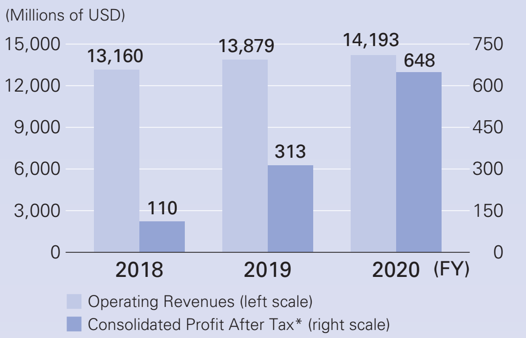
Overhead cost reduction
US$370 million: IT integration, organizational rationalization, outsourcing, etc.

Efficiency improvement (operation cost reduction)
US$250 million: Bunker consumption reduction, route rationalization, etc.

Business Plan

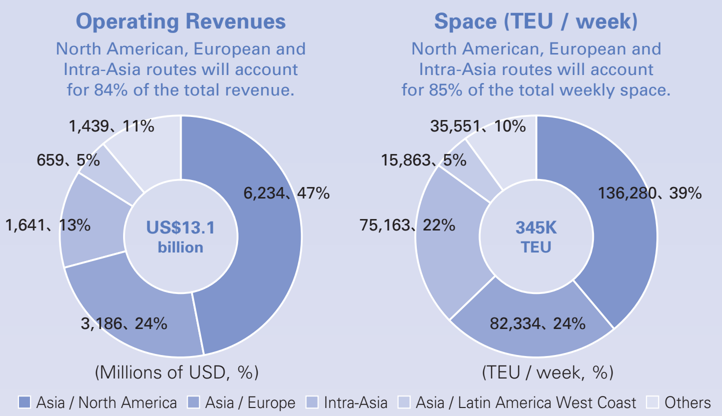
Steady cargo movement is expected against a background of relatively favorable global economic conditions, so the demand / supply will be stabilized on a medium-term basis. Regrouping of the consortia has settled down and it is expected to contribute to providing stable services.

In the business plan, the freight rate is set at a similar level to fiscal 2017, and cargo volume at organic growth rate (yearly around 3-4%) is incorporated. On top, steady bottom-line improvement will be sought by executing cost-savings by the synergy effect.



* Figures are inclusive of agency profit (entire year's portion) and overseas terminal company's profit (3 quarters' portion from the 2nd Quarter onwards). (Effect by adopting IFRS is incorporated.)

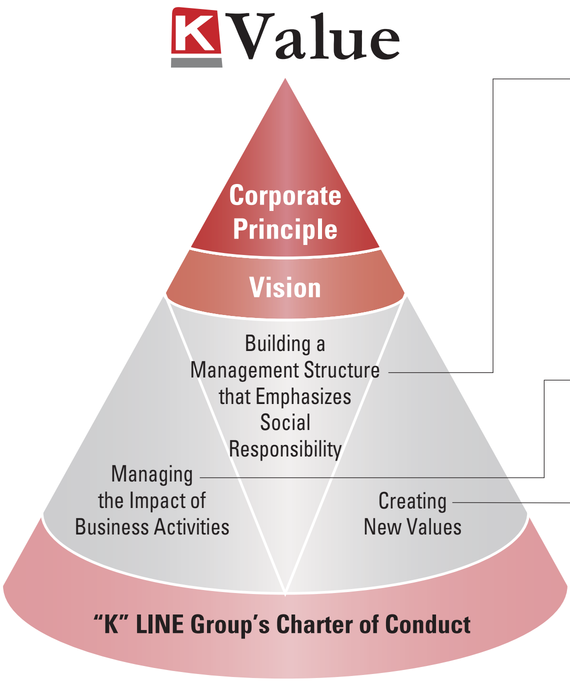
ONE Portfolio (FY2018)



“K” LINE Group’s CSR

As an integrated logistics company grown from the shipping business, the “K” LINE Group’s corporate principle is to help enrich people’s lives. Under this principle, we believe our corporate social responsibility (CSR) obligations cover two large frameworks, namely “managing the impact of our business activities” and “creating new values.” The aim of our CSR activities is to “build a management structure that emphasizes social responsibility.” We will help create a sustainable society by addressing material issues within these frameworks and implementing measures to resolve them.

HOME > CSR > “K” LINE Group’s CSR Initiatives
https://www.kline.co.jp/en/csr/group.html



Basic CSR Policy	Priority Themes
Building a Management Structure that Emphasizes Social Responsibility	Corporate governance (G)
	Stakeholder engagement (S)
Managing the Impact of Business Activities	Environmental preservation (E)
	Safety in navigation and cargo operations (S)
	Human rights (S)
	Labor practices (S)
	Risk management (G)
	Compliance (G)
Creating New Values	Human resource development (S)
	Innovation (E/S)
	Community involvement and development (S)
	Employment creation and skills development (S)

*( ): ESG category

Process to Identify Materiality

STEP 1

Specifying Themes Related to “K” LINE Group’s Business Activities

Through dialogues with stakeholders, both internal and external, and referring to frameworks such as OECD Guidelines for Multinational Enterprises, ISO26000, GRI Guidelines, etc., the “K” LINE Group has specified environmental and social themes that the Group may affect or contribute to through its business activities.

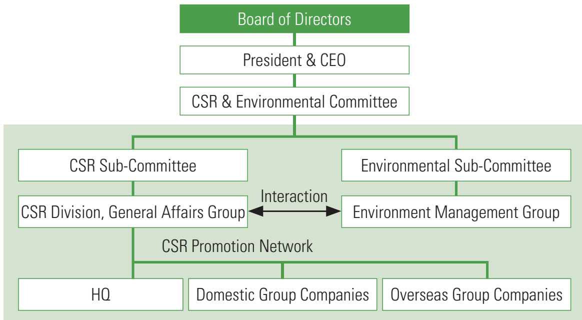
STEP 2

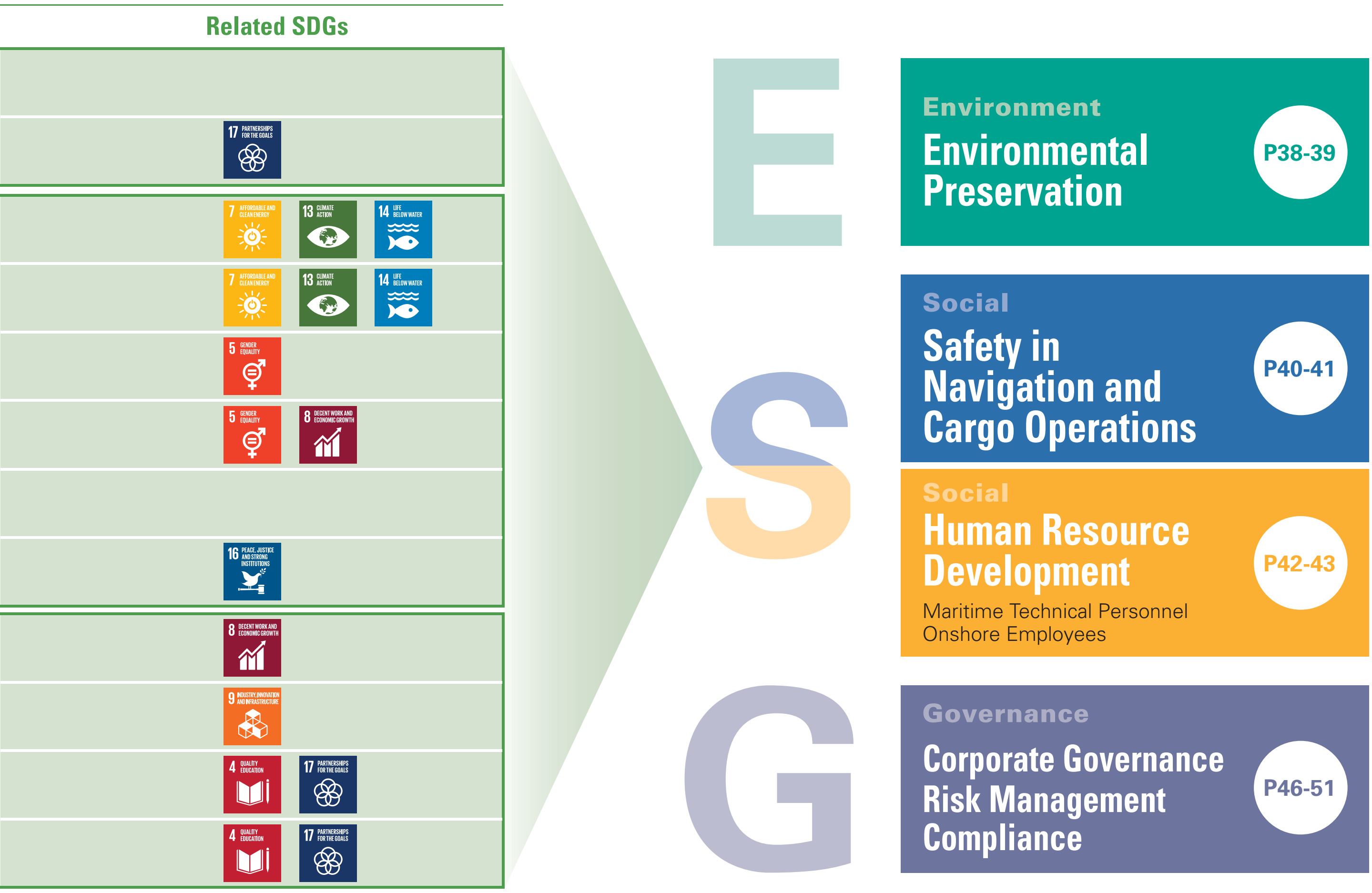
Selecting Material Issues

Out of those themes specified in STEP 1, the “K” LINE Group has selected 10 themes that should be prioritized in terms of significance of economic, environmental, and social impacts and effects on stakeholders’ evaluation and decision-making, added 2 themes that are essential for establishment of management structure to settle those themes, and placed all of them as material issues that should be addressed extensively.

CSR Promotion System

The "K" LINE Group's CSR & Environmental Committee (chaired by the President & CEO) formulates CSR activity policies for the entire Group and also takes responsibility for managing the Environmental Management System, formulated in line with the "K" LINE Group's Environmental Policy. The committee has two sub-committees which are CSR Sub-Committee and Environmental Sub-Committee. In addition, we have a CSR promotion network to spearhead groupwide CSR initiatives.





STEP 3
Formulating Annual CSR Action Plans

For the material issues selected in STEP 2, the "K" LINE Group has set medium- and long-term goals, and in order to reach them step by step, it is formulating Annual CSR Action Plans.

STEP 4
Matching with Annual CSR Action Plans

We have matched our Annual CSR Action Plans outlined in Step 3 with the 17 SDGs adopted by the United Nations in 2015, then tied together goals that have similar aims.

STEP 5
Reviewing

We review the progress of Annual CSR Action Plans on a semi-annual basis, and plans are modified and reset as necessary. At the end of every fiscal year, the attainments and the achievements of Annual CSR Action Plans are evaluated, then the Group formulates annual plans for new fiscal year, taking the level of achievements towards medium- and long-term goals as well as changes in society surrounding its business into consideration.

Environment Environmental Preservation

Securing Blue Seas for Tomorrow, through 2050 and Further in the Future

In consideration of issues and business characteristics that we will face in the future society and with a view towards contributing to fulfillment of the well-being and prosperous lives of many people, in 2015 we have formulated "K" LINE Environmental Vision 2050, which clarifies what we aim to become, based on long-term perspectives.

Risks

- Marine pollution caused by serious accidents and oil spills
- Ecosystem destruction by our operating vessels
- Global warming and air pollution caused by exhaust gas from ships
- Climate change and exhaustion of resources

Business continuity / cost increase / lowering competitiveness

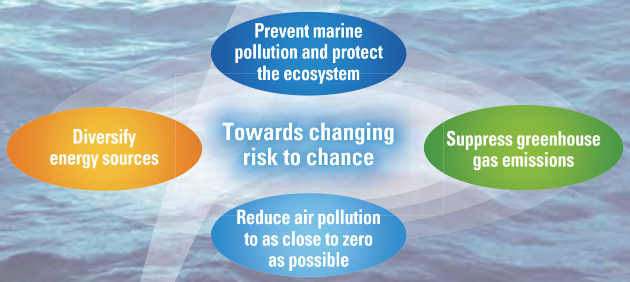
Opportunities

- Marine safety improvement
- Maintain the beautiful blue and fertile oceans
- Further energy efficient operations
- Introducing new marine fuels and advanced technologies

Engineering innovation / entering new business fields / differentiation

Our goal for 2030 has obtained SBT* certification.
Also, our emission reduction target is equivalent to the target determined by the IMO* (40% reduction compared with 2008 levels) right page.

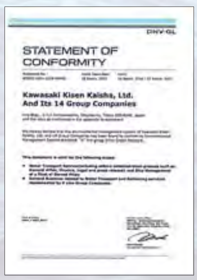
* SBT (Science Based Target): Scientifically consistent with the level achieving "2°C goal" of the "Paris Agreement"



"DRIVE GREEN NETWORK"(DGN) Launched

"K"LINE and its 14 group companies recently acquired a "Statement of Conformity"for our environmental promotion system,"DRIVE GREEN NETWORK"which is established in June 2017 in order to have a high awareness of environmental preservation and realize world top-class environmental responses, in consequence of a conformity audit by a third-party institution.

From April 2018, overseas group companies will also participate as phase 2. We shall proceed it to the entire group by 2019 when our company celebrates its 100th anniversary. To broaden this initiative both inside and outside the group companies, we have set up a logo by public invitation.



Initiatives

In light of rising public concern about climate change and air pollution, the environmental regulations including those covering emissions of carbon dioxide (CO_2), sulfur oxide (SO_X) and nitrogen oxide (NO_X) for international shipping are strengthened with each passing year.

In the "SO_X regulation," the sulfur concentration of fuel used in marine ships must be reduced to 0.5% or less in principle by January 2020.

HOME > CSR > Environment > Environmental Regulations
https://www.kline.co.jp/en/csr/environment/regulation.html

There are three main ways to achieve this: use low-sulfur fuel, install SO_X scrubbers (exhaust gas cleaning system), and convert to new fuels, such as liquefied natural gas (LNG). We are consulting with customers as we consider the best measures according to vessel type and transport route.

Since LNG fuel contains almost no sulfur and generates minimal CO_2 and NO_X emissions, we set the goal of introducing LNG-fueled carriers as part of "K" LINE Environmental Vision 2050. To establish a fuel supply system, which will be challenge when broadening this initiative, in May 2018 we established two joint venture corporations to run the LNG bunkering business together with another partners. In July 2018 we concluded a shipbuilding contract for LNG bunkering vessel, which will be completed in 2020 to become the first LNG bunkering vessel in Japan.

The targets for reducing greenhouse gas emissions from international shipping were decided at the International Maritime Organization's*1 72nd Marine Environment Protection Committee meeting*2 in April 2018.

We "K" LINE will continue striving to maximize transportation efficiency. With the aims of exploring and embodying yet-unknown technologies that realize zero emissions from marine ships, we will continue our efforts to support a sustainable society and help enrich the lives of people as an environmentally advanced company.

*1. International Maritime Organization (IMO). Measures to reduce greenhouse gas emissions in international shipping are not congruent with the frameworks for reduction by country addressed by the United Nations Framework Convention on Climate Change (UNFCCC), and consequently the role has been entrusted to the IMO instead.

*2. 72nd Marine Environment Protection Committee meeting (MEPC 72). This meeting adopted reduction targets and the goal of "reducing greenhouse gas emissions to zero during this century" on a global basis, with no distinction between advanced and developing nations.

LNG-fueled carrier (conceptual image)

"K" LINE Group Environmental Awards 2018

In 2015, we founded the "K" LINE Group Environmental Awards to give recognition to exceptional environmental preservation activities and share such activities throughout the Group. This year, we held the awards ceremony on World Environment Day*. We also newly established our Sustainability Awards with a focus on "grassroots activities" that embody the philosophy of DGN.

* World Environment Day was established in commemoration of the "United Nations Conference on the Human Environment" held on June 5, 1972.

http://worldenvironmentday.global/en/about/what-is-it
(site related to United Nations)

Photo of the Award Ceremony

	Title	Company
Grand Award	CO_2 and cost reduction by utilizing truck carrier	PT. "K" Line Mobaru Diamond Indonesia, Jakarta' Indonesia (KMDI)
Excellence Award	Sato-yama preservation activities at Sarumachi-zuka, the "K" Line's forest	"K" LINE Satoyama Club
	Shore power utilization for offshore support ships	K Line Offshore AS (KOAS)
	Prevention of marine pollution with rust by scatter control and effective rinsing of tug-boats	Daito Corporation
	Training and creating environmental awareness amongst crews	"K" Line Ship Management (Singapore) Pte. Ltd.
	Environmental preservation activities in Bacalod City, Bohol Island and Manila Bay	Veritas Maritime Corporation
	Waste reduction and subsequent freight transport increase by selling waste materials	K Line container service (Thailand) Ltd.
Sustainability Award	Identifying issues in day-to-day tasks, embracing initiatives with integrity, and giving momentum to DGN with large number of responses	Seagate Corporation
		Nitto Total Logistics Ltd.

Social Safety in Navigation and Cargo Operations

Maintaining World-leading Safety in Navigation and Cargo Operations

Establishing and maintaining safety in navigation and cargo operations represent an immutable mission in running a shipping business. "Providing reliable and excellent services" is one of the most important parts of the "K" LINE Group's corporate principle and vision and reflects its commitment to benefiting society. To this end, we have three policy pillars: **(1) Enhancing Safety Management System; (2) Strengthening Ship Management System; and (3) Securing and Training Maritime Technical Personnel.**

Risks

- Casualties, destruction, contamination, and losses caused by accidents, resulting in loss of social trust
- Unsafe condition stemming from deterioration of ship quality, violation of laws, and increasing in accident rates caused by decline in safety culture
- Decline of technological capabilities and loss of maritime expertise caused by shortage of human resources

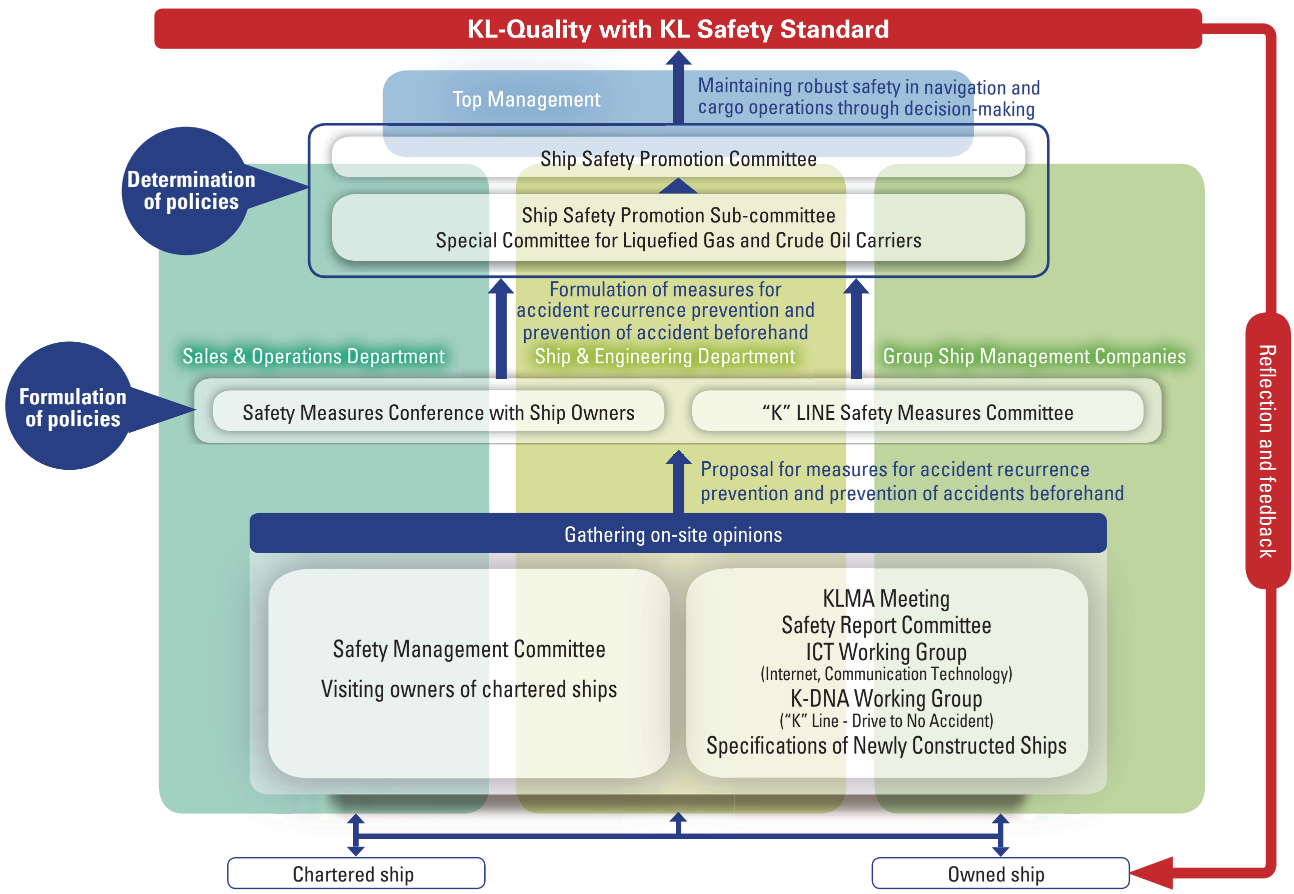
Opportunities

- Provide ongoing safe navigation and high-quality services to improve social trust and seize business opportunities
- Deploy advanced vessel management capabilities to maintain / improve vessel quality and enhance responses to handling hazardous / special cargo
- Attract excellent human resources and accumulate/update maritime expertise to maintain / improve technical capabilities

Initiatives

1 Enhancing Safety Management System

The Ship Safety Promotion Committee, chaired by the President & CEO, is the top decision-making body covering safety. It determines accident prevention and safety measures for all ships operated by the Company—including owned, chartered, and entrusted vessels—and handles everything from basic policy formulation to implementation of measures under the system shown below.



1. Pre-embarkation Briefing

In addition to our basic policies regarding safety in navigation and cargo operations, we provide the latest specific information and instruction through safety management manuals and related written procedures adopted by each management company.

2. "KL-QUALITY"

Using the Company's proprietary "KL-QUALITY" guidelines, our ship supervisors regularly visit all of our operating vessels to conduct inspections. Should any defects be identified, we ask crew members, vessel owners and ship management companies to rectify them in order to maintain and improve the quality.

3. Safety Report System

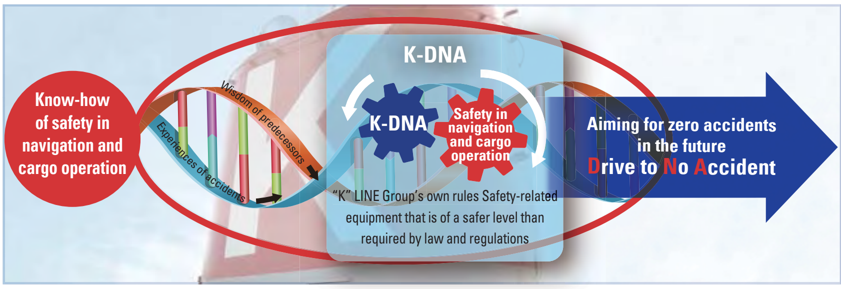
Reports on near-miss incidents on ships stemming from unsafe behavior are carefully analyzed by experienced shore-based maritime technical personnel and fed back to the similar-type vessels. By entrenching a non-blaming culture, where the responsibility of near-miss parties are not called into question, we receive thousands of reports annually, which helps safety awareness to take root on the front lines.

4. Accident Information Management System (AIMS)

Reflecting our zero accident commitment, we continue to explore the hidden causes of accidents deeply by analyzing their details and trends using our proprietary system.

5. "K" Line-Drive to No Accident (K-DNA): Safety Equipment Installation Guidelines

Based on lessons learned from past accidents, we are working to enhance the safety of all operating vessels from the hardware perspective by accumulating know-how cultivated in the field, while drawing on our own guidelines, which exceed rules and requirements.



6. Safety Campaign

Under the theme of "Safety in Navigation and Cargo Operations and Environmental Preservation," shore staffs and crew members on board work together in the field to improve group-wide safety consciousness by exchanging opinions and checking onsite situations.

7. Trouble News

Under the belief that "we will never allow the same accident to happen again, nor will we forget about it," we thoroughly investigate the causes of past accidents and establish measures to prevent their recurrence. These measures are notified and shared across all of our operating vessels.

8. Emergency Response Drill

To enable swift and accurate responses to accidents, we envisage "worst-case scenarios," and conduct periodic Emergency Response Drill, including communication with overseas entities and confirmation of media correspondences.

2 Strengthening Ship Management System

Through our three in-house ship management companies, which share our principle, we make full use of our expertise to provide higher-quality, safer, and more reliable services.

Ship management company	Vessel type
"K" Line Energy Ship Management Co., Ltd.	Tankers, LPG carriers and LNG carriers (*Manage containerships and chemical tankers at the subsidiary in Singapore)
"K" Line LNG Shipping (UK) Limited	LNG Carriers
"K" Line RoRo Bulk Ship Management Co., Ltd.	Car Carriers and Dry Bulk Carriers

3 Securing and Training Maritime Technical Personnel

The responsibility for the "K" LINE Group's safety in navigation and cargo operations lies with its team of maritime technical personnel. It includes vessel crews, supervisors at in-house ship management companies, and maritime technical staffs stationed at head office. Through the "K" Line Maritime Academy (KLMA), that is our central body for attracting and fostering marine personnel, we help establish career paths within the Group for our employees, irrespective of nationality, with the aim of fostering world's best maritime technical personnel.

For details, please see "Human Resource Development (Maritime Technical Personnel)" on page 42.

Securing and Training the World's Leading Maritime Technical Personnel, Responsible for Safety in Navigation and Cargo Operations

The "K" LINE Group regards securing and training exceptional maritime technical personnel as one of its three policy pillars for continuously ensuring safety in navigation and cargo operations. Spearheaded by the "K" Line Maritime Academy (KLMA), a scheme to develop maritime technical personnel, we strive to pass down maritime know-how and foster technicians who can respond to new needs.

Risks

- Increase in maritime technical personnel leaving due to deteriorating work environment
- Loss of opportunities to attract maritime technical personnel
- Decline in knowledge and skills of maritime technical personnel
- Impacts on transportation quality

Opportunities

- Improve workplace environments to retain deep talent pool of maritime technical personnel
- Secure exceptional and diverse maritime technical personnel
- Use accumulated knowledge and technologies to create new value
- Ensure continuation of safety in navigation and cargo operations and high-quality transportation

Initiatives

1 Securing Maritime Technical Personnel

Securing maritime technical personnel is important for providing safe and optimal transportation services. Seeking to secure diverse human resources, we dispatch our maritime technical personnel to conduct lectures at various maritime universities and schools. We also accept internships from various schools to encourage a broader interest in the work of maritime technical personnel, and we engage in training individuals from non-maritime universities to foster them as maritime technical personnel at the Company.

2 Enhancing Interviews Conducted by HR Personnel

Maritime technical personnel experience closed living conditions when working offshore. As soon as our maritime technical personnel disembark after an offshore stint, they participate in telephone interviews with HR personnel to discuss their lives onboard the ship, as well as human relationships and anything else that comes to mind. Where necessary, we also conduct face-to-face interviews. Through these efforts, we endeavor to not only relieve anxiety among our maritime technical personnel but also better understanding of conditions on the front lines.

3 Obtaining the Latest Knowledge and Skills to Support Safety in Navigation and Cargo Operations

Under the "K" LINE Maritime Academy (KLMA), we conduct various training to foster maritime technical personnel ("K" Line Seafarers) with essential knowledge and skills to implement the "K" LINE Group's basic commitment to "the safety in navigation and the protection of human lives, cargoes, and the natural environment at sea." As part of our seafarers' training, we have introduced a state-of-the-art ship maneuvering simulator to help trainees respond to re-enacted accidents and the like. For institutional training, KLMA (Philippines) conducts training using actual main equipment to help trainees obtain knowledge and skills on new technologies. In these ways, our Group companies are united in their quest to develop excellent maritime technical personnel.

4 Enhance and Expand Training Facilities for Maritime Technical Personnel

In Manila, Philippines, we are currently enhancing and expanding our training facility for maritime technical personnel so that it can accept a total of 10,000 trainees per year. In March 2018, we opened a new building that combines a seafarer's clinic equipped with the latest medical equipment and a dormitory that can accommodate 225 trainees (282 trainees when combined with existing building). We are confident that this will become a symbolic place for securing and training all maritime technical personnel working on our ships. Going forward, we will step up efforts to secure exceptional maritime technical personnel and enhance their technological learning. In these ways, we will continue striving to maintain and improve our high-quality transportation services, based on our commitment to safety in navigation and cargo operations.

Developing Human Resources to Drive Our Tireless Commitment to Innovation

In order to provide high-quality logistics services based on its customer-first policy, the "K" LINE Group strives to develop human resources, which is the driving force of this goal. Through job rotation and enhanced training programs, we are fostering professionals who will underpin our core businesses of the next generation. We also seek to improve productivity through workstyle reforms and diversification. To this end, we strive to foster an organizational culture enabling our people to maximize their personal capabilities and individual traits.

Risks

- Outflow of human resources
- Declines in growth potential and competitiveness caused by insufficient career development
- Sense of stagnation due to a decline in motivation

Opportunities

- Secure exceptional human resources
- Deploy systematic human resource development program to strengthen individual power and increase overall company competitiveness
- Foster a culture of learning through friendly competition

Initiatives

1 Initiatives for Human Resource Development

We work to foster human resources who will be responsible for the future management of the "K" LINE Group people with specialist knowledge and broad perspectives who will excel on the world stage. In addition to conventional "stratified training," we are stepping up "practical training" to help employees acquire advanced knowledge of logistics business, centered on maritime transportation.

Target	Level	Stratified training		Practical training				
		Business skills		Marine transport practical training		Divisional knowledge	Other	
Managerial level	Advanced		Team management Newly appointed team leader training	Maritime and transport laws		Finance training	Compliance training	Environmental training
Mid-level	Intermediate		Management Pre-management			Onboard training		
Young people	Elementary	Business skill training up to the 5th year			Marine transport practical training			
First-year employees	Basic							

The course content has been enhanced by including the participation to a part of marine-based programs and external trainings, in addition to internal trainings.

2 "Health Management" Initiatives

The "K" LINE Group regards health as a source of happiness for individuals and essential for realizing its group principle. In addition to distributing our "Health Declaration" both inside and outside the Company, we formed the Health Enhancement Committee consisting of the Company, labor unions, occupational health physicians, and health insurance associations to promote its realization. The Committee spearheads efforts to help maintain and improve the health of each individual employee. Reflecting these efforts, "K" LINE was selected as a 2018 "White 500" organization under the Certified Health & Productivity Management Outstanding Organizations Recognition Program conducted by the Ministry of Economy, Trade and Industry. We will continue establishing workplace environments where employees can work healthily while stepping up efforts related to "health management."

健康経営優良法人
Health and productivity
ホワイト500

Specific Initiatives

1. Initiatives to entrench health management
   - Health checks for all employees
   - Encouraging stress-check consultations
   - Mental health seminars for all employees
2. Initiatives to support better health
   - Limiting overtime work
   - Healthy lunches at Company cafeteria
   - Regular seminars on eating habits
   - Exercise-oriented events to prevent lifestyle diseases

Stakeholder Engagement

Since the "K" LINE Group conducts business activities around the world, it is essential to build good and solid relationships with various stakeholders, including shareholders and other investors, customers, business partners, and people in local communities and global society. Through interactive communication with stakeholders, we strive continuously to meet the expectations and the needs of society and incorporate them into our business activities in order to fulfill our corporate social responsibility.

HOME > CSR > "K" LINE Group's CSR Initiatives > Stakeholder Engagement
https://www.kline.co.jp/en/csr/group/stakeholder_engagement.html

Dialogue with Shareholders and Investors

Basic Policy

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

Opportunities for Dialogue

- Shareholders' meeting
- Financial results briefings, etc.
- Interview with domestic / overseas institutional investors
- Site tours for institutional investors / securities analysts

IR Activities in FY2017

Domestic IR activities	Overseas IR activities	Small meetings	Site tours	IR activities for individual investors
Number of companies 178	Number of companies 12	Number of companies 29	Number of companies 4	179 participants
Number of participants 189	Number of participants 12	Number of participants 29	Number of participants 4	

PICK UP 1 Our IR Activities

In addition to holding quarterly financial results briefings for institutional investors and securities analysts, we conduct individual meetings and facility tours as appropriate to deepen the investment community's understanding of the Company.

In recent years, we have also arranged company briefing sessions for individual investors as part of activities to attract more individuals. In addition, we have modified our business segments disclosure and improved materials that we release, reflecting our proactive disclosure policy. We are also enhancing our IR website and working to provide wide-ranging information about our Company and marine transport business.

In response to "Fair Disclosure Rules" prescribed under the Financial Instruments and Exchange Act enacted in April 2018, we announced the formulation of our "Fair Disclosure Policy" and modification of our IR Policy.

Financial results briefing for institutional investors

Terminal tour for securities analysts

HOME > Investor Relations
https://www.kline.co.jp/en/ir.html

Dialogue with Customers

Basic Policy

We do our best to respond to customer needs by developing systems for ensuring timely shipping and striving to provide our customers with a wide range of information. We will improve the quality of our services by maintaining safety in navigation and cargo operations to transport the cargo entrusted to us by our customers safely and surely.

Opportunities for Dialogue

- Regular visits to customers
- Ship / terminal tours
- Loading facility inspections

Dialogue with Business Partners

Basic Policy

We do business based on our Purchasing Policies. These policies are written to ensure compliance and are aimed at maintaining fair and constructive relationships with our business partners. We thus strive to build trust with our business partners and coexist with them as good partners.

Opportunities for Dialogue

- Technology / information exchanges
- Supply chain CSR guidelines

Dialogue with Employees

Basic Policy

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

Opportunities for Dialogue

- Labor-management meetings
- Labor-management cooperation projects
- In-house training

Dialogue with Local Community and Global Society

Basic Policy

We contribute to society as a good corporate citizen and work with people around the world toward development.

Opportunities for Dialogue

- Collaboration with NPOs / NGOs
- Ship / terminal tours
- Employee volunteer activities

PICK UP 2

External Recognition

In appraisal of efforts to enhance our CSR initiatives, "K" LINE has been selected as a component in Socially Responsible Investment (SRI) and ESG indices used all over the world.

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- Dow Jones Sustainability Asia/Pacific Index
- ETHIBEL EXCELLENCE Investment Register
- MSCI Japan Empowering Women Index (WIN)
- SNAM Sustainability Index

Further, in recognition of its disclosure of climate change information and efforts to reduce greenhouse gas emissions, "K" LINE was selected in the "CDP Climate A List" and the "Supplier Climate A List" for the second consecutive year.

FTSE4Good

FTSE Blossom Japan

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

ETHIBEL EXCELLENCE

MSCI 2018 Constituent MSCI Japan Empowering Women Index (WIN)

Member of SNAM Sustainability Index 2018

CDP A LIST 2017 CLIMATE

CDP A LIST 2018 SUPPLIER

(As of July 2018)

Corporate Governance

"K" LINE is developing and strengthening its corporate governance and risk management structures in order to fulfill its social responsibility, respond to the mandate bestowed by its stakeholders, including shareholders, and achieve sustainable growth. While thoroughly enforcing its corporate ethics across the entire Group, "K" LINE will continue to develop an organic and effective governance framework, strengthen its earnings / financial structure and enhance its corporate value.

HOME > CSR > Governance > Corporate Governance
https://www.kline.co.jp/en/csr/governance/corporate_governance.html

Corporate Governance Reforms

During discussions aimed at sustainably improving corporate value, we have been examining and enhancing our corporate governance structure on a voluntary basis from an early stage.

2004
- Establishment of Internal Audit Office

2006
- Reduction in the number of board members from "not more than 25" to "not more than 15"
- Adoption of Executive Officer System

2009
- Reduction in the term of office of Directors from "2 years" to "1 year"
- 1st appointment of Outside Directors (2)

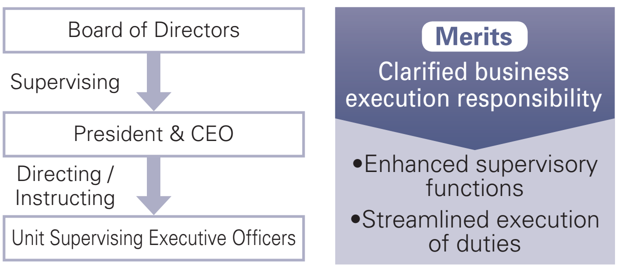
2015
- Non-renewal of takeover defense measures
- Improvement of functions of the Board of Directors, Management Conferences and Executive Officers' Meetings
- Establishment of Nominating Advisory Committee & Remuneration Advisory Committee
- Introduction of effectiveness Board evaluation

2016 and after
- Adoption of Unit Supervisory System
- Increase in the number of Outside Directors from 2 to 3 (one third of all directors)
- Appointment of a female to managerial position as Outside Audit & Supervisory Board Member
- Appointment of Lead Outside Director

Characteristics of Corporate Governance Structure

Feature 1 Unit Supervisory System

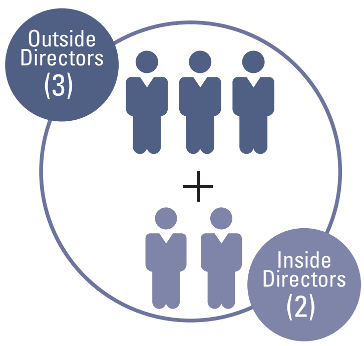
It is required under the "Corporate Governance Code" that the Board of Directors, as their primary role and responsibility, "create an environment to support appropriate risk taking by senior management." As one part of establishing a corporate governance structure in line with this requirement, "K" LINE implemented the Unit Supervisory System in order to further streamline and enhance business execution structure.



Feature 2 Nominating Advisory Committee, Remuneration Advisory Committee

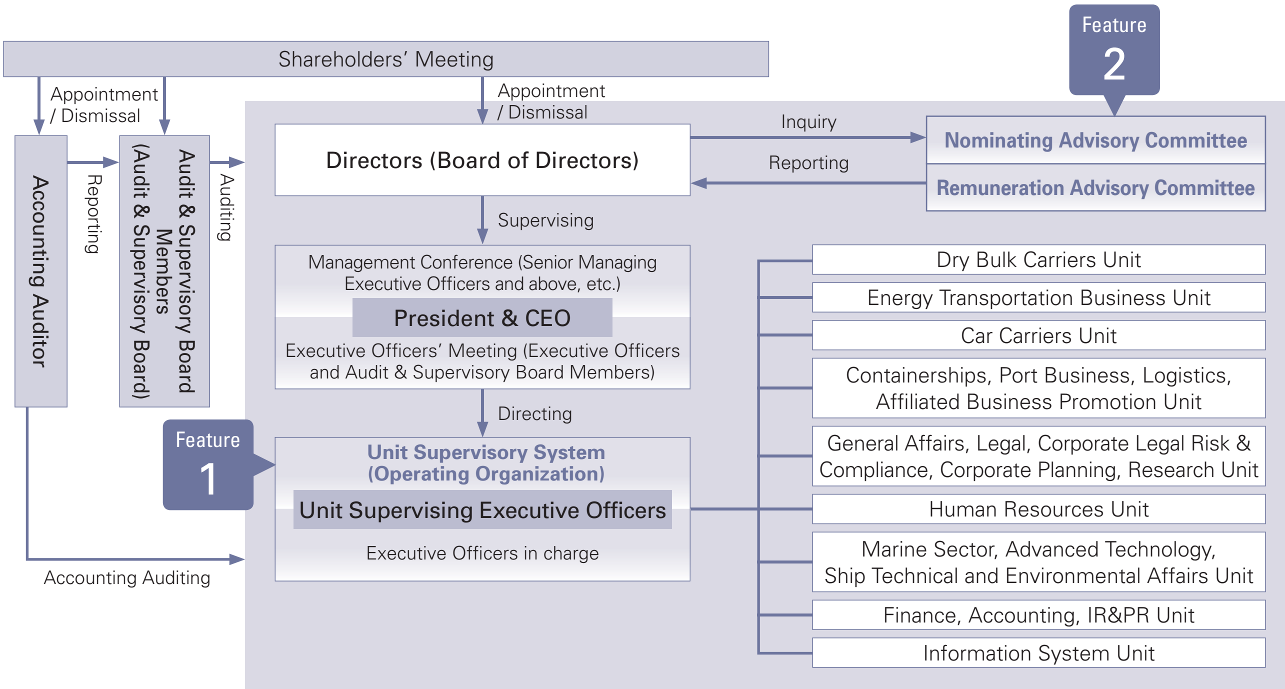
In our institutional design as a corporation with an Audit & Supervisory Board, "K" LINE has voluntarily established a "Nominating Advisory Committee" and a "Remuneration Advisory Committee" in order to enhance the functions of the Board of Directors.

Each of these advisory Committees is comprised of all Outside Directors, the Chairman and President & CEO, and the Chair is appointed by mutual vote of the Outside Directors residing on the Committees.



Corporate Governance Structure

Our corporate governance structure is established, managed and monitored by the Board of Directors and the Audit and Supervisory Board and is also reviewed and revised by a number of committees and other organs.



(As of July 1, 2018)

Business Execution Structure

Board of Directors	The Board of Directors is an organ of the Company that meets at least once a month and determines fundamental management policies, matters required by laws and regulations, and other important management-related matters, as well as supervising the execution of duties by the Directors. Three of the nine Directors are Outside Directors. The Audit & Supervisory Board Members also attend the Board of Directors' Meetings.
Audit & Supervisory Board	The Audit & Supervisory Board formulates audit policies and plans, and undertakes to conduct efficient, expeditious auditing. Two of the three members of the Audit & Supervisory Board are outside members. As an independent organ, the Audit & Supervisory Board audits the execution of duties by the Directors through attendance at meetings of the Board of Directors and other important meetings and the inspection of important decision-making documents. "K" LINE assigns dedicated staff as assistants to the Audit & Supervisory Board Members.
Management Conference	The Management Conference function as a system to help the President & CEO and/or his/her representatives make decisions, through lively discussion. The conferences are held every week, attended by the Chairman of the Board, Executive Officers equivalent to or higher than Senior Managing Executive Officer, the Executive Officers in charge of Corporate Planning, Finance and Accounting, and Members of the Audit & Supervisory Board.
Executive Officers' Meeting	Executive Officers' Meetings are held once a month in principle, attended by all the Executive Officers, including those concurrently serving as Directors, and Audit & Supervisory Board Members, where progresses of business executions (including monthly performances) and decision-matters are reported and discussed.
Investment Committee	Meetings of the Investment Committee, consisting of Executive Officers in charge of Corporate Planning and Finance, and other Executive Officers and General Managers appointed by the President & CEO, are held periodically to deliberate on basic plans and important initiatives for maximizing investment effects, while taking the Company's investment capacity into consideration. The Committee also monitors past investment effects and considers the termination or cessation of such investments.

Officers Remuneration System

Policy and Procedures for the Determination of Officers Remuneration

Remuneration for Executive Directors shall reflect "K" LINE's medium- to long-term business performance and the latent risks borne by said Executive Directors and to further enhance their willingness to bring about sustainable growth and maximize corporate value. Remuneration for Outside Directors shall reflect the amount of time devoted to business of "K" LINE and the responsibility borne by them. In line with this policy, the Remuneration Advisory Committee is responsible for the deliberation and determination of the design of our remuneration system and standards etc. and reporting back to the Board of Directors. The Board of Directors is responsible for determining levels of remuneration based on this report.

Design of Remuneration System

In addition to monthly remuneration, remuneration paid to Directors is comprised of a Performance-based Share Remuneration Plan (BBT=Board Benefit Trust) approved by the Ordinary General Meeting of Shareholders held in June 2016. The purpose of the BBT is to raise the motivation of Directors to make contributions to enhance the Group's medium- to long-term performance and corporate value. See below for an overview of our remuneration system.

Classification	Type of remuneration	Nature of remuneration	Method of determination	Maximum limit of remuneration
Director	Monthly remuneration	Fixed remuneration	Remuneration is determined in accordance with position and performance rating.	Within 600 million yen / year
	Performance-based share remuneration *Limited to Executive Directors	Variable remuneration	Based on reference points that reflect job content, responsibilities, and the like, we calculate and assign points after taking into account the degree of achievement of consolidated performance targets, etc. (10 points = 1 share of common stock)	Over the 4 fiscal years from FY ended March 31, 2017 up until FY ending March 31, 2020 (1) Amount contributed to the trust by the Company 480 million yen (2) Maximum No. of points awarded to Directors in any 1 FY: 620,000 points
Audit & Supervisory Board Member	Monthly remuneration only	Fixed remuneration	Determined following deliberation among Audit & Supervisory Board Members	Within 12 million yen / month

Remuneration Paid to Officers in FY2017

Classification	Number of people	Amount paid
Directors (Outside)	10 (4)	296 million yen (32 million yen)
Audit & Supervisory Board Members (Outside)	4 (2)	56 million yen (14 million yen)
Total	14 (6)	352 million yen (46 million yen)

*Rounded down to nearest million yen
*Figures on the left include remuneration for one Director who retired due to expiration of term of office, and one Audit & Supervisory Board Member who resigned, with both retirements effective at the close of the Ordinary General Meeting of Shareholders held on June 23, 2017.

Internal Control System

The Board of Directors is responsible for establishing the internal control system, evaluating its effectiveness and ensuring that it functions properly. In addition, through monitoring and verifying the status of the internal control system, the Internal Audit Group plays a role in supporting the Board of Directors in carrying out its responsibilities for the development, maintenance and enhancement of the internal control system. The Audit & Supervisory Board Members oversee the processes by which the Directors establish the internal control system and confirm that it is functioning effectively. Further, while respecting the autonomy of each of our Group companies, "K" LINE supports and supervises the establishment and effective management of internal control systems within each of these companies to ensure that activities conducted across all Group companies are appropriate.

Primary Internal Audit Activities for FY2017

The Internal Audit Group is responsible for formulating annual audit plans and implementing the audits. Primary audit activities for FY2017 include the following.

- Work process audits for all divisions of the Company (21 processes)
- General IT control audits of all primary IT systems of the Company (23 systems)
- Company-wide internal control audits of major Group companies (28 companies)
- Overseas Group companies audits (7 companies)
- Joint audits with internal audit divisions of the Group companies (2 companies)

Training for Officers

The Company offers opportunities for newly appointed Officers (including Executive Officers) to attend seminars on legal responsibilities pertaining to the Companies Act and the Financial Instruments and Exchange Act within three months after taking office. Each year, all of our Officers undertake training related to compliance in such areas as competition law, insider trading regulation, and anti-bribery regulations. At the time of their appointments, moreover, Outside Directors and Outside Audit & Supervisory Board Members receive explanations about the Group's business, financial, and organizational status, as well as the management status, operating environment and business issues, from heads of relevant divisions or Executive Officers in charge, to enhance their understanding.

Taking Advantage of External Perspectives to Enhance Corporate Value

"K" LINE is actively seeking to appoint Outside Officers, taking advantage of an external perspective in order to enhance corporate value over the medium- to long-term.

"K" LINE has established a set of criteria to determine the level of independence of Outside Directors and only Directors who do not fall under any of the set conditions are considered to be independent.

In order to support the smooth execution of duties of Outside Directors, they are provided with the necessary briefings and information prior to meetings of the Board of Directors and receive reports on important business operations.

Further, "K" LINE has appointed personnel to assist our Audit & Supervisory Board Members and has established regulations concerning these appointments in order to maintain the framework required to assist Audit & Supervisory Board Members in their role within the Company. These assistant personnel do not hold any other concurrent duties and are examined by the Audit & Supervisory Board Members in order to maintain a level of independence from Directors.

HOME > CSR > Governance > Corporate Governance > Criteria for Independence of Outside Directors
https://www.kline.co.jp/en/csr/governance/corporate_governance/main/00/teaserItems1/03/linkList/0/link/independence_criteria_en.pdf

Outside Directors

Akira Okabe (Lead Outside Director)

Profile Former Senior Managing Director at TOYOTA MOTOR CORPORATION, Former Director and Vice Chairman at Tokai Tokyo Securities Co., Ltd.

Reason for Appointment Mr. Akira Okabe worked for more than 40 years at TOYOTA MOTOR CORPORATION and over that time, led various new businesses to successful results in emerging countries, mainly in Asia. He then went on to become director at Toyota and at a securities company and has long-standing experience in the area of corporate management. He was appointed so that his experience and insight in this area may be utilized within the Company.

Attendance at Meetings of the Board of Directors in FY2017
14 / 14 meetings

Seiichi Tanaka

Profile Former Representative Director, Executive Vice President at Mitsui & Co., Ltd.

Reason for Appointment Mr. Seiichi Tanaka joined Mitsui & Co., Ltd. after completing a Master's degree in marine engineering. After many years in the Ship and Marine Project Division he gained experiences in corporate management in his capacity as Representative Director at Mitsui & Co from 2008 to 2014. He was appointed so that his experience and insight in this area may be utilized within the Company.

Attendance at Meetings of the Board of Directors in FY2017
14 / 14 meetings

Kiyoshi Hosomizo

Profile Former Commissioner of Financial Services Agency, Outside Audit & Supervisory Board Member at SEIREN Co., Ltd.

Reason for Appointment Mr. Kiyoshi Hosomizo has experiences in prominent positions at the MOF and Financial Services Agency, from which he has obtained deep insight into financial and other general economic affairs as well as extensive knowledge and deep insight in the area of corporate governance. He was appointed to provide appropriate advice on management of the Company and appropriate monitoring of the execution of company business operations.

Attendance at Meetings of the Board of Directors in FY2017
10 / 10 meetings

Outside Audit & Supervisory Board Members

Toshikazu Hayashi

Profile Former Representative Director and Senior Vice President at Kawasaki Heavy Industries, Ltd.

Reason for Appointment Mr. Toshikazu Hayashi has been involved in corporate management for many years and based on this extensive knowledge and experience, was appointed to provide effective audits from an objective perspective in relation to company management.

Attendance at Meetings of the Board of Directors in FY2017
14 / 14 meetings

Attendance at Meetings of the Audit & Supervisory Board in FY2017
15 / 15 meetings

Kozue Shiga

Profile Partner at Shiraishi Sogo Law Office, Outside Audit & Supervisory Board Member of Shinsei Bank, Limited. and Outside Director of RICOH LEASING COMPANY, LTD.

Reason for Appointment Ms. Kozue Shiga possesses specialized knowledge and experience as a lawyer as well as experience as an Outside Director and Outside Audit & Supervisory Board Member of multiple listed corporations and was appointed based on her ability to provide effective audits from an independent and external perspective.

Attendance at Meetings of the Board of Directors in FY2017
13 / 14 meetings

Attendance at Meetings of the Audit & Supervisory Board in FY2017
15 / 15 meetings

For introductions to Officers, please see pages 56-57.

Governance Risk Management System

We need to recognize diverse management crises and risks, prepare for them, and fulfill our corporate social responsibility when the risks become reality. To this end, we have established our own system for managing crises and risks. Specifically, we divide crises and risks into four types and have established four Committees for responding to each of these types. We have also set up a Crisis Management Committee as an organization to unify the four Committees to control and facilitate overall crisis and risk management activities.

Major Risks Which Affect Our Business

The Group's main business field, marine transport, is influenced by numerous international factors such as economic trends in various countries, product market conditions, supply and demand balance for ships, as well as intra-industry competition. Changes in any of these factors may give a negative impact on the "K" LINE Group's marketing activities and business results. In particular, a change in tax systems or economic policies, or an invocation of protective trade policies in Japan or major trading regions and / or countries such as North America, Europe, China, etc., may result in a decrease in overall volume of international cargo transport or worsen conditions for freight markets. This may give a serious impact on the Group's financial situation and operating results.

Other major factors that may have a negative impact on our business include, but are not limited to, fluctuation of exchange rates, interest rates and fuel oil prices, public regulations of environmental issues, and occurrence of serious marine incidents, conflicts or natural disasters. For more information, please access "K" LINE's website.

HOME > Investor Relations > Management Policy > Business Risk
https://www.kline.co.jp/en/ir/management/risk.html

Risk Management Promotion System

We have divided various crises and risks into four types: risks in ship operations, risks from disasters, risks concerning compliance and other risks related to management and have also established four Committees to respond to each of these types. Furthermore, the Crisis Management Committee unifies the four Committees in order to control and facilitate overall risk management. Our President & CEO chairs all the Committees with the Committee meetings being regularly held in order to strengthen risk management.

Board of Directors

President & CEO

Crisis Management Committee	We discuss and develop systems to respond to all manner of crises and risks as well as control the activities of the following four Committees.
Ship Safety Promotion Committee	We discuss and determine necessary basic policies from a company-wide perspective as well as various measures based on basic policies for preventing marine accidents and to manage risks concerning safety of operations for all our vessels including our owned, chartered and entrusted vessels.
Disaster Response Committee	We are continuously making every effort to strengthen our disaster prevention system. In case of a disaster, we will determine if establishment of a disaster response headquarter is needed and then strive to minimize damage by providing relief to any victims and restoring damaged offices, preparing policies for business continuity and providing instructions and supervision regarding business continuity.
Compliance Committee	We discuss policies that secure compliance of the Company and Group companies and measures to address compliance violations.
Management Risk Committee	Risks related to management include those concerning terrorism, threats from anti-social forces, harmful rumors, information security, environmental response, as well as economic fluctuation. The Committee controls those expected risks other than risks in ship operations, risks of disasters and risks concerning compliance, and when such risks come to the surface, we will deal with them case-by-case as appropriate.

Compliance

Strengthening Our Group Compliance System

Stricter legislation is being enacted to promote fair competition in the international markets where "K" LINE Group conducts business. To respond to the tightening of regulations and increasingly severe penalties in various countries, and in light of given the need to strengthen our Group compliance system on a global level, in January 2017 we established the "K" LINE Group Global Compliance Policy (hereinafter, the Global Policy). The Global Policy consists of the main policy and individual policies. The main policy sets forth common items applicable to general compliance, and the individual policies set forth items applicable to specific fields, such as competition laws and anti-bribery laws.

Our Efforts to Ensure Compliance with Anti-Monopoly Act

Regarding compliance with domestic and foreign competition laws, we ensure that executives and employees comply with the Regulation for Compliance with Anti-Monopoly Act. Furthermore, we are making efforts to ensure compliance awareness concerning competition laws through conducting a continuous training program and promotion of educational activities by the Corporate Legal Risk & Compliance Group. In addition, we conduct audits and monitor the state of implementation of compliance measures. With respect to contacts with competing companies, we strictly enforce regulations on prior reporting and approval depending on the nature of the contact, as well as recording and storing details of each contact.

【Main efforts in recent years】

- Established "Regulations for Compliance with the Anti-Monopoly Act" (April 2014)
- Set up Fair Competition Promotion Committee (April 2014)
- Set up course on Anti-Monopoly Act as part of stratified personnel training (April 2014)
- Issued and distributed Guidebook for the Anti-Monopoly Act Compliance (Vol. 1) - Cartel Q&A - (May 2014)
- Established Individual Policy of Competition Laws (January 2017)

Our Efforts to Prevent Bribery and Corruption

As part of efforts to effectively strengthen Group compliance to prevent bribery and corruption, in January 2017 we established the Global Policy (which includes Individual Policy of the Anti-Corruption Law). As a member of the Maritime Anti-Corruption Network (MACN), which is a global business network working towards the vision of a maritime industry free of corruption, we are making efforts to prevent corruption and bribery.

【Main efforts in recent years】

- Established "Regulations for Prevention of Bribery" (November 2013)
- Established "Regulations for Gifts" (January 2014)
- Joined MACN (June 2014)
- Established General Policy against Bribery and Corruption (August 2014)
- Established Individual Policy of Anti-Corruption Law (January 2017)
- Issued and distributed Guidebook for Prevention of Bribery Vol. 1 (May 2017)

Compliance Promotion System

We discuss our policy for securing compliance throughout "K" LINE and its Group companies, as well as measures for compliance violations, through our Compliance Committee, chaired by the President & CEO. Under the Chief Compliance Officer (CCO), who has the ultimate responsibility for compliance, we are strengthening compliance throughout our organization.

Our Efforts to Raise Compliance Awareness

We set every November as "Compliance Month" when we distribute the President & CEO's message to executives and employees of "K" LINE and its Group companies to remind them of the importance of compliance. We also hold compliance e-learning training and compliance seminars featuring lecturers invited from outside the company. As part of our stratified personnel training system, we conduct compliance training and hold seminars on individual themes (such as rules for insider trading and harassment prevention) as appropriate. In addition, we distribute the important compliance-related matters in a "Compliance Newsletter" that require particular attention, as necessary.

Towards Sustained Value Creation of the "K" LINE Group

Looking Back at Fiscal 2017

Asakura Mr. Hosomizo, you were appointed as Outside Director of the Company in June 2017. In the preceding year, freight rate conditions for dry bulk carriers and containerships plummeted to levels never before experienced—a situation that lasted almost one year. It was one of the most challenging years ever for the shipping industry, and in fiscal 2017 we did our utmost to recover from those depths. As a result, we managed to achieve profitability across all indicators—operating income, ordinary income, and net income—for the first time in three years. Nonetheless, we are still recovering from the bruises we experienced in the historical market downturn. How did you feel about the Company's management during such a turbulent era?

Hosomizo I have been involved in government administration for around 37 years, and this is my first engagement in the shipping industry. However, I recognize that the foundation of Japan's existence as a nation lies heavily on trade, and that the shipping industry is an essential sector in that context. With these factors in mind, I assumed the role of Outside Director. Since my actual appointment, however, I have witnessed severe market fluctuations and the profound effect they have on earnings. This has deepened my recognition of the challenges faced by the shipping industry and the importance of managing profit risk.

Role of Outside Directors

Asakura Mr. Hosomizo, your appointment to the Company

Jiro Asakura

Director, Chairman

was your first experience as Outside Director. How do you view your own role as Outside Director? Also, how do you plan to use your personal insights and experience to help increase the Company's corporate value?

Hosomizo Since Outside Directors are appointed based on resolution at the Ordinary General Meeting of Shareholders, I think that considering the interests of all shareholders and supervising corporate management from an external perspective adopting the standpoint of other stakeholders—including business partners and employees—as well as a broader segment of society are missions bestowed on me. In other words, rather than finding the best way of "making money," my important role is to check whether or not we are "making money fairly" in a manner that leads to sustained growth and improved corporate value over the medium and long terms. What is regarded as common sense inside the Company may not necessarily be acceptable on the outside. Sometimes outside people can make more impartial decisions than insiders. This is called the "bystander's vantage point." As followers of Adam Smith would attest, I believe that an economist must behave according to the fair and neutral voice of the observer inside his/her head, in order for the "invisible hand of God" to function properly in the context of free economic activity. I think my role is to point this out. Once one becomes affiliated with a company, it is sometimes difficult to act as an impartial observer with personal feelings put aside. For this reason, Outside Directors like myself become the "eyes" of society.

Energizing the Board of Directors

Asakura I hope that you make your observations from strict external perspectives. Now let's talk about corporate governance. Over the past few years, the Company has sought to revitalize the Board of Directors as a serious priority. In addition to deliberating and approving proposed items, the Board of Directors serves as a forum for discussions aimed at enhancing corporate value through medium-to-long-term company growth. As for the latter, I feel that issue resolution begins when issues are gleaned, identified and shared, but there is still room for deeper discussion here. Now, I would like to

Kiyoshi Hosomizo

Outside Director

See biography on page 49

As Chairman of the Board of Directors, I will encourage rigorous discussions from a wide range of stakeholder perspectives.

hear your frank opinion about how to further enhance the Board of Directors.

Hosomizo There are vertically aligned sales divisions and horizontally aligned corporate divisions, and here at our Company, the managers of each have a strong tendency to fulfill the responsibilities of his/her respective position. Accordingly, there doesn't seem to be much discussion from overall perspectives. I understand Directors' primary role is to make transparent, fair and swift decisions with the Company's shareholders and various other stakeholders firmly in mind. In our Company's case, however, my impression is that we tend to concentrate on specialized discussions from the standpoint of each division.

Asakura Thank you for your frank opinion. As Chairman of the Board of Directors, it is important for me to remove the barriers between divisions and change Board of Directors meetings to facilitate vibrant discussions from a perspective of shareholders or stakeholders that is broad in scope, and from a company-wide perspective, on the topics such as how we should operate the Company going forward. There was a business owner who expressed the essence of corporate management by using the words "earn," "reduce" and "prevent." Although it is relatively easy to improve profitability and reduce costs, it is very difficult to prevent the associated risks. We cannot hope for growth without investment, but we are forced to make important and extremely difficult decisions related to its risk management. This requires us to listen to the opinions of people with broad insights and knowledge and use that feedback to drive the Company forward. The Board of Directors must perform these functions. And because these decisions are so important and difficult, I believe this is the part where the competencies of directors with varying backgrounds are tested.

Hosomizo Certainly the most difficult part about corporate management is making decisions on business investments and divestments. Ultimately, some people rely on "animal instinct," but whatever the case we must have some criteria of judgment to ensure fairness and transparency above all else. To this end, we recently introduced an advanced operational management mechanism that can be highly evaluated as a "Merkmal" (German for "distinguishing feature"). Rather than using this to decide everything, however, it should be regarded as one indicator for making objective calculations. In the business world, there are many cases where one must ultimately rely on "live management judgments" based on many years of experience. Needless to say, we must also consider our responsibilities to customers and the balance of our business portfolio and, where necessary, mobilize our animal instincts when things become uncertain.

Asakura It is neither good, nor realistic, to depend excessively on mechanical judgments. Even when animal instinct-based decisions are necessary, perhaps we must hold a reasonable criterion of judgment as a prerequisite.

Fund-raising and Capital Cost

Asakura By the way, 10 years have passed since the bankruptcy of Lehman Brothers, and Europe and the United States are already looking for ways to end the ensuing period of large-scale monetary relaxation. However, Japan continues on a path of slow inflation, illustrating its support of a reflationary policy aimed at achieving stable economic growth. As a financial expert, please point out what we should be aware of in this financial environment.

Hosomizo Of course, we cannot expect the current unusual situation, with negative interest rates on government bonds, to last long. In the case of Japan, however, I think it is not yet time for the Bank of Japan to switch to tapering, which would spark a contraction of its quantitative easing measures. Under these circumstances, shareholders and other investors are seeking to generate profits that exceed the cost of capital, so it is important for the shipping businesses, with major assets in the form of long-lasting ships, to raise funds, especially through low-interest debt. Therefore, it is more crucial than ever to establish strong relationships of trust with shareholders and other investors, as well as with financial institutions that provide long-term funds. Management should steer the Company based on clearly-stated long-term goals, rather than short-term performances.

Focusing on 5–10 Years Ahead

Asakura When discussing management reforms at a recent Board meeting, you made the following statement: "It is important to clearly imagine what kind of company we want to be 5 or 10 years from now, then calculate backwards and make incremental changes starting from now." I totally agree. I think this approach should be encouraged across the Company, regardless of job title. When considering our desired company image 10 years from now, what points should we emphasize?

Hosomizo In corporate management, we should consider the idea of "continuity and change." Some things should change and some should not. In order to maintain the current living standard of Japanese citizens, we must import considerable amounts of food and energy, now and in the future. On the other hand, we must also increase exports. In light of this unchanging situation, when considering our vessel fleets, which we keep for 15–25 years, we need to focus on three areas that I believe will change.

The first is addressing energy-related issues closely tied to the global environment, such as measures to curb global warming. This is not simply about the energy needed to move ships. There have been vibrant discussions about energy policies for the entire nation, specifically, things that can be developed in Japan, things that must be imported, and things that can be substituted. Customer needs will change greatly according to energy policies that are adopted, so it is important to think about also changing our business portfolio to reflect this as well.

Secondly, it is necessary to keep a close watch on the "sharing economy" trend, especially given our strength as a car carrier. Currently, it is estimated that only one in 20 automobiles owned by individuals is actually running. In other words, automobile sales volumes may fall dramatically if the sharing economy fully materializes around the world. It is difficult to predict how this structural change will play out, but we should add that perspective when investing in car carriers.

The third point is "local production for local consumption." If more and more companies end up making industrial products close to where they are consumed, the need for logistics will decline, but economic growth of emerging economies will go in the opposite direction. We must keep a close watch on economic growth in emerging economies, as well as how the trend of "local production for local consumption" evolves.

Keeping these long-term perspectives in mind, we need to think about things we can address right now, such as what types of vessels we should be ordering, and where we should build bases when we identify economic growth in emerging economies and the rising need for external services.

Advice for Our Young Employees

Asakura Thank you for your valuable suggestions. In conclusion, can you please give some advice to employees who toil day-to-day in their workplaces, especially the young employees who will be responsible for the Company's future?

Hosomizo "K" LINE was the first company in Japan to complete construction of a pure car carrier and an LNG carrier. By all means, I want our employees to continue cherishing this "enterprising spirit" and "free and open-minded" corporate culture. Without these, we cannot achieve sustainable growth in turbulent times. In my position as Outside Director, I hope to lift everyone up so they can demonstrate the "K" LINE SPIRIT and pursue innovative initiatives without reacting nervously to short-term market fluctuations.

In my position as Outside Director, I hope to lift everyone up so they can demonstrate the "K" LINE SPIRIT.

Governance Directors, Audit & Supervisory Board Members and Executive

Director, Chairman
Jiro Asakura

Representative Director, President & CEO
Eizo Murakami

Representative Director, Senior Managing Executive Officer
Hiromichi Aoki

Representative Director, Senior Managing Executive Officer
Harusato Nihei

Representative Director, Senior Managing Executive Officer
Yukikazu Myochin

Director, Senior Managing Executive Officer
Atsuo Asano

Outside Director
Akira Okabe

Outside Director
Seiichi Tanaka

Outside Director
Kiyoshi Hosomizo

Audit & Supervisory Board Member
Keisuke Yoshida

Outside Audit & Supervisory Board Member
Toshikazu Hayashi

Outside Audit & Supervisory Board Member
Kozue Shiga

Directors

Director, Chairman
Jiro Asakura

Representative Director
Eizo Murakami

Representative Director
Hiromichi Aoki

Representative Director
Harusato Nihei

Representative Director
Yukikazu Myochin

Director
Atsuo Asano

Outside Director
Akira Okabe

Outside Director
Seiichi Tanaka

Outside Director
Kiyoshi Hosomizo

Audit & Supervisory Board Members

Audit & Supervisory Board Member
Keisuke Yoshida

Outside Audit & Supervisory Board Member
Toshikazu Hayashi

Outside Audit & Supervisory Board Member
Kozue Shiga

Executive Officers

President & CEO
Eizo Murakami

Senior Managing Executive Officer
Hiromichi Aoki
Responsible for Energy Transportation Business Unit

Senior Managing Executive Officer
Eiji Kadono
Responsible for Marine Sector, Advanced Technology, Ship Technical and Environmental Affairs Unit

Senior Managing Executive Officer
Harusato Nihei
Responsible for Finance, Accounting, IR&PR Unit, CFO (Chief Financial Officer)

Senior Managing Executive Officer
Atsuo Asano
Responsible for Dry Bulk Carriers Unit,
In charge of Bulk Carrier Business,
Responsible for Human Resources Unit

Senior Managing Executive Officer
Kenji Sakamoto
Responsible for Car Carriers Unit

Senior Managing Executive Officer
Yukikazu Myochin
Responsible for General Affairs, Legal, Corporate Legal Risk & Compliance, Corporate Planning, Research Unit, Assistance to Internal Audit, CCO(Chief Compliance Officer)

Managing Executive Officer
Kazuhiko Harigai
In charge of LNG, Thermal Coal, Liquefied Gas New Business

Managing Executive Officer
Yukio Toriyama
In charge of Accounting, Finance, IR&PR

Managing Executive Officer
Yasunari Sonobe
President of "K" LINE AMERICA, INC.

Managing Executive Officer
Yutaka Nakagawa
Managing Director of K LINE (THAILAND) LTD.

Managing Executive Officer
Akira Misaki
Managing Director of "K" LINE (EUROPE) LIMITED

Managing Executive Officer
Kunihiko Arai
Managing Director of K LINE (CHINA) LTD.,
Managing Director of "K" LINE (HONG KONG) LIMITED

Managing Executive Officer
Shuzo Kawano
Responsible for Information System Unit,
CIO(Chief Information Officer),
CEO of "K" Line Business Systems, Ltd.

Managing Executive Officer
Daisuke Arai
Responsible for Containerships, Port Business, Logistics, Affiliated Business Promotion Unit

Managing Executive Officer
Makoto Arai
In charge of Legal, Corporate Legal Risk & Compliance

Officers

Senior Managing Executive Officer

Eiji Kadono

Senior Managing Executive Officer

Kenji Sakamoto

(As of July 1, 2018)

Executive Officer
Kiyotaka Aya
In charge of Marine Sector

Executive Officer
Shingo Kogure
In charge of General Affairs, CSR, Human Resources

Executive Officer
Toyohisa Nakano
In charge of Ship Technical and Environmental Affairs

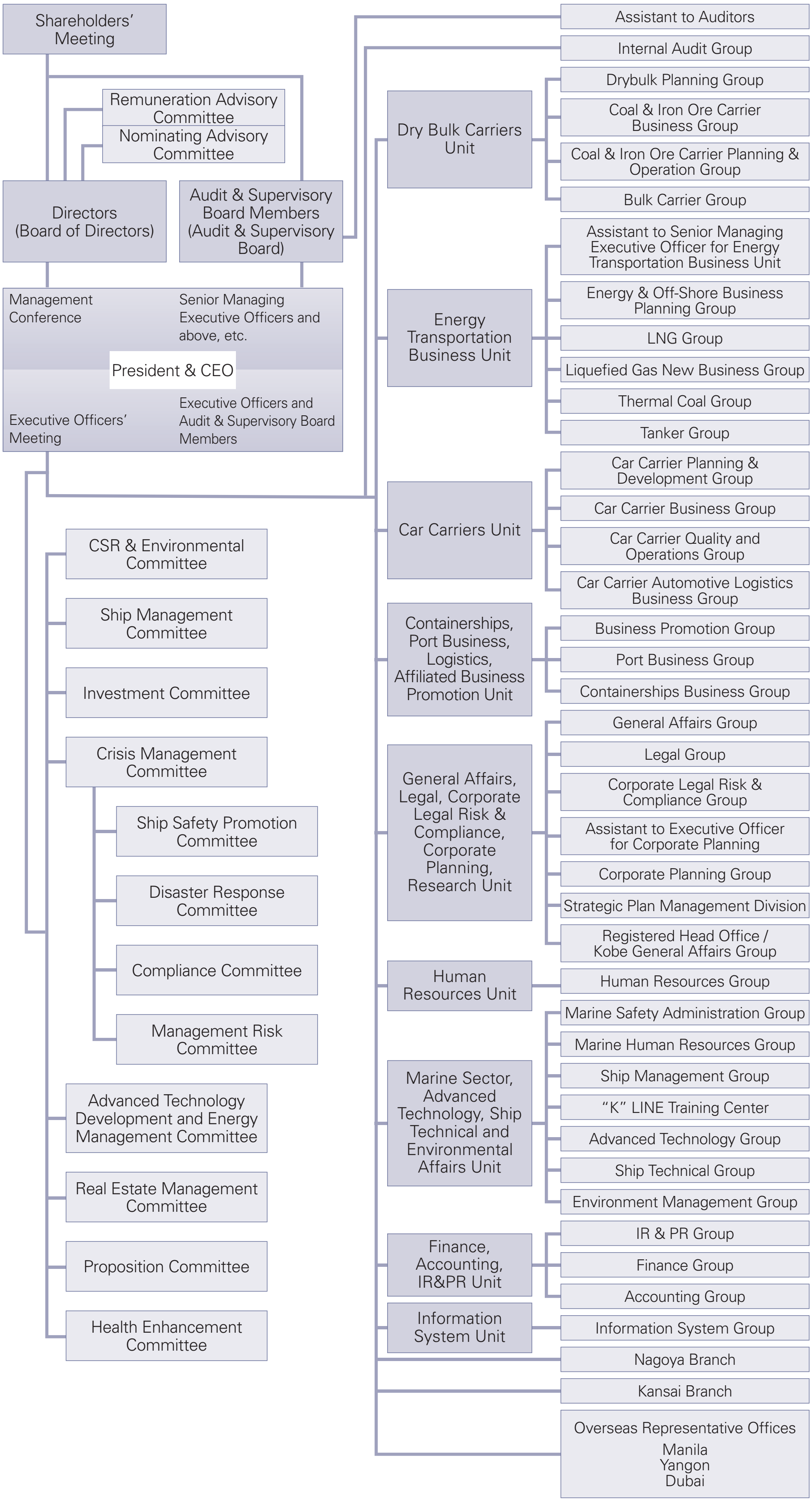
Executive Officer
Nobuyuki Yokoyama
In charge of Car Carrier Business

Executive Officer
Tomoyuki Okawa
In charge of Tankers, General Manager of Energy & Off-Shore Business Planning Group

Executive Officer
Kunio Morimoto
In charge of Coal and Iron Ore Carrier Business, Drybulk Planning, General Manager of Coal and Iron Ore Carrier Business Group

Executive Officer
Yuji Asano
In charge of Corporate Planning, Research

Organization (as of July 1, 2018)



Financial Analysis

Results of Operations

Operating revenues

In fiscal 2017, the year that ended March 31, 2018, the "K" LINE Group reported consolidated operating revenues of ¥1,162,025 million, up 12.8% from fiscal 2016. By business segment, operating revenues from the containership business segment increased 15.3% year-on-year to ¥598,474 million, thanks to recovery in the freight market.

In the bulk shipping business segment, operating revenues rose 14.2%, to ¥521,157 million as a result of shifts that showed signs of improvement in the cape-size market for the dry bulk business, in addition to an increase in the total volume of complete built-up cars shipped by the car carrier business. The LNG carrier business and tanker business also operated smoothly under medium- and long-term charter contracts, but market-linked contracts were partly affected by softening market conditions.

In the offshore energy E&P support and heavy lifter business segment, operating revenues declined 61.5% to ¥7,472 million. Despite having healthy conditions in the drillship business, the offshore support vessel business was affected by stagnant offshore development. In the heavy lifter business, all shares of SAL Heavy Lift GmbH, which is in charge of the business, was transferred to SALTO Holding GmbH & Co. KG.

Operating revenues from the other segment declined 1.0% year-on-year to ¥34,922 million.

Cost of sales and selling, general and administrative expenses

Cost of sales rose ¥82,555 million, or 8.2%, from ¥1,000,744 million in the previous fiscal year to ¥1,083,299 million, due mainly to an increase in operating costs as a result of steady cargo movements. The cost of sales ratio fell 3.9 points, to 93.2%. Selling, general and administrative expenses declined ¥3,978 million, or 5.3%, to ¥71,506 million.

Operating income

Due to an increase in gross profit, the Company reported a consolidated operating income of ¥7,220 million, compared with operating loss of ¥46,037 million in the previous year.

Other (non-operating) income (expenses)

The net balance of interest and dividend income and interest expense was negative ¥3,168 million versus negative ¥3,822 million in the previous year. This resulted from an increase in dividend income. The Company recorded an exchange loss of ¥1,541 million versus ¥4,006 million in the previous fiscal year, and an equity in loss of subsidiaries and affiliates of ¥4,601 million compared with ¥3,155 million of equity in earnings of subsidiaries and affiliates in fiscal 2016. As a result of these and other factors, other (non-operating) loss amounted to ¥5,257 million compared with a loss of ¥6,351 million in the previous fiscal year.

Profit before income taxes

Total extraordinary gains amounted to ¥35,332 million, due mainly to gain on sales of vessels, property and equipment. Total extraordinary losses amounted to ¥20,106 million, due mainly to impairment loss and loss related to the Anti-Monopoly Act. As a result of these gains and losses, profit before income taxes was ¥17,188 million compared with ¥131,227 million in loss before income taxes in fiscal 2016.

Income taxes

Income taxes decreased ¥1,929 million from ¥6,142 million in the previous fiscal year to ¥4,213 million in the year under review. This was due mainly to revisions in the tax rate for federal corporations in the United States for consolidated subsidiaries located in the Unites States.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests totaled ¥2,591 million versus ¥2,110 million in fiscal 2016. The increase is partly attributable to an increase in non-controlling interests in the income of 'K' LINE (India) Shipping Private Limited.

Profit attributable to owners of the parent

The profit attributable to owners of the parent was ¥10,384 million compared to the ¥139,479 million loss attributed to the owners of the parent in fiscal 2016. The profit attributable to owners of the parent per share was ¥111.13 versus a loss attributable to owners of the parent per share of ¥1,488.23 in fiscal 2016.

Analysis of Sources of Capital and Liquidity

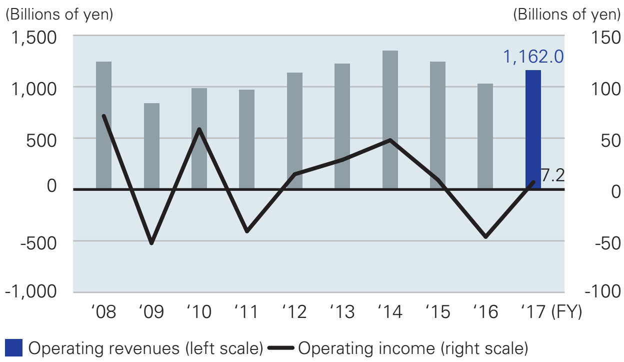
Cash flows

As of March 31, 2018, cash and cash equivalents stood at ¥158,073 million, up ¥1,281 million from a year earlier. The details of cash flows are as follows.

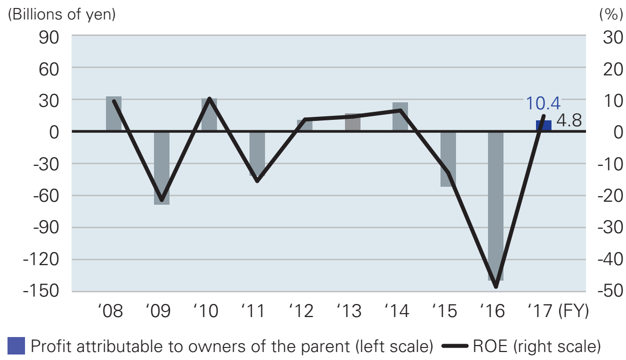
Net cash provided by operating activities amounted to ¥1,167 million compared with net cash used in operating activities of ¥43,919 million in the previous year. Main factors were the profit before income taxes and depreciation and amortization.

Net cash used in investing activities totaled ¥22,813 million

Operating Revenues / Operating Income



Profit Attributable to Owners of the Parent / ROE



versus ¥24,882 million in the previous fiscal year. This mainly reflected purchases of vessels.

Net cash provided by financing activities was ¥22,240 million compared with net cash provided by financing activities of ¥26,436 million in the previous fiscal year. This change mainly reflected proceeds from long-term loans.

Funding requirements

The "K" LINE Group's major working capital requirement comes from shipping business expenses in connection with containership services and bulk shipping services. These expenses include operating costs such as port charges, cargo handling costs and fuel costs; vessel expenses such as crew expenses and expenses for overhaul of vessels; and chartering expenses. Other expenses are the costs of service operations such as labor costs in connection with the operation of our logistics / harbor transportation businesses and general administrative expenses for the Group's business operations such as personnel expenses, information processing costs and other non-personnel expenses. Capital requirements include investments in vessels, logistics facilities and terminal facilities. In fiscal 2017, the "K" LINE Group made capital investments of ¥101,105 million.

Financial policy

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

The Company secures liquidity by preparing for any urgent capital requirements by means of a commercial paper issuance program of up to ¥60.0 billion, a ¥43.0 billion line of credit established under overdraft agreements with financial institutions, and the establishment of an ¥80.0 billion multi-year commitment line with financial institutions in Japan.

The Company has been rated by two Japanese rating firms. As of June 21, 2018, the Company maintained a rating of BBB from Japan Credit Rating Agency, Ltd. (JCR), and BBB- from Rating and Investment Information, Inc. (R&I). The Company also has short-term credit ratings (commercial paper ratings) of J-2 from JCR and a-2 from R&I.

Financial Position

As of March 31, 2018, total assets amounted to ¥1,041,766 million, down ¥3,444 million from a year earlier. Current assets increased ¥15,302 million year-on-year to ¥396,426 million, mainly due to an increase in accounts and notes receivable.

Fixed assets decreased ¥18,747 million to ¥645,339 million. Within this amount, vessels, property and equipment declined ¥43,434 million to ¥482,954 million, mainly due to a reduced number of vessels. Investments and other assets increased ¥24,947 million to ¥158,640 million, mainly due to a rise in investment in securities.

Total liabilities on March 31, 2018 amounted to ¥798,672 million, down ¥1,055 million from a year earlier. Current liabilities amounted to ¥283,143 million and fixed liabilities amounted to ¥515,529 million, mainly as a result of a decline in allowance for loss related to business restructuring, although long-term loans and obligations under finance leases increased.

Net assets on March 31, 2018 totaled ¥243,094 million, down ¥2,388 million from a year earlier. Within this amount, shareholders' equity rose to ¥200,689 million, due mainly to an ¥11,353 million increase in retained earnings. Accumulated other comprehensive income decreased ¥12,701 million to ¥16,322 million, mainly attributable to a ¥10,094 million decrease in translation adjustments.

Dividend Policy

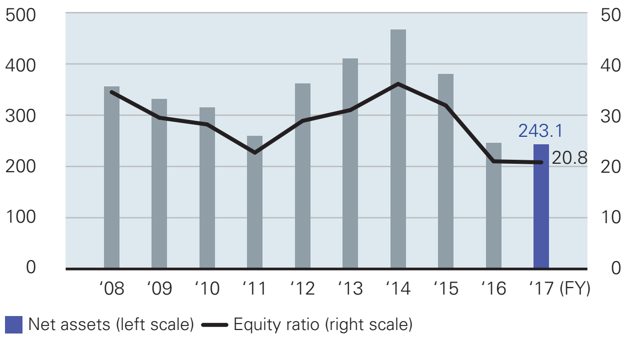
The Company regards maximization of returns to shareholders as an important priority. To this end, we endeavor to pay stable dividends while retaining necessary internal reserves to fund investments in plant and equipment and strengthen our financial position in order to achieve sustainable growth, which is a main priority of our management plan.

The Company's year-end dividend (record date: March 31 of each year) is subject to resolution at the Annual Shareholders' Meeting. As prescribed in the Articles of Incorporation, "by resolution of the Board of Directors, an interim dividend may be distributed by the Company as of the record date of September 30 of each year."

However, in the medium-term management plan announced in April 2017, the Company has positioned the enhancement of financial strength and stability of business infrastructure as the highest priority. For this reason, the Company will regrettably be unable to distribute year-end dividends.

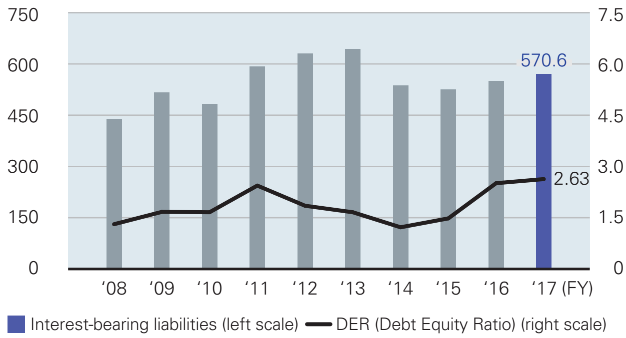
Dividends for the next term are also currently still undecided because the Company's highest priority remains the enhancement of financial strength and stability of business infrastructure for the time being.

Net Assets / Equity Ratio



Equity ratio: Equity capital / Total assets
Equity capital: Net assets – (Non-controlling interests + Stock acquisition rights)

Interest-bearing Liabilities / DER



DER: Interest-bearing liabilities / Equity capital

Consolidated Financial Statements

Consolidated Balance Sheet

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
Assets	**2018**	2017	**2018**
Current assets:			
Cash and deposits (Notes 7, 15 and 18)	**¥ 200,606**	¥ 199,678	**$ 1,888,234**
Accounts and notes receivable – trade (Note 15)	**89,219**	83,580	**839,787**
Allowance for doubtful receivables	**(1,680)**	(2,035)	**(15,813)**
Inventories (Note 5)	**31,850**	29,714	**299,793**
Prepaid expenses and deferred charges	**43,880**	45,862	**413,027**
Deferred tax assets (Note 8)	**5,700**	5,599	**53,652**
Other current assets	**26,851**	18,726	**252,739**
Total current assets	**396,426**	381,124	**3,731,419**
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 7, 15 and 20)	**85,400**	58,892	**803,840**
Investments in securities (Notes 4, 7 and 15)	**35,321**	36,026	**332,464**
Long-term loans receivable	**10,136**	7,358	**95,407**
Deferred tax assets (Note 8)	**2,998**	3,268	**28,219**
Asset for retirement benefits (Note 10)	**658**	494	**6,194**
Other assets	**25,062**	28,586	**235,900**
Allowance for doubtful receivables	**(935)**	(931)	**(8,801)**
Total investments and other assets	**158,640**	133,693	**1,493,223**
Vessels, property and equipment:			
Vessels (Notes 6 and 7)	**730,320**	755,260	**6,874,247**
Buildings, structures and equipment (Notes 6 and 7)	**91,441**	101,047	**860,702**
Accumulated depreciation	**(395,052)**	(410,252)	**(3,718,486)**
	426,709	446,055	**4,016,463**
Land (Notes 6, 7 and 12)	**21,119**	24,782	**198,786**
Construction in progress	**35,126**	55,551	**330,628**
Vessels, property and equipment, net (Note 20)	**482,954**	526,388	**4,545,877**
Intangible assets:			
Other intangible assets	**3,746**	4,005	**35,260**
Total intangible assets	**3,746**	4,005	**35,260**
Total assets (Note 20)	**¥ 1,041,766**	¥ 1,045,210	**$ 9,805,779**

Liabilities	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1(a)) 2018
Current liabilities:			
Short-term loans (Notes 7 and 15)	¥ 4,051	¥ 4,513	$ 38,131
Current portion of long-term debt (Notes 7 and 15)	88,110	43,335	829,349
Accounts and notes payable – trade (Note 15)	90,370	89,770	850,621
Advances received	20,567	23,487	193,590
Current portion of obligations under finance leases	7,107	3,246	66,896
Accrued income taxes (Note 8)	2,929	1,142	27,570
Allowance for loss related to the Anti-Monopoly Act (Note 2)	1,672	5,223	15,738
Allowance for loss related to business restructuring (Note 2)	24,543	19,867	231,015
Allowance for loss on liquidation of subsidiaries and affiliates	88	—	828
Deferred tax liabilities (Note 8)	2	13	19
Other current liabilities	43,704	32,838	411,369
Total current liabilities	283,143	223,434	2,665,126
Long-term liabilities:			
Long-term debt, less current portion (Notes 7 and 15)	431,744	466,364	4,063,855
Obligations under finance leases, less current portion	39,572	33,055	372,477
Deferred tax liabilities on land revaluation (Notes 8 and 12)	1,784	1,874	16,792
Allowance for loss related to the Anti-Monopoly Act (Note 2)	2,450	—	23,061
Allowance for loss related to business restructuring (Note 2)	—	28,022	—
Allowance for directors' and audit and supervisory board members' retirement benefits	1,843	1,646	17,348
Allowance for directors' stock benefits	11	—	104
Accrued expenses for overhaul of vessels	11,201	12,000	105,431
Liability for retirement benefits (Note 10)	6,579	7,514	61,926
Derivative liabilities	7,268	8,862	68,411
Deferred tax liabilities (Note 8)	10,185	13,421	95,868
Other long-term liabilities	2,892	3,536	27,221
Total long-term liabilities	515,529	576,294	4,852,494
Commitments and contingent liabilities (Note 13)			
Net assets			
Shareholders' equity (Notes 3, 11 and 21):			
Common stock:			
Authorized – 200,000,000 shares in 2018 and 2,000,000,000 shares in 2017			
Issued – 93,938,229 shares in 2018 and 939,382,298 shares in 2017	75,458	75,458	710,260
Capital surplus	60,508	60,334	569,540
Retained earnings	67,107	55,754	631,655
Less treasury stock – 666,673 shares in 2018 and 2,188,538 shares in 2017	(2,384)	(1,084)	(22,440)
Total shareholders' equity	200,689	190,462	1,889,015
Accumulated other comprehensive income:			
Net unrealized holding gain on investments in securities (Notes 4 and 8)	8,570	8,850	80,666
Deferred gain on hedges (Notes 8 and 16)	7,768	10,190	73,117
Revaluation reserve for land (Notes 8 and 12)	6,185	6,263	58,217
Translation adjustments	(3,539)	6,555	(33,311)
Retirement benefits liability adjustments (Notes 8 and 10)	(2,662)	(2,835)	(25,056)
Total accumulated other comprehensive income	16,322	29,023	153,633
Non-controlling interests	26,083	25,997	245,511
Total net assets	243,094	245,482	2,288,159
Total liabilities and net assets	¥ 1,041,766	¥ 1,045,210	$ 9,805,779

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

Consolidated Statement of Operations

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2018	2017	2018
Marine transportation and other operating revenues (Notes 20 and 21)	¥ 1,162,025	¥ 1,030,191	$ 10,937,735
Marine transportation and other operating costs and expenses (Note 2)	1,083,299	1,000,744	10,196,715
Gross profit	78,726	29,447	741,020
Selling, general and administrative expenses	71,506	75,484	673,061
Operating income (loss)	7,220	(46,037)	67,959
Other income (expenses):			
Interest and dividend income (Note 20)	3,802	2,803	35,787
Interest expenses (Note 20)	(6,970)	(6,625)	(65,606)
Equity in (loss) earnings of subsidiaries and affiliates, net (Note 20)	(4,601)	3,155	(43,308)
Exchange loss, net	(1,541)	(4,006)	(14,505)
Reversal of allowance for loss related to the Anti-Monopoly Act (Note 2)	3,551	—	33,424
Gain (loss) on sales of vessels, property and equipment, net	29,066	(3,125)	273,588
Loss on impairment of vessels, property and equipment (Notes 6 and 20)	(7,636)	(20,363)	(71,875)
Loss on cancellation of chartered vessels	(2,772)	(7,943)	(26,092)
Loss related to the Anti-Monopoly Act	(6,399)	(36)	(60,232)
Provision of allowance for loss related to the Anti-Monopoly Act	(2,450)	—	(23,061)
Provision of allowance for loss related to business restructuring (Note 14)	—	(47,889)	—
Other, net (Notes 4 and 20)	5,918	(1,161)	55,706
	9,968	(85,190)	93,826
Profit (loss) before income taxes	17,188	(131,227)	161,785
Income taxes (Note 8):			
Current	5,750	3,794	54,123
Deferred	(1,537)	2,348	(14,467)
Total income taxes	4,213	6,142	39,656
Profit (loss)	12,975	(137,369)	122,129
Profit attributable to non-controlling interests	2,591	2,110	24,388
Profit (loss) attributable to owners of the parent	¥ 10,384	¥ (139,479)	$ 97,741

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

Consolidated Statement of Comprehensive Income

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2018	2017	**2018**
Profit (loss)	**¥ 12,975**	¥ (137,369)	**$ 122,129**
Other comprehensive (loss) income (Note 17):			
Net unrealized holding (loss) gain on investments in securities	**(272)**	2,330	**(2,560)**
Deferred (loss) gain on hedges	**(3,046)**	4,636	**(28,671)**
Revaluation reserve for land	**—**	(0)	**—**
Translation adjustments	**(8,724)**	(2,580)	**(82,116)**
Retirement benefits liability adjustments	**178**	(433)	**1,675**
Share of other comprehensive (loss) income of subsidiaries and affiliates accounted for by the equity method	**(521)**	644	**(4,904)**
Total other comprehensive (loss) income	**(12,385)**	4,597	**(116,576)**
Comprehensive income (loss)	**¥ 590**	¥ (132,772)	**$ 5,553**
(Breakdown)			
Comprehensive loss attributable to owners of the parent	**¥ (2,238)**	¥ (135,288)	**$ (21,066)**
Comprehensive income attributable to non-controlling interests	**2,828**	2,516	**26,619**

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

Consolidated Statement of Changes in Net Assets

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

		Millions of yen												
	Number of shares in issue (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain on investments in securities	Deferred gain on hedges	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	**939,382**	**¥ 75,458**	**¥ 60,334**	**¥ 55,754**	**¥ (1,084)**	**¥ 190,462**	**¥ 8,850**	**¥ 10,190**	**¥ 6,263**	**¥ 6,555**	**¥ (2,835)**	**¥ 29,023**	**¥ 25,997**	**¥ 245,482**
Changes in items during the years:														
Share consolidation (Note 11)	**(845,444)**													
Cash dividends	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Profit attributable to owners of the parent	—	—	—	**10,384**	—	**10,384**	—	—	—	—	—	—	—	**10,384**
Purchases of treasury stock	—	—	—	—	**(1,301)**	**(1,301)**	—	—	—	—	—	—	—	**(1,301)**
Disposal of treasury stock	—	—	**(0)**	—	**0**	**0**	—	—	—	—	—	—	—	**0**
Change in treasury stock arising from change in equity in entities accounted for under the equity method	—	—	—	—	**1**	**1**	—	—	—	—	—	—	—	**1**
Change in ownership interests due to transactions with non-controlling interests	—	—	**174**	—	—	**174**	—	—	—	—	—	—	—	**174**
Reversal of revaluation reserve for land	—	—	—	**79**	—	**79**	—	—	—	—	—	—	—	**79**
Net change in retained earnings from changes in scope of consolidation or equity method	—	—	—	**890**	—	**890**	—	—	—	—	—	—	—	**890**
Net changes in items other than shareholders' equity	—	—	—	—	—	—	**(280)**	**(2,422)**	**(78)**	**(10,094)**	**173**	**(12,701)**	**86**	**(12,615)**
Net change during the year	**(845,444)**	—	**174**	**11,353**	**(1,300)**	**10,227**	**(280)**	**(2,422)**	**(78)**	**(10,094)**	**173**	**(12,701)**	**86**	**(2,388)**
Balance at March 31, 2018	**93,938**	**¥ 75,458**	**¥ 60,508**	**¥ 67,107**	**¥ (2,384)**	**¥ 200,689**	**¥ 8,570**	**¥ 7,768**	**¥ 6,185**	**¥ (3,539)**	**¥ (2,662)**	**¥ 16,322**	**¥ 26,083**	**¥ 243,094**

		Millions of yen												
	Number of shares in issue (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain on investments in securities	Deferred gain on hedges	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	939,382	¥ 75,458	¥ 60,297	¥ 195,863	¥ (1,077)	¥ 330,541	¥ 6,486	¥ 4,753	¥ 6,267	¥ 9,689	¥ (2,360)	¥ 24,835	¥ 24,538	¥ 379,914
Changes in items during the years:														
Cash dividends	—	—	—	(2,344)	—	(2,344)	—	—	—	—	—	—	—	(2,344)
Loss attributable to owners of the parent	—	—	—	(139,479)	—	(139,479)	—	—	—	—	—	—	—	(139,479)
Purchases of treasury stock	—	—	—	—	(7)	(7)	—	—	—	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in treasury stock arising from change in equity in entities accounted for under the equity method	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interests due to transactions with non-controlling interests	—	—	37	—	—	37	—	—	—	—	—	—	—	37
Reversal of revaluation reserve for land	—	—	—	3	—	3	—	—	—	—	—	—	—	3
Net change in retained earnings from changes in scope of consolidation or equity method	—	—	—	1,711	—	1,711	—	—	—	—	—	—	—	1,711
Net changes in items other than shareholders' equity	—	—	—	—	—	—	2,364	5,437	(4)	(3,134)	(475)	4,188	1,459	5,647
Net change during the year	—	—	37	(140,109)	(7)	(140,079)	2,364	5,437	(4)	(3,134)	(475)	4,188	1,459	(134,432)
Balance at March 31, 2017	939,382	¥ 75,458	¥ 60,334	¥ 55,754	¥ (1,084)	¥ 190,462	¥ 8,850	¥ 10,190	¥ 6,263	¥ 6,555	¥ (2,835)	¥ 29,023	¥ 25,997	¥ 245,482

	Thousands of U.S. dollars (Note 1(a))												
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain on investments in securities	Deferred gain on hedges	Revaluation reserve for land	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	**$ 710,260**	**$ 567,902**	**$ 524,793**	**$ (10,203)**	**$1,792,752**	**$ 83,302**	**$ 95,915**	**$ 58,951**	**$ 61,700**	**$ (26,685)**	**$ 273,183**	**$ 244,701**	**$2,310,636**
Changes in items during the years:													
Cash dividends	—	—	—	—	—	—	—	—	—	—	—	—	—
Profit attributable to owners of the parent	—	—	**97,741**	—	**97,741**	—	—	—	—	—	—	—	**97,741**
Purchases of treasury stock	—	—	—	**(12,246)**	**(12,246)**	—	—	—	—	—	—	—	**(12,246)**
Disposal of treasury stock	—	**(0)**	—	**0**	**0**	—	—	—	—	—	—	—	**0**
Change in treasury stock arising from change in equity in entities accounted for under the equity method	—	—	—	**9**	**9**	—	—	—	—	—	—	—	**9**
Change in ownership interests due to transactions with non-controlling interests	—	**1,638**	—	—	**1,638**	—	—	—	—	—	—	—	**1,638**
Reversal of revaluation reserve for land	—	—	**744**	—	**744**	—	—	—	—	—	—	—	**744**
Net change in retained earnings from changes in scope of consolidation or equity method	—	—	**8,377**	—	**8,377**	—	—	—	—	—	—	—	**8,377**
Net changes in items other than shareholders' equity	—	—	—	—	—	**(2,636)**	**(22,798)**	**(734)**	**(95,011)**	**1,629**	**(119,550)**	**810**	**(118,740)**
Net change during the year	—	**1,638**	**106,862**	**(12,237)**	**96,263**	**(2,636)**	**(22,798)**	**(734)**	**(95,011)**	**1,629**	**(119,550)**	**810**	**(22,477)**
Balance at March 31, 2018	**$ 710,260**	**$ 569,540**	**$ 631,655**	**$ (22,440)**	**$1,889,015**	**$ 80,666**	**$ 73,117**	**$ 58,217**	**$ (33,311)**	**$ (25,056)**	**$ 153,633**	**$ 245,511**	**$2,288,159**

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

Consolidated Statement of Cash Flows

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2018	2017	**2018**
Cash flows from operating activities:			
Profit (loss) before income taxes	**¥ 17,188**	¥ (131,227)	**$ 161,785**
Depreciation and amortization	**43,411**	47,421	**408,613**
Decrease in liability for retirement benefits	**(944)**	(235)	**(8,886)**
(Increase) decrease in asset for retirement benefits	**(164)**	92	**(1,544)**
Increase in retirement benefits liability adjustments	**317**	235	**2,984**
(Decrease) increase in allowance for directors' and audit and supervisory board members' retirement benefits	**(20)**	1	**(188)**
Increase (decrease) in accrued expenses for overhaul of vessels	**447**	(14)	**4,207**
(Decrease) increase in allowance for loss related to business restructuring	**(23,346)**	47,889	**(219,748)**
Decrease in allowance for loss related to the Anti-Monopoly Act	**(1,101)**	—	**(10,363)**
Interest and dividend income	**(3,802)**	(2,803)	**(35,787)**
Interest expenses	**6,970**	6,625	**65,606**
Exchange (gain) loss, net	**(79)**	261	**(744)**
Loss on impairment of vessels, property and equipment	**7,636**	20,363	**71,875**
Equity in loss (earnings) of subsidiaries and affiliates, net	**4,601**	(3,155)	**43,308**
Loss on cancellation of chartered vessels	**2,772**	7,943	**26,092**
Loss related to the Anti-Monopoly Act	**6,399**	36	**60,232**
(Gain) loss on sales of vessels, property and equipment, net	**(29,066)**	3,125	**(273,588)**
Changes in operating assets and liabilities:			
Increase in accounts and notes receivable – trade	**(5,714)**	(5,378)	**(53,784)**
Increase in inventories	**(2,873)**	(7,550)	**(27,043)**
Increase in other current assets	**(9,022)**	(5,201)	**(84,921)**
Increase in accounts and notes payable – trade	**671**	11,294	**6,316**
Other, net	**695**	1,015	**6,542**
Subtotal	**14,976**	(9,263)	**140,964**
Interest and dividends received	**4,460**	4,571	**41,980**
Interest paid	**(6,775)**	(6,658)	**(63,771)**
Payments for cancellation of chartered vessels	**(1,322)**	(27,886)	**(12,444)**
Payments related to the Anti-Monopoly Act	**(6,071)**	(285)	**(57,144)**
Income taxes paid	**(4,101)**	(4,398)	**(38,600)**
Net cash provided by (used in) operating activities	**¥ 1,167**	¥ (43,919)	**$ 10,985**

Consolidated Statement of Cash Flows (continued)

Kawasaki Kisen Kaisha, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2018	2017	**2018**
Cash flows from investing activities:			
Payments into time deposits	**¥ (126,112)**	¥ (125,187)	**$ (1,187,048)**
Proceeds from withdrawal of time deposits	**126,591**	124,715	**1,191,557**
Purchases of marketable securities and investments in securities	**(32,978)**	(5,063)	**(310,410)**
Proceeds from sales of marketable securities and investments in securities	**4,368**	1,981	**41,114**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 18)	**3,694**	—	**34,770**
Purchases of vessels, property and equipment	**(96,673)**	(66,434)	**(909,949)**
Proceeds from sales of vessels, property and equipment	**99,796**	45,760	**939,345**
Purchases of intangible assets	**(3,027)**	(753)	**(28,492)**
Payments of long-term loans receivable	**(838)**	(747)	**(7,888)**
Collection of long-term loans receivable	**1,144**	1,653	**10,768**
Other, net	**1,222**	(807)	**11,502**
Net cash used in investing activities	**(22,813)**	(24,882)	**(214,731)**
Cash flows from financing activities:			
Decrease in short-term loans, net	**(454)**	(613)	**(4,273)**
Proceeds from long-term loans	**76,265**	107,237	**717,856**
Repayment of long-term loans and obligations under finance leases	**(48,312)**	(76,462)	**(454,744)**
Redemption of bonds	**(378)**	(378)	**(3,558)**
Purchase of treasury stock	**(1,301)**	(7)	**(12,246)**
Cash dividends paid to non-controlling interests	**(2,833)**	(1,033)	**(26,666)**
Proceeds from share issuance to non-controlling interests	**33**	—	**311**
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	**(692)**	—	**(6,514)**
Other, net	**(88)**	(2,308)	**(829)**
Net cash provided by financing activities	**22,240**	26,436	**209,337**
Effect of exchange rate changes on cash and cash equivalents	**(759)**	(37)	**(7,144)**
Net decrease in cash and cash equivalents	**(165)**	(42,402)	**(1,553)**
Cash and cash equivalents at beginning of year	**156,792**	198,745	**1,475,828**
Increase in cash and cash equivalents arising from initial consolidation of subsidiaries	**1,446**	449	**13,611**
Cash and cash equivalents at end of year (Note 18)	**¥ 158,073**	¥ 156,792	**$ 1,487,886**

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, 2018

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 ("IFRS"), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations presented in the original consolidated financial statements.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2017 to the 2018 presentation. Such reclassifications had no effect on consolidated profit, net assets or cash flows.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥106.24=U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2018. Furthermore, the translation should not be construed as a representation that Japanese 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 294 and 313 subsidiaries for the years ended March 31, 2018 and 2017, respectively. The principles of consolidation are to include significant subsidiaries, whose voting interests are owned 40 per cent. or more by the consolidated group and whose decision-making control over their operations is significantly affected by the consolidated group through financial or technical support, personnel, transactions, and so forth. In addition, significant affiliates whose decision-making control over their operations is significantly affected by the consolidated group in various ways are accounted for by the equity method.

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

Goodwill is amortized by the straight-line method over a period of five years.

(c) Accounting period

The Company and 283 consolidated subsidiaries have a March 31 year end, and the remaining 11 consolidated subsidiaries have a December 31 year end. For five of these consolidated subsidiaries with a December year end, adjustments have been made for any significant transactions which took place during the period between their year end and the year end of the Company, and for the other six, a provisional closing of their accounts as of the year end of the Company has been used.

(d) Translation of foreign currencies

Revenues earned and expenses incurred in currencies other than Japanese yen of the Company and its subsidiaries that maintain their books in Japanese yen are translated into Japanese yen either at an average monthly exchange rate or at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than Japanese yen are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Subsidiaries that maintain their books in a currency other than Japanese yen translate revenues and expenses and assets and liabilities denominated in foreign currencies into the currency used for financial reporting purposes in accordance with accounting principles generally accepted in their respective countries of domicile.

(e) Translation of accounts of overseas consolidated subsidiaries

The accounts of the overseas consolidated subsidiaries, except for the components of net assets excluding non-controlling interests of consolidated subsidiaries, are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding accumulated other comprehensive income (loss) and non-controlling interests are translated at their historical exchange rates. Differences arising from translation are presented as translation adjustments and non-controlling interests in the accompanying consolidated financial statements.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(g) Allowance for doubtful receivables

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

(h) Inventories

Inventories are mainly stated at cost based on the moving-average method (The method includes write-downs based on decreased profitability).

(i) Securities

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

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

(j) Vessels, property and equipment and depreciation (except for leased assets under finance leases)

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

Depreciation of property and equipment is computed principally by the declining-balance method over the estimated useful lives of the respective assets. However, the depreciation of buildings (excluding accompanying facilities) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are computed by the straight-line method.

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

(k) Capitalization of interest expense

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

(l) Leases

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

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

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

(m) Research and development costs and computer software (except for leased assets under finance leases)

Research and development costs are charged to income as incurred.

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

(n) Retirement benefits

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

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

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

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

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

(o) Accrued expenses for overhaul of vessels

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

(p) Allowance for loss related to the Anti-Monopoly Act

In order to prepare for fines and penalties required by overseas authorities relating to the Anti-Monopoly Act, an amount reasonably estimated to the extent possible is recorded.

(q) Allowance for loss related to business restructuring

In order to prepare for future losses resulting from business restructuring, the estimated amounts are recorded.

(r) Allowance for loss on liquidation of subsidiaries and affiliates

In order to prepare for loss accompanied by liquidation of subsidiaries and affiliates, the estimated amount of loss is recorded.

(s) Allowance for directors' stock benefits

In order to prepare for stock benefits etc., to the directors and the executive officers in accordance with the Regulations for Delivery of Shares to Officers, the allowance for stock benefits is accounted for at the estimated amount of the Company's stock corresponding to points to be provided to the eligible individuals as of the end of the current fiscal year.

(t) Derivatives and hedging activities

The Group utilizes derivatives of forward foreign exchange contracts, interest rate swaps, currency option, currency swap, bunker fuel swaps and forward freight agreements to hedge the risk arising from fluctuations in forward foreign currency exchange rates, mainly on forecast transactions denominated in foreign currencies, interest rates, mainly on loan and lease transactions and market prices, mainly on bunker fuel.

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

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

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

The Group executes and manages transactions for the purpose of risk control of financial market and others in accordance with internal rules. These rules have been established not only to prevent derivative or other transactions from being used for any objective other than their original purpose or from being executed without limitation, but also to ensure the management body exercises its oversight functions.

(u) Income taxes

Deferred tax assets and liabilities have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred tax assets and liabilities 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.

(v) Deferred assets

Bond issuance costs are charged to income as incurred.

(w) Distribution of retained earnings

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

(x) Revenues and related costs

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

(y) Consolidated taxation system

The Company and certain domestic consolidated subsidiaries adopt the consolidated taxation system.

(z) Accounting standards issued but not yet effective

(Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets)

(1) Overview

On February 16, 2018, the Accounting Standards Board of Japan (hereinafter referred to as the "ASBJ") issued "Revised Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26). The ASBJ made the following necessary revisions while adhering fundamentally to the framework outlined in "Practical Guidelines on Accounting Standards for Tax Effect Accounting."

The authority for providing related accounting guidance has been transferred from the Japanese Institute of Certified Public Accountants to the ASBJ.

(Major revised accounting treatments)

- Accounting treatment of taxable temporary differences related to investments in subsidiaries, etc. when an entity prepares separate financial statements.
- Accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1, the company has recorded sufficient taxable income to exceed the amount of the deductible temporary differences in the current and prior three years.

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2019.

(3) Effect of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of the revised implementation guidance on its consolidated financial statements.

(Accounting Standard and Implementation Guidance for Revenue Recognition)

(1) Overview

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30). The International Accounting Standards Board (hereinafter referred to as the "IASB") and the Financial Accounting Standards Board (hereinafter referred to as the "FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 will be applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of the adoption of accounting standard and implementation guidance

The Company is currently evaluation the effect of the adoption of the accounting standard and the implementation guidance on its consolidation financial statements.

2. Changes in Accounting Estimates

(Allowance for Loss related to the Anti-Monopoly Act)

As of March 31, 2017, the Company had recorded the allowance for loss related to the Anti-Monopoly Act taking into account a partial settlement of a civil class action in the United States that was subject to the approval by the United States federal court. However, because the case was dismissed by the court during the fiscal year ended March 31, 2018, the Company reasonably re-calculated the allowance based on this judgment. As a result of this change in accounting estimate, profit before income taxes increased by ¥3,551 million ($33,424 thousand) for the fiscal year ended March 31, 2018.

(Allowance for Loss related to Business Restructuring)

In order to prepare for anticipated expenditures resulting from business restructuring in the course of integrating its container shipping businesses and for losses related to chartered vessels, the Group had previously estimated such amounts to be incurred and recorded an allowance for loss related to business restructuring.

However, after obtaining additional information as the business restructuring plan progresses, whereby it is possible to measure the amounts more accurately, the Group has changed its accounting estimate. As a result, the difference between the previous estimate and the current one has been deducted from marine transportation and other operating costs and expenses in the fiscal year ended March 31, 2018.

As a result, gross profit, operating income, profit before income taxes each increased by ¥1,456 million ($13,705 thousand) for the fiscal year ended March 31, 2018.

3. Additional Information

(Establishment of Holding Company and Operating Company for New Integrated Container Shipping Business)

For the integration of the container shipping businesses, including worldwide terminal operation businesses outside Japan, the Company, Mitsui O.S.K. Lines, Ltd., and Nippon Yusen Kabushiki Kaisha have concluded a business integration contract and a shareholders agreement on October 31, 2016. Based on the contract and the agreement, the Company has established the below holding company and operating company.

The companies started container shipping services from April 1, 2018.

Overview of the new companies

1. Holding company

Trade name	Ocean Network Express Holdings, Ltd.
Amount of capital stock	¥50 million ($471 thousand)
Shareholders/Contribution ratio	
	Kawasaki Kisen Kaisha, Ltd. 31%
	Mitsui O.S.K. Lines, Ltd. 31%
	Nippon Yusen Kabushiki Kaisha 38%
Location	Tokyo, JAPAN
Date of establishment	July 7, 2017

2. Operating company

Trade name	OCEAN NETWORK EXPRESS PTE. LTD.
Amount of capital stock	US$ 800 million
Shareholders/Contribution ratio	
	Kawasaki Kisen Kaisha, Ltd. 31%
	Mitsui O.S.K. Lines, Ltd. 31%
	Nippon Yusen Kabushiki Kaisha 38%
	(Including indirect ownership)
Location	SINGAPORE
Date of establishment	July 7, 2017

(New Performance-Based Share Remuneration Plan "Board Benefit Trust (BBT)")

In accordance with the resolution at the 148th Ordinary General Meeting of Shareholders on June 24, 2016, the Company introduced a new performance-based share remuneration plan "Board Benefit Trust (BBT)" for the directors (executive directors only) and executive officers of the Company. This plan purports to further enhance the connection between the remuneration of the directors (executive directors only) and executive officers, and share value, and thereby raise the directors' motivation to make contributions to increase the Company group's long-term performance and corporate value.

(1) Overview of the transaction

In accordance with the "Regulations for Delivery of Shares to Officers" which was established by Board of Directors' meeting, the Company awards points to the directors, etc. At the time of their retirement, the directors, etc. who satisfy requirements for beneficiaries will be provided shares in proportions to the points which the Company has granted to them. With regard to the shares which will be provided to officers in the future, a trust bank acquires the Company's treasury shares through third-party allotment by using the money entrusted by the Company. Such shares are managed as trust assets separately.

(2) Method of accounting for these transactions

The Company applies the same method as stipulated in the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employee etc. through Trusts" (ASBJ PITF No. 30 issued on March 26, 2015).

(3) Shares in the Company held by the trust bank

The book value (excluding incidental costs) of the Company, shares now held by the trust bank is accounted for as treasury stock in the net assets section of the Company's consolidated balance sheet. At March 31, 2018, the book value and total number of treasury stock held by the trust bank are, respectively, ¥1,299 million ($12,227 thousand) and 448,100 shares.

With an effective date of October 1, 2017, the Company carried out a share consolidation at a ratio of one share for 10 shares of the Company's common stock.

4. Marketable Securities and Investments in Securities

At March 31, 2018 and 2017, marketable securities and investments in securities with quoted market prices classified as held-to-maturity debt securities are summarized as follows:

	Millions of yen		
	2018		
	Carrying value	Estimated fair value	Difference
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**¥ 4**	**¥ 5**	**¥ 1**

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	¥ 5	¥ 5	¥ 0

	Thousands of U.S. dollars		
	2018		
	Carrying value	Estimated fair value	Difference
Securities whose estimated fair value exceeds their carrying value:			
Government and municipal bonds	**$ 38**	**$ 47**	**$ 9**

There are no securities whose estimated fair value does not exceed their carrying value at March 31, 2018 and 2017.

At March 31, 2018 and 2017 marketable securities and investments in securities with quoted market prices classified as other securities are summarized as follows:

	Millions of yen		
	2018		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 25,658**	**¥ 14,691**	**¥ 10,967**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**488**	**521**	**(33)**
Total	**¥ 26,146**	**¥ 15,212**	**¥ 10,934**

	Millions of yen		
	2017		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 25,629	¥ 14,525	¥ 11,104
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	889	989	(100)
Total	¥ 26,518	¥ 15,514	¥ 11,004

	Thousands of U.S. dollars		
	2018		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 241,510**	**$ 138,281**	**$ 103,229**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**4,593**	**4,904**	**(311)**
Total	**$ 246,103**	**$ 143,185**	**$ 102,918**

Proceeds from sales of investments in securities classified as other securities for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Proceeds from sales	**¥ 4,201**	¥ 1,741	**$ 39,543**
Aggregate gain	**3,096**	342	**29,142**

Loss on impairment is recorded on securities whose fair value has declined by 50 per cent. or more, or whose fair value has declined by 30 per cent. or more, but less than 50 per cent., if the decline is deemed to be irrecoverable. Loss on impairment is recorded on securities whose fair value is difficult to determine if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers.

The Company has recognized loss on devaluation of investments in securities classified as other securities of ¥9 million ($85 thousand) and ¥6 million for the years ended March 31, 2018 and 2017, respectively. The Company has also recognized loss on devaluation of investments in unconsolidated subsidiaries and affiliates of ¥0 million for the year ended March 31, 2017. Loss on devaluation of investments in securities and unconsolidated subsidiaries and affiliates included in other, net is disclosed in consolidated statement of operations.

5. Inventories

Inventories as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Raw materials and supplies	**¥ 31,760**	¥ 29,547	**$ 298,946**
Others	**90**	167	**847**
Total	**¥ 31,850**	¥ 29,714	**$ 299,793**

6. Loss on Impairment of Vessels, Property and Equipment

Losses on impairment of vessels, property and equipment for the years ended March 31, 2018 and 2017 are as follows:

			Millions of yen	Thousands of U.S. dollars
Asset Description	Usage	Classification	**2018**	**2018**
Assets for tanker business	Business assets	Vessels	**¥ 3,864**	**$ 36,370**
Assets for bulk carrier business	Business assets	Vessels	**2,960**	**27,861**
Assets for container services business	Business assets	Vessels	**262**	**2,466**
Others	Business assets and idle assets	Land, building and others	**550**	**5,178**
Total			**¥ 7,636**	**$ 71,875**

			Millions of yen
Asset Description	Usage	Classification	2017
Assets for heavy lifter services business	Business assets	Vessels	¥ 9,583
Assets for offshore energy E&P support business	Business assets	Vessels	4,650
Assets for container services business	Business assets	Vessels	3,127
Assets for iron ore carrier business	Business assets and assets for sale	Vessels	2,051
Assets for bulk carrier business	Business assets and assets for sale	Vessels	929
Others	Business assets, assets for sale and idle assets	Land, building and others	23
Total			¥ 20,363

The Group groups vessels, property and equipment for business use based on the smallest identifiable groups of assets generating cash flows whose income and expenditure are monitored perpetually; however, it groups idle assets individually.

Assets for sale have been grouped as business assets. However, the carrying values of these assets were reduced to the respective recoverable amounts as they are planned for sale. The recoverable amount was measured at net selling value based on the planned sales of amount.

As profitability decreased significantly, the carrying values of assets were reduced to the respective recoverable amounts and loss on impairment was recorded for the year ended March 31, 2018. The recoverable amounts were measured at net selling value, which is reasonably measured by certain third parties for the assets of the tanker business. As to the assets of the bulk carrier business and the container services business, the recoverable amounts are measured by the value-in-use method based on estimated future cash flows discounted at rate of 3.7 per cent. and 5.8 per cent., respectively.

As profitability decreased significantly, the carrying values of assets were reduced to the respective recoverable amounts and loss on impairment was recorded for the year ended March 31, 2017. The recoverable amounts are measured by the value-in-use method based on estimated future cash flows discounted at rate of 5.0 per cent. for the assets of the heavy lifter services business and 6.5 per cent. for the assets of the bulk carrier business and iron ore carrier business. As to the assets of the offshore energy E&P support business and container services business, the recoverable amounts were measured at net selling value, which is reasonably measured by certain third parties, or by the value-in-use method based on estimated future cash flows discounted at rate of 6.2 per cent. and 4.3 per cent., respectively.

Since the idle assets' carrying values were deemed to be irretrievably lower than the respective recoverable amounts mainly due to decreasing land prices, the carrying values were reduced to their respective recoverable amounts and a loss on impairment was recognized for the years ended March 31, 2018 and 2017. The recoverable amounts were measured at net selling value, which was reasonably measured mainly by real estate appraisers.

7. Short-Term Loans and Long-Term Debt

Short-term loans from banks and insurance companies principally represent loans on deeds with average interest rates of 0.35 per cent. and 0.34 per cent. per annum at March 31, 2018 and 2017, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans from banks and insurance companies due in installments through September 2075 at average interest rates of 1.05% and 0.90% per annum at March 31, 2018 and 2017, respectively	**¥ 457,667**	¥ 447,134	**$ 4,307,860**
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen, due September 26, 2018	**50,000**	50,000	**470,632**
Bonds in yen, interest rate indexed to TIBOR, due July 16, 2019	**2,187**	2,565	**20,585**
0.69% bonds in yen, due August 31, 2020	**3,000**	3,000	**28,238**
1.05% bonds in yen, due August 31, 2022	**7,000**	7,000	**65,889**
Total	**519,854**	509,699	**4,893,204**
Less: Current portion	**(88,110)**	(43,335)	**(829,349)**
Long-term debt, less current portion	**¥ 431,744**	¥ 466,364	**$ 4,063,855**

The Euro-yen zero coupon convertible bonds with stock acquisition rights due 2018 are convertible at ¥3,056.0 ($28.77) per share and are exercisable from October 10, 2013 to September 12, 2018. When holders of bonds with stock acquisition rights who intend to exercise their stock acquisition rights request conversion of the repayment of the bonds to the payment of the exercise price, the Company regards the payment of the exercise price as the repayment of the bonds. When holders of bonds with stock acquisition rights exercise their stock acquisition rights, the Company also regards the repayment of the convertible bonds as the payment of the exercise price.

The aggregate annual maturities of long-term debt subsequent to March 31, 2018 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 88,110	$ 829,349
2020	45,256	425,979
2021	86,084	810,279
2022	127,715	1,202,137
2023	88,835	836,172
2024 and thereafter	83,854	789,288
Total	¥ 519,854	$ 4,893,204

A summary of assets pledged as collateral at March 31, 2018 for short-term loans and the current portion of long-term loans in the amount of ¥28,339 million ($266,745 thousand), long-term loans of ¥195,746 million ($1,842,489 thousand) and loans to be incurred in the future is presented below:

	Millions of yen	Thousands of U.S. dollars
Vessels	¥ 290,030	$ 2,729,951
Buildings, structures and equipment	1,888	17,771
Land	1,689	15,898
Investments in securities	16,616	156,401
Other	539	5,073
Total	¥ 310,762	$ 2,925,094

Investments in securities of ¥16,616 million ($156,401 thousand) were pledged as collateral to secure future loans for investments in vessels of subsidiaries and affiliates. Therefore, no corresponding liabilities existed as of March 31, 2018.

Out of vessels at net book value of ¥290,030 million ($2,729,951 thousand) above, ¥3,263 million ($30,713 thousand) was pledged as collateral for entrusted guarantees.

8. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 28.7 per cent. for the years ended March 31, 2018 and 2017.

The effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2018 differed from the statutory tax rate for the following reasons:

	2018
Statutory tax rate	**28.7%**
Difference in statutory tax rates of consolidated subsidiaries	**4.7**
Equity in earnings of subsidiaries and affiliates, net	**9.5**
Surcharge payment	**14.3**
Tonnage tax	**(4.7)**
Decrease of deferred tax assets (liabilities), resulting from change in the statutory tax rate	**(7.6)**
Changes in the valuation allowance	**(23.4)**
Other	**3.0**
Effective tax rate	**24.5%**

The details of the differences between statutory tax rate and effective tax rate for the year ended March 31, 2017 were omitted because the Group recorded a loss before income taxes for the year.

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2018 and 2017 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,626**	¥ 2,792	**$ 24,718**
Allowance for loss related to business restructuring	**6,816**	14,175	**64,157**
Other allowances	**6,263**	7,793	**58,951**
Loss on impairment of vessels, property and equipment	**2,037**	1,998	**19,174**
Elimination of unrealized intercompany profit	**905**	954	**8,518**
Accounts and notes payable – trade	**1,907**	1,812	**17,950**
Loss on devaluation of investments in securities	**12,040**	11,992	**113,328**
Net operating loss carry forwards	**52,810**	48,969	**497,082**
Other	**6,553**	6,997	**61,680**
Gross deferred tax assets	**91,957**	97,482	**865,558**
Valuation allowance	**(77,727)**	(82,822)	**(731,617)**
Total deferred tax assets	**14,230**	14,660	**133,941**
Deferred tax liabilities:			
Reserve for special depreciation	**(410)**	(549)	**(3,859)**
Deferred gain on tangible fixed assets for tax purposes	**(1,003)**	(861)	**(9,441)**
Unrealized holding gain on investments in securities	**(3,141)**	(3,301)	**(29,565)**
Accelerated depreciation in overseas subsidiaries	**(3,878)**	(3,829)	**(36,502)**
Deferred gain on hedges	**(3,200)**	(4,516)	**(30,120)**
Other	**(4,087)**	(6,171)	**(38,470)**
Total deferred tax liabilities	**(15,719)**	(19,227)	**(147,957)**
Net deferred tax liabilities	**¥ (1,489)**	¥ (4,567)	**$ (14,016)**

(Change in balance of deferred tax assets and deferred tax liabilities in line with changes in corporate tax rates)
The Tax Cuts and Jobs Act, which mainly focuses on reducing the federal corporate income tax rate from 35% to 21%, etc., in the U.S. from January 1, 2018, was enacted in the U.S. on December 22, 2017.

In line with this, the deferred tax assets and liabilities of consolidated subsidiaries in the U.S. as of March 31, 2018 were calculated in accordance with the revised statutory tax rate.

As a result of the change in tax rate, deferred tax assets (after offsetting deferred tax liabilities), deferred tax liabilities (after offsetting deferred tax assets), retirement benefits liability adjustments and total income taxes decreased by ¥35 million ($329 thousand), ¥1,659 million ($15,616 thousand), ¥14 million ($132 thousand) and ¥1,638 million ($15,418 thousand), respectively, and net unrealized holding gain on investments in securities increased by ¥0 million ($0 thousand) as of March 31, 2018 and for the year then ended.

9. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of assets leased to the Group at March 31, 2018 and 2017, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Group, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen		
	2018		
At March 31, 2018	Vessels	Others	Total
Acquisition costs	**¥ 18,517**	**¥ 740**	**¥ 19,257**
Accumulated depreciation	**(3,640)**	**(735)**	**(4,375)**
Net book value	**¥ 14,877**	**¥ 5**	**¥ 14,882**

	Millions of yen		
	2017		
At March 31, 2017	Vessels	Others	Total
Acquisition costs	¥ 18,517	¥ 740	¥ 19,257
Accumulated depreciation	(2,887)	(673)	(3,560)
Net book value	¥ 15,630	¥ 67	¥ 15,697

	Thousands of U.S. dollars		
	2018		
At March 31, 2018	Vessels	Others	Total
Acquisition costs	**$ 174,294**	**$ 6,965**	**$ 181,259**
Accumulated depreciation	**(34,262)**	**(6,918)**	**(41,180)**
Net book value	**$ 140,032**	**$ 47**	**$ 140,079**

Lease payments related to finance leases accounted for as operating leases and depreciation and interest expenses for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease payments	**¥ 1,136**	¥ 1,527	**$ 10,693**
Depreciation	**815**	1,129	**7,671**
Interest expenses	**169**	207	**1,591**

Future minimum lease payments subsequent to March 31, 2018 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 982	$ 9,243
2020 and thereafter	8,311	78,229
Total	¥ 9,293	$ 87,472

Future minimum lease payments or receipts subsequent to March 31, 2018 for non-cancellable operating leases are summarized as follows:

(As lessees)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 30,501	$ 287,095
2020 and thereafter	127,426	1,199,417
Total	¥ 157,927	$ 1,486,512

(As lessors)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 4,112	$ 38,705
2020 and thereafter	14,709	138,450
Total	¥ 18,821	$ 177,155

10. Retirement Benefits

The Group has funded and unfunded defined benefit plans and defined contribution plans.

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

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

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

Certain consolidated subsidiaries participate in a small-and-medium-sized enterprise mutual aid plan as a defined contribution plans.

The defined benefit plans

The changes in the retirement benefit obligation, except for plans which apply a simplified method, for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligation at beginning of the year	**¥ 26,131**	¥ 25,853	**$ 245,962**
Service cost	**1,707**	1,571	**16,067**
Interest cost	**88**	82	**828**
Actuarial differences	**(674)**	(775)	**(6,344)**
Payment of retirement benefits	**(902)**	(706)	**(8,490)**
Past service cost	**—**	106	**—**
Foreign currency exchange rate changes	**(46)**	0	**(433)**
Retirement benefit obligation at end of the year	**¥ 26,304**	¥ 26,131	**$ 247,590**

The changes in pension plan assets, except for plans which apply a simplified method, for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Pension plan assets at fair value at beginning of the year	**¥ 21,284**	¥ 20,806	**$ 200,339**
Expected return on pension plan assets	**1,131**	1,057	**10,646**
Actuarial differences	**(782)**	(1,181)	**(7,361)**
Contributions by the employer	**1,417**	1,142	**13,338**
Payment of retirement benefits	**(488)**	(540)	**(4,593)**
Foreign currency exchange rate changes	**(7)**	(0)	**(67)**
Pension plan assets at fair value at end of the year	**¥ 22,555**	¥ 21,284	**$ 212,302**

The changes in liability for retirement benefits calculated by a simplified method for certain consolidated subsidiaries for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Liability for retirement benefits, net at beginning of the year	**¥ 2,173**	¥ 2,130	**$ 20,454**
Retirement benefit expenses	**352**	401	**3,313**
Payment of retirement benefits	**(224)**	(187)	**(2,108)**
Contributions to the plans	**(172)**	(171)	**(1,619)**
Other	**42**	—	**394**
Liability for retirement benefits, net at end of the year	**¥ 2,171**	¥ 2,173	**$ 20,434**

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Funded retirement benefit obligation	**¥ 27,627**	¥ 28,246	**$ 260,043**
Plan assets at fair value	**(24,808)**	(23,433)	**(233,509)**
Subtotal	**2,819**	4,813	**26,534**
Unfunded retirement benefit obligation	**3,102**	2,207	**29,198**
Liability for retirement benefits in the consolidated balance sheet, net	**¥ 5,921**	¥ 7,020	**$ 55,732**
Liability for retirement benefits	**¥ 6,579**	¥ 7,514	**$ 61,926**
Asset for retirement benefits	**(658)**	(494)	**(6,194)**
Liability for retirement benefits in the consolidated balance sheet, net	**¥ 5,921**	¥ 7,020	**$ 55,732**

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

Retirement benefit expenses for the Group for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥ 1,707**	¥ 1,571	**$ 16,067**
Interest cost	**88**	82	**828**
Expected return on pension plan assets	**(1,131)**	(1,057)	**(10,646)**
Amortization of actuarial differences	**431**	778	**4,057**
Amortization of past service cost	**(6)**	(7)	**(55)**
Retirement benefit expenses calculated by a simplified method	**352**	401	**3,313**
Retirement benefit expenses	**¥ 1,441**	¥ 1,768	**$ 13,564**

Retirement benefits liability adjustments included in other comprehensive income before tax effects for the Group for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Past service cost	**¥ (6)**	¥ (114)	**$ (57)**
Actuarial loss	**329**	373	**3,097**
Total	**¥ 323**	¥ 259	**$ 3,040**

Retirement benefits liability adjustments included in accumulated other comprehensive income before tax effects as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized past service cost	**¥ 121**	¥ 128	**$ 1,139**
Unrecognized actuarial differences	**(2,956)**	(3,286)	**(27,824)**
Total	**¥ (2,835)**	¥ (3,158)	**$ (26,685)**

The fair value of pension plan assets by major category as of March 31, 2018 and 2017 is as follows:

	2018	2017
Bonds	**35%**	41%
Equity	**22**	20
General account assets under insurance plan	**30**	31
Other	**13**	8
Total	**100%**	100%

The assumptions used in actuarial calculations for the above defined benefit plans for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rates	**Mainly 0.0%**	Mainly 0.0%
Expected rates of return on plan assets	**Mainly 7.9%**	Mainly 7.4%
Rates of salary increase	**Mainly from 1.2% to 16.3%**	Mainly from 1.2% to 16.3%

Total contributions paid by consolidated subsidiaries to the defined contribution plans amounted to ¥760 million ($7,154 thousand) and ¥753 million for the years ended March 31, 2018 and 2017, respectively.

11. Shareholders' Equity

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

The Company's legal reserve included in retained earnings at March 31, 2018 and 2017 amounted to ¥2,540 million ($23,908 thousand).

Movements in common stock and treasury stock of the Company for the years ended March 31, 2018 and 2017 are summarized as follows:

	Number of shares (Thousands)			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock (*1)	**939,382**	**—**	**845,444**	**93,938**
Treasury stock (*2,3,4)	**2,189**	**4,484**	**6,006**	**667**

	Number of shares (Thousands)			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	939,382	—	—	939,382
Treasury stock (*2)	2,163	26	—	2,189

(*1) The decrease in the number of shares in common stock of 845,444 shares is due to the implementation of share consolidation at a ratio of one share for 10 shares as of October 1, 2017.

(*2) The increase in the number of shares in treasury stock of 4,484 thousand shares for the year ended March 31, 2018 is due to purchases of 3 thousand shares of less than one voting unit before the implementation of share consolidation, purchase of 4,481 thousand shares related to the"Board Benefit Trust (BBT)" and purchase of 0 thousand shares of less than one voting unit after the implementation of share consolidation. The increase in the number of shares in treasury stock of 26 thousand shares for the year ended March 31, 2017 is due to purchase of shares of less than one voting unit.

(*3) The decrease in the number of shares in treasury stock of 6,006 thousand shares is mainly due to the decrease of 5,995 thousand shares resulting from implementation of share consolidation and sales of 0 thousand shares at request of shareholders owning less than one voting unit after share consolidation.

(*4) 448 thousand shares which are held by the Trust & Custody Services Bank, Ltd., are included in the number of shares in treasury stock at March 31, 2018.

Stock Acquisition Rights

Movements in stock acquisition rights of the Company for the years ended March 31, 2018 and 2017 are summarized as follows:

		Number of shares corresponding to stock acquisition rights (Thousands)				
Breakdown	Type	April 1, 2017	Increase	Decrease	March 31, 2018	Amount at March 31, 2018
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen due 2018 (*1,2,3)	Ordinary shares	**163,612**	**—**	**147,251**	**16,361**	**—**

(*1) Stock acquisition rights of zero coupon convertible bonds accounted for under liabilities by the lump-sum method.

(*2) The number of shares corresponding to the stock acquisition rights is calculated as if the stock acquisition rights had been exercised.

(*3) The decrease of number of shares corresponding to the stock acquisition rights is related to the adjustment of the conversion price pursuant to the terms and conditions of the bonds due to the share consolidation (one share for 10 shares) agreed at the 149th ordinary general meeting of shareholders. The conversion price after October 1, 2017 has been adjusted from ¥305.6 ($2.88) to ¥3,056.0 ($28.77).

		Number of shares corresponding to stock acquisition rights (Thousands)				
Breakdown	Type	April 1, 2016	Increase	Decrease	March 31, 2017	Amount at March 31, 2017
Euro-yen zero coupon convertible bonds with stock acquisition rights in yen due 2018 (*1,2,3)	Ordinary shares	162,284	1,328	—	163,612	—

(*1) Stock acquisition rights of zero coupon convertible bonds accounted for under liabilities by the lump-sum method.

(*2) The number of shares corresponding to the stock acquisition rights is calculated as if the stock acquisition rights had been exercised.

(*3) The increase of number of shares corresponding to the stock acquisition rights is related to the adjustment of the conversion price.

12. Land Revaluation

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

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

A certain domestic affiliate accounted for by the equity method also revalued the land used in their business in accordance with the Act on Revaluation of Land (Act No. 34, March 31, 1998) and the Act to Partially Revise the Act on Revaluation of Land (Act No. 19, March 31, 2001). The effect of this revaluation has been recorded as revaluation reserve for land in net assets.

The revaluation of land for business use was calculated by making rational adjustments to the prices posted in accordance with the provision of Article 6 of the Public Notice of Land Prices Act for standard sites set forth in Article 6 of the same act in the same neighborhood as the relevant land for business use pursuant to Article 2, Paragraph 1 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 of 1998). However, for some land, the revaluation was calculated by making rational adjustments to standard prices assessed in accordance with the provision of Article 9, Paragraph 1 of the Order for Enforcement of the National Land Use Planning Act for standard sites set forth in Article 7, Paragraph 1, Item 1 (a) of the same order in the same neighborhood as the relevant land for business use pursuant to Article 2, Paragraph 2 of the Order for Enforcement of the Act on Revaluation of Land, by making rational adjustments to land prices registered in the land tax ledger set forth in Article 341, Item 10 of the Local Tax Act or in the supplementary land tax ledger set forth in Article 341, Item 11 of the same act for the relevant land for business use pursuant to Article 2, Paragraph 3 of the Order for Enforcement of the Act on Revaluation of Land, or by making rational adjustments to the value calculated by the method established and issued by the Director-General of the National Tax Agency for computing land value that serves as a basis for the calculation of the taxable amount for land value tax set forth in Article 16 of the Land-Holding Tax Act for the relevant land for business use pursuant to Article 2, Item 4 of the Order for Enforcement of the Act on Revaluation of Land.

At March 31, 2018 and 2017, the fair value of land was lower than its carrying value after revaluation by ¥2,628 million ($24,736 thousand) and ¥2,656 million, respectively.

13. Commitments and Contingent Liabilities

At March 31, 2018, commitments made by the Group for the construction of vessels amounted to ¥28,469 million ($267,969 thousand).

Contingent liabilities for guarantees of loans to affiliates and third-party companies and obligations for additional investment, etc. as of March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	**2018**
Guarantees of loans	**¥ 19,780**	**$ 186,182**
Obligations for additional investment, etc.	**2,839**	**26,723**

(Other Important Matters Related to Current Conditions of the Corporate Group)

The Group has been investigated by the competition authorities in Europe and certain other countries in relation to alleged anti-competitive behavior (alleged formation of a cartel) relating to the transportation of automobiles, automotive construction machineries, and other automotive vehicles. In February 2018, the Group received the notice from the competition authorities in Europe that the Group shall pay a fine of €39.1 million. In addition, multiple service providers including the Group are currently subject to class actions in North America in relation to the same matter.

14. Provision of Allowance for Loss Related to Business Restructuring

Related to the integration of the container shipping business, a one-time restructuring expense in the amount of ¥11,448 million and loss relating to chartered vessels in the amount of ¥36,441 million were recorded in provision of allowance for loss related to business restructuring at year ended March 31, 2017.

15. Financial Instruments

Status of financial instruments

The Group obtains necessary funding, mainly through bank loans and the issuance of bonds, in accordance with their capital expenditure plans. Temporary excess funds are invested in highly liquid financial assets, and short-term operating funds are financed by bank loans. The Group utilizes derivatives only for avoiding risks, but does not utilize them for speculation.

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

The Group has trade accounts and notes payable, which have payment due dates within one year. Funds for certain capital expenditures, such as construction of vessels denominated in foreign currencies, are exposed to foreign currency exchange risk, which are hedged by forward foreign exchange contracts. Future trade payables such as payments for bunker fuel are exposed to the risk of fluctuation of market prices, and some of them are hedged by bunker fuel swap contracts. Loans payable, bonds, bonds with stock acquisition rights and lease obligations for finance lease contracts are taken out principally for the purpose of making capital investments. The repayment dates of long-term debt extend up to 57 years subsequent to the balance sheet date. Certain elements of these transactions are exposed to interest rate fluctuation risk. The Group hedges this risk by entering into interest rate swap transactions. The Group has entered into currency swap contracts to hedge foreign currency exchange risk against trade payables.

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

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

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

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

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

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

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

The fair value of financial instruments is based on market price, if available. When there is no market price, fair value is reasonably estimated. Fair value can fluctuate because different assumptions may be adopted for calculations of fair value considering various factors. In addition, the notional amounts of derivatives in Note 16. Derivatives and Hedging Activities are not necessarily indicative of the actual market exposure involved in the derivative transactions.

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2018 and 2017, and the estimated fair value and the difference between them are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2018		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	**¥ 200,606**	**¥ 200,606**	**¥ —**
Accounts and notes receivable – trade	**89,219**	**89,219**	**—**
Marketable securities and investments in securities:			
Held to maturity debt securities	**5**	**5**	**0**
Other securities	**26,146**	**26,146**	**—**
Investment in unconsolidated subsidiaries and affiliates	**3,960**	**1,185**	**(2,775)**
Total assets	**¥ 319,936**	**¥ 317,161**	**¥ (2,775)**
Liabilities			
Accounts and notes payable – trade	**¥ (90,370)**	**¥ (90,370)**	**¥ —**
Short-term loans, inclusive of current portion of long-term loans	**(41,783)**	**(41,818)**	**(35)**
Long-term debt, less current portion:			
Bonds	**(11,809)**	**(11,794)**	**15**
Long-term loans	**(419,935)**	**(420,330)**	**(395)**
Total liabilities	**¥ (563,897)**	**¥ (564,312)**	**¥ (415)**
Derivative transactions (*)	**¥ (2,007)**	**¥ (2,117)**	**¥ (110)**

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	¥ 199,678	¥ 199,678	¥ —
Accounts and notes receivable – trade	83,580	83,580	—
Marketable securities and investments in securities:			
Held to maturity debt securities	5	5	0
Other securities	26,518	26,518	—
Investment in unconsolidated subsidiaries and affiliates	3,934	1,300	(2,634)
Total assets	¥ 313,715	¥ 311,081	¥ (2,634)
Liabilities			
Accounts and notes payable – trade	¥ (89,770)	¥ (89,770)	¥ —
Short-term loans, inclusive of current portion of long-term loans	(47,470)	(47,603)	(133)
Long-term debt, less current portion:			
Bonds	(62,187)	(65,916)	(3,729)
Long-term loans	(404,177)	(405,427)	(1,250)
Total liabilities	¥ (603,604)	¥ (608,716)	¥ (5,112)
Derivative transactions (*)	¥ (539)	¥ (697)	¥ (158)

	Thousands of U.S. dollars		
	2018		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and deposits	**$ 1,888,234**	**$ 1,888,234**	**$ —**
Accounts and notes receivable – trade	**839,787**	**839,787**	**—**
Marketable securities and investments in securities:			
Held to maturity debt securities	**47**	**47**	**0**
Other securities	**246,103**	**246,103**	**—**
Investment in unconsolidated subsidiaries and affiliates	**37,275**	**11,155**	**(26,120)**
Total assets	**$ 3,011,446**	**$ 2,985,326**	**$ (26,120)**
Liabilities			
Accounts and notes payable – trade	**$ (850,621)**	**$ (850,621)**	**$ —**
Short-term loans, inclusive of current portion of long-term loans	**(393,289)**	**(393,619)**	**(330)**
Long-term debt, less current portion:			
Bonds	**(111,154)**	**(111,013)**	**141**
Long-term loans	**(3,952,701)**	**(3,956,419)**	**(3,718)**
Total liabilities	**$ (5,307,765)**	**$ (5,311,672)**	**$ (3,907)**
Derivative transactions (*)	**$ (18,891)**	**$ (19,926)**	**$ (1,035)**

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

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

Fair value of equity securities and investments in securities is based on market prices prevailing in the applicable stock exchange. Fair value of debt securities is based on market prices provided by financial institutions. For information on securities classified by holding purpose, please refer to Note 4. Marketable Securities and Investments in Securities.

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

Fair value of bonds is mainly based on market prices.

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

The financial instruments whose fair value is difficult to determine as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unlisted investments in securities	**¥ 77,436**	¥ 50,264	**$ 728,878**

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

The redemption schedule as of March 31, 2018 for cash and deposits, accounts and notes receivable – trade and held-to-maturity securities is summarized as follows:

	Millions of yen			
	2018			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 200,606	¥ —	¥ —	¥ —
Accounts and notes receivable – trade	89,219	—	—	—
Marketable securities and Investments in securities				
Held-to-maturity securities:				
Government, municipal bonds and others	1	2	2	—
Total	¥ 289,826	¥ 2	¥ 2	¥ —

	Thousands of U.S. dollars			
	2018			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	$ 1,888,234	$ —	$ —	$ —
Accounts and notes receivable – trade	839,787	—	—	—
Marketable securities and Investments in securities				
Held-to-maturity securities:				
Government, municipal bonds and others	10	19	19	—
Total	$ 2,728,031	$ 19	$ 19	$ —

16. Derivatives and Hedging Activities

Information on the estimated fair value of the derivatives positions outstanding not qualified for deferral hedge accounting at March 31, 2018 and 2017 has been omitted due to immateriality.

The estimated fair value of the derivatives positions outstanding qualified for deferral hedge accounting at March 31, 2018 and 2017 is summarized as follows:

Currency-related transactions

			Millions of yen		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 136,169	¥ 17,017	¥ 3,346
	CAD	Forecasted foreign currency transactions	4	—	0
	EUR	Forecasted foreign currency transactions	19	—	0
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	18,813	12,326	1,017
Fair value hedge (*2)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	860	—	3
	Total		¥ 155,865	¥ 29,343	¥ 4,366

			Millions of yen		
			2017		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	¥ 95,655	¥ 70,033	¥ 6,695
	CAD	Forecasted foreign currency transactions	4	—	0
	Selling:				
	USD	Forecasted foreign currency transactions	2,629	—	(48)
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	19,297	12,581	1,026
Fair value hedge (*2)	Forward foreign exchange contracts				
	Buying:				
	NOK	Long-term loans	2,200	—	62
	Total		¥ 119,785	¥ 82,614	¥ 7,735

			Thousands of U.S. dollars		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*1)
Deferral hedge	Forward foreign exchange contracts				
	Buying:				
	USD	Capital expenditures and others	**$ 1,281,711**	**$ 160,175**	**$ 31,495**
	CAD	Forecasted foreign currency transactions	**38**	**—**	**0**
	EUR	Forecasted foreign currency transactions	**179**	**—**	**0**
	Currency swaps				
	Receiving JPY, paying USD	Vessel chartering revenues and forecasted foreign currency transactions	**177,080**	**116,020**	**9,573**
Fair value hedge (*2)	Forward foreign exchange contracts				
	Selling:				
	NOK	Long-term loans	**8,095**	**—**	**28**
	Total		**$ 1,467,103**	**$ 276,195**	**$ 41,096**

(*1) Fair value is mainly based on relevant prices quoted by financial institutions and others.
(*2) Fair value hedge is used by an overseas subsidiary that applies IFRS.

Interest rate-related transactions

			Millions of yen		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**¥ 81,179**	**¥ 75,712**	**¥ (6,081)**
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**2,165**	**1,835**	**(110)**
	Total		**¥ 83,344**	**¥ 77,547**	**¥ (6,191)**

			Millions of yen		
			2017		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	¥ 91,700	¥ 90,154	¥ (8,170)
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	2,855	2,425	(158)
	Total		¥ 94,555	¥ 92,579	¥ (8,328)

			Thousands of U.S. dollars		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**$ 764,110**	**$ 712,651**	**$ (57,238)**
Special treatment for interest rate swaps	Interest rate swaps				
	Receive floating / Pay fixed	Long-term loans	**20,378**	**17,272**	**(1,035)**
	Total		**$ 784,488**	**$ 729,923**	**$ (58,273)**

(*) Fair value is mainly based on relevant prices quoted by financial institutions and others.

Others

			Millions of yen		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**¥ 5,936**	**¥ 233**	**¥ 467**
	Forward freight agreements	Ocean freight	**2,603**	**2,125**	**49**
	Total		**¥ 8,539**	**¥ 2,358**	**¥ 516**

			Millions of yen		
			2017		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	¥ 5,480	¥ 1,070	¥ 292
	Forward freight agreements	Ocean freight	1,898	—	(485)
	Total		¥ 7,378	¥ 1,070	¥ (193)

			Thousands of U.S. dollars		
			2018		
Method of hedge accounting	Transaction	Major hedged item	Total contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value (*)
Deferral hedge	Bunker fuel swaps	Bunker fuel purchases	**$ 55,874**	**$ 2,193**	**$ 4,396**
	Forward freight agreements	Ocean freight	**24,501**	**20,002**	**461**
	Total		**$ 80,375**	**$ 22,195**	**$ 4,857**

(*) Fair value is mainly based on relevant prices quoted by financial institutions and others.

17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Net unrealized holding (loss) gain on investments in securities:			
Amount arising during the year	**¥ 2,717**	¥ 3,167	**$ 25,574**
Reclassification adjustments to profit or loss	**(2,683)**	(308)	**(25,254)**
Amount before tax effect	**34**	2,859	**320**
Tax effect	**(306)**	(529)	**(2,880)**
Net unrealized holding (loss) gain on investments in securities	**(272)**	2,330	**(2,560)**
Deferred (loss) gain on hedges:			
Amount arising during the year	**5,456**	2,056	**51,355**
Reclassification adjustments to profit or loss	**(7,672)**	6,197	**(72,213)**
Adjustments for acquisition costs of vessels due to valuation of hedges	**(2,093)**	(1,908)	**(19,701)**
Amount before tax effect	**(4,309)**	6,345	**(40,559)**
Tax effect	**1,263**	(1,709)	**11,888**
Deferred (loss) gain on hedges	**(3,046)**	4,636	**(28,671)**
Revaluation reserve for land:			
Tax effect	**—**	(0)	**—**
Revaluation reserve for land	**—**	(0)	**—**
Translation adjustments:			
Amount arising during the year	**(11,920)**	(2,667)	**(112,199)**
Reclassification adjustments to profit or loss	**3,196**	87	**30,083**
Translation adjustments	**(8,724)**	(2,580)	**(82,116)**
Retirement benefits liability adjustments:			
Amount arising during the year	**(106)**	(468)	**(998)**
Reclassification adjustments to profit or loss	**429**	727	**4,038**
Amount before tax effect	**323**	259	**3,040**
Tax effect	**(145)**	(692)	**(1,365)**
Retirement benefits liability adjustments	**178**	(433)	**1,675**
Share of other comprehensive (loss) income of subsidiaries and affiliates accounted for by the equity method:			
Amount arising during the year	**(1,095)**	(540)	**(10,307)**
Reclassification adjustments to profit or loss	**574**	1,184	**5,403**
Share of other comprehensive (loss) income of subsidiaries and affiliates accounted for by the equity method	**(521)**	644	**(4,904)**
Total other comprehensive (loss) income	**¥ (12,385)**	¥ 4,597	**$ (116,576)**

18. Supplementary Information on Consolidated Statement of Cash Flows

SAL Heavy GmbH which had been a consolidated subsidiary was excluded from the scope of consolidation due to transfer of equity interest for the year ended March 31, 2018. The assets and liabilities derecognized upon the transfer were as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	**2018**
Current assets	**¥ 3,652**	**$ 34,375**
Fixed assets	**20,585**	**193,759**
Total assets	**¥ 24,237**	**$ 228,134**
Current liabilities	**¥ 12,785**	**$ 120,341**
Long-term liabilities	**15,168**	**142,771**
Total liabilities	**¥ 27,953**	**$ 263,112**

Cash and cash equivalents in the accompanying consolidated statement of cash flows for the years ended March 31, 2018 and 2017 are reconciled to cash and deposits reflected in the accompanying consolidated balance sheet as of March 31, 2018 and 2017 as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and deposits	**¥ 200,606**	¥ 199,678	**$1,888,234**
Time deposits with a maturity of more than three months after the purchase date	**(42,533)**	(42,886)	**(400,348)**
Cash and cash equivalents	**¥ 158,073**	¥ 156,792	**$1,487,886**

19. Amounts per Share

Amounts per share at March 31, 2018 and 2017 and for the years then ended are as follows:

	Yen		U.S. dollars
	2018	2017	**2018**
Net assets	**¥ 2,326.65**	¥ 2,341.93	**$ 21.90**
Profit (loss) attributable to owners of the parent:			
Basic	**111.13**	(1,488.23)	**1.05**
Diluted	**94.57**	—	**0.89**

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

Basic profit (loss) attributable to owners of the parent per share has been computed based on profit (loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of the parent per share for the year ended March 31, 2017 has not been presented although dilutive potential common shares exist, because loss for the year was recorded.

The financial data used in the computation of basic profit (loss) per share for the years ended March 31, 2018 and 2017 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Information used in computation of basic profit (loss) per share:			
Profit (loss) attributable to owners of the parent	**¥ 10,384**	¥ (139,479)	**$ 97,741**

	Thousands of shares	
	2018	2017
Weighted-average number of shares of common stock outstanding	**93,444**	93,721
Increase in common stock	**16,361**	—
(Bonds with stock acquisition rights)	**(16,361)**	—

The Company implemented a share consolidation at a ratio of one share for 10 shares as of October 1, 2017. The Company calculated net assets per share, basic profit (loss) per share and diluted profit attributable to owners of the parent per share as if the share consolidation had been implemented at the beginning of the fiscal year ended March 31, 2018.

The Company introduced a new performance-based share remuneration plan "Board Benefit Trust (BBT)." The shares held by the Trust are included in treasury stock, which is deducted in calculating the number of treasury stock at the end of the year and the average number of shares of common stock outstanding when calculating the basic profit (loss) attributable to owners of the parent per share and diluted profit attributable to owners of the parent per share during the current year. The average number of shares of common stock outstanding was 275,754 shares for the fiscal year ended March 31, 2018.

20. Segment Information

Segment information for the years ended March 31, 2018 and 2017

1. Overview of reporting segments

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

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

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

2. Calculation method of reporting segment profit (loss)

Reporting segment profit (loss) represents ordinary income (loss), which consists of operating income (loss) and nonoperating income/expenses. Nonoperating income/expenses mainly include interest income, dividend income, interest expenses, exchange loss, net, equity in (loss) earnings of subsidiaries and affiliates, net and other, net.

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

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

Reporting segment information for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen						
	2018						
	Container-ship	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated
1. Revenues:							
(1) Operating revenues from customers	**¥ 598,474**	**¥ 521,157**	**¥ 7,472**	**¥ 34,922**	**¥ 1,162,025**	**¥ —**	**¥ 1,162,025**
(2) Intra-group revenues and transfers	**5,313**	**2,783**	**—**	**47,149**	**55,245**	**(55,245)**	**—**
Total revenues	**¥ 603,787**	**¥ 523,940**	**¥ 7,472**	**¥ 82,071**	**¥ 1,217,270**	**¥ (55,245)**	**¥ 1,162,025**
2. Segment profit (loss) (*3)	**¥ 3,367**	**¥ 3,202**	**¥ (965)**	**¥ 3,341**	**¥ 8,945**	**¥ (6,982)**	**¥ 1,963**
3. Segment assets	**¥ 268,168**	**¥ 616,075**	**¥ 46,235**	**¥ 72,024**	**¥ 1,002,502**	**¥ 39,264**	**¥ 1,041,766**
4. Others							
(1) Depreciation and amortization	**¥ 8,143**	**¥ 31,418**	**¥ 1,905**	**¥ 1,647**	**¥ 43,113**	**¥ 298**	**¥ 43,411**
(2) Amortization of goodwill and negative goodwill, net	**—**	**—**	**—**	**—**	**—**	**—**	**—**
(3) Interest income	**556**	**831**	**16**	**192**	**1,595**	**(174)**	**1,421**
(4) Interest expenses	**679**	**5,372**	**819**	**207**	**7,077**	**(107)**	**6,970**
(5) Equity in earnings (loss) of subsidiaries and affiliates, net	**(4,352)**	**(1,400)**	**1,083**	**68**	**(4,601)**	**—**	**(4,601)**
(6) Investments in subsidiaries and affiliates accounted for by the equity method	**35,799**	**12,117**	**6,953**	**3,923**	**58,792**	**—**	**58,792**
(7) Increase in vessels, property and equipment and intangible assets	**18,910**	**80,957**	**0**	**961**	**100,828**	**277**	**101,105**

	Millions of yen						
	2017						
	Container-ship	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*1)	Total	Adjustments and eliminations (*4)	Consolidated
1. Revenues:							
(1) Operating revenues from customers	¥ 518,954	¥ 456,542	¥ 19,421	¥ 35,274	¥ 1,030,191	¥ —	¥ 1,030,191
(2) Intra-group revenues and transfers	5,129	2,442	—	44,696	52,267	(52,267)	—
Total revenues	¥ 524,083	¥ 458,984	¥ 19,421	¥ 79,970	¥ 1,082,458	¥ (52,267)	¥ 1,030,191
2. Segment profit (loss) (*3)	¥ (31,489)	¥ (9,477)	¥ (5,119)	¥ 2,519	¥ (43,566)	¥ (8,823)	¥ (52,389)
3. Segment assets	¥ 239,333	¥ 634,434	¥ 64,741	¥ 83,801	¥ 1,022,309	¥ 22,901	¥ 1,045,210
4. Others							
(1) Depreciation and amortization	¥ 8,354	¥ 32,008	¥ 4,809	¥ 1,870	¥ 47,041	¥ 380	¥ 47,421
(2) Amortization of goodwill and negative goodwill, net	43	—	—	—	43	—	43
(3) Interest income	598	778	7	151	1,534	(160)	1,374
(4) Interest expenses	658	4,775	1,064	160	6,657	(32)	6,625
(5) Equity in earnings of subsidiaries and affiliates, net	968	929	1,145	113	3,155	—	3,155
(6) Investments in subsidiaries and affiliates accounted for by the equity method	12,585	10,705	6,547	3,962	33,799	—	33,799
(7) Increase in vessels, property and equipment and intangible assets	11,789	55,077	9	846	67,721	327	68,048

	Thousands of U.S. dollars						
	2018						
	Container-ship	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*1)	Total	Adjustments and eliminations (*2)	Consolidated
1. Revenues:							
(1) Operating revenues from customers	$ 5,633,227	$ 4,905,469	$ 70,331	$ 328,708	$ 10,937,735	$ —	$ 10,937,735
(2) Intra-group revenues and transfers	50,009	26,195	—	443,798	520,002	(520,002)	—
Total revenues	$ 5,683,236	$ 4,931,664	$ 70,331	$ 772,506	$ 11,457,737	$ (520,002)	$ 10,937,735
2. Segment profit (loss) (*3)	$ 31,692	$ 30,139	$ (9,083)	$ 31,448	$ 84,196	$ (65,719)	$ 18,477
3. Segment assets	$ 2,524,172	$ 5,798,899	$ 435,194	$ 677,936	$ 9,436,201	$ 369,578	$ 9,805,779
4. Others							
(1) Depreciation and amortization	$ 76,647	$ 295,727	$ 17,931	$ 15,503	$ 405,808	$ 2,805	$ 408,613
(2) Amortization of goodwill and negative goodwill, net	—	—	—	—	—	—	—
(3) Interest income	5,233	7,822	151	1,807	15,013	(1,638)	13,375
(4) Interest expenses	6,391	50,565	7,709	1,948	66,613	(1,007)	65,606
(5) Equity in earnings (loss) of subsidiaries and affiliates, net	(40,964)	(13,178)	10,194	640	(43,308)	—	(43,308)
(6) Investments in subsidiaries and affiliates accounted for by the equity method	336,963	114,053	65,446	36,926	553,388	—	553,388
(7) Increase in vessels, property and equipment and intangible assets	177,993	762,020	—	9,046	949,059	2,607	951,666

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

*2 (1) The adjustment and elimination of segment profit (loss) of ¥6,982 million ($65,719 thousand) includes the following elements: ¥355 million ($3,341 thousand) of intersegment transaction eliminations and ¥6,627 million ($62,378 thousand) of corporate expenses, which are mainly general and administrative expenses not distributed to specific segments.
(2) The adjustment and elimination of segment assets of ¥39,264 million ($369,578 thousand) includes the following elements: ¥37,989 million ($357,578 thousand) of intersegment transaction eliminations and ¥77,253 million ($727,156 thousand) of corporate assets, which are not distributed to specific segments.
(3) The adjustment and elimination of depreciation and amortization of ¥298 million ($2,805 thousand) is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.
(4) The adjustment and elimination of interest income of ¥174 million ($1,638 thousand) includes the following elements: ¥303 million ($2,852 thousand) of intersegment transaction eliminations and ¥129 million ($1,214 thousand) of interest income, which are not distributed to specific segments.
(5) The adjustment and elimination of interest expenses of ¥107 million ($1,007 thousand) includes the following elements: ¥302 million ($2,842 thousand) of intersegment transaction eliminations and ¥195 million ($1,835 thousand) of interest expenses, which are not distributed to specific segments.
(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥277 million ($2,607 thousand) is the increase in assets that belong to the entire group, which are not distributed to specific segments.

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

*4 (1) The adjustment and elimination of segment profit (loss) of ¥8,823 million includes the following elements: ¥851 million of intersegment transaction eliminations and ¥7,972 million of corporate expenses, which are mainly general and administrative expenses not distributed to specific segments.
(2) The adjustment and elimination of segment assets of ¥22,901 million includes the following elements: ¥53,166 million of intersegment transaction eliminations and ¥76,067 million of corporate assets, which are not distributed to specific segments.
(3) The adjustment and elimination of depreciation and amortization of ¥380 million is depreciation and amortization of assets that belong to the entire group, which are not distributed to specific segments.
(4) The adjustment and elimination of interest income of ¥160 million includes the following elements: ¥249 million of intersegment transaction eliminations and ¥89 million of interest income, which are not distributed to specific segments.
(5) The adjustment and elimination of interest expenses of ¥32 million includes the following elements: ¥249 million of intersegment transaction eliminations and ¥217 million of interest expenses, which are not distributed to specific segments.
(6) The adjustment and elimination of increase in vessels, property and equipment, and intangible assets of ¥327 million is the increase in assets that belong to the entire group, which are not distributed to specific segments.

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

Revenues by countries or geographical areas for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen					
	2018					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	¥ 443,977	¥ 231,615	¥ 144,507	¥ 296,981	¥ 44,945	¥ 1,162,025

	Millions of yen					
	2017					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	¥ 412,456	¥ 208,213	¥ 139,355	¥ 231,893	¥ 38,274	¥ 1,030,191

	Thousands of U.S. dollars					
	2018					
	Japan	U.S.A.	Europe	Asia	Others	Total
Revenues	$ 4,179,000	$ 2,180,111	$ 1,360,194	$ 2,795,378	$ 423,052	$ 10,937,735

At March 31, 2018 and 2017, vessels, property and equipment by countries or geographical areas are summarized as follows:

	Millions of yen			
	2018			
	Japan	Singapore	Others	Total
Vessels, property and equipment	**¥ 352,062**	**¥ 54,199**	**¥ 76,693**	**¥ 482,954**

	Millions of yen			
	2017			
	Japan	Singapore	Others	Total
Vessels, property and equipment	¥ 362,111	¥ 60,535	¥ 103,742	¥ 526,388

	Thousands of U.S. dollars			
	2018			
	Japan	Singapore	Others	Total
Vessels, property and equipment	**$ 3,313,837**	**$ 510,156**	**$ 721,884**	**$ 4,545,877**

Losses on impairment of vessels, property and equipment for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen					
	2018					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	**¥ 262**	**¥ 6,824**	**¥ —**	**¥ 535**	**¥ 15**	**¥ 7,636**

	Millions of yen					
	2017					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	¥ 3,132	¥ 2,984	¥ 14,233	¥ 1	¥ 13	¥ 20,363

	Thousands of U.S. dollars					
	2018					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*)	Adjustments and eliminations	Total
Loss on impairment of vessels, property and equipment	**$ 2,466**	**$ 64,232**	**$ —**	**$ 5,036**	**$ 141**	**$ 71,875**

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

The amortization and balance of goodwill for the year ended March 31, 2018 are omitted due to no relevant items.

The amortization and balance of goodwill for the year ended March 31, 2017 are as follows:

	Millions of yen					
	2017					
	Containership	Bulk shipping	Offshore energy E&P support and heavy lifter	Other (*)	Adjustments and eliminations	Total
Amortization for the year	¥ 43	¥ —	¥ —	¥ —	¥ —	¥ 43
Balance at the year end	—	—	—	—	—	—

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

21. Subsequent Events

(Additional Investment in Equity-method Affiliate)

On April 2, 2018, as planned, the Company made an additional investment in an equity-method affiliate, OCEAN NETWORK EXPRESS PTE. LTD.

1. Description of OCEAN NETWORK EXPRESS PTE. LTD.

Trade name OCEAN NETWORK EXPRESS PTE. LTD.
Capital stock (Before additional investment) US$ 800 million
(After additional investment) US$ 3,000 million
Shareholders/Contribution ratio
Kawasaki Kisen Kaisha, Ltd. 31%
Mitsui O.S.K. Lines, Ltd. 31%
Nippon Yusen Kabushiki Kaisha 38%
(Including indirect ownership)
(No change in contribution ratio as a result of the additional investment)
Location SINGAPORE
Date of establishment
July 7, 2017

2. Outline of additional investment

(1) Additional investment	US$ 2,200 million
(2) Capital stock after additional investment	US$ 3,000 million
(3) Date of additional investment	April 2, 2018

The Company obtained a loan in the amount of ¥50,000 million ($470,633 thousand) for the above investment in OCEAN NETWORK EXPRESS PTE. LTD. from its subsidiary "K" LINE NEXT CENTURY GK ("KNC"), which raised said amount through a preferred equity investment on April 2, 2018. KNC was established on February 28, 2018 and became a special subsidiary company on or after April 2, 2018, the date on which KNC received the preferred equity investment.

3. Description of KNC and preferred equity investment

(1) Description of KNC
Trade name "K" LINE NEXT CENTURY GK
Purpose of foundation
Receipt of preferred equity investment and loan to Kawasaki Kisen Kaisha Ltd.
Capital stock ¥100,000 ($941.27)
(2) Equity investment and contribution ratio
Ordinary equity investment:
¥100,000 ($941.27)
Contribution ratio: The Company 100%
Preferred equity investment:
¥50,000 million ($470,633 thousand)
Contribution ratio: Other than the Company 100%
(No voting rights)
(3) Outline of preferred equity investment

Investee company	"K" LINE NEXT CENTURY GK
Amount of investment	¥50,000 million ($470,633 thousand)
Date of investment	April 2, 2018
Type of dividend	Cumulative and fixed dividend
Redemption date	April 2, 2023

(Reduction in Capital Reserve, Legal Reserve and Appropriation of Surplus)

The resolution of the proposal on the reduction in capital reserve, legal reserve and appropriation of surplus at the 150th Ordinary General Meeting of Shareholders on June 21, 2018 was made at the Board of Directors' meeting held on May 17, 2018. The proposal was subsequently approved at that general shareholders' meeting on June 21, 2018.

1. Purpose of reduction in capital reserve and legal reserve, and appropriation of retained earnings

For the purpose of covering the loss in retained earnings carried forward, as well as to ensure flexibility in its finance strategies in the future, the Company proposes a reduction of capital reserve which is included in "Capital surplus," legal reserve which is included in "Retained earnings," and an appropriation of retained earnings.

2. Matters concerning the reduction of capital reserve and legal reserve

The Company reduced the partial amount of capital reserve and the whole amount of legal reserve in accordance with the provisions of Article 448, Paragraph 1 of the Companies Act, and transferred such amounts to other capital surplus and retained earnings carried forward respectively.

(1) Items and amount of reduction
Capital reserve ¥59,003 million ($555,375 thousand)
Legal reserve ¥2,540 million ($23,908 thousand)
(2) Items and amount of increase
Other capital surplus ¥59,003 million ($555,375 thousand)
Retained earnings carried forward
¥2,540 million ($23,908 thousand)

3. Matters concerning the appropriation of surplus

In accordance with the provisions of Article 452 of the Companies Act, after increasing other capital surplus and retained earnings carried forward by transferring a portion of capital reserve and the whole amount of legal reserve, respectively, the Company transferred the whole of the amount of other capital surplus which is included in "Capital surplus" and general reserve which is included in "Retained earnings" to retained earnings carried forward.

(1) Items and amount of reduction
Other capital surplus ¥59,003 million ($555,375 thousand)
General reserve ¥60,552 million ($569,955 thousand)
(2) Items and amount of increase
Retained earnings carried forward
¥119,555 million ($1,125,329 thousand)

As a result of the above, the total amount transferred from legal reserve, other capital surplus and general reserve to retained earnings carried forward was ¥122,095 million ($1,149,238 thousand).

4. Schedule of the reduction of reserve and appropriation of surplus

Resolution at the Board of Directors' meeting	May 17, 2018
Resolution at the general shareholders' meeting	June 21, 2018
Effective date of transfers	June 21, 2018

Procedures for handling objections by creditors were not required since the transfers fall under the provision of Article 449, Paragraph 1 of the Companies Act.

(Change in Reporting Segments)

The Group decided to change its reporting segments to "Dry bulk," "Energy resource transport," "Product logistics," and "Other" respectively, effective the year ending March 31, 2019 from previously "Containership," "Bulk shipping," "Offshore energy E&P support and heavy lifter," and "Other."

Accompanied by the integration of the containership business under OCEAN NETWORK EXPRESS PTE. LTD., the Group has reorganized its business portfolio strategy to build a new business model with a strong customer relationship base.

The operating revenues and profit or loss calculated by the new reporting segment for the current year are as follows:

	Millions of yen						
	2018						
	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
1. Revenues:							
(1) Operating revenues from customers	**¥ 248,879**	**¥ 75,414**	**¥ 798,619**	**¥ 39,113**	**¥ 1,162,025**	**¥ —**	**¥ 1,162,025**
(2) Intra-group revenues and transfers	**165**	**1**	**8,071**	**47,905**	**56,142**	**(56,142)**	**—**
Total revenues	**¥ 249,044**	**¥ 75,415**	**¥ 806,690**	**¥ 87,018**	**¥ 1,218,167**	**¥ (56,142)**	**¥ 1,162,025**
2. Segment profit (loss)	**¥ (133)**	**¥ 440**	**¥ 5,778**	**¥ 3,018**	**¥ 9,103**	**¥ (7,140)**	**¥ 1,963**

	Thousands of U.S. dollars						
	2018						
	Dry bulk	Energy resource transport	Product logistics	Other	Total	Adjustments and eliminations	Consolidated
1. Revenues:							
(1) Operating revenues from customers	**$ 2,342,611**	**$ 709,846**	**$ 7,517,122**	**$ 368,156**	**$ 10,937,735**	**$ —**	**$ 10,937,735**
(2) Intra-group revenues and transfers	**1,553**	**9**	**75,969**	**450,914**	**528,445**	**(528,445)**	**—**
Total revenues	**$ 2,344,164**	**$ 709,855**	**$ 7,593,091**	**$ 819,070**	**$ 11,466,180**	**$ (528,445)**	**$ 10,937,735**
2. Segment profit (loss)	**$ (1,252)**	**$ 4,142**	**$ 54,386**	**$ 28,407**	**$ 85,683**	**$ (67,206)**	**$ 18,477**

22. Related Party Transactions

1. Transactions with related parties

Transactions with the Company and related parties are summarized as follows:

Type	Affiliate
Name	OCEAN NETWORK EXPRESS PTE. LTD. (*1)
Location	SINGAPORE
Amount of capital stock	US$ 800 million
Business description	Container Shipping Business
Voting rights (%)	—
Relationship	Investee
Details of business transaction	Underwriting of investments (*2)
Amount of transaction	¥28,816 million ($271,235 thousand)
Account	—
Balance at the end of year	—

(*1) OCEAN NETWORK EXPRESS PTE. LTD. is a subsidiary of Ocean Network Express Holdings, Ltd., which holds direct ownership of 100% of voting rights. Ocean Network Express Holdings, Ltd. is an equity-method affiliate of the Company.

(*2) Underwriting of investments for OCEAN NETWORK EXPRESS PTE. LTD. represents the underwriting of an investment and additional contribution.

2. Notes on parent company and subsidiaries and affiliates

Summarized financial statements of significant affiliate are as follows:

OCEAN NETWORK EXPRESS PTE. LTD. is classified as a significant affiliate for the year ended March 31, 2018. The affiliate's summarized financial statements are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Total current assets	**¥ 53,642**	**$ 504,913**
Total fixed assets	**25,924**	**244,014**
Total current liabilities	**11,547**	**108,688**
Total long-term liabilities	**5,232**	**49,247**
Total net assets	**62,787**	**590,992**
Operating revenues	**26**	**245**
Loss before income taxes	**(22,205)**	**(209,008)**
Loss	**(22,205)**	**(209,008)**

Independent Auditor's Report

Building a better working world

Independent Auditor's Report

The Board of Directors
Kawasaki Kisen Kaisha, Ltd.

We have audited the accompanying consolidated financial statements of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kawasaki Kisen Kaisha, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in Note 3 "Additional Information" in the accompanying notes to the consolidated financial statements, Kawasaki Kisen Kaisha, Ltd. jointly established a holding company, Ocean Network Express Holdings, Ltd., and an operating company, OCEAN NETWORK EXPRESS PTE. LTD., on July 7, 2017 based on a business integration contract and a shareholders' agreement concluded on October 31, 2016 for the purpose of integrating the container shipping businesses (including worldwide terminal operation businesses outside Japan). The related operations of the container shipping businesses of the new company commenced on April 1, 2018.

Our opinion is not qualified in respect of this matter.

Convenience Translation

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

Ernst & Young Shin Nihon LLC

June 21, 2018
Osaka, Japan

Global Network


New York
Baltimore
Los Angeles
Dallas
Houston
Richmond
Mexico City
Altamira
Lima
Rio de Janeiro
Sao Paulo
Santiago
Overseas major affiliates and representatives offices
World headquarters

Major Subsidiaries and Affiliates[*1] (as of March 31, 2018)

Domestic		Company name	"K" LINE's ownership (%)[*2]	Paid-in capital (millions)	Fiscal 2017 revenue (millions)
Marine transportation		Kawasaki Kinkai Kisen Kaisha, Ltd.	51.0	¥ 2,369	¥ 39,373
		Asahi Kisen Kaisha, Ltd.	100.0	100	280
	★	Shibaura Kaiun Co., Ltd.	100.0	20	716
Shipping agency		"K" Line (Japan) Ltd.	100.0	150	1,977
Ship management		"K" Line Ship Management Co., Ltd.	100.0	75	10,751
		Taiyo Nippon Kisen Co., Ltd.	100.0	400	33,102
Harbor transportation / Warehousing		Daito Corporation	100.0	843	24,138
		Nitto Total Logistics Ltd.	100.0	1,596	15,074
		Hokkai Transportation Co., Ltd.	80.1	60	11,607
		Seagate Corporation	100.0	270	7,518
		Nitto Tugboat Co., Ltd.	100.0	150	4,285
	★	Rinko Corporation	25.1	1,950	11,754
Logistics		"K" Line Logistics, Ltd.	91.9	600	26,222
Land transportation		Japan Express Transportation Co., Ltd.	100.0	100	3,356
		Shinto Rikuun Kaisha, Ltd.	100.0	10	923
		Maizuru Kousoku Yusou Co., Ltd.	100.0	25	665
Container repairing		Intermodal Engineering Co., Ltd.	100.0	40	675
Travel business		"K" Line Travel, Ltd.	100.0	100	6,554
Holding company	★	Ocean Network Express Holdings, Ltd.	31.0	50	(65)
Other business		"K" Line Engineering Co., Ltd.	100.0	50	1,967
		Shinki Corporation	100.0	80	2,548
		"K" Line Business Systems, Ltd.	100.0	40	1,114
		KMDS Co., Ltd.	100.0	40	1,050
		Kawaki Kosan Kaisha, Ltd.	100.0	30	609
		"K" Line Accounting and Finance Co., Ltd.	100.0	100	207
		Offshore Operation Co., Ltd.	53.9	26	1,739
		Offshore Japan Corporation	100.0	100	390
		K Line Next Century GK	100.0	0.1	0

Overseas		Company name	"K" LINE's ownership (%)[*2]	Paid-in capital (millions)	Fiscal 2017 revenue (millions)
Marine transportation		"K" Line Pte Ltd	100.0	US$41.1	US$264.6
		"K" Line Bulk Shipping (UK) Limited	100.0	US$33.9	US$186.6
		"K" Line LNG Shipping (UK) Limited	100.0	US$35.9	US$61.7
		"K" Line European Sea Highway Services GmbH	100.0	EUR5.3	EUR101.7
		'K' Line (India) Shipping Private Limited	80.0	INR609.2	INR551.1
		K Line Offshore AS	100.0	NOK1,120.1	NOK252.9
	★	Northern LNG Transport Co., I Ltd.	49.0	US$47.9	US$16.8
	★	Northern LNG Transport Co., II Ltd.	36.0	US$52.8	US$16.8
	★	Ocean Network Express Pte. Ltd.[*3]	—	US$800.0	(US$219.6)
Shipping agency		"K" Line America, Inc.	100.0	US$15.5	US$162.4
		"K" Line (Australia) Pty Limited	100.0	A$0.0001	A$16.4
		"K" Line (Belgium) N.V.	51.0	EUR0.06	EUR3.5
		"K" Line Brasil Transportes Maritimos Ltda.	100.0	BRL1.8	BRL4.7
		"K" Line Canada Ltd.	100.0	US$0.09	US$0.4
		KLine (China) Ltd.	100.0	US$2.6	CNY284.1
		"K" Line Chile Ltda	100.0	US$0.6	US$4.7
		"K" Line (Deutschland) GmbH	100.0	EUR0.2	EUR12.2
	★	K Line España Servicios Maritimos, S.A.	50.0	EUR0.06	EUR21.4
		"K" Line (Europe) Limited	100.0	£0.01	£14.7
		"K" Line (Finland) OY	51.0	EUR0.01	EUR1.6
		"K" Line (France) SAS	100.0	EUR0.5	EUR3.9
		"K" Line (Hong Kong) Limited	100.0	HK$15.0	HK$69.1
	★	'K' Line (India) Private Limited	50.0	INR60.0	INR447.0
	★	"K" Line Italia S.R.L.	50.0	EUR0.1	EUR1.9

Overseas		Company name	"K" LINE's ownership (%)*2	Paid-in capital (millions)	Fiscal 2017 revenue (millions)
		"K" Line (Korea) Ltd.	100.0	KRW400.0	KRW10,058.9
		"K" Line Maritime (M) Sdn Bhd	57.5	MYR0.3	MYR9.8
		K Line Mexico SA de CV	100.0	US$0.005	US$0.3
		"K" Line (Nederland) B.V.	100.0	EUR0.1	EUR4.5
		K Line (Norway) AS	100.0	NOK0.1	NOK4.1
		"K" Line Peru S.A.C	100.0	PEN1.3	PEN10.7
		"K" Line (Portugal)-Agentes de Navegação, S.A.	51.0	EUR0.2	EUR3.1
		"K" Line (Scandinavia) Holding A/S	51.0	DKK1.0	DKK11.6
		"K" Line Shipping (South Africa) Pty Ltd	51.0	ZAR0.0001	ZAR136.8
		"K" Line (Singapore) Pte Ltd	95.0	S$1.5	S$12.8
		K Line (Sweden) AB	100.0	SEK0.1	SEK16.4
		"K" Line (Taiwan) Ltd.	60.0	NT$60.0	NT$318.7
		K Line (Thailand) Ltd.	39.0	THB30.0	THB2,256.9
		"K" Line (Vietnam) Limited	100.0	US$3.5	US$118,878.8
		PT. K Line Indonesia	93.0	IDR2,557.4	IDR69,642.9
Ship management		"K" Line Ship Management (Singapore) Pte. Ltd.	100.0	US$0.7	US$42.7
Terminal operator		International Transportation Service, Inc.	70.0	US$33.9	US$235.0
		Husky Terminal & Stevedoring, Inc.	100.0	US$0.1	US$110.4
Freight consolidation		Century Distribution Systems, Inc.	100.0	US$2.3	US$18.7
		Century Distribution Systems (Canada), Inc.	100.0	US$0.0001	US$0.7
		Century Distribution Systems (Europe) B.V.	100.0	EUR0.02	EUR1.0
		Century Distribution Systems (Hong Kong) Limited	100.0	HK$0.08	HK$40.0
		Century Distribution Systems (International) Limited	100.0	HK$1.8	HK$151.8
		Century Distribution Systems (Shenzhen) Limited	100.0	CNY5.0	CNY350.6
		Century Distribution Systems (Shipping) Limited	100.0	HK$0.000001	HK$4.8
Warehousing		Universal Logistics System, Inc.	100.0	US$12.3	US$0.7
		Universal Warehouse Co.	100.0	US$0.05	US$8.8
Logistics		"K" Line Logistics (Hong Kong) Ltd.	100.0	HK$8.0	HK$113.5
		"K" Line Logistics (Singapore) Pte. Ltd.	100.0	S$1.2	S$29.8
		K Line Logistics South East Asia Ltd.	95.0	THB73.0	THB0.0
		K Line Logistics (Thailand) Ltd.	86.5	THB20.0	THB822.1
		"K" Line Logistics (UK) Ltd.	100.0	£0.2	£5.8
		"K" Line Logistics (U.S.A.) Inc.	100.0	US$0.5	US$74.7
		K Line Total Logistics, LLC	100.0	US$0.01	US$14.1
Land transportation		ULS Express, Inc.	100.0	US$0.05	US$6.5
		PMC Transportation Company, Inc.	100.0	US$0.0	US$0.7
Container repairing	★	Multimodal Engineering Corporation	100.0	US$0.2	US$15.9
		Bridge Chassis Supply LLC.	100.0	US$7.5	US$44.5
Holding company		Kawasaki (Australia) Pty. Ltd.	100.0	A$4.7	A$8.0
		"K" Line Drilling/Offshore Holding, INC.	100.0	US$0.001	US$0.0
		"K" Line Heavy Lift (Germany) GmbH	100.0	EUR18.0	EUR0.0
		"K" Line Holding (Europe) Limited	100.0	£45.0	£0.0
Other business		Cygnus Insurance Company Limited	100.0	US$3.0	US$4.0
		"K" Line TRS S.A.	100.0	US$0.006	US$0.0
	★	"K" Line Auto Logistics Pty Ltd.	50.0	A$27.0	A$0.1

*1 Includes main consolidated subsidiaries, equity-method subsidiaries and equity-method affiliates.
*2 Includes holdings of subsidiaries.
*3 Ocean Network Express Holdings, Ltd. owns 100% of the company.
★ Subsidiaries and affiliates accounted for with the equity method

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

Outline of the Company / Stock Information

Outline of the Company (as of March 31, 2018)

Name	Kawasaki Kisen Kaisha, Ltd. (“K” LINE)
Established	April 5, 1919
Paid-in capital	¥75,457.64 million
President	Eizo Murakami
Employees	On-land Duty 531 At-sea Duty 193 Total 724
Business lines	Marine transportation, Land transportation, Air transportation, Through transportation involving marine, land and air transportation, Harbor transportation, etc.
Offices	
Head office	Iino Building, 1-1, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8540, Japan Phone: (+81) 3-3595-5000 Fax: (+81) 3-3595-5001
Registered head office	Shinko Building, 8 Kaigandori, Chuo-ku, Kobe 650-0024, Japan Phone: (+81) 78-332-8020 Fax: (+81) 78-393-2676
Branches	Nagoya: Nagoya International Center Building, 47-1, Nagono 1-chome, Nakamura-ku, Nagoya 450-0001, Japan Phone: (+81) 52-589-4510 Fax: (+81) 52-589-4585 Kansai: (after June 4, 2018) Shinko Building, 8 Kaigandori, Chuo-ku, Kobe 650-0024, Japan Phone: (+81)78-325-8727 Fax: (+81)78-393-2676
Overseas representative offices	Manila, Yangon, Dubai
Overseas agents	Korea, China, Taiwan, Thailand, the Philippines, Singapore, Malaysia, Indonesia, Vietnam, India, Australia, United Arab Emirates, U.K., Germany, France, the Netherlands, Belgium, Italy, Finland, Denmark, Norway, Sweden, Spain, Portugal, Turkey, Canada, U.S.A., Mexico, Chile, Peru, Brazil, South Africa, etc.
Affiliated companies (to be consolidated)	28 (domestic), 304 (overseas)

Stock Information (as of March 31, 2018)

Authorized	200,000,000 shares of common stock
Issued	93,938,229 shares of common stock

*The Company consolidated its common stock at a ratio of ten shares to one share, effective October 1, 2017.

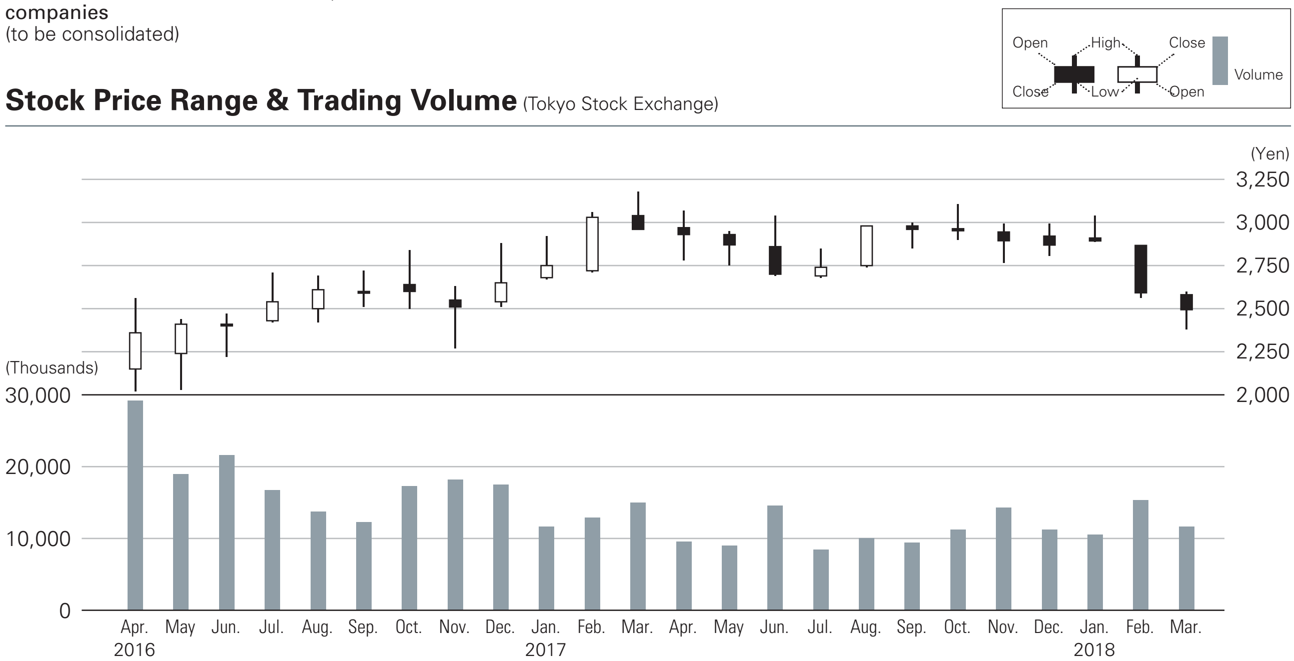
Number of shareholders	27,990
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Listing of shares	Tokyo, Nagoya and Fukuoka

Principal Shareholders (as of March 31, 2018)

Shareholders	Number of shares held (thousands)	Percentage of shares held (%)
SMP PARTNERS (CAYMAN) LIMITED	15,297	16.31
ECM MF	10,619	11.32
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	5,151	5.49
The Master Trust Bank of Japan, Ltd. (trust account)	3,416	3.64
Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust & Banking Co., Ltd.)	3,392	3.61
IMABARI SHIPBUILDING CO., LTD.	2,830	3.01
JFE Steel Corporation	2,817	3.00
CGML-LONDON EQUITY	2,807	2.99
Japan Trustee Services Bank, Ltd. (trust account)	2,682	2.86
GOLDMAN SACHS INTERNATIONAL	1,954	2.08

*Percentage of shares held is calculated excluding treasury stock (194,126 shares).

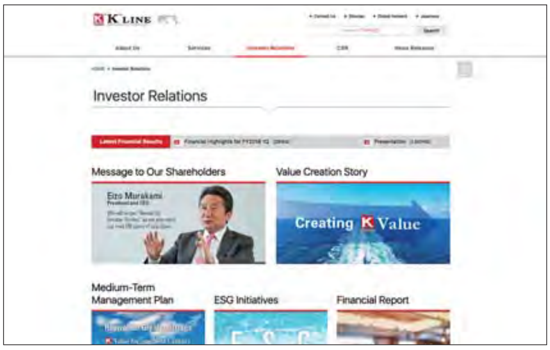
Stock Price Range & Trading Volume (Tokyo Stock Exchange)



*The Company consolidated its common stock at a ratio of ten shares to one share, effective October 1, 2017. The above figures for stock price and trading volume have been calculated on the assumption that the share consolidation took place at the beginning of the previous fiscal year (April 1, 2016).

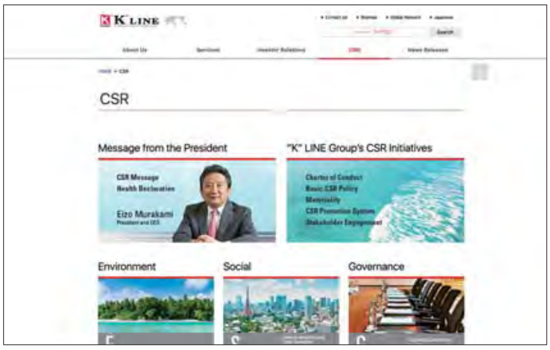
"K" LINE's Websites

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



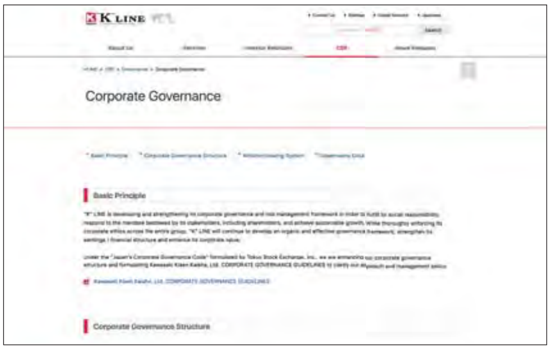
Investor Relations

HOME > Investor Relations
https://www.kline.co.jp/en/ir.html



CSR

HOME > CSR
https://www.kline.co.jp/en/csr.html



Corporate Governance

HOME > CSR > Governance > Corporate Governance
https://www.kline.co.jp/en/csr/governance/corporate_governance.html

About This Report

Reporting Period

Fiscal 2017 (April 1, 2017–March 31, 2018)

Note: The report also includes some developments after April 2018.

Scope of Reporting

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

Guidelines Referred to

- International Integrated Reporting Framework
- GRI Sustainability Reporting Standards
- ISO 26000
- Environmental Reporting Guidelines 2012, The Ministry of the Environment of Japan

Iino Building, 1-1,
Uchisaiwaicho 2-chome,
Chiyoda-ku, Tokyo 100-8540, Japan
Phone : (+81) 3-3595-5000 (Switchboard)
Fax : (+81) 3-3595-5001
https://www.kline.co.jp/en/

HOME > Investor Relations > IR Library
https://www.kline.co.jp/en/ir/library/report.html

Consideration for the Environment

The paper used to print this report is Forest Stewardship Council® certified as being produced from responsibly managed forests. The ink used is derived from vegetable oil and contains few volatile organic compounds.